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9B19M114

DISNEY: Delivering More Content in More Ways[[1]](#endnote-1)

Mary Kelly and Madeline Kelly wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On July 13, 2017, the Television Academy announced the nominees for the 69th Emmy Awards. Among the contenders for Outstanding Comedy Series were two series by Netflix, *Master of None* and *Unbreakable Kimmy Schmidt*. They were competing for the honour against four series by two long-time Emmy powerhouses: *black-ish* and *Modern Family* by The Walt Disney Company’s (Disney) ABC and *Silicon Valley* and *Veep* by HBO.[[2]](#endnote-2) The content battle between technology (tech) giants and the old guard of entertainment had started four years prior, when Netflix’s *House of Cards* became the first web-only series to receive major award nominations.[[3]](#endnote-3) A rush of original content by major tech companies ensued, marking a new chapter in the evolution of pay-TV. Could legacy broadcasters survive as disruption shifted from the means of distributing content to the content itself? Could a long tradition of storytelling overcome the deep pockets of Silicon Valley?

Disney had been creating compelling stories since 1928, when Mickey Mouse first debuted as a trouble-making deck hand in *Steamboat Willie*. The animated short was heralded for its technical innovation as the first cartoon with synchronized sound.[[4]](#endnote-4) Disney built on this pioneering reputation with the first full-length animation feature (*Snow White and the Seven Dwarfs*), the first film shot with motion-control camera (*Star Wars*), the first film to use digital sound (*Fantasia*), the first feature-length computer-animated film (*Toy Story*), and the first network broadcast in high-definition television (the live-action version of *101 Dalmatians*).[[5]](#endnote-5)

Between 2007 and 2017, new technologies allowed viewers to watch programming wherever and whenever they were had elevated the importance of accessibility and convenience to decisions regarding video viewing—and paying.[[6]](#endnote-6) Netflix, Amazon, and YouTube had moved aggressively into the video entertainment business on the merits of their innovative delivery and business models. Disney weathered this tumultuous period through a series of partnerships that tied its success to both the preservation of its legacy media competitors and the rise of its new technology competitors.[[7]](#endnote-7)

But Netflix, Amazon, and YouTube were now competing against Disney in creation, not just in distribution. Should Disney continue to partner with these companies as they began to threaten its core? Should Disney work even closer with other traditional media partners to fight back? Or, should Disney take a stand on its own?

Pay-TV Industry Background

Over most of its history, video content created by studios, sports leagues (professional and amateur), and independent agents was aggregated by broadcast and cable networks and then distributed by TV stations and multi-channel video programming distributors (MVPDs) to viewers on their television sets. The vertical structure was held together using a combination of negotiated contracts, partnerships, and vertical integration between content owners and the aggregators and distributors of that content (see Exhibit 1).

On average, Americans spent nearly four hours each day in front of a television set.[[8]](#endnote-8) To encourage viewers to watch television, major media companies spent billions of dollars each year and competed vigorously with each other and with many other parties to acquire the programming rights of completed works and the intellectual property rights and talent to produce original content. Although sports programming represented only 1.4 per cent of all television programs, sports dominated what people watched.[[9]](#endnote-9) According to Nielsen, Americans viewed 134,000 hours of national and regional sports programming on television in 2017, and 86 sports programs were among the top 100 live-viewed programs for the year.[[10]](#endnote-10) In 2017, broadcast and cable networks paid US$19.1 billion[[11]](#endnote-11) for media rights in North America.[[12]](#endnote-12) By 2022, this number was expected to balloon to more than $23.8 billion.[[13]](#endnote-13)

Television programming, aggregated by broadcast and cable networks, was provided via broadcast or multi-channel subscription services. If a household wanted to watch only broadcast network programming, the over-the-air signals could be picked up for free by using an antenna and a tuner that could transmit the very high frequency (VHF) and ultra high frequency (UHF) signals. According to media, communications, and entertainment research firm SNL Kagan, in 2017, 94 million households paid to receive local broadcast TV stations and cable channels aggregated by MVPDs.[[14]](#endnote-14)

The purchase and production of programming represented the largest component of MVPDs’ operating expenses, in part due to higher payments for “popular” programming, digital compression, and technological advances that created more channel capacity. In 2017, the average number of channels in a pay-TV bundle exceeded 200, a jump from 49 and 73 in 1997 and 2007, respectively.[[15]](#endnote-15) Of the various types of video entertainment, sports programming was the most expensive, accounting for nearly 40 per cent of the average MVPD bill (see Exhibit 2).

Mergers and acquisitions activity, including AT&T’s merger with DirecTV in 2015 and Charter Communications’ acquisition of Time Warner Cable and Bright House Networks a year later, contributed to a higher level of MVPD concentration at the national level in the United States (see Exhibit 3). More subscribers should have strengthened an MVPD’s bargaining position in carriage negotiations with content owners. However, the horizontal mergers among content owners and vertical tie-ups, such as the acquisition of NBC Universal by Comcast in 2011, made the media landscape more complicated and more contentious than ever.[[16]](#endnote-16) On several occasions, channel access was “blacked out” to viewers because programmers and distributors could not agree on the terms.[[17]](#endnote-17) The risk–reward trade-off to both parties was significant, as it put into question whether the value of the programming (customer retention) justified the retransmission and carriage fees.

Disney

In 2017, Media Networks was the largest of the four Disney business segments and accounted for approximately 43 per cent of the firm’s revenue and nearly half of its operating income (see Exhibit 4). In this segment, the firm owned and operated television production and distribution operations (ABC Studios), a broadcast television network (ABC), cable networks (ESPN, Disney Channel, and Freeform), and eight television stations, six of which were among the top 10 markets in the United States.[[18]](#endnote-18) Its Studio Entertainment segment, consisting of Walt Disney Pictures, Pixar, Marvel Studios, Lucasfilm Ltd., and Touchstone Pictures, contributed 16 per cent to operating income and locked up the largest share of 2017 box office receipts, at nearly 22 per cent.[[19]](#endnote-19) Between 2013 and 2017, Disney’s share of box office receipts averaged 19.5 per cent.[[20]](#endnote-20)

The two largest sources of revenue in the Media Networks segment were affiliate fees and advertising (ad) sales. Affiliate fees, which accounted for more than half of Media Networks revenues, were per subscriber rates contractually set in multi-year agreements for programming distribution rights.[[21]](#endnote-21) Disney collected its largest affiliate fees for ESPN, its all-sports cable network that was distributed to approximately 88 million households (down from its peak of 100 million in 2010).[[22]](#endnote-22) Carriage fees for ESPN’s main network alone cost MVPD providers $7.21 per subscriber, up from $4.69 in 2011.[[23]](#endnote-23) A major reason for the high affiliate fees was to enable the firm to cover its program creation and acquisition costs. For example, ESPN owned the programming rights for various collegiate and professional sports, including Major League Baseball (MLB), the National Basketball Association (NBA), and the National Football League (NFL). In 2017, Disney spent more than $7 billion for sports programming rights, approximately half of which went to the three professional sports leagues.[[24]](#endnote-24)

What Changed

In 1996, Bill Gates, founder of Microsoft Corporation, penned the phrase “content is king.”[[25]](#endnote-25) At the time, he was referring to the availability of information (data) over the Internet, but his proclamation applied equally well to video programming delivered to television sets by cable and satellite providers. Households valued and were willing to pay to watch their favourite shows at the scheduled times; coverage of live events, particularly sports; and TV reruns and movies found by flipping the channels. But times changed. According to research firm MoffettNathanson, in 2010, for the first time in history, pay-TV growth dropped below new household formation.[[26]](#endnote-26) A digital media market research firm, eMarketer, predicted that, by 2019, nearly one in four households would not subscribe to a pay-TV service: they would have either cancelled their monthly subscription (i.e., were cord-cutters) or had never subscribed in the first place (i.e., cord-nevers) (see Exhibit 5).[[27]](#endnote-27)

For years, digital versatile discs (DVDs) and videocassettes purchased from video chains, mass merchandisers, or online companies indirectly competed with pay-per-view and video-on-demand services. Advancements in compression technology during the early 2000s enabled consumers to skip the physical intermediaries, as large video files could then be easily streamed over the Internet.[[28]](#endnote-28) By 2016–17, more than 100 million US households had access to high-speed Internet, and 39 per cent of households had some type of over-the-top streaming device that enabled Internet-based video to be watched on television sets.[[29]](#endnote-29) These media devices by Roku, Amazon Fire, Apple TV, and Google Chromecast, which ranged in price from $30 to $100, replicated the experience of watching a broadcast or cable program.[[30]](#endnote-30) As a result, an increasing number of households cut the pay-TV cord. The number one reason for doing so, cited by 61 per cent of those who quit, was cost (i.e., they could not afford it or decided the service was not worth the money).[[31]](#endnote-31) A shift was also evolving in how consumers watched video. Ericsson estimated that by 2020, 50 per cent of video would be viewed on mobile devices (i.e., tablets, smartphones, and laptops), and 70 per cent of consumers would prefer on-demand and catch-up services over scheduled linear TV viewing.[[32]](#endnote-32)

Broader access to high-speed Internet service allowed for the entrance of subscription video-on-demand (SVOD) services that offered the ability to download television shows and movies over the Internet on request (i.e., non-linear). To compete for consumer’s discretionary spending, SVODs needed to offer a robust catalogue and have the financial capital to underwrite the cost. While most of their content was still acquired from the major studios under licensing agreements, in 2017, the top three SVOD service providers—Netflix, Amazon, and Hulu—which, among them had nearly 100 million US-based subscribers, spent $13 billion on original content for which they earned a combined 125 Emmy nominations.[[33]](#endnote-33)

Netflix

According to the Leichtman Research Group, in 2017, 64 per cent of US households had SVOD services.[[34]](#endnote-34) Of those with SVOD service, 83 per cent had Netflix.[[35]](#endnote-35)

Netflix initially arrived on the scene in 1998, as a distributor of DVDs by mail and as a disruptor to the brick-and-mortar video retail store Blockbuster, and, to a lesser extent, MVPDs. Ten years later, it was being disrupted by Amazon and Apple. Instead of closing its doors, it pivoted to distributing video on demand over the Internet. Initially, Netflix offered a library of approximately 1,000 titles for $5.99 per month for six hours of streaming. A 2012 deal to become the exclusive streaming provider of movies from Disney’s live-action and animation studios beginning in 2016 was considered a game-changer for the company. It was also the first time a major Hollywood studio had bypassed the premium channels to deliver movies direct to consumers.[[36]](#endnote-36)

Recognizing that consumers were drawn to content, in 2013, Netflix began creating its own programming, starting with the adaption of England’s *House of Cards*.[[37]](#endnote-37) By 2016, Netflix had more than 7,000 titles available on an unlimited basis, at price points that varied based on the number of screens that could be streamed to at the same time.[[38]](#endnote-38) In 10 years, revenues jumped from $1.2 billion to $8.8 billion, domestic subscribers climbed from 7.5 million to more than 50 million, and global subscribers across more than 190 countries scaled to 118 million.[[39]](#endnote-39)

In 2017, Netflix spent $6.3 billion on original non-sports content, placing it in fifth place in spending, behind NBC (at $10.2 billion), FOX (at $8 billion), Time Warner (at $8 billion), and Disney (at $7.8 billion), and ahead of Viacom (at $5.4 billion) and CBS (at $4.2 billion).[[40]](#endnote-40) Of the 487 original scripted programs aired on television in 2017, 117 were from Netflix.[[41]](#endnote-41) In 2017, its programs earned 91 Emmy nominations, putting it slightly behind HBO (at 111) and way ahead of Disney (at 52).[[42]](#endnote-42) In its Third Quarter 2017 Letter to Shareholders, Netflix said that the “future largely lies in exclusive content,” and less on licensing programs from other content suppliers. The long-term goal was for approximately 50 per cent of the content streamed on its platform to be original. [[43]](#endnote-43)

Amazon

Amazon, the largest Internet-based retailer, was founded in 1994 by Jeff Bezos as an online bookstore and later a seller of DVDs, Blu-ray discs, and CDs. Amazon launched its SVOD service in 2011 as an add-on to its $99 per year prime membership service. Prime membership included free shipping on millions of products sold on amazon.com, and Prime Video provided access to an extensive library of TV shows and movies, both licensed and original content. In 2016, Amazon launched its Prime Video service on a stand-alone basis for $8.99 per month.[[44]](#endnote-44) A year later, at a cost of $50 million paid to the NFL, Amazon began live-streaming professional football games on Thursday nights. The deal involved the “tri-cast” of the game on broadcast TV (NBC or CBS), cable (the NFL Network), and the Internet (via Amazon). For non-sports programming in 2017, Amazon spent $4.5 billion.[[45]](#endnote-45) Amazon had an estimated 26 million US video prime subscribers in 2017.[[46]](#endnote-46)

THE Pay-TV Industry Responds

Initially in response to the mounting pressure by regulators and consumer advocacy groups for lower pricing options, MVPDs added “themed tiers,” such as a “family tier” and a “sports tier,” which were lower priced and had fewer channels.[[47]](#endnote-47) MVPDs also experimented with how television shows were consumed by launching “TV Everywhere” options that allowed MVPD viewers to watch television shows (e.g., ESPN) on mobile devices as long as they first “authenticated” themselves as MVPD subscribers.[[48]](#endnote-48) More recently, in response to increased competition from alternative video delivery options and cord-cutting, MVPDs began offering skinny bundles, some of which did not require an MVPD subscription (but did require broadband access, either fixed or mobile).

New to the pay-TV industry were so-called over-the-top (OTT) services, which distributed streaming media over the Internet, directly to viewers, by going around (or “over the top” of) traditional content distributors. The most popular OTT services offered by traditional MVPDs were Dish’s Sling and AT&T’s DirecTV Now (see Exhibit 6).[[49]](#endnote-49)

In their own response to cord-cutting and the shift of advertising from television to digital, NBC Universal (which was acquired by Comcast in 2009) and 21st Century Fox (the legal successor to the original News Corporation) launched their own OTT service, Hulu. Content from the owners was available exclusively on Hulu and the respective owners’ sites. Revenue was shared by the partners with ads sold against audience buckets rather than specific programming. Some cable programming was excluded to dampen objections from MVPDs. Later, content owners including Comcast, CBS, and Time Warner’s HBO began creating direct-to-consumer (DTC) streaming services as supplements to their traditional networks distributed by MVPDs.[[50]](#endnote-50)

Disney Partners with Legacy Broadcasters

In 2009, Disney agreed to join Hulu. The three broadcast networks each owned 30 per cent of the company, while Time Warner controlled the remaining 10 per cent. The decision to cede partial control over ABC and Disney content to direct competitors was made with the hope of gaining additional viewers.[[51]](#endnote-51) By 2017, Hulu was the second-largest SVOD with approximately 17 million US subscribers.[[52]](#endnote-52) It spent $2.5 billion on original content and earned $1 billion in advertising revenue.[[53]](#endnote-53)

Hulu began producing original content in 2010 with *If I Can Dream*, a 25-minute reality show accompanied by digital features that distinguished the program from those available on linear TV. Hulu then expanded into scripted series, movies, talk shows, documentaries, animation, and more with its biggest success coming from the multi-award winning dystopian series, *The Handmaid’s Tale*.

In 2017, Hulu offered customers access to current and previous episodes of programming owned by its joint venture partners for a monthly price of $7.99 with ads or $11.99 without ads. That same year, the company launched Hulu with Live TV. For $39.99 per month, subscribers could access live TV streaming from more than 50 channels added to the basic streaming service of its on-demand library. The live channels included major broadcast and sports networks as well as popular entertainment programming (e.g., HGTV, the Travel Channel, and the Food Network).[[54]](#endnote-54)

Disney Partners with Technology Disruptors

In 2009, Disney signed a deal with YouTube to offer clips from ABC and ESPN, while withholding full-length episodes and sporting events. Disney resisted the broad syndication strategies of other content owners, keeping popular programming restricted to its own website and Hulu.[[55]](#endnote-55)

In 2012, Disney signed a multi-year licensing agreement with Netflix giving Netflix access to legacy Disney movies and exclusive rights to first-run Disney films beginning with 2016 releases. The deal was widely credited as establishing Netflix’s legitimacy in the premium-content subscription space.[[56]](#endnote-56)

In August 2016, Disney acquired a 33 per cent interest in a streaming video technology company, BAMTech, for $1 billion. As part of the announcement, Robert A. Iger, chairman and chief executive officer of Disney, remarked, “We look forward to working closely with BAMTech as we explore new ways to deliver the unmatched content of The Walt Disney Company across a variety of platforms.”[[57]](#endnote-57)

Moving Forward

Facing a shift in preferences, new technology, and disruptive entrants, Disney needed to weigh a vast array of alternative strategies to sustain long-run profitability. Its content had been critical to the success of traditional MVPDs, Hulu, and Netflix. Should it exert its power as kingmaker to hasten or impede the demise of the traditional pay-TV bundle, where its content had resided for decades? Should it continue to navigate the relationship between partner and competitor with legacy media companies and well-financed tech firms? Or, should Disney push aside all gatekeepers and deliver its stories directly to consumers?

EXHIBIT 1: STRUCTURE OF THE US MEDIA INDUSTRY

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Media Company** | **Content Production** | | **Aggregation** | | | **Distribution** | |
| TV | Movies | Broadcast Network | Major Cable Networks | Number of TV Stations – owned | MVPD | OVD |
| The Walt Disney Company | ABC Studios | Walt Disney Pictures, Pixar, Marvel Studios, Lucasfilm Ltd. | ABC | The Disney Channel, ESPN, Freeform | 8 | No | Hulu |
| Comcast | NBC Studios | Universal Pictures, Illumination, Focus Features | NBC, Telemundo | USA, MSNBC, CNBC, E!, Syfy, Bravo, NBC Sports, Golf Channel | 29  NBC Telemundo | Xfinity | Hulu |
| CBS Corporation | CBS Television Studios | CBS Films | CBS, The CW | Showtime, CBS Sports Network, Smithsonian Channel | 29  CBS  The CW | No | CBS All Access |
| 21st Century Fox | 20th Century Fox Television, Fox21 Television Studios | 20th Century Fox Film | FOX | Fox News, Fox Sports, Fox Business | 28  FOX  MyNetworkTV | No | Hulu |

Note: MVPD = multi-channel video programming distributor; OVD = online video distribution; The CW was a 50/50 joint venture with Warner Brothers Entertainment.

Source: The Walt Disney Company, “Form 10-K for Fiscal Year Ended September 30, 2017,” accessed June 21, 2018, www.sec.gov/Archives/edgar/data/1001039/000100103917000198/fy2017\_q4x10k.htm; Comcast Corporation, “Form 10-K for Fiscal Year Ended December 31, 2017,” accessed June 21, 2018, www.cmcsa.com/static-files/111ba611-eb85-4edc-9000-3907c84697d8; CBS Corporation, “Form 10-K for Fiscal Year Ended December 31, 2017,” accessed June 21, 2018, https://investors.cbscorporation.com/static-files/7dc89334-6521-4fe8-9fb4-59b2981f654b; Twenty-First Century Fox, Inc., “Form 10-K for Fiscal Year Ended June 30, 2017,” accessed June 21, 2018, http://investor.21cf.com/node/7971/html.

EXHIBIT 2: SPORTS NETWORKS PROGRAMMING FEES

|  |  |  |
| --- | --- | --- |
| **Network** | **Monthly Subscriber Fees ($)** | **Channels** |
| ESPN | 9.06 | ESPN, ESPN2, ESPNU, SEC Network |
| FOX Sports | 1.86 | FS1, FS2, Big Ten Network |
| NFL Network | 1.39 |  |
| NBC Sports | 0.68 | NBCSN, Golf Channel |
| NBA TV | 0.30 |  |
| MLB Network | 0.28 |  |
| CBS Sports | 0.26 |  |
| Tennis Channel | 0.15 |  |
| Univision Deportes | 0.14 |  |

Note: DirecTV agreed to pay the National Football League (NFL) $1.5 billion annually through 2022 for the exclusive rights to the NFL’s Sunday Ticket. In June 2017, DirecTV and the NFL won a class-action suit in which plaintiffs had alleged that the 32 NFL teams unlawfully agreed not to compete with each other in the market for nationally televised NFL football games and instead pooled their broadcasts and assigned the exclusive right to market them. Moreover, they alleged that the NFL and DirecTV had an unlawful distribution agreement that allowed DirecTV to charge supra-competitive prices for the NFL Sunday Package.

Source: Cork Gaines, “Cable and Satellite TV Customers Pay More than $9.00 Per Month for ESPN Networks Whether They Watch Them or Not,” *Business Insider*, March 7, 2017, accessed June 21, 2018, www.businessinsider.com/cable-satellite-tv-sub-fees-espn-networks-2017-3.

EXHIBIT 3: MVPD AND BROADBAND MARKET CONCENTRATION, 2017

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Firm** | **Pay-TV**  **(000)** | | **Market Share (%)** | **Broadband**  **(000)** | **Market Share (%)** |
| Comcast | 22,357 | | 23.0 | 25,869 | 25.9 |
| DirecTV  (including DirecTV NOW)\* | 21,613 | | 22.3 |  |  |
| Charter | 16,997 | | 17.5 | 23,903 | 23.9 |
| Dish TV (including Sling TV) | 13,242 | | 13.7 |  |  |
| Verizon FiOS | 4,619 | | 4.8 | 6,959 | 7.0 |
| AT&T U-verse | 3,657 | | 3.8 | 15,719 | 15.7 |
| Altice | 3,406 | | 3.5 | 4,046 | 4.0 |
| Frontier | 961 | | 1.0 | 3,938 | 3.9 |
| Mediacom | 821 | | 0.8 | 1,209 | 1.2 |
| WOW (overbuilder) | 433 | | 0.4 | 733 | 0.7 |
| CenturyLink |  | |  | 5,662 | 5.7 |
| Windstream |  | |  | 1,007 | 1.0 |
| Subscribers |  | |  |  |  |
| Top 4 | 74,209 | | 76.5% | 72,450 | 72.5% |
| Top 10\*\* | 88,106 | | 90.8% | 89,045 | 89.0% |
| Estimated Total | 97,005 | |  | 100,000 |  |
| HHI (minimum) |  | | 1,572 |  | 1,603 |
|  |  | |  |  |  |
| \* Acquired by AT&T in 2015 | |  |  |  |  |
| \*\* Excludes numbers for privately held Cox Communications | | | | |  |

Note: In 1985, the CR4 was 28 and the HHI was less than 500; MVPD = multi-channel video programming distributor; HHI = Herfindahl–Hirschman Index; CR4 = four-firm concentration ratio.

Source: Leichtman Research Group, “2.1 Million Added Broadband from Top Providers in 2017,” press release, March 13, 2018, accessed June 21, 2018, www.leichtmanresearch.com/2-1-million-added-broadband-from-top-providers-in-2017/; Leichtman Research Group, “Major Pay-TV Providers Lost about 1,495,000 Subscribers in 2017,” press release, March 12, 2018, accessed June 21, 2018, www.leichtmanresearch.com/major-pay-tv-providers-lost-about-1495000-subscribers-in-2017/.

EXHIBIT 4: THE WALT DISNEY COMPANY FINANCIALS, 2008–2017 (US$ millions)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Segment Revenues |  |  |  |  |  |  |  |  |  |  |
| Media Networks | 23,510 | 23,689 | 23,264 | 21,152 | 20,356 | 19,436 | 18,714 | 17,162 | 16,209 | 15,857 |
| Parks and Recreation | 18,415 | 16,974 | 16,162 | 15,099 | 14,087 | 12,920 | 11,797 | 10,761 | 10,667 | 11,504 |
| Studio Entertainment | 8,379 | 9,441 | 7,366 | 7,278 | 5,979 | 5,825 | 6,351 | 6,701 | 6,136 | 7,348 |
| Consumer Products & IM | 4,833 | 5,528 | 5,673 | 5,284 | 4,619 | 4,097 | 4,031 | 3,439 | 3,137 | 3,134 |
| **Total Revenues** | **55,137** | **55,632** | **52,465** | **48,813** | **45,041** | **42,278** | **40,893** | **38,063** | **36,149** | **37,843** |
| Segment Operating Income |  |  |  |  |  |  |  |  |  |  |
| Media Networks | 6,902 | 7,755 | 7,793 | 7,321 | 6,818 | 6,619 | 6,146 | 5,132 | 4,765 | 4,981 |
| Parks and Recreation | 3,774 | 3,298 | 3,031 | 2,663 | 2,220 | 1,902 | 1,553 | 1,318 | 1,418 | 1,897 |
| Studio Entertainment | 2,355 | 2,703 | 1,973 | 1,549 | 661 | 722 | 618 | 693 | 175 | 1,086 |
| Consumer Products & IM | 1,744 | 1,965 | 1,884 | 1,472 | 1,025 | 721 | 508 | 443 | 314 | 520 |
| **Operating Income** | **14,775** | **15,721** | **14,681** | **13,005** | **10,724** | **9,964** | **8,825** | **7,586** | **6,672** | **8,484** |
| **MEDIA NETWORKS** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Revenues |  |  |  |  |  |  |  |  |  |  |
| Affiliate fees | 12,659 | 12,259 | 12,029 | 10,632 | 10,018 | 9,360 | 8,837 | 8,082 | 7,407 | 6,793 |
| Advertising | 8,129 | 8,509 | 8,361 | 8,031 | 7,923 | 7,699 | 7,598 | 7,028 | 6,566 | 7,197 |
| Other (including TV/SVOD distribution) | 2,722 | 2,921 | 2,874 | 2,489 | 2,415 | 2,377 | 2,279 | 2,052 | 2,236 | 1,867 |
| **Total Revenues** | **23,510** | **23,689** | **23,264** | **21,152** | **20,356** | **19,436** | **18,714** | **17,162** | **16,209** | **15,857** |
| Operating Expenses | (14,068) | (13,571) | (13,150) | (11,794) | (11,261) | (10,535) | (10,282) | (9,888) | (9,556) | N/A |
| SG&A | (2,647) | (2,705) | (2,869) | (2,643) | (2,768) | (2,651) | (2,633) | (2,358) | (2,249) | N/A |
| Depreciation and Amortization | (237) | (255) | (266) | (250) | (251) | (258) | (237) | (222) | (206) | N/A |
| Equity -income of investees | 344 | 597 | 814 | 856 | 742 | 627 | 584 | 438 | 567 | N/A |
| **Operating Income** | **6,900** | **7,755** | **7,793** | **7,321** | **6,818** | **6,619** | **6,146** | **5,132** | **4,765** | **4,981** |

Note: N/A = Not available; IM = Interactive Media; SVOD = subscription video on demand; SG&A = selling, general, and administrative expenses.

Source: The Walt Disney Company, Form 10-K reports.

ExhibiT 5: US ADULT PAY-TV VIEWERS vErsus NON-PAY-TV VIEWERS (CORD-CUTTERS AND CORD-NEVERS), 2016–2021

Source: Created by authors based on “eMarketer Lowers US TV Ad Spend Estimate as Cord-Cutting Accelerates,” *eMarketer,* September 2017, accessed July 19, 2019,www.emarketer.com/Article/eMarketer-Lowers-US-TV-Ad-Spend-Estimate-Cord-Cutting-Accelerates/1016463.

EXHIBIT 6: TOP OVER-THE-TOP PROVIDERS

|  |  |
| --- | --- |
| **Firm** | **Monthly Price** |
| DISH Sling TV | $20 for Orange – including ESPN but no broadcast channels; $25 for Blue – including broadcast channels of FOX and NBC; $40 for Orange and Blue |
| DirecTV Now | $35–$70 for 60 to 120 channels, discounted if purchased with AT&T unlimited plan; HBO and Cinemax available as add-ons |
| CBS All Access | $5.99 (or $10.99 without ads) |
| HBO Now | $14.99 (or $9.99 for students) |
| Sony PlayStation Vue | $39.99 Access (50 channels) to $74.99 Ultra (90 channels plus HBO and Showtime) |
| Google’s YouTube TV | $35 |
| Netflix | $7.99 for standard definition video on one screen to $13.99 for high-definition on up to four screens |
| Amazon Prime | $8.99 stand-alone or video access included with $99/year Amazon Prime membership |
| Hulu | $7.99 (or $11.99 without ads) or Hulu with Live TV at $39.99 for about 50 channels, including ESPN |

Note: All currency amounts are in US$.

Source: Created by authors using Catherine Campo, “Netflix Versus the Competition: How to Choose a Streaming Service,” CNBC.com, October 7, 2017, accessed April 10, 2018, www.cnbc.com/2017/10/06/which-ott-streaming-service-is-best.html.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of the Walt Disney Company or any of its employees [↑](#endnote-ref-1)
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