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**To:** Bob Chapek, CEO

**From:** BADM-544 Group 090: Mike Fogel, Stephen McClintick, Kaveh Moazzami, Michael Penninger, Kevin Smith

**Subject:** Analysis and recommendations for Disney’s “growth by acquisition” strategy

**Advantages of Disney’s “growth by acquisition” strategy**

Disney’s strategy to grow through acquisitions has several advantages. Disney’s acquisitions have allowed it to gain capabilities much faster and with lower risk than would be required if the capabilities were developed in-house. For example, although Disney has been a leader in animation and film throughout its storied history, it has not been the market leader in the transition from traditional animation to computer generated integration in animation and live action. Vertical integrations that acquire the technology and talent necessary to align with Bob Iger’s three pillars strategy “invest in: 1) creative content, 2) technology innovation, and 3) international expansion” (Rothaermel, Inamdar, King 2020) allow Disney to access these capabilities more rapidly.

Disney’s alliance with Pixar shows the demonstrated need for both creative and technological capabilities. However, alliances are subject to competition, distrust, and conflict between parties. Transactions costs such as adverse selection, moral hazard and hold-up can mitigate the gains of strategic alliances. The sour relationship between Steve Jobs and Michael Eisner eroded the Pixar alliance. Losing access to key technology and talent presents a risk for Disney. Therefore, the decision to acquire Pixar secured these resources and capabilities for Disney.

Another advantage arising from acquisitions such as those of Pixar, Marvel, and Lucasfilm is that they provide Disney with rights to strong media franchises that can be leveraged across its SBU’s. Using its studio presence to build on these franchises and lengthen their life cycle allows Disney to leverage for continued gains in Media Networks, Parks & Resorts and Consumer Products & Interactive Media. This helps Disney to realize reviews by integrating space in theme parks for these franchises, selling rights to streaming platforms, selling merchandise and DVD’s.  Fan loyalty to many of these franchises, such as the Star Wars franchise brings very strong consumer interest. Key to leveraging this was Disney’s success in retaining Kathleen Kennedy from Lucasfilm which enabled continuity of the franchise and helped to allay fears by fans that separating the franchise from George Lucas could have negatively affected the franchise. Developing new productions help introduce newer generations giving the 45-year-old franchise a strong opportunity to gain fan loyalty among younger audiences. Studio Entertainment, also proves to be Disney’s most profitable gaining 29.8% net profit from $10 billion in revenue in 2018 (Rotharmel, Inadmar, King 2020).

In addition to the content creation, Disney now benefits from a controlling stake in Hulu giving direct access to streaming technology which can be leveraged across Disney’s media networks SBU creating vertical integration for distribution of its media programs. This advantage also helps Disney gain traction in the streaming market enabling it to offer streaming of its studio entertainment content directly to consumers. Thus, avoiding fees to other platforms such as streaming market leader Netflix. Such resources and capabilities enable Disney to have a hand in a large quantity of media consumption and gain market share.

Finally, by completing many acquisitions, Disney’s has strengthened its capability to do successful acquisitions. The mechanics of doing an acquisition are non-trivial: valuing and negotiating with the target, as well as designing and implementing an integration plan. As the saying goes, practice makes perfect, and Disney has a lot of practice in acquisitions, thus increasing the likelihood that future acquisitions will be successful.

**Risks and limitations of Disney’s “growth by acquisition” strategy**

All acquisitions carry significant risks, and Disney’s are not immune. Perhaps the greatest risk of all is that the expected synergies fail to materialize. This could be because of a weak integration plan, or perhaps due to unexpected integration difficulties. For example, when Disney is acquiring a movie studio, if key employees of that studio quit shortly after acquisition, Disney may be unable to stretch the studio’s capabilities to apply to Disney’s larger business as was hoped.

In each acquisition, Disney runs the risk of overpaying for the target. This could be due to pure managerial hubris: doing a poor evaluation of the target or conducting weak due diligence, leading to a bloated estimate of the value of the target as part of Disney. Or it could be due to the Winner’s curse: if many firms are bidding for a target, the firm with the highest over-estimate of the target’s value will win.

Disney’s shareholders would be smart to keep the principal-agent problem in mind when approving Disney’s acquisitions. The principal-agent problem, as applied to Disney’s acquisitions, explains that Disney’s mangers may be motivated to complete an acquisition because it will be good for them (for example, by increasing their managerial power or maximizing their bonus) even if it is not necessarily good for Disney’s shareholders.

Finally, Disney’s numerous acquisitions risk diversifying its products and services too much. In general, a firm expanding in related diversification will see efficiency gains, whereas a firm expanding into unrelated diversification will see efficiency losses. Intuitively, a firm that offers unrelated products & services will find it difficult to maintain sharp focus on a unifying mission as compared to a firm that offers related products & services. Clearly, by completing so many acquisitions, Disney runs the risk of entering unrelated diversification.

**The BCG framework applied to Disney’s “growth by acquisition” strategy**

As decisions about future direction are made, it is helpful to consider BCG analysis. Most of the acquisitions discussed focus on horizontal integration to expand the offerings in star segments.  Focusing on high value multimedia content (acquisitions of Pixar, Lucasfilm, and Marvel) that generates massive revenues and feeds into park and resorts features.  Parks develop new attractions against landmark movies and series that bring in other revenues.  Disney continues to weaponize its cash cow businesses’ (studio entertainment and media networks) successes of yesterday - movies, cartoons, and TV series, as well as seasonal shows like American Idol.  These shows continue to drive revenue and sales of consumer products and collectables.  The biggest question mark for Disney is the changing industry and streaming services and content.  Box office attendance and sales are dropping as consumers move towards direct content to their homes provided by Netflix and other providers of streaming services.  The streaming sector has potential to be a Star, but Disney will have to beat out its competition and win over millions of subscribers in the short term.

Cash cows:

1. Studio Entertainment
2. Disney animated films
3. ABC
4. 21st Century Fox
5. Media Networks
6. 20th century studies
7. 20th television
8. Disney channel
9. Consumer products and interactive media
10. Consumer products

Stars:

1. Multimedia content
2. Pixar films
3. Marvel (movies/comics)
4. Lucas Film
5. Parks and resorts (USA Based)

Question marks:

1. Consumer products and interactive media
2. Streaming services - ESPN+, Hulu, Disney+

Dogs:

1. Interactive media/games
2. Parks and resorts (non-USA Based)

**Recommended evolution of Disney’s “growth by acquisition” strategy**

Considering this BCG analysis, Disney needs to strategize for the future by perpetuating Bob Iger’s passion to creatively deliver Disney’s blockbuster media. Iger oversaw the aforementioned M&A’s, but Iger also cast the vision for investment in technology. As such, **Disney should continue to follow a “growth by acquisition” strategy but must focus future growth in the streaming services space**, where demand for delivery of our world-class media seems to be trending. The pandemic changed how consumers choose entertainment. US cinema ticket sales to date in 2022 are around 40% of 2019 levels. (Whitten) In that same time, streaming services have boomed. Disney+ boasts 137.7 million subscribers since launching in November 2019. (Stoll) Disney+ is targeting to have over 300 million subscribers by 2024. (Bowman) This is a remarkable opportunity that must be executed at the same exceptional level that Disney has become known for.

To ensure Disney’s future acquisitions are as successful as its past ones, Disney must explicitly and deliberately entrust both the development and implementation of the integration plans to the same person or group of people. Doing so increases the likelihood that the integration plan will be successful, and the expected synergies will indeed materialize.

AWS has enabled Disney+’s highly reliable infrastructure, which is critical to consumers’ experience. (The Walt Disney Company Uses AWS to Support the Global Expansion of Disney+) AWS’s parent company Amazon is a direct competitor in this space, though. Disney needs to consider this reality and position itself to maintain leadership in this wave of the future by looking to develop relevant, internal, technological capabilities in this space, potentially through M&A’s or alliances. Obtaining these capabilities technologically at Disney could aid in delivering live sports in a contemporary manner and build on the success of Disney+ to keep EPSN’s content relevant and accessible.

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