Pravin Dalal School of Entrepreneurship and Family Business

A

MARKETING RESEARCH PROJECT

ON

Evaluating the Impact of Disney's Acquisition of 21st Century Fox on Market Share and Profitability in the U.S. Entertainment Industry

SUBMITTED BY-

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ENROLLEMENT NO. – 8096900386

COURSE: BBMM

BATCH : 2023-2026

UNDER THE GUIDANCE OF

DR. NITU SAXENA

SUBMITTED IN THE PARTIAL FULFILLMENT OF

Bachelor of Business Management and Marketing

DECLARATION

Title- “Evaluating the Impact of Disney’s Acquisition of 21st Century Fox on Market Share and Profitability in the U.S. Entertainment Industry.”

I, **Sagan Aggarwal**, a student of ***NMIMS, MUMBAI*** of the bbmm batch of 2023-2026 declare that:

The assignment report entitled “Evaluating the Impact of Disney’s Acquisition of 21st Century Fox on Market Share and Profitability in the U.S. Entertainment Industry”

(a) ” Is a bonafide record of the original project work that is carried out by me and has not been submitted earlier for any other degree or diploma.

(b) I was regularly in contact with my Summer Internship Project guide, **Dr. Nitu Saxena** regarding any discussion regarding my assignment.

(c) That the work conforms to the guidelines for presentation and style set out in the relevant documentation.

(d) That the plagiarism in the report is below 15%

Date of submission- 6th APRIL 2024

Sagan Aggarwal

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Batch- 2023 to 2026

CERTIFICATE

This is to certify that the Market Research Project titled

Evaluating the Impact of Disney's Acquisition of 21st Century Fox on Market Share and Profitability in the U.S. Entertainment Industry?

Is a Bonafide work done by

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For the award of degree of

BBA MM

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This is to certify that Sagan Aggarwal student of BBMM at NMIMS, MUMBAI has completed the marketing research Report on "Evaluating the Impact of Disney's Acquisition of 21st Century Fox on Market Share and Profitability in the U.S. Entertainment Industry" under my guidance.

The report has been checked for plagiarism and is within the limit of acceptance.

DR. NITU SAXENA
Assistant Professor
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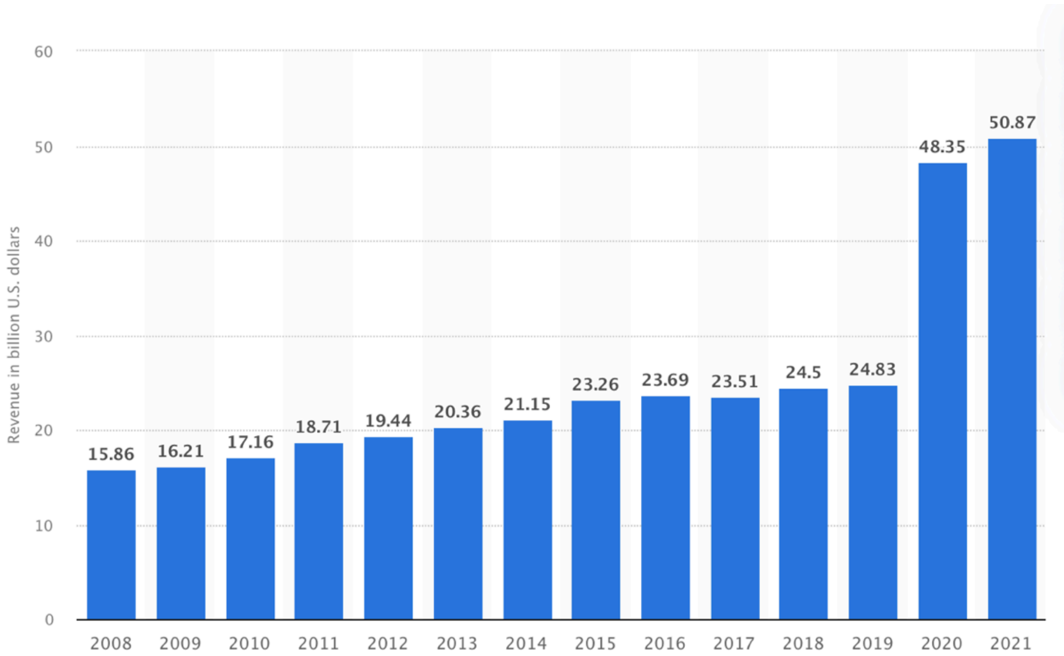
Chapter 1: Introduction (500 words)

Chapter 1.1: About Disney

Walt Disney is a **diversified** worldwide **entertainment** company which was **founded** in the year 1923 by brother Walt and Roy O.[1] Disney operates in the following **business segments**: "Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International (DTCI)"[2]. Disney's magic has lingered on its audience for years. Its **innovation** and **timelessness** are its strong suits. Disney's main three elements are **Disney parks, Disney movies and Disney's acquisitions**. Disney's past acquisitions with Pixar, Marvel, etc have earned Disney $33.8 billion at the global box office giving it a cutting edge above all entertainment companies. Noting how Disney's **revenue has grown** after



2019 (figure 1), this essay will analyse the **acquisition** of 21st century fox by Disney and its impact on Disney's **market share** and **profitability in USA**.

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[1] "Walt Disney." *Encyclopædia Britannica*, Encyclopædia Britannica, Inc., https://www.britannica.com/biography/Walt-Disney.
[2] 2020 Annual Report. https://www.annualreports.com/HostedData/AnnualReportArchive/w/NYSE_DIS_2020.pdf.

Figure 1: Revenue of Walt Disney's media and entertainment business in the fiscal years 2008 to 2021[3]

Chapter 1.2: About 21st century fox

21st century fox is an American **multinational mass media corporation** that is based in New York. It was **founded** on 28th June 2013 by the founder Rupert Murdoch and was United States' **fourth largest media conglomerate** until its acquisition by the Walt Disney company. Fox had "20th Century Fox Film, television department, cable entertainment networks, international television business, Fox TV, and National Geographic and 30 percent of the stock of Hulu". They had announced an **acquisition** with Warner Film in 2014 however, after the announcement the **stock price** of Fox started falling (figure 2) which made it **underfunded**. As a result, Fox could not maintain its **market position** and faced extreme **competition** from **dominant technological giants** after which the Murdoch family decided to sell the company while it still had some **remained value**. A **bidding war** between Comcast and Disney began in 2017 resulting in Disney's acquisition in 2019.

[3] Stoll, Julia. "Revenue of Walt Disney's Media Business 2021." *Statista*, 27 July 2022, https://www.statista.com/statistics/193211/revenue-of-walt-disneys-media-network-business-since-2008/.

Figure 2: Stock price of 21st Century Fox since 1990[4]

Chapter 1.3: Rationale behind the acquisition

A **media giant** like Disney, not only has the power to influence the type of content that it wants to roll but also the mediums on which content can be provided[5]. With the dramatic rise of **online streaming platforms** such as Netflix and Amazon prime video, to regain its **competitive advantage** under looming concerns of a possible **monopoly** in the entertainment sector, Disney decided to **acquire** 21st century fox at a total price of 52.4 billion US dollars. "This acquisition includes 20th Century Fox Film, television department, cable entertainment networks, international television business, Fox TV, National Geographic and 30 percent of the **stock** of Hulu." The acquisition was completed on 19th March 2019[6].

Disney is now in control of two powerful and popular streaming services. It can practically dictate the release of films of other entertainment companies. With so much power and

[4] "Fox - 35 Year Stock Price History: Fox." *Macrotrends*, https://www.macrotrends.net/stocks/charts/FOX/fox/stock-price-history.
[5] Ajay, S., Fink, J., & Hess, P. (2019). Deal Logic Twenty-First Century Fox/Walt Disney.
[6] *Business acquisition analysis:: A case study of disney-fox deal*. (n.d.). Retrieved September 13, 2022, from https://www.researchgate.net/publication/353441590_Business_Acquisition_Analysis_A_Case_Study_of_Disney-Fox_Deal

content, the **competition** for Disney has decreased with a drastic entry into the **online streaming platforms** with Disney+. This **research is interesting and valuable** as it assesses the **fore comings of this acquisition** and how it has changed the entertainment industry, therefore my research question is-:

To what extent has the acquisition of 21st Century Fox[7] by Disney as a growth strategy, help Disney[8] gain a greater market share and profitability in the entertainment industry in USA?

Chapter 2: Methodology employed (500 words)

Chapter 2.1: Secondary research

For an in-depth research into the research question, a range of **secondary sources** will be used such as **websites, articles, Disney's annual reports, YouTube videos, government reports, business textbooks, books beyond business syllabus, research papers and academic journals**. Accessing **A grade publication houses** like Emerald, Elsevier and Springer and databases like Scopus and WOS (web of science) will help in an in-depth analysis of the companies. Further, using **Google scholar and Google advanced search** will help search for reliable academic articles.

Chapter 2.2: Tools used

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[7] "21st Century Fox Logo by twilightwindwaker777 on DeviantArt." *By Twilightwindwaker777 on DeviantArt*, https://www.deviantart.com/twilightwindwaker777/art/21st-Century-Fox-Logo-533209158.

[8] Coggan, Georgia. "The Disney Logo Debate That Won't Go Away." *Creative Bloq*, Creative Bloq, 12 Nov. 2021, https://www.creativebloq.com/news/disney-logo-confusion.

1. **Ansoff matrix** (internal tool) is an **analytical tool** that provides a framework to assess the **growth strategy by Disney and the risk associated with it**[9][10], however a limitation is that it **ignores competitors** and only analyses the company's product and market[11].

2. **Forcefield analysis** (internal tool) is a **planning tool** which weighs driving and restraining forces which will help analyze Disney's strategy of acquiring Fox, however, it may be **based on assumptions**[12].

3. **Porter's five force model** (external tool) **will help** analyze **five competitive forces** for Disney's acquisition as a growth strategy and how they acted as a **strength or a weakness**[13] , however it does **not take in consideration a business's risk factors**[14].

4. **Red ocean blue ocean strategy** (external tool) is an **analytical tool** which will help identify how Disney shifted from a contested market to an uncontested market space through their acquisition with 21st century fox, however the tool only provides a qualitative analysis.

5. **Ratios (Profitability, Liquidity (internal) , Efficiency, Leverage (external))** are a **quantitative tool** to assess Disney's performance before and after the acquisition with 21st century fox and the synergies gained out of it. However, ratios are based on **past accounting figures and financial statements**[15]**of the company**.

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9 https://corporatefinanceinstitute.com/resources/knowledge/strategy/ansoff-matrix/
10 https://www.mindtools.com/pages/article/newTMC_90.htm
11 https://www.innovolo.co.uk/article/the-advantages-and-disadvantages-of-the-ansoff-matrix
12 https://www.zambianguardian.com/force-field-analysis-advantages-and-disadvantages/
13 https://www.investopedia.com/terms/p/porter.asp
14 https://learnbusinessconcepts.com/advantages-and-disadvantages-of-porters-five-forces/?utm_source=rss&utm_medium=rss&utm_campaign=advantages-and-disadvantages-of-porters-five-forces
15 https://www.yourarticlelibrary.com/accounting/financial-statements/5-limitations-of-financial-ratios/53045

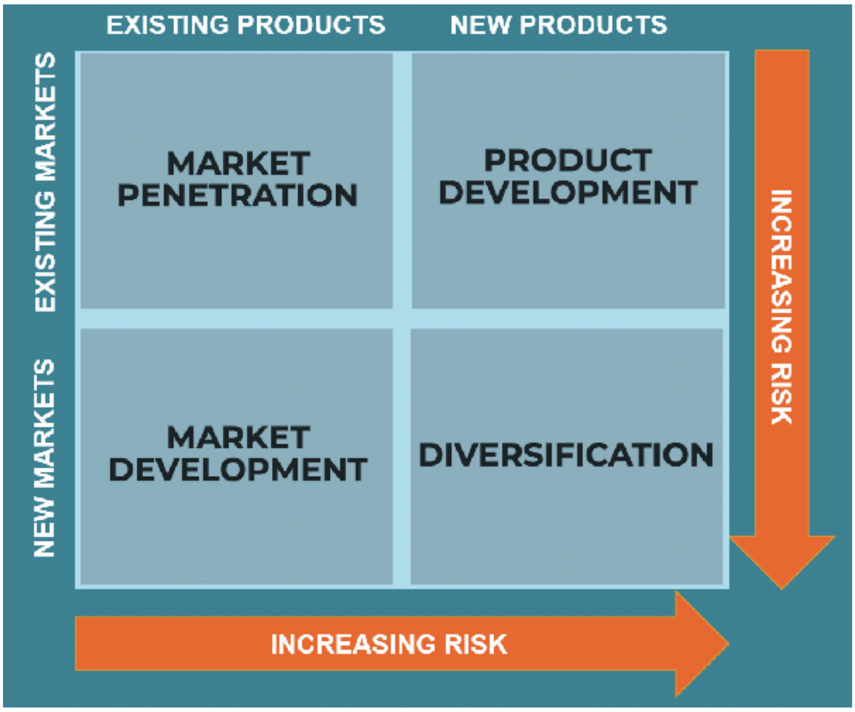
Chapter 3- Body: Analysis and Discussion

Chapter 3.1: Ansoff matrix[16]

Introduction

Ansoff matrix is a tool used to analyze **growth strategies**. This tool will help analyze the **risk** involved and the **impact** of applying a growth strategy on Disney's **sales and profitability** after its acquisition of Fox. It has 4 possible growth strategies: **market penetration, market development, diversification, and product development.** They cater to either **existing products, new products, existing markets, or new markets** and have a level of risk associated with them.

Model[17]



Analysis

[16] *Strategy and strategic management*. Strategy and Strategic Management | Emerald Insight. (n.d.). Retrieved December 5, 2022, from https://www.emerald.com/insight/content/doi/10.1108/978-1-78769-203-920191005/full/html

[17] *In an organization, who decides which strategy from the ansoff ... - quora*. (n.d.). Retrieved December 5, 2022, from https://www.quora.com/In-an-organization-who-decides-which-strategy-from-the-Ansoff-matrix-to-be-used

The growth strategy used by Disney in the acquisition of 21st century fox is a **market penetration** strategy as Disney has **acquired an existing company in the existing market to increase its sales.** This is a **low-risk strategy which not only helped Disney increase market share and profitability but also eliminate an existing competitor in the market** . The major advantage of this strategy is that Disney is familiar with the market and products that they are dealing with. Disney being in the entertainment industry from a couple of years, knows what its **audience** likes to see and how to reach its audience. Using the vast library of movies and tv-shows provided by Fox, Disney has used them wisely on their streaming platform to **cater the needs of the exact audience** that would love to watch those movies and tv-shows. With this, **market expenditure** also minimized. A limitation which can be faced is the **retaliation of the existing competitors** as Disney has try to take their customers and market share away. This can lead to **heated wars** in the entertainment industry[18]. Such a powerful combination of resources and finance has allowed Disney to **reach more customers within the same market** and lead to more **efficiency and effectiveness in controlling overhead costs**[19]. Controlled overhead costs have led to **competitive pricing**[20] which in-turn has given Disney a competitive advantage over its competitors, leading to **increased sales and consumption** which implies a **higher market penetration**. **Competitive pricing** is also a source of **competitive advantage** for Disney and has led to enhanced **consumer engagement** with the product. Using a market penetration **growth strategy**, Disney has created an online streaming platform Disney+ which innovative mean of **distribution** to a large **market base** in order to **defy competition** in the video streaming entertainment industry[21]. Disney+ has opened up **a new channel of distribution** in order to

[18] Yahoo! (n.d.). *Netflix is shrugging off the Disney-fox deal (NFLX, Dis, FOXA)*. Yahoo! Sports. Retrieved December 5, 2022, from https://sports.yahoo.com/netflix-shrugging-off-disney-fox-172400697.html

[19] Journal, W. S. (n.d.). *Dis | Walt Disney Co.. annual income statement - WSJ*. The Wall Street Journal. Retrieved December 5, 2022, from https://www.wsj.com/market-data/quotes/DIS/financials/annual/income-statement

[20] Jackson, K. (2022, November 19). *Disney Plus vs. netflix: How to narrow down to one streaming service*. CNET. Retrieved December 5, 2022, from https://www.cnet.com/tech/services-and-software/disney-plus-vs-netflix-how-to-narrow-done-to-one-streaming-service/

[21] Gowran, Leigh Mc. "Disney Continues to Beat Netflix on Streaming Subscribers." *Silicon Republic*, 9 Nov. 2022, https://www.siliconrepublic.com/business/disney-plus-netflix-streaming-subscribers.

distribute its movies and tv-shows including fox to reach **new consumer segments and consumer groups** in the **same market** which may have been inaccessible previously. This addition to a distribution system has led to **increased penetration within the same market**.

Evaluation

A market penetration strategy is the **safest and easiest**[22] **inorganic** growth strategy **to increase market share and profitability**. Ansoff matrix is a **simplistic tool** which allowed **stakeholders** of Disney to choose the best possible alternative to **achieve its objectives and growth**. It does not present Disney with complex situations and the growth strategies can be applied by someone with limited knowledge, **no external training or education** is required in order to apply this tool. It also allowed Disney to **observe all possible alternatives** so that the company can choose the correct growth strategy to **increase profit and sales**. The decision of choosing market penetration by Disney has given them an upper hand from its **competitors** and helped them create a position in the **digital streaming platforms**, which was the problem at hand. A limitation of the tool however is its lack of inculcating **cost benefit analysis**. Ansoff matrix analyzed the best possible strategy for Disney however, it fails to evaluate the **cost** of the decision[23]. It is **difficult to analyze the impact** of implementing every tool in business and so is the case with Ansoff matrix, however the impact of this tool have been **positive** on Disney and in my opinion, Ansoff Matrix has helped Disney choose a growth strategy which makes it **stand apart from its competitors**. A market penetration strategy however is by its very nature a constrained strategy for long-term, high-growth businesses. A business would eventually **outgrow a market penetration strategy** and switch to a more ambitious strategic course to maintain growth. Disney can

[22] "The Ansoff Matrix: A Strategic Approach to Growth." *Using the Ansoff Matrix to Plan Market Strategy | Lucidchart Blog*, 28 Feb. 2019, https://www.lucidchart.com/blog/ansoff-matrix.

[23] *Ansoff Matrix Advantages and Disadvantages*, https://www.letslearnfinance.com/ansoff-matrix-advantages-and-disadvantages.html.

create new products or apply **organic growth strategies** in the near future to stay on this course of growth.

Furthermore, to analyze the **rationale** behind the acquisition in-depth, force field analysis is used.

Chapter 3.2: Force Field Analysis[24][25]

[26]Introduction

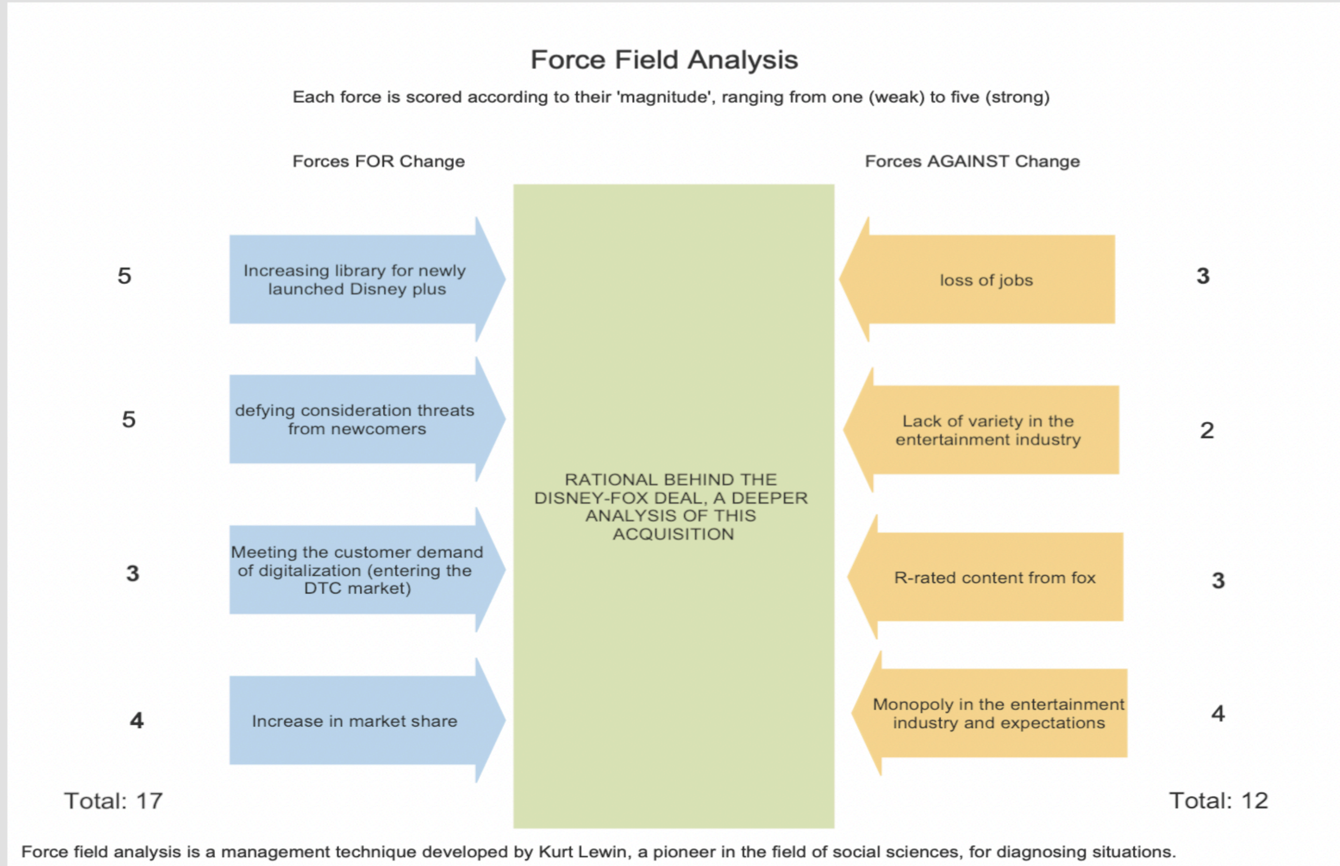
Force field analysis is a qualitative tool that weighs the driving and restraining forces of a decision which will help analyse the rationale behind the Disney-Fox acquisition.

[24] "Force Field Analysis." *Force Field Analysis or Force Field Diagrams: Anticipate Problems before They Bite You.*, https://www.skymark.com/resources/tools/force_field_diagram.asp.

[25] Schwering, Randolph E. "Focusing Leadership through Force Field Analysis: New Variations on a Venerable Planning Tool." *Leadership & Organization Development Journal*, MCB UP Ltd, 1 Nov. 2003, https://www.emerald.com/insight/content/doi/10.1108/01437730310498587/full/html.

[26] "SmartDraw Is the Best Way to Make a Diagram." *SmartDraw Is the Best Way to Make a Diagram*, https://cloud.smartdraw.com/editor.aspx?templateId=4550b437-6b3c-4a8c-a37e-1a63c70db755&noro=1&nsu=1.

Figure[27]



Analysis

Increasing library for newly launched Disney+ is a priority for Disney[28] as to compete with **rising competitors[29]** like Netflix and Amazon in the video streaming entertainment industry, it is vital for Disney to provide its **customers with differentiated content** in order to maximise subscribers[30]. Through the acquisition with Fox, Disney now has content from Hulu, Fox, national geographic etc. has provided a **vast library of original content** for Disney+. During the lockdown it was extremely important for Disney to earn from Disney+

[27] *VP Online - Online Drawing Tool*, https://online.visual-paradigm.com/app/diagrams/#diagram:proj=0&type=ForceFieldAnalysis&width=11&height=8.5&unit=inch&gallery=/repository/cbe704bc-30d4-44ee-8f7b-f4ca595150d1.xml.

[28] https://abcnews.go.com/GMA/video/disney-ceo-bob-iger-announces-fox-deal-51786250

[29] Dimitrov, Vladimir. “Disney: Facing the Reality of Intensifying Competition (DIS).” *SeekingAlpha*, Seeking Alpha, 4 Feb. 2022, https://seekingalpha.com/article/4484197-disney-facing-reality-of-intensifying-competition.

[30] Deitchman, Beth. “Disney's Acquisition of 21st Century Fox Will Bring an Unprecedented Collection of Content and Talent to Consumers around the World.” *The Walt Disney Company*, 21 Feb. 2020, https://thewaltdisneycompany.com/disneys-acquisition-of-21st-century-fox-will-bring-an-unprecedented-collection-of-content-and-talent-to-consumers-around-the-world/.

as all Disney theme parks were forced to shut down stopping revenue from its greatest **revenue stream**. During Covid19 Disney decided to transition into **a direct to customer** company as streaming became one of the most important facets of the company's media business[31]. The move by Disney comes as the global coronavirus pandemic has crippled its theatrical business and ushered more customers toward its streaming options. As of August, Disney has **100 million paid subscribers**[32] across its streaming offerings, more than half of whom are subscribers to Disney+. The **need of its customers** made shifting to **D2C** of greater importance to Disney[33]. **Increase in market share** is rated 4 as Disney already had a huge market share but it was being threatened by rising **competition** and so Disney had to take action to increase their market share. They were able to do this by **acquiring Fox** and taking over their market share as well[34].

3 points have been allotted to the loss of jobs due to the acquisition will affect the lives of the workers who have worked with Fox for a couple of years however, this loss of jobs will not impact Disney's **sales or profits** in any way possible[35] but will impact Disney's relations with its workers and **motivation** of their current staff which might result in **demotivated staff**. With this acquisition, there will not be any original content from Fox however Disney and Fox will work together to produce content, possibly **reducing the variety of content in the entertainment industry**. Disney being a family friendly company, with **kids as the majority of their audience**, will also have **R-rated content** on its streaming platform due to its acquisition with Fox[36]. This is given 3 points as Disney might be exposing children to content that they are not suitable to watch. Being a **monopoly** in the entertainment industry is a

[31] Whitten, Sarah. "Disney Says Its 'Primary Focus' for Entertainment Is Streaming - Announces a Major Reorg." *CNBC*, CNBC, 12 Oct. 2020, https://www.cnbc.com/2020/10/12/disney-reorganizes-to-focus-on-streaming-direct-to-consumer.html.

[32] Truman Du Featured Creator . "Netflix vs Disney: Who's Winning the Streaming War?" *Visual Capitalist*, 10 Oct. 2022, https://www.visualcapitalist.com/cp/netflix-versus-disney-subscribers/.

[33] Baumgartner, Jeff. "Disney Direct-to-Consumer Revenues Rise as Losses Shrink." *Light Reading*, 12 Aug. 2021, https://www.lightreading.com/videomedia/disney-direct-to-consumer-revenues-rise-as-losses-shrink-/d/d-id/771470.

[34] Richter, Felix. "Infographic: Disney-Fox Deal to Shake up the Movie Industry." *Statista Infographics*, 4 July 2018, https://www.statista.com/chart/12307/market-share-of-major-film-studios/.

[35] Martin, Clare. "Disney's Acquisition of 21st Century Fox Will Leave More than 4,000 People Unemployed." *Pastemagazine.com*, Paste Magazine, 9 Feb. 2019, https://www.pastemagazine.com/movies/disney/disneyfox-merger-lost-jobs/.

[36] Reporter, Harper Robinson - Digital. "Disney+ Adds 'R' Rated Movies to Its Platform." *Fox 59*, Fox 59, 26 July 2022, https://fox59.com/news/national-world/disney-adds-r-rated-movies-to-its-platform/.

positive for Disney however, it comes with **expectations** of providing **quality content** often and an interaction between multi-verses. **If Disney is not able to meet its customers' expectations, it might lose a lot its audience**.

Evaluation

A force field analysis provides a **visual summary** of all the factors **in support of and in opposition** of the acquisition of Fox by Disney to take the correct decision. It weights out the positives and negatives regarding the potential decision into a single table. In addition, force field analysis also **expands the evaluation beyond the data itself** to look at **qualitative factors** that may have an impact on the **success or failure** of the decision being analysed[37]. The analysis however, is totally dependent on the **skill level** of the creators of the diagram. A force field analysis helped identify the arguments that Disney would've qualitatively analysed to come to a final decision about the acquisition.

Chapter 3.3: Red ocean, Blue ocean strategy

Introduction

A red ocean is **competition** in the **existing market** where companies compete with their **competitors** to outperform them and grab a larger piece of the **market share**. [38] A blue ocean on the other hand is an **untapped market** in which companies use **strategies** to make **competition irrelevant** and create new **demand**[39].

Table

[37] Brent, Michael. "Advantages & Disadvantages of the Force Field Analysis." *Career Trend*, 17 Jan. 2020, https://careertrend.com/info-8613855-advantages-disadvantages-force-field-analysis.html.
[38] https://www.blueoceanstrategy.com/tools/red-ocean-vs-blue-ocean-strategy/
[39] https://harappa.education/harappa-diaries/blue-ocean-and-red-ocean-strategy/#heading_2

Red ocean strategy	Blue ocean strategy
Disney theme parks, creating and distributing content on cable channels	Entering the online streaming services- direct to consumer market after acquiring Fox and then creating Disney+
Creating original content	Acquiring a large library of content from Fox and a major stake in Hulu
A strong player in the US market only	Boost in USA and the international market

Analysis

Primarily, Disney was a **media and entertainment company** which was known for **creating and distributing** a variety of content such as animated movies, tv-shows, theme parks, travel, cruises etc.[40]. however, as Disney noticed the **shift in consumer behavior**[41] towards **streaming platforms**, away from **traditional forms of media**, they decided to enter the online streaming industry. As Disney continued to create original content, the closure of Disney theme parks and the increasing cancellation of cable and satellite connections they decided to dive into this significant opportunity to reach **new audiences** and generate **a new revenue stream** and so they launched Disney+ as a **blue ocean strategy**[42]. Disney was already a significant player in the **traditional media** and **entertainment sector** with a variety of profitable businesses, including its studio entertainment, **direct-to-consumer**, international, and media networks, parks, experiences, and products segments although, with the **acquisition of Fox** Disney further enhanced its position in the media and entertainment

[40] https://www.investopedia.com/articles/financial-theory/11/walt-disney-entertainment-to-empire.asp
[41] https://nikhilmehta.me/disney-streaming-service-strategy/
[42] https://www.cnbc.com/2020/10/12/disney-reorganizes-to-focus-on-streaming-direct-to-consumer.html

sector by getting access to **Fox's huge library of motion pictures**[43] and television shows as well as its investments in streaming services like Hulu. With **existing players** like Netflix and Amazon in the streaming industry, Fox helped Disney strengthen its **direct-to-customer offerings** with the inclusion of Fox's streaming assets. The acquisition is also a blue ocean strategy as it helped Disney enter a **new market space** and a **new way to distribute and monetize its content.** An increase in the **profitability ratio** as seen in 2021 is 6.092% from which Disney+ has generated $16.9 billion which is 27% of their **total revenue**. Fox's significant **global presence** gives Disney the opportunity to broaden its reach, gain access to new audiences, and develop fresh **revenue streams** overseas. By acquiring Fox, Disney came a step closer to **dominating the entertainment industry** and to create a **blue ocean** for themselves by providing **original content** from Disney and Fox which cannot be provided by any other streaming platform. With **rising subscriptions**, Disney has created a new **revenue stream** for themselves and entered an **ever-growing market**[44].

Evaluation

The **acquisition** of Fox by Disney as a **blue ocean strategy** has not only helped Disney defy **competition** in its existing market with Comcast, Sony, Time warner etc. but has also helped them enter a **new revenue stream (OTT platform)** with **competitive advantage** and has given the ability of building a **blue ocean**. The limitation of the strategy however is that Disney might start **ignoring relevant competition existing in the red ocean**[45]. With its focus on DTC, Disney might lose focus of its existing competition in theme parks (Six flags, universal studios) and the cable industry as well, ignoring his competition will result in hefty

[43] https://thewaltdisneycompany.com/disneys-acquisition-of-21st-century-fox-will-bring-an-unprecedented-collection-of-content-and-talent-to-consumers-around-the-world/

[44] https://www.essay48.com/13621-Walt-Disney-Blue-Ocean-Strategy

[45] https://www.forbes.com/sites/jeroenkraaijenbrink/2019/09/03/looking-for-a-blue-ocean-strategy-consider-these-three-risks/?sh=612db4d323ed

losses. Disney might also **swim too far** and reach markets that are far off their own competencies[46]. Along with this, acquisition has resulted in a **longer chain of command** and **stakeholder conflict** as more people join in the decision making of the company.

Chapter 3.4: Porter's five force model

Introduction

Porters five force model is a model designed with 5 vital frameworks for developing an **organization's strategy**[47]. Depending on the industry, these factors have **varying possibilities**. Managers should utilize the five forces framework to analyze the **competitive structure** of an industry before making **strategic decisions**[48]. I will be analyzing these five forces for Walt Disney[49].

[46] https://hbr.org/2015/03/red-ocean-traps
[47] https://www.managementstudyguide.com/porters-model-of-competetion.htm
[48] https://www.cgma.org/resources/tools/essential-tools/porters-five-forces.html
[49] https://www.businessnewsdaily.com/5446-porters-five-forces.html

Model[50]

Analysis

Threat of new entrants (weak force)[51]

Threat of new entrants is a **weak force** for Disney as Disney has spent a lot of years to build an **entertainment empire**. It has consolidated its **position in the market** by venturing into a range of businesses. It started as a company which produced cartoons for kids which now has **revenue streams** such as Disney theme parks, action figures, box-office blockbusters etc. Disney has also acquired Pixar, Marvel, Lucasfilm and **21st century fox** which has resulted in them having the **original and huge collection** of beloved characters and stories from these companies as well. From these characters Disney can play around and create more movies which will also have **loyalty** from customers as they already love the characters so much. Disney having a **loyal customer base** can also increase their prices which new players in the

[50] https://www.planiumpro.com/blog/porters-five-forces-analysis-assessing-the-competitive-environment/
[51] https://www.visual-paradigm.com/tutorials/five-forces-analysis-tutorial/

industry will not be able to do. Moreover, the entertainment industry is extremely **hard to get enter** and requires not only a **huge amount of capital**[52]to set up but also requires quality intellectual property which is very hard to come by therefore it is very difficult to challenge the **dominant position** held by Disney in the entertainment industry. **The acquisition of Fox has only helped Disney lower the threat of new entrants to the company.**

Threat of substitutes (moderate force)

Walt Disney does not have any **exclusivity** when it comes to the services they provide because their business is mostly in the media and entertainment industry. Customers can and frequently do **consume media from a variety of competing businesses**, including Netflix, Amazon, and HBO, so there is virtually **no switching cost**. To maintain competition with the content of its rivals, **Walt Disney must continuously produce original, high-quality content** in addition to adaptations and continuations of already-existing intellectual property. This indicates that it is more expensive to provide the high-quality content for which Disney has become **renowned**. Even though the movie didn't get great reviews, the corporation has been fairly effective in building a following of **devoted customers** who are eager to see the next Marvel or Star Wars movie. With the **acquisition of Fox**, it has made it easier for Disney to provide high quality original content as they now have a vast media library as well as workers, the overhead costs will also reduce. Hence, this threat of substitutes can be said to be a moderate force.

Rivalry among existing competitors (strong force)

Other businesses present Walt Disney with **fierce competition**. These companies include film and television companies such as Comcast, CBS, and Sony, theme parks such as Universal Parks and Resorts and Six Flags Entertainment. Disney is now up against other streaming

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52 https://www.forbes.com/sites/bradadgate/2022/03/17/overview-of-the-entertainment-market-in-2021-coming-out-of-covid-19/?sh=2392b3fc519c

services like Netflix, Amazon, and Apple as a result of its recent **expansion** into this market. These are all major businesses with strong **financial resources** that are all vying for a larger market share. As a result, this industry is very **competitive**. However, **Disney's acquisition of 21st Century Fox** provided them with a **sizable library of movies and television shows** that they could immediately introduce on their streaming service. The business is now among the most **valuable businesses** in the world thanks to this decision. In 2021 it contributed **25% of the total box office earnings** in the US and Canada. As a result, even if this force is **powerful**, the company appears to be in a **good position** to succeed as long as it continues to play to its advantages and maintain its **unique selling proposition**.

Bargaining power of buyers (weak force)

Walt Disney is a firm that has a low level of **customer bargaining power** because it controls many well-known media brands. **Customers** are willing to **spend more money** to access Disney's high-quality content. For most clients, the **price** point is neither absurdly cheap nor extremely high. But Disney can be confident that there will be consumers for its content because it has invested in acquiring and creating a repertoire of numerous fan's favorite IPs. The cost of theme park admission tickets and products is likewise **relatively expensive**, yet the business is still able to **earn a very solid profit** through these channels. **Adding on to these IP's are IPs owned by Fox and the businesses Fox had shares of that got added to the Disney library**. This force will remain **relatively weak** as long as the business maintains its devoted **consumer base** in this way.

Bargaining power of suppliers (weak force)

Being a major player in this business, Walt Disney **has a significant amount of power** over suppliers. Disney has a decently broad selection of providers to pick from. These suppliers mostly consist of those who provide the raw materials for various products as well as technology providers. As a result, Walt Disney is in a **strong position to negotiate with these suppliers**. Should the present one reject their demands, Walt Disney may also quickly switch to another supplier. This is often the case when the suppliers supply material that does not require too much **specialization** to produce. Due to the **intense competition** created by this, Disney is able to select the supplier who provides the most **value for the money they spend**. If a supplier offers specialist tools like high-performance cameras or software, they may have a modest advantage in negotiations. However, this effect is somewhat weak when taken into account because the **industry's technology requirements are not particularly high**.

Evaluation

Porter Five Forces of Walt Disney have revealed that Disney needs to **steer clear of competition and needs to be very careful in their decision- making to maintain their market position as seen above in red ocean, blue ocean strategy**. Having a weak bargaining power of suppliers and buyers is a huge advantage they can use, and the weak threat of new entrants is also valuable and shows how much Disney has progressed and the media giant that it has become in all these years. However, there is a moderate threat of substitutes and high rivalry among existing competitions which Disney needs to defy. **With its acquisition of 21st century Fox, it is continuing to defy this competition and should further make such decisions to remain competitive**. These factors above demonstrate the numerous factors that have an impact on its **competitive environment**. This knowledge aids in assessing the many external business aspects that affects every company.

To analyze the further impact of the acquisition quantitatively, financial ratios are performed and analyzed.

Chapter 3.5: Financial ratios

Introduction

1. **Profitability ratios** examine profit of a company in relation to other figures. These ratios are relevant for profit-seeking businesses and helps managers check if there is a problem in the company's basic operations.
2. **Net profit margin** shows the percentage of sales turnover that is turned into net profit. Taking an example; for 2018 NPM is 24.8 which means that for every $100 of sales, 24.8 is the net profit. This is cost after reduction of both direct and indirect costs, higher the NPM the better it is for the firm.
3. **Gross profit margin** shows the percentage of sales turnover that is turned into gross profit. The higher the GPM, the better it is for a business.
4. **Liquidity ratios** analyze the ability of a company to pay its short-term liabilities. These ratios reveal a firm's ability to repay its debts. Liquidity ratios help understand the cash-richness of a company and their financial position[53].
5. **Current ratio** reveals whether a firm is able to use its liquid assets to cover its short-term debts. An ideal current ratio should lie between 1.8-2.
6. **Acid test ratio** is the same as current ratio except it ignores stock while measuring the short-term liquidity of a business.
7. **Efficiency ratios** assess how efficiently the working capital of a business is being managed and how assets are used to generate income[54].

[53] https://wealthbucket.in/blog/liquidity-ratio/
[54] https://www.investopedia.com/terms/e/efficiencyratio.asp

8. **Inventory turnover ratio**[55] Is a ratio that measures how efficiently stock is being managed. The ratio can be used to determine if there are excessive inventory levels compared to sales[56].
9. **Leverage ratios** analyze how much capital of the company is in form of debt in comparison to its equity.[57]
10. **Debt to asset** ratio reveals how much debt a company has in comparison to its assets.
11. **Asset to equity ratio** reveals the proportion of the company's assets funded by the shareholders.[58] The higher the ratio, the less leveraged the company is[59].
12. **Gearing ratio** is a financial metric that shows how much debt and equity were used to finance the assets of a company[60].

Profitability ratios [61]

Net profit margin (%) = $\frac{Net\ profit}{Sales\ revenue} \times 100$

Gross profit margin (%)= $\frac{Gross\ profit}{Sales\ revenue} \times 100$

Liquidity ratios[62]

Current ratio =$\frac{Current\ assets}{Current\ liabilities}$

Acid test ratio = $\frac{Current\ assets - stock/inventory}{Current\ liabilities}$

Efficiency ratios[63]

[55] https://www.netsuite.com/portal/resource/articles/inventory-management/inventory-turnover-ratio.shtml
[56] https://corporatefinanceinstitute.com/resources/knowledge/finance/inventory-turnover-ratio/
[57] https://www.investopedia.com/terms/l/leverageratio.asp
[58] https://www.accountingtools.com/articles/the-asset-to-equity-ratio.html
[59] https://www.nasdaq.com/articles/equity-asset-ratio-2016-01-15
[60] https://www.investopedia.com/terms/d/debtequityratio.asp
[61] HOANG, PAUL. *Business Management 4th Edition*. IBID Press, 2018.
[62] https://cleartax.in/s/liquidity-ratio
[63] https://www.deskera.com/blog/efficiency-ratios/

Inventory turnover ratio $= \frac{cost\ of\ goods\ sold}{average\ stock}$

Leverage ratios[64]

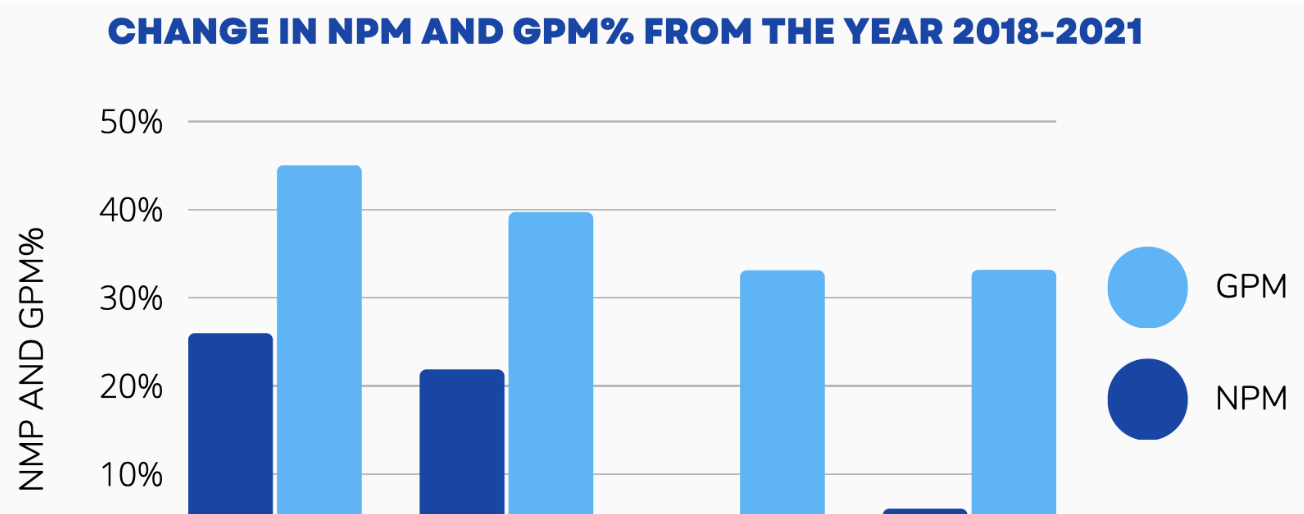
Debt to assets ratio $= \frac{total\ debt}{total\ assets}$

Asset to equity ratio $= \frac{total\ assets}{total\ equity}$

Gearing ratio (%) $= \frac{debt}{equity} \times 100$

Profitability ratios

Financial year	NPM Calculations (In Million$)	NPM(%)	GPM calculations (In Million$)	GPM (%)
2018[65]	$\frac{15,411}{59,434} \times 100$	25.93%	$\frac{26,708}{59,434} \times 100$	44.937
2019[66]	$\frac{15,190}{69,570} \times 100$	21.83%	$\frac{27,552}{69,570} \times 100$	39.603
2020[67]	$\frac{(96)}{65,388} \times 100$	-0.147%	$\frac{21,508}{65,388} \times 100$	32.893
2021[68]	$\frac{4,107}{67,418} \times 100$	6.092%	$\frac{22,287}{67,418} \times 100$	33.058



Liquidity ratios

Financial year	Current ratio Calculations (In Million$)[69]	Current ratio	Acid test ratio calculations (In Million$)[70]	Acid test ratio
2018	$\frac{98,598}{44,643}$	2.21 : 1	$\frac{98,598-1,392}{44,643}$	2.18 : 1
2019	$\frac{193,984}{91,132}$	2.13 : 1	$\frac{193,984-1,649}{91,132}$	2.11 : 1
2020	$\frac{201,549}{104,037}$	1.937: 1	$\frac{201,549-1,583}{104,037}$	1.92 :1
2021	$\frac{203,609}{101,385}$	2.01 : 1	$\frac{203,609-1,331}{101,385}$	1.99 : 1

Efficiency ratios

Financial year	Inventory turnover ratio Calculations (In Million$)[71]	Inventory turnover ratio
2018	$\frac{32,726}{2,679}$	12.2 times
2019	$\frac{42,018}{4,476}$	9.4 times
2020	$\frac{43,880}{5}$	8.8 times
2021	$\frac{45,131}{3,634}$	12.4 times

Leverage ratios

[69] "The Walt Disney Company (DIS) Balance Sheet." *Yahoo! Finance*, Yahoo!, 18 Sept. 2022, https://finance.yahoo.com/quote/DIS/balance-sheet?p=DIS.
[70] "The Walt Disney Company (DIS) Income Statement." *Yahoo! Finance*, Yahoo!, 18 Sept. 2022, https://finance.yahoo.com/quote/DIS/financials?p=DIS.

[71] "The Walt Disney Company (DIS) Balance Sheet." *Yahoo! Finance*, Yahoo!, 18 Sept. 2022, https://finance.yahoo.com/quote/DIS/balance-sheet?p=DIS.

Financial year	Debt to asset ratio Calculations (In Million$)[72]	Debt to asset ratio	Asset to equity ratio calculations (In Million$)[73]	Asset to equity ratio	Gearing ratio calculations (In Million$)[74]	Gearing ratio
2018	$\frac{20,874}{203,609}$	0.103 : 1	$\frac{203,609}{88,553}$	2.299: 1	$\frac{57,635}{88,553}\times 100$	65.085%
2019	$\frac{46,986}{201,549}$	0.233: 1	$\frac{201,549}{83,583}$	2.411: 1	$\frac{58,628}{83,583}\times 100$	70.143%
2020	$\frac{58,628}{193,984}$	0.302: 1	$\frac{193,984}{88,877}$	2.183: 1	$\frac{46,986}{88,877}\times 100$	52.866%
2021	$\frac{57,635}{98,598}$	0.585: 1	$\frac{57,635}{48,773}$	1.817: 1	$\frac{20,874}{48,773}\times 100$	42.798%

Analysis

Profitability ratios

Net profit margin of Disney has immensely dropped in 2019 and has resulted in the company going into losses due to the pandemic and shutting down of Disney theme parks. It has also happened due to an increase in overhead expenses. The purchase of fox and expense of opening a new streaming platform Disney+ also decreased Disney's profits. Gross profit margin of Disney has decreased from 2018-2020 and has increased in 2021 because its direct expenses had increased. A significant change of approximately 7% can be seen between the years 2019-2020 as it was the time covid19 had spread all across the world. Disney theme

[72] "The Walt Disney Company (DIS) Balance Sheet." *Yahoo! Finance*, Yahoo!, 18 Sept. 2022, https://finance.yahoo.com/quote/DIS/balance-sheet?p=DIS.
[73] "The Walt Disney Company (DIS) Income Statement." *Yahoo! Finance*, Yahoo!, 18 Sept. 2022, https://finance.yahoo.com/quote/DIS/financials?p=DIS.
[74] "The Walt Disney Company (DIS) Income Statement." *Yahoo! Finance*, Yahoo!, 18 Sept. 2022, https://finance.yahoo.com/quote/DIS/financials?p=DIS.

parks were forced to close for the first time since they opened. Sales revenue dropped significantly and an increase in direct expenses caused GPM to increase. As the pandemic has settled down, in 2021 there is an increase in GPM.

- Disney annual operating expenses for 2021 were **$64.413B**, a **4.33% decline** from 2020.
- Disney annual operating expenses for 2020 were **$67.329B**, a **14.19% increase** from 2019.
- Disney annual operating expenses for 2019 were **$58.96B**, a **32.11% increase** from 2018[75].

Liquidity ratios

In 2018 and 2019 the current ratio of Disney is greater than 2, signifying that Disney has more assets than liabilities and can easily cover its short-term liabilities with their assets. A dip in current ratio is seen in 2019 but it is still greater than 1.8 which is ideal for a business with high liquidity. Acid test ratio ignores stock and gives us the liquidity of the business. In all cases, the acid test ratio is above 1.8 which is good for the Disney.

Efficiency ratios

Disney has had an above average inventory turnover ratio since 2018, however its inventory turnover ratio is highest in 2021 indicating that the acquisition of 21st century fox has increased Disney's sales. A significant fall in the inventory turnover ratio can be observed in the year 2020 due to the shutting down of Disney theme parks, a huge increase can be seen in

[75] https://www.macrotrends.net/stocks/charts/DIS/disney/operating-expenses

2021 with the acquisition of Fox and the opening of Disney+, Disney's new online streaming platform.

Leverage ratios

Disney's debt-asset ratio is always less than 1, indicating that the debt on Disney is always less than the assets of the company so they can easily repay their debt. The asset to equity ratio of the company is always higher than 1 which indicates that the company is less leveraged. It is not dependent on its shareholders and has a good amount of assets. Further, the gearing ratio[76] is higher than 50% of the company indicating that Disney is using debt to pay for its continuing operations. Disney is highly geared till 2020, however after the pandemic is over and the acquisition has happened, Disney's gearing ratio is less than 50% which means that it is now financing its operations with equity[77].

Evaluation

To conclude, the overall financial position of Disney is impressive with a few hiccups during the pandemic. All in all, the acquisition of fox has really helped Disney increase its profits and maintain its assets to fund debts. Disney needs to maintain its net profit margin for further growth.

[76] https://www.investopedia.com/ask/answers/121814/what-good-gearing-ratio.asp

[77] https://gocardless.com/guides/posts/what-is-gearing-ratio/

Chapter 4: Conclusion

Walt Disney's acquisition with 21st century fox has overall been a success. Disney has used the safest and easiest growth strategy (market penetration) which was a good decision considering that Disney is already aware of the needs of its customers and competitors and can capture the market more effectively and efficiently. A force field analysis has revealed the magnitude of how necessary it was for Disney to take the decision of acquiring Fox in order to defy competition and meet consumer demand which led to an increase in market share. Using a blue ocean strategy, Disney has not only strategized in order to receive direct-to-customer offerings from fox but has also entered the already competing industry of streaming services with a competitive advantage. Having a weak bargaining power of suppliers and buyers is a huge advantage that Disney can use, and the weak threat of new entrants is also valuable and shows how much Disney has progressed and the media giant that it has become in all these years. However, there is a moderate threat of substitutes and high rivalry among existing competitions which Disney needs to defy. With its acquisition of 21st century Fox, Disney is continuing to defy this competition and should further make such decisions to remain competitive. An analysis of Disney's financial ratios has only revealed positive growth from the past years. A decline in the ratios was seen during Covid times, however with the acquisition of fox Disney bounced back and increased its profits and maintained its assets to fund debts. Disney needs to maintain its net profit margin for further growth.

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Appendices[78]

Rank	Year	Movie	Worldwide Revenues ($ mln)	Studio	IMDB Rating
1	2009	Avatar	$2,802	Walt Disney	7.8
2	2019	Avengers: Endgame	$2,798	Walt Disney	8.4
3	1997	Titanic	$2,208	Paramount Pictures, 20th Century Fox	7.8
4	2015	Star Wars Ep. VII: The Force Awakens	$2,065	Walt Disney	7.9
5	2018	Avengers: Infinity War	$2,045	Walt Disney	8.4
6	2015	Jurassic World	$1,670	Universal Pictures	7
7	2019	The Lion King	$1,654	Walt Disney	6.9
8	2015	Furious 7	$1,517	Universal Pictures	7.1
9	2012	The Avengers	$1,515	Walt Disney	8
10	2019	Frozen II	$1,447	Walt Disney	6.9
11	2015	Avengers: Age of Ultron	$1,395	Walt Disney	7.3
12	2018	Black Panther	$1,336	Walt Disney	7.3
13	2011	Harry Potter and the Deathly Hallows	$1,334	Warner Bros. Pictures	8.1
14	2017	Star Wars Ep. VIII: The Last Jedi	$1,333	Walt Disney	7
15	2018	Jurassic World: Fallen Kingdom	$1,308	Universal Pictures	6.2
16	2013	Frozen	$1,268	Walt Disney	7.4
17	2017	Beauty and the Beast	$1,255	Walt Disney	7.1
18	2018	Incredibles 2	$1,243	Walt Disney	7.6
19	2017	The Fate of the Furious	$1,237	Universal Pictures	6.7
20	2013	Iron Man 3	$1,215	Walt Disney	7.1

[78] https://seekingalpha.com/article/4450008-disney-worlds-largest-media-company-becoming-even-stronger