The strategic analysis essay

Based on the strategic analysis in questions 1, 2 and 3 clearly mention whether you would recommend the acquisition. Give your rationale for the same. Answer: Based on the analysis, it would be recommended that Disney should go ahead with the acqusition. The resons for this is that firstly, by acquring Pixar, Disney would get a vast pool of talent at its disposal. Infact, industry observers commented that the move would transform Disney into the studio of the 1930s – a “ boutque” that was “ unencmbered by a large bureaucratic apparatus.”

Bringing both Jobs and Lasseter into Disney’s fold would be like bringing back Walt himself. Secondly, animation was integral to Disney’s corporate strategy because characters from the animated films drove retail in its theme parks and consumer product divisions. And Pixar’s track record for producing smash hits was unmatched. Infact Merrill Lynch termed the acqusition as a near strategic fit.

Secondly, by acquring Pixar, Disney could actually increase the average box office collection of its movies. The average collection of Pixar movies was $537. 8 million compared to the $270. 7 million earned by the Disney movies. Thirdly, Disney would get a competitive advantage over its nearest rival, DreamWorks as it could release more animated movies in a year than Dreamworks. Generally, DreamWorks releases just 2 movies in a year compared to Pixars 1. However, with Disney putting in additional resources, the merged entity of Disney-Pixar could increase the number of releases. Fourthly, Disney could cut down the distribution costs that Pixar was paying to other studios as Disney themselves were distributors of the movies.

Finally, thecultureof both Pixar and Disney were similar with both focusing on people first. Disney's Feature Animation unit was described as an open, collaborative enviornment. Ideas were invited from all the employees during the Gong Show. A similar culture of openess was present in Pixar, making the acquistion highly recommended. Q4. If Walt Disney Corporation chooses to go ahead with the acquisition, what pitfalls does Disney need to avoid? What actions would you recommend to Disney to simultaneously start with it s due diligence.

Answer: Some of the pitfalls that Disney needs to gaurd it self against are: 1. Although both Disney and Pixar have a culture of openess, but the Disney should perform a complete analysis wheter Pixar would fit in its overall structure and culture. Intergration involves the adoption of common managment and financial control systems, the joining together of operations from the acquired and the acquiring company, the establishment of bureaucratic mechanisms to share information and personnel and the need to create a commonn culture.

But as experience has shown, this is more easier said than done. Additionally, post an acquisition, many acquired companies experience high managament turnover because their employees do not like the acquiring company's operating ways – its structure or its culture. So if Jobs or Lasseter left Pixar, it would be possible that all the critical talent goes with them. Hence, Disney should gaurd itself against such a scenario.

2. Companies generally tend to over-estimate the potential economic benefits from the acquistion. Disney should perform a complete analysis of

the fiancial gains its looking at by acquiring Pixar. Already, Deutsche Bank speculated that Disney could make 65 sequels to the Pixar hits for the proposed $6. 5 Billion purchase price of Pixar. 3. Acquisitions tend to be very expensive. If Disney does purchase Pixar, it would have to pay an enterprise value fee between $6. 5 Billion and $7. 4 Billion, given that Pixar's market capitalization is $5. 9 Billion.

Additionally, analysts believed that the aquisition would be too expensive for Disney. The projected P/E ratio for Pixar was 46. Its nearest rival, DreamWorks P/E was in the 30s range. If Disney went ahead with the acquisition, it would be nonsensical because it would be heavily dilutive with Disney trading a P/E of 17. Additionally, if the creative talent at Pixar walked out, Disney would have bought the most expensive computer ever sold.

4. Disney should also perform adequate screening of Pixar, ie, evaluate the value-creating potential of Pixar. Research has shown that companies generally acquire firms without actually analyzing the potential benefits. Disney should analyze if it can create more value by acquiring other emerging firms in the California Bay Area such as Orphanage, Wild Bain Inc and CritterPix Inc. Q5. Using the relevant strategic framework, explain in detail, the points in favour and against the Pixar's acquisition by Disney as of November 2005.

Answer. We use the better-off test to analyse the various points in favour of and against the acquisition of Pixar by Disney. The better-off test asks whether a particular set of business units should be3 working together. To pass the better off test, an expansion in horizontal scope must enable the

corporation’s business to create and capture more value together than they could as separate, single-business entities. Using this basic framework provided by the better-off test we can analyse pros and cons of Pixar’s acquisition by Disney.

Points in favour of acquisition: 1. Shared activities: The acquisition yields ongoing competitive advantage as Pixar can market its content through Disney’s well established distribution system. The distribution costs of the films for Pixar are lower than that of its competitors. 1. Shared resources: Disney CEO Robert Iger knew that for Disney as a whole to be successful, he had to get the animation business right, particularly the new CGtechnologythat was rapidly supplanting hand drawn animation. Acquisition of Pixar was the fastest way of doing this.

Through this acquisition Disney would get access to key Pixar technologies which would enable it to produce movies at a lower cost and faster than its rivals. This technology transfer would also help revive Disney’s own animation unit. Apart from technology, Disney would also get access to all the Pixar characters, which it could use at its theme parks, merchandise stores and its other related businesses. Disney and Pixar could also share costs of producing the movies and also the benefits from the movies.

1. Increased industry attractiveness: Pixar and DreamWorks were two of the biggest and most successful animation studios in the industry. Hence acquisition of Pixar would help Disney to reduce the competition it faced. Also it would allow Disney to create and distribute its own content, thus reducing its dependency on Pixar or any other animation studios. Points

against acquisition: 1. Cultural clash: The two companies have a very different culture and this may hinder the post merger integration. Pixar was a relatively smaller organization with an open culture. Disney on the other hand was a huge corporation which followed a hierarchical management structure. There is a chance that cultural clash may lead to exodus of creative talent from Pixar leading tofailureof the acquisition.

1. Coordination and control: There might be ambiguity regarding who would control Pixar after the acquisition. In absence of coherent transformationalleadershipfrom top management, the acquisition may end up destroying rather than creating value. 1. Stock dilution: Valued at $7. 4 billion Pixar might become an expensive acquisition for Disney. The potential P/E ratio for Pixar was 46 whereas the P/E ratio of Disney was 17. Hence going ahead with the acquisition would be highly dilutive for Disney.

Q6. As of November 2005, what were Pixar’s strategic options? Analyse qualitatively each of these options for Pixar. Answer: Pixar being a leader in computer generated animations and having an impeccable track record of producing mega hits had a lot of potential suitors. Any studio that makes a deal with Pixar may instantly move to the front of the lucrative animation market. Thus we see that the competitive advantage of Pixar in the domain of computer generated animation gave them with numerous option and multiple suitors to be team up with.