The walt disney company case study

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BUSMRH 4490 Strategic Management Case 2 The Walt Disney Company: The Entertainment King Kaitlyn Kisiday Alex Maicks Chelsea Parker Jonathan Russ Ryan Terek 1.) Why has Disney been successful for so long? Disney has sustained prolonged success for a variety of reasons. One source of success was the way Walt and Roy Disney decided to manage the company internally when the organization was founded in 1923. Disney emphasized teamwork, communication, and cooperation in the workplace to make employees feel valued and strengthen their commitment to the company.

These values remain at the core of Disney's corporateculture, and have been formally incorporated into their new-hire training program at the company's corporate university. With the use of animation, Disney can control an entire entertainment experience, unlike actors, because cartoon characters and theirenvironmentcan be created and controlled by imagination. Disney's most distinct corporate skill, according to former CEO Michael Eisner, is the ability to manage that creativity. Eisner encouraged innovative ideas and was protective of the company's creative efforts even at their earliest development.

Emphasis on this development allowed Disney to take advantage of opportunities in the market and often become the first mover. Disney has proved successful at determining which advantages would be sustainable and which should only be temporary. The main contributors to prolonged success have been the results of the key strategic decisions made by the organization regarding diversification. Disney has used diversification to create additional sources of revenue beyond cartoon shorts and feature films by expanding vertically into television, theatre, retail, and the internet.

Creating divisions outside production, such as DisneyMusicCompany, Disneyland, Disney Cruises, and DisneyQuest, created cross-promotional opportunities among Disney's products, services, and strengthened the brand itself. Disney's ability to effectively manage both vertical and horizontal integration into a wide array of business activities and projects continues to drive the company's progress and profit. 2.) What did Michael Eisner do to rejuvenate Disney? Specifically, how did he increase net income in his first four years?

Michael Eisner entered Disney as CEO in1984, and committed his efforts to producing annual revenue growth and return on stockholder equity in excess of 20%. He also pledged to strengthen the Disney brand and protect corporate values of quality, creativity, entrepreneurship, and teamwork. Believing that " managing creativity" was Disney's most unique corporate capability, Eisner was to able harness Disney's creative and innovative capabilities to maximize profits from new and existing operations. Rebuilding the strength of their television programming and films was an important part of this strategy.

Disney increased its presence on network television to re-establish Disney as a producer of quality programs, and increase demand for Disney's other entertainment ventures. The Disney Sunday Movie, debuted on ABC in 1986, and was followed by the popular Golden Girls on NBC, and production of syndicated non-network shows. Disney also increased their screen presence and generated revenue by selling older programs to other networks through a newly created syndication operation. A struggling movie division produced two films, held only 4% of box office share, and generated a profit of only a $1 million 1984 [Exhibit A, page 6].

To increase film output, Eisner used the Touchstone label to compete in new segments of the film industry, predominantly comedies, without diminishing Disney's core audience. These films were produced on moderate and closely managed budgets with intent to be profitable rather than to become the next box-office juggernaut. Disney also increased the output of their animated films though investment in newtechnologyand human capital and the decision to release these films every 12 to 18 months, versus every 4 to 5 years.

After four years, the Disney film division reached an averaged output of 15 to 18 films per year, produced the highest earning film in 1988, Who Framed Roger Rabbit, and became the market leader with 19% box office share. Most impressively, income from the movie division grew from $1 million in 1984, to $34 million, $54 million, $131 million, and $186 million in each corresponding year. Income from Disney theme parks increased more than 200% during Michael Eisner's first years, from $186 million in 1984 to $565 million in 1988 [Exhibit A, page 6].

New national advertising, increased park capacity, expanded hours of operation, and increased ticket prices contributed to the short term increase, while investments in new attractions, event spaces, and hotel development would help sustain steady profits into the future. In 1984, income from consumer products totaled $54 million [Exhibit A, page 6]. The newleadershipand direction of the company under Michael Eisner from that time renewed the strength of Disney's brand equity. A stronger brand supported development in the consumer products division of the “ retail as entertainment” concept.

The Disney Store, launched in 1987, achieved twice the average rate of sales per square foot in the retail industry. By 1988, income from consumer products totaled $134 million, increasing by more than 140% during Eisner’s first years as CEO. Successful leadership by Michael Eisner at Disney’s top resulted in financial success at Disney’s bottom line. Disney’s net income increased from $242 million in 1984 to $885 million by 1988. Over the same period of time, income growth averaged 40% each year, and Return on Equity reached 24% and 25% in 1987 and 1989, respectively. 3. Does Disney pursue vertical integration? Apply transaction cost economics to understand Disney’s vertical expansion decisions. Disney pursued vertical integration in a variety of ways. Aside from cartoon shorts and animation films, Disney expanded to enter the television, internet, and theme park markets with creations such as Disneyland, DisneyQuest, and the Disney Channel. Disney saw the internet as a possible distribution channel for its film library and its sports and news programming. Disney believed that the internet would soon be where entertainment in the home consolidates.

Disney also pursued forward vertical integration. Disney ended their relationship with distribution partner RKO in 1953 and created Buena Vista to save distribution costs for their animated films. Disney was able to save ? of their gross revenues due to this decision to distribution their movies themselves. Disney also further improved the bottom line by avoiding exorbitant salaries by developing the studio's own pool of talent. Disney also employed forward integration through the initiation of Disney Stores.

This provided Disney with a wholly owned retail outlet to distribute product through that generated sales per square foot at twice the average rate of traditional retail. Disney Stores allowed Disney total control of customer experience and brand management in that space. The EuroDisney project is an example of Disney's use of vertical disintegration. Although responsible for the design, development, and operation of the park, Disney did not have a majority ownership. Investment from outside parties limited their initial investment and share of risk.

Disney chose to give up sole claim to the profits of EuroDisney in exchange for a fixed percentage of ticket sales and revenues. In many its operations, Disney employs a vertical integration strategy because it eliminates much of the transaction costs that come from working with the market, such as the possibility that the markets may fail. Creating contracts is another cost, as contracts take time and are difficult to form in a way that satisfies both parties involved, in an attempt to cover all possible contingencies. In addition, companies have their own, unique motives.

When working in the market, there is always risk these other companies will work in their own favor as they come across opportunities that only benefit them. Also, Disney is very committed to holding to their values. This may create another cost in the form of conflict because they may come across differing views and cultures with other companies that do not run their business the same way. 4.) What corporate strategy does Walt Disney employ? Identify and explain all types of diversification/integration within Disney's overall corporate strategy.

Disney employs both vertical and horizontal integration as part of their corporate strategy. The Walt Disney Company pursues a highly differentiated strategy, operating primarily in five distinct segments: Theme Parks and Resorts, Consumer Products, Media Networks, Studio Entertainment, and Internet and Direct Marketing. Theme Parks and Resorts is Disney's second highest grossing segment. Included under this segment are all Disney Theme Parks, with the exclusion of EuroDisney, and all other resorts and resort activities.

Sports teams, the Anaheim Mighty Ducks and the Anaheim Angels, as well as regional entertainment facilities like ESPNZone and DisneyQuest, are within this business line. Media networks, Disney's highest grossing business line, can be broken down into two subcategories: Broadcasting and Cable Networks ; International. Broadcasting consists of ABC Television and Radio Network along with associated TV and Radio stations. Cable Networks and International includes ESPN, Disney Channel, Toon Disney, and SoapNet. Various newspapers and periodicals acquired through the ABC merger also fall into this business line.

Studio Entertainment is a very diverse segment including: Television, Film, Home Video, theatrical, and music production, as well as, distribution and syndicated TV. Disney has created or acquired multiple movie production companies including Walt Disney Pictures, Touchstone, and Miramax, each company producing a very distinct product with a separate target audience. A similar pattern is identifiable with Disney's various music production companies; each produces a distinct product with a distinct target market.

Television production includes program development in the form of live-action, animation, and pay television services.

Consumer Products consists primarily of licensing arrangements with various retailers, promoters, and publishers, where Disney allows third parties to use " Walt Disney", Disney characters, and other intangible properties for specific purposes. Consumer Products also includes Disney Stores, Disney's direct retail outlet. Finally, Disney also produces books, magazines, and audio and computer software for entertainment and educational purposes. Internet and Direct Marketing includes all of Disney's' online activities as well as the Disney catalogue. This includes entities such as the Disney catalogue, ESPN. om, Disney. com, GO. com, Etc. Aside from all the aforementioned business activities, Disney is or has been involved in many more projects and lines of business. Disney started an in-house travel company to work with travel agents and airlines to draw customers to Disney Parks and Resorts. Disney created the Disney Development Company to find the best way to utilize Disney's unused acreage. Disney also has been involved in timeshares, night clubs, theatre operations, Disney On-Ice, and the Disney Parade. 5.) Evaluate the benefits and costs of each type of diversification.

From this analysis state and justify (through quantitative analysis) whether Disney is creating or destroying value via diversification? After analysis, Disney has an obvious benefit of diversification, mainly because it allows them to expand their initial business idea into several different markets. Disney was able to take a relatable set of characters and ideas in the film industry, and not only maximize the profits from those characters in the form of amusement parks, resorts, and other entertainment facilities, but also expand their business into other markets which may seem nrelated. While the initial start-up cost and recurring operating costs of theme parks, studios, and media networks are high, they have proven to be one of Disney’s highest grossing business ventures. For example, in 2000 theme parks generated $6. 803 billion in revenue and operating income of $1. 62 billion [Exhibit A, page 6]. These theme parks help create and support much of the Disney brand that people think of today, which is one of their strongest sources of value. In the media networks, Disney earned $9. 615 billion revenue in 2000 and produced an operating income of $2. 98 billion. The benefit of this venture is that Disney is able to spread their brand across the country by reaching cable audiences with the Disney Channel and ESPN stations, as well as local viewers, after their purchase of ABC. Once again, the costs and risk of creating a channel and buying a major television channel comes with high cost, yet Disney is still able to make a profit from this segment of their business. While the film industry had revenues of $5. 994 billion, expenses for the segment are high as they only saw an operating income of $110 million.

This is one of Disney’s original lines of business, but it appears Disney has peaked in this segment. Even though profits aren’t as high as other segments of their business, the benefits of this segment still outweigh their costs. Additionally, due to the relatively cheap cost of consumer products line, in 2000 Disney was able to record an operating income of $455 million and with revenues of $2. 622 billion. Disney benefits by selling products related to their highly desired brand, and for a relatively low cost.

Unfortunately for Disney, their internet and direct marketing line saw an operating loss of ($402) during 2000, the fourth consecutive loss for this segment. Disney once again tried to carry success over from their well established brand into a new segment. However, the costs and demands of owning and running an internet and direct marketing line appear to be outside of Disney's core competencies. Even though they may have foresight to predict the importance of e-commerce in retail, Disney has yet to make a profit of this segment.

Further supporting the benefits of Disney's diversification is Disney's Index on the S; P 500, having reached over 1, 000 for the last three years of data provided (1998-2000.) These marks were the highest Disney has ever reached in this Index, according to the data provided, and achieved at the height of Disney's diversification. This upholds the position that Disney does produce value through its diversification into many different business ventures. 6.) Which expansion modes have Disney utilized to implement its corporate strategy?

Use facts from the case to identify the benefits and costs of each expansion mode. Disney has pursued three primary forms of expansion: Vertical expansion, Horizontal expansion, and Geographic expansion. Vertical and Horizontal expansion refer to Disney's various product and business lines, and geographic expansion refers to Disney's physical presence. Disney owns or has licensed parks on three different continents. By expanding geographically, Disney has become one of the most recognized brands in the world, in large part due to their physical presence.

By having operations in multiple counties in several parts of the world, Disney is able to gain expertise and knowledge that can help it more closely connect it to its target market. Creating new parks, resorts, or other entertainment facilities carries huge initial start-up costs and recurring fixed costs. It also adds numerous employees and operations that can become difficult to manage efficiently. Expanding horizontally allows firms to take advantage of economies of scale by lowering the average cost per unit by spreading fixed costs over greater production.

Another key advantage is the potential to gain new distribution channels. Following the ABC merger, Disney gained over 20 radio stations and many print media outlets. Seemingly, the primarymotivationfor Disney to integrate horizontally appears to be for economies of scope. Economies of scope is the utilization of a wider array of available resources to new create synergies. After Disney merged with ABC, they were able to utilize economies of scope through cross-promotion. They could advertise and tie-in Disney products on the acquired ABC media outlets and vice versa.

Another advantage of vertical integration, made obvious through the merger with ABC, is the gain in market share. Though not stated explicitly, it’s not difficult to image that Disney may have gained substantial power in negotiations with cable and satellite television providers after merging with ABC. A major cost of horizontal integration comes from a new, bloated company. Departments become redundant across the organization, and the company becomes inefficient. Acquisitions like this also are accompanied by months and months of paperwork that ultimately distracts from the company’s primary operations.

Disney and ABC were forced to mesh together two distinct corporate cultures. This can irritate and de-motivate employees, ultimately causing further inefficiency. Vertical expansion can create better coordination within the supply chain. When Disney created its own distribution company, Buena Vista, they were able to directly control all operations involved in the distribution of their media, eliminating the potential costs of negotiations and hold-ups. Another benefit captured by creating Buena Vista was the ability to capture downstream profit margin.

Vertical expansion could eventually lead to Disney gaining more core competencies. Achieving lower unit cost, better coordination, and increase in core competencies create higher entry barriers for potential competitors. Vertical integration can also cause a firm to become too large and complex to efficiently manage. Owning and operating completely different business' under the same corporation requires expertise in many different areas be successful, which can be a substantial cost. Exhibit AThe Walt Disney Company Financial Data, 1983 – 2000 ($ millions)