TEAM 5: Caitlyn Dour, Shambhavi Mishra, Yuwen Shen, Linshuang Wu, Anjana Kankanala


**Screening Tomorrowland: Disney's Re-Positioning in the Streaming Wars**

Disney is facing massive market disruption in the video entertainment and information space. While it should have the home-court advantage, it is 12 years behind the current OTT market leader, Netflix. The breakdown of the US demand for platforms alone shows the steep hill that this lapse in innovation has created; Netflix claims 68% of the current demand, with Amazon Prime Video taking the next 10% (Exhibit 4). Among the weaknesses to consider as DTCI penetrates the market, Disney lacks the track record in using data science to produce competitive business intelligence or consumer behavior predictions (Exhibit 7). We propose a set of strategies for Disney to develop horizontally through 2024, to allow the newly formed Direct-to-Consumer & International division (DTCI) the needed time to make up market share, develop channel loyalty, and become profitable without compromising on the well-loved Disney brand. The proposal includes 1) investing heavily in developing a decision science team and recommendation system, 2) a subsidization of pricing given the fragmented market; 3) using profits from advertising and seasonal sales to hedge losses created in the medium term in implementing DTCI content strategy; 4) working cross-functionally with the Parks, Experience & Products (PEP) team to leverage existing consumer data for cross-platform content-strategy; 5) preserving Disney's own distribution networks in order to protect valuable consumer data and consumer privacy, and 6) utilizing a content strategy that embraces shifts in consumer habits and expands on known-good franchises or high-grossing opportunities.

The streaming industry has rapidly expanded in domestic and international markets since 2018, becoming increasingly fragmented. Of all streaming services, 6 are leading in US paid digital content: Netflix (68%), AmazonPrime (65%), Hulu (52%), Youtube (36%), and iTunes (19%) (Exhibit 3). Hulu is Disney's main stake in the OTT space, "recording 28 million users in May 2019" (Benoari et. al, p. 1). The market is expected to grow alongside the increase in cord cutting and work-from-home continues. Disney's ESPN+ holding is expected to grow, since "42% now watch their sports via streaming, fast catching up with the 62% who watch via traditional pay-TV" (Glenday, 2021). Disney is unique comparatively for its rich IP and pre-sold properties like Marvel, Pixar, and Lucasfilms. Disney+ also has access to world-class events and concerts that differentiates its possible market offerings with unique experience-based value. Disney's most unique brand trait is how it teaches moral code, and introduces children to adulthood through tender narratives around loss, violence, and death (Wills, p.106).

The market's expansion was fueled by the pandemic; a psychiatry study analyzing binging habits in South East Asia found the average time spent binge-watching increased from 1-3 hours (68.8% of participants measured pre-pandemic) to 3-5 hours or 5+ hours (73.7% of participants measured during the pandemic) (Dixit et al, 2020). The frequency of binge-watching in South East Asia also increased; binge-watching had been adopted as a daily activity by 27.6% of participants (Dixit et al, 2020). As the omicron variant spreads, these habits are likely to stay. Companies in the space leverage data science and recommendation algorithms to increase customer satisfaction with a service-based model. About 80% of shows watched on Netflix are chosen through the recommendation system, showing that access to a deep pool of user data on genre preferences, times most active, what shows similar profiles viewed, and so forth is an incredibly rich asset to the success of streaming businesses (Plummer, 2017). This is a massive market shift away from traditional storytelling. Content is now being designed and constructed based on consumer habits and preferences. Given Disney's long-standing award-winning customer service, fitting this consumer-centric model into the existing corporate culture is not totally unpalatable; however, navigating the shift in power of decision making between the creative and quantitative teams is a challenge.

The dilemma here is one of the weighted costs and benefits, pressurized by a short timeline of 5 years. Developing a decision science team and building recommendation algorithms that would be accurate for consumers in the Disney pipeline will take about 3 years (Exhibit 9). The margin for monetization by 2024 is narrow, but far more likely than if Disney continues to hedge bets by pursuing short-term objectives. The margins for DTCI start-up losses (1 billion) (Exhibit 1) compared to Disney's overall profit in 2018 (6.6 billion) (Exhibit 6) are worrying, but also a fraction. Given the drop in revenue between 2016 and 2017 is most likely from Disney's pulling of content from competitors, those are sales that will be made up with the new B2C model. In fact, by removing the middlemen, long-run profits will increase.

Pursuing a pricing strategy that involves subsidization and advertising on some platforms will allow Disney to capture a wider share of the market while hedging losses. Offering content at a lower price than (Exhibit 10) will drive customers to their platform. For audiences on the fence between similar platforms, what the decision comes down to, and what brands will compete for market share on is price. In a study from the National Research Group, of adults 18 and over who demonstrated binge-watching habits (5+ hours of tv), 70% were willing to pay for a streaming service with ads if it translated to a lower bill (Chan, 2021). With reduced pricing, Disney can use targeted ads (informed in the short term by PEP customer data) on Hulu and ESPN+ without risking customer satisfaction. Competing on price allows DTCI to use advertising and gain back market share from higher-priced competitors.

When considering the distribution strategy, a go-it-alone method allows DTCI a closer relationship with user data. Given Disney's brand, it is better for them to adopt a strategy that succeeds in the long run;  preserving distribution networks protects valuable consumer data and consumer privacy from competitors. With three channels that cover many consumer segments (Exhibit 8), distributing content through competitor brands gives up access to valuable consumer data. Similarly, distributing through cable networks as middlemen also causes DTCI to lose valuable data, the very advantage that gives Netflix and Youtube market dominance. One instance in which Disney would not lose data, while being able to offset its costs, would be old Christmas specials with predictable viewing patterns; in fact, cable television companies likely value these specials at a higher price point than DTCI would make by keeping it on stream. Even with losses up till 2023, Disney's lower subscription rate and the broad multi-channel bundle will attract loyal customers. By having its own platform, Disney can continue building on its consumer-centric brand and build towards profitability.

Working cross-functionally with PEP to leverage existing consumer data for a cross-platform content strategy will help Disney regain net profit losses from DTCI's associated start-up costs. Disney has a key advantage with its access to premiere events, concerts, and shows at its internationally established parks. The pandemic caused major shifts to venues, park attendance, and as mentioned, streaming habits. With VR & AR concerts showing an influx in interest (Chikadel, 2021) DTCI has the unique ability to bring park experiences to families at home, possibly with pay-per-view pricing. For example, Disneyland's *Fantasmic!* and *Main Street Parade of Lights* are shows that have the potential to become specials on Disney+. This strategy creates a win-win situation for both DTCI and PEP. As consumer knowledge from parks informs content and content strategy, the successful streaming platform can enhance PEP sales with enriched data, targeted ads, and eventually, an option to 'shop the screen.' If an audience member is screening a show, they can choose whether they'd like to be notified on screen of merchandise they can shop from the screen, or shop merchandise of a character. This feature will encourage sales and product offering awareness for PEP, and is already in use by AmazonPrime for fashion. Spylight is an app that allows for similar online shopping experiences while streaming (Connolly, 2021). Additionally, the subscription and purchases generate Disney Dollars for participating members, so customers stay in the sales-pipeline by “paying for Disney with Disney” (Wills, p. 73). While Disney’s teams have been in silos, and that has allowed for the freedom to innovate, the proposal to cross-integrate teams and further develop an omnichannel (Exhibit 9) has long-run benefits as DTCI works towards profitability by 2024.

DTCI’s content strategy during the pandemic should embrace shifts in consumer habits, reboot spinoff strategies for top franchises, and expand on innovative content associated with big names. Disney’s current IP strategy is to separate platforms by content type across sports on ESPN, family-friendly content on Disney+, non-age-restricted content on Hulu, and short-form content on Tubi and Quibi. To expand on their content strategy, we suggest that Disney invest in more micro-series as a short form of rebooting character storylines that have already ended, and capitalize on their mobile app audience interaction. Expanding the success that Pixar has had on shorts to Marvel and Star War franchises to generate appeal for Gen-Z and millennial audiences, who’ve developed a strong preference for short mobile content (Exhibit 12). To make Disney+ accessible to Gen-Z audiences, it might also be valuable to create short films or TV series that have popular TikTokers as the main characters. This will allow Disney+ to develop content for audiences that prefer platforms like TikTok and Instagram Reels. Additionally, as a test-trial Disney can collaborate via brand deals with current TikTokers such as Addison Rae or Charli D'Amelio on TikTok to measure audience interaction and feedback without committing to producing a full TV series. If successful, we suggest that Disney produce TikToker-original content on Hulu and Fox so that unfiltered and more mature content can be produced without contradictions with the Disney family-friendly IP.

Previous Disney movie releases reveal a strong trend in creating spin-offs, sequels, prequels, and reboots to build off of strong IP. We suggest that television series of popular movies like “Moana,” “Zootopia,” and “Big Hero Six” will benefit from this strategy based off of the success from shows like “The Mandalorian,” “Wanda Vision,” and “Loki.” Disney has shown that their shorter content has experienced higher viewership and promise for subsequent seasons. When comparing audience attention across platforms, on-screen media and gaming are at the forefront. If Disney+ could expand its platform to include interactive gaming experiences for high grossing properties, they would be able to separate themselves from traditional streaming channels, bridge the gap between gaming and streaming, and invite the gaming community to interact with Disney franchises like Marvel or Star Wars more immersively.

New content should have a name associated that can attract large audiences to the platform. On July 3rd of 2020, Hamilton was added to Disney+. This addition caused "Disney Plus streaming service [to be] downloaded (at least via smartphones) 752,451 worldwide and 458,796 in North America over the Fri-Sun frame. That's a 74% jump domestically and +46.6% worldwide from the average over the four weekends of June of 2020." (Mendelson, 2020). We propose for Disney to continue working with Lin-Manuel Miranda on more Broadway-Esque productions to keep Broadway fans subscribed to Disney+ and develop content that is more song-and-music-focused. We also suggest Disney+ develop an expanded localization strategy to target broader global audiences in different markets. Netflix's global success of Squid Games had contributed $4.7 billion in GDP economic growth in South Korea (Kim, 2021). To expand the success of big franchises, movies, and shows we recommend that Disney invest and directly purchase productions in different countries and regions to experience similar success. Global marketplaces that may provide high success rates include India and Indonesia given that they account for more than a quarter of the streaming app's 73.7 million customers worldwide (Palmeri, 2020). These present opportunities to capitalize on global markets that value entertainment and have access to production houses with built-in audiences.

Lastly, given Disney's newer initiatives to produce premium content in a short film medium from in-house artists, we propose that they carry on this model to invest in talents including summer intern artists. This will allow future industry professionals to have an opportunity to work and premier original content with Disney, aspire to work with the company in the future, and have an enhanced portfolio for future job opportunities. The ROI for Disney will be to expand on community development for its interns, show that they care about providing a platform for budding artists, and develop original content at a lower cost during the summer months. This will separate the company from just being a big production house that is in control of content and streaming, to a company that cares about cultivating its artists and future professionals.

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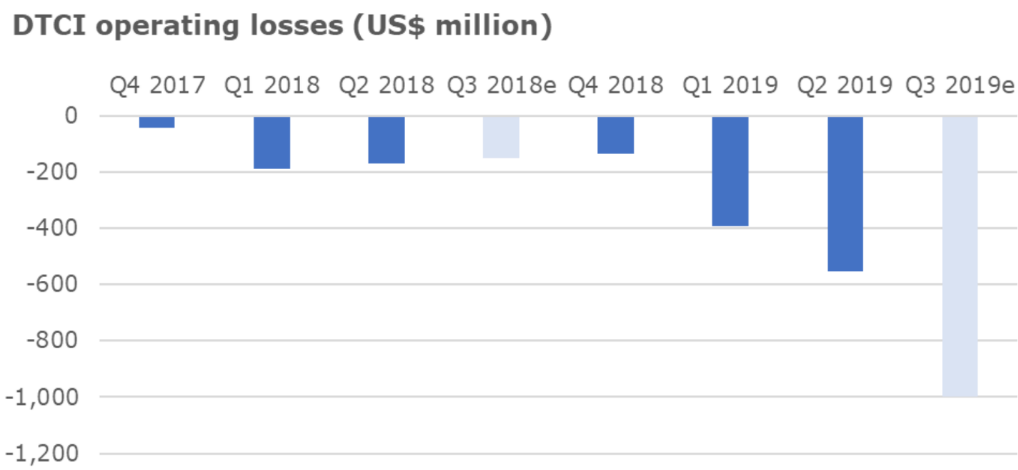
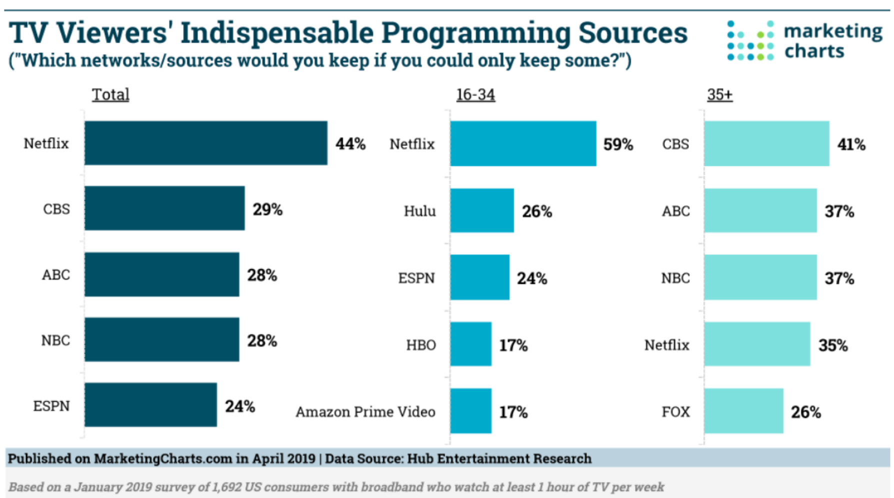
## Appendix

**Exhibit 1**
**DTCI's Operating Losses Continue to Grow**



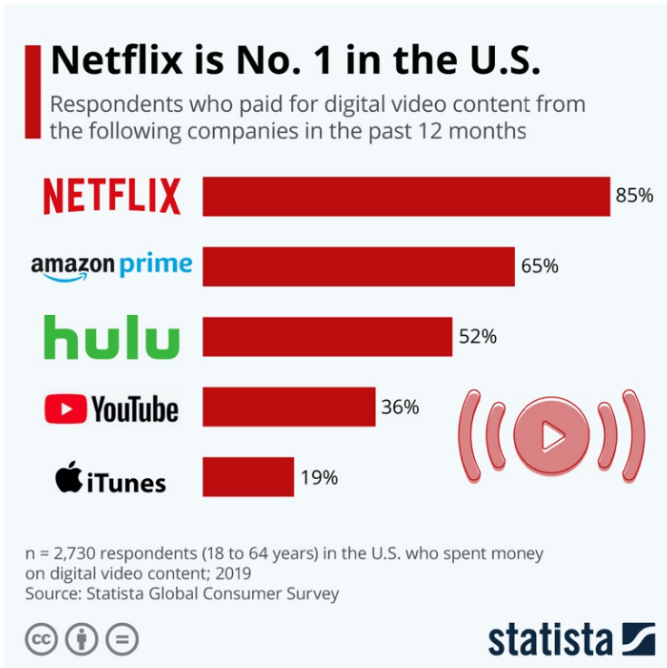

Source: Disney quarterly report (Q4 2018, Q1 2019, Q2 2019), Disney company guidance, own calculation

**Exhibit 2**
**Netflix Becomes Indispensable to US Households 2019**



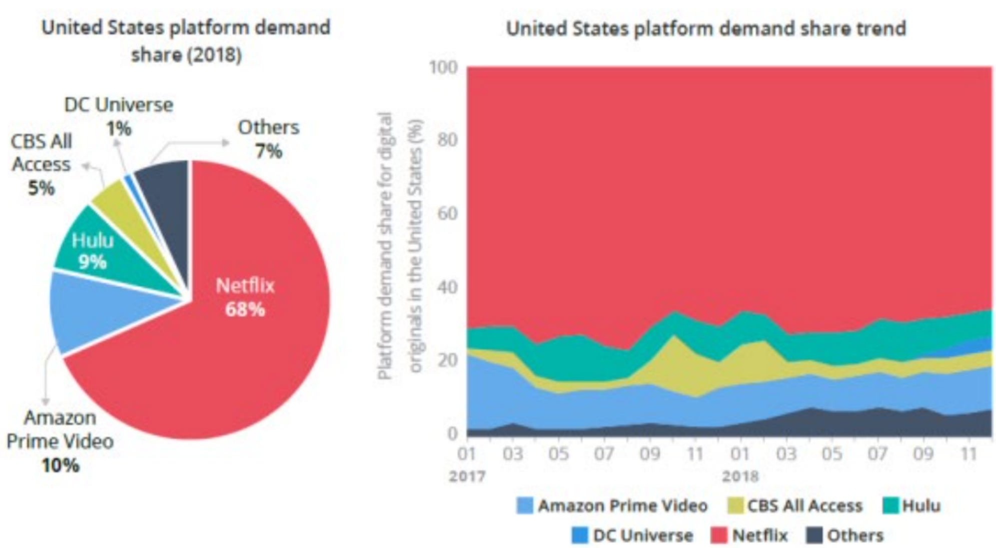

Source: Marketing Charts, https://www.marketingcharts.com/charts/tv-viewers-indispensable-programming-sources/attachment/hubentertainment-tv-viewers-indispensable-sources-apr2019

**Exhibit 3**
**Preferred Streaming Providers in the US 2019**




Source: Statista, https://www.statista.com/chart/20540/netflix-dominates-digital-video-content/

**Exhibit 4**
**US Platform Demand Share**




Source: Deadline.com https://deadline.com/2019/04/netflix-has-71-of-global-svod-market-but-new-services-gain-ground-report-1202586356/

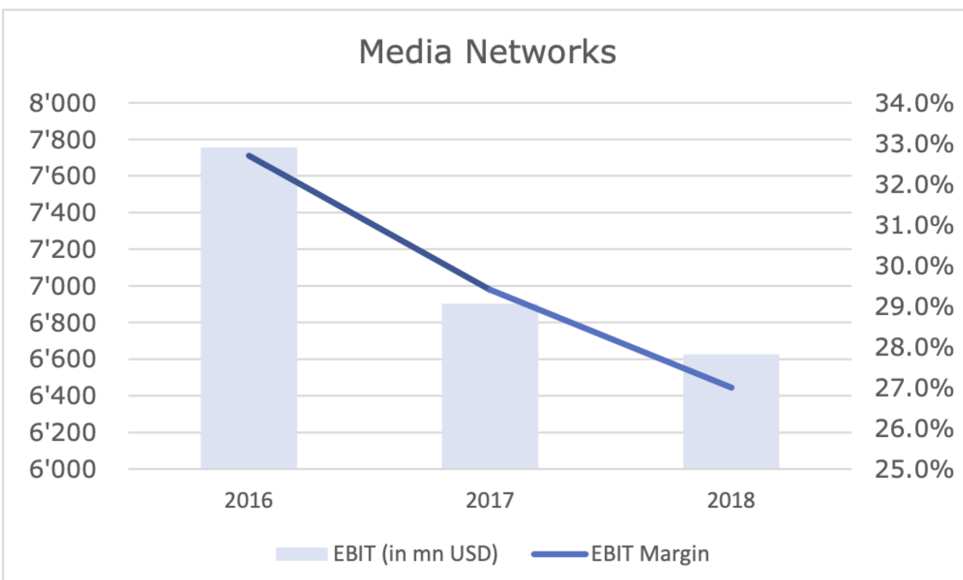
**Exhibit 5**
**In the US, Hulu Offers Monthly Packages Starting at $5.99**

| Subscription Plans | **Hulu** | **Hulu (no Ads)** | **Hulu + Live TV** | **Hulu (No Ads) + Live TV** |
|---|---|---|---|---|
| Monthly cost | $5.99 | $11.99 | $54.99 | $60.99 |
| Premium Add-ons | **HBO** | **CINEMAX** | **SHOWTIME** | **STARZ** |
| Monthly cost | $14.99 | $9.99 | $10.99 | $8.99 |
| Feature Add-ons | **Unlimited Screens** | **Enhanced Cloud DVR** | **Unlimited screens + Enhanced Cloud** | |
| Monthly cost | $9.99 | $9.99 | $14.98 | |
| Network Add-ons | **Español** | **Entertainment** | | |
| Monthly cost | $4.99 | $7.99 | | |

*Hulu also offered bundling with other streaming services: Disney+, ESPN+, Spotify and Sprint*

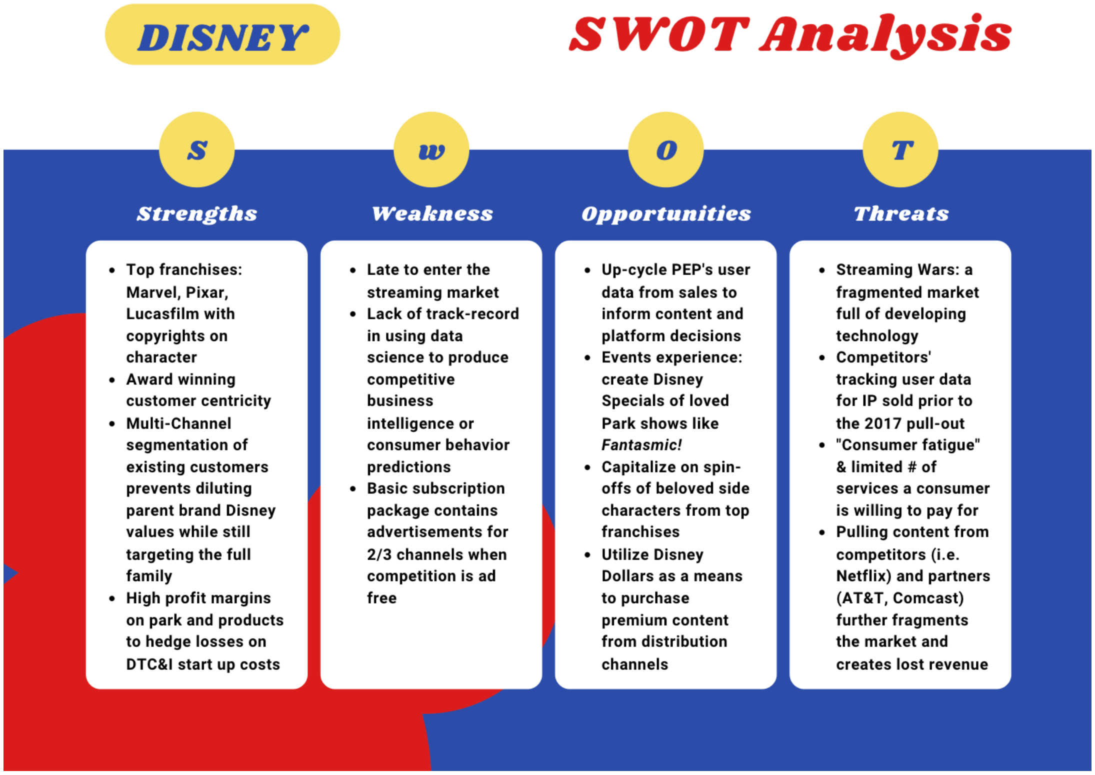
Source: Author compiled

**Exhibit 6**
**Disney's Media Networks' Profit Decline**



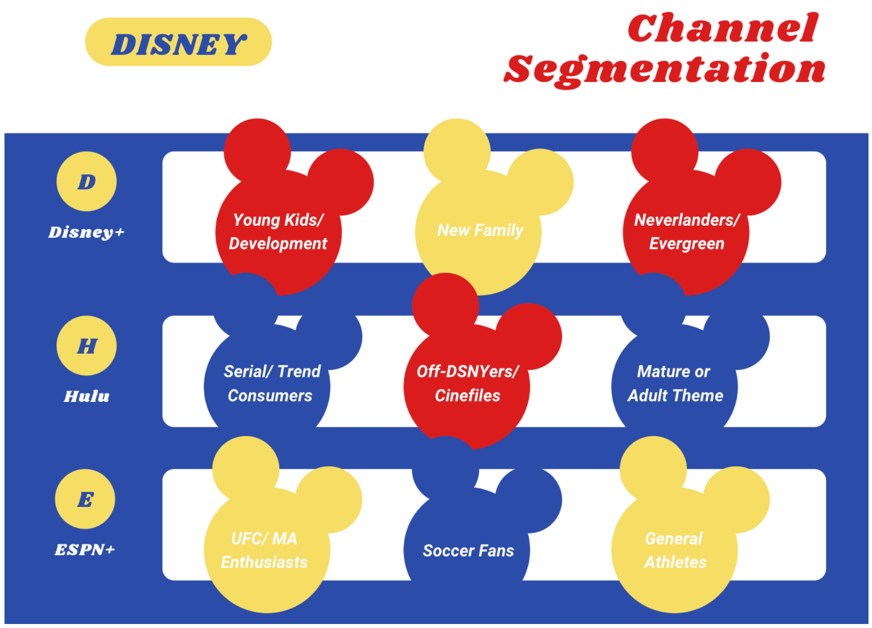

Source: Disney 2018 annual report, own calculation

**Exhibit 7**
**Disney SWOT Analysis**



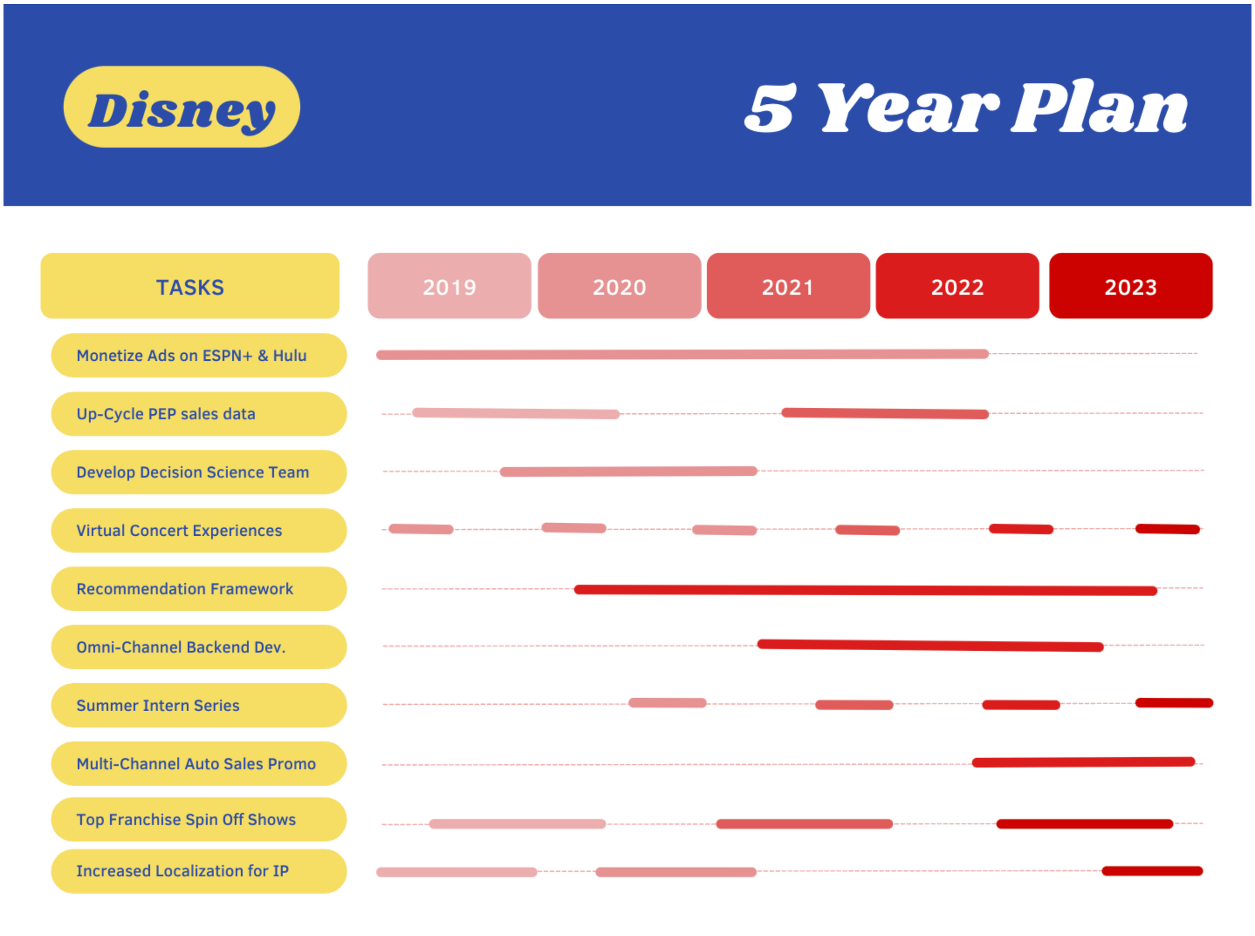

Source: Author

**Exhibit 8**
**Channel Segmentation**




Source: Author

**Exhibit 9**




**Disney 5 Year Plan**

Source: Author

**Exhibit 10**
**Pricing Comparison of Major Competitors**

**Peacock (Comcast)**
**Source:** [Peacock: Stream TV and Movies Online, Watch Live News and Sports]

| | Free | Premium | Plus |
|---|---|---|---|
| Price | Free | $4.99/month | $9.99/month |
| Watch 40,000+ hours of hit movies, TV shows, and more. | √ | √ | √ |
| Enjoy 50+ always-on channels. | √ | √ | √ |

| | | | |
|---|---|---|---|
| Unlock all 60,000+ hours of hit movies, TV shows, and more. | | √ | √ |
| All our live sports and events, including Sunday Night Football, Premier League, and WWE. | | √ | √ |
| Next-day access to current NBC hits. | | √ | √ |
| Download and watch select titles offline. | | | √ |
| Advertisement | Limited Ads | Limited Ads | Ad-free |

**HBO Max (AT&T)**
**Source:** HBO Max: Choose Your Streaming Experience

| | Ad-free | With Ads |
|---|---|---|
| Price | $14.99/month | $9.99/month |
| Annual Price | $149.99/yr (save $29.89) | $99.99/yr (save $19.89) |
| Content | Enjoy Warner Bros. 2021 movie premieres the same day as theaters - at no extra cost | Does not include access to Warner Bros. 2021 movie premieres the same day as theaters |
| Content | Enjoy thousands of hours of series, movies, and exclusive originals | Enjoy thousands of hours of series, movies, and exclusive originals |
| Resolution | Watch in HD, with select movies in 4K UHD | Watch in HD |
| Download | Download your favorite titles to watch anytime | |

**Amazon Prime Video**
- $12.99/month
- bundled with other Amazon Prime services

**AppleTV**
- $4.99/month

**Netflix**
**Source:** Netflix

| | Basic | Standard | Premium |
|---|---|---|---|
| Monthly Price | $8.99 | $13.99 | $17.99 |

| Video Quality | Good | Better | Best |
|---|---|---|---|
| Resolution | 480p | 1080p | 4k+HDR |
| Watch on your TV, computer, mobile phone, and tablet | Yes | Yes | Yes |

**Exhibit 11**
**Notes from Annual Reports of Disney and Its Competitors**

**Comcast**

**Source:** 10 k

- **Sky**:
  - Consists of the operations of Sky, one of Europe's leading entertainment companies, which primarily includes a direct-to-consumer business, providing video, high-speed internet, voice and wireless phone services, and content business, operating entertainment networks, the Sky News broadcast network, and Sky Sports networks.
  - 23.9 million customer relationships
- **Theme Parks**
- **Video:**
  - Customers have access to their video services through the Stream mobile app and an online portal that allow them to view certain live programming and On Demand content and to browse program listings.
  - As of December 31, 2020, 19.0 million residential customers subscribed to our video services.
- **Advertising: (Sky)**
  - $1,998 million in 2020.
  - 11.2% decrease compared to 2019.
- Total Revenue: $18,594 million in 2020. Decreased from 2019.

**Netflix**

**Source:** 10k

- **Subscribers:** approximately 204 million paid memberships in over 190 countries enjoying TV series, documentaries, and feature films across a wide variety of genres and languages.
- **Risks:**
  - If our efforts to attract and retain members are not successful, our business will be adversely affected.
  - Our ability to continue to attract members will depend in part on our ability to consistently provide our members with compelling content choices, effectively market our service, as well as provide a quality experience for selecting and viewing TV series, documentaries, and feature films.

    - The relative service levels, content offerings, pricing, and related features of competitors to our service may adversely impact our ability to attract and retain memberships.
- Changes in competitive offerings for entertainment video, including the potential rapid adoption of piracy-based video offerings, could adversely impact our business.
- Privacy

### AT&T (HBO)

Source: [10 k]

- **HBO Max:** Launch in May 2020.
    - Significantly exceeded our end-of-year 2020 HBO Max and HBO subscriber target.
    - 2 years ahead of the initial forecast.
    - HBO Max is generating strong viewer engagement.
    - Ended 2020 with more than 41 million HBO Max and HBO subscribers in the US and nearly 61 million globally.
- **Connectivity business:**
    - As expected, HBO Max has also helped drive positive trends in our connectivity business, supporting the uptake of our AT&T UNLIMITED ELITESM Plan for wireless customers, which includes HBO Max at no additional cost. As a result, we saw the percentage of wireless phone customers on unlimited plans increase by 10 percentage points in 2020.

### Amazon Prime Video

Source: [10 k]

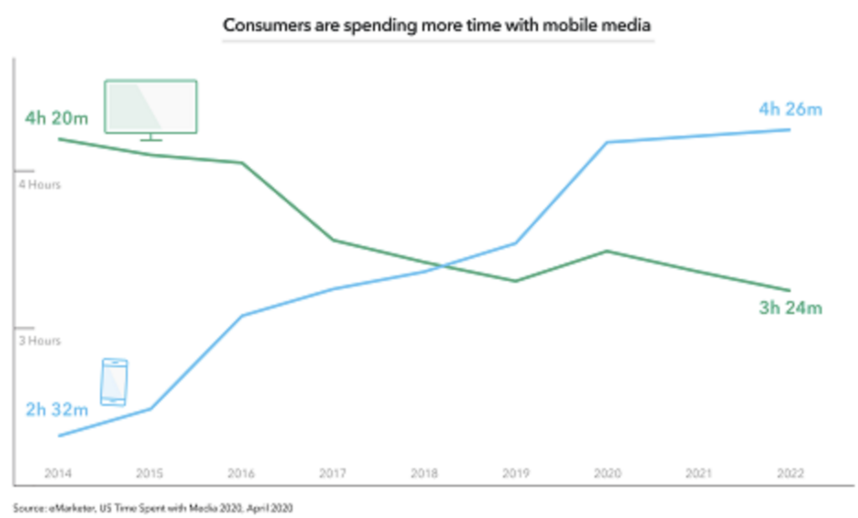
- More than 200 million Prime members worldwide for a total in 2020
- $126 billion of value creation in 2020.

### YouTube (Google)

Source: [10 k]

- **Ads Revenue:** $19,722 million in 2020. ($15,149 million in 2019.)
    - Growth was primarily driven by direct response advertising products, which benefited from improvements to ad formats and delivery and increased advertiser spending.
    - Brand advertising products also contributed to growth despite revenues being adversely impacted by a decline in advertiser spending primarily in the first half of the year driven by the impact of COVID-19.
- As online advertising evolves, we continue to expand our product offerings which may affect our monetization.
    - As interactions between users and advertisers change and as online user behavior evolves, we continue to expand and evolve our product offerings to serve their changing needs. Over time, we expect our monetization trends to fluctuate. For example, we have seen an increase in YouTube ads and Google Play ads, which monetize at a lower rate than our traditional search ads.
- The portion of our revenues that we derive from non-advertising revenues is increasing and may affect margins.

**Exhibit 12**




As per Snapchat:

https://www.socialmediatoday.com/news/snapchat-publishes-new-study-into-evolving-video-consumption-behaviors/582555/