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Assessing the impact of Covid-19 on Enterprises - Walt Disney

COVID-19 tilted the seem-to-be structured and solidified world and posed questions to almost every single company on how ready they were for this inevitable trend of digitalization. It presented a pain point of removing physical barriers in the society or, one might argue, revealed the old ones of the psychological conflicts between the traditional and digital ways of communications which were hidden under the surface for quite a while. Certainly, there are companies that either happened or planned to be winning in this round of the game and some are losing. However, there are a few companies that have fallen into both categories, and Disney is one of them.

Company Introduction

Walt Disney was established in 1923 by Walt and Roy O. Disney to produce animated films and series such as Alice Comedies, Oswald the Lucky Rabbit, and Mickey Mouse. [2] In 1929, it was reorganized into Walt Disney Productions, Limited with a merchandising division and two subsidiaries of a film recording company and an investment company. The company partnered with a number of Pictures companies like Columbia Pictures and Universal Pictures to produce many successful films, leading to its IPO in 1939. In 1955, its first theme park Disneyland was open to the public, subsequently followed by the announcement of its second park Disney World in 1965 that was opened in 1971. In 1983, its first oversee theme park was opened in Tokyo, Japan, with the partnership of the Oriental Land Company. Besides partnerships and theme parks, the company also made successful acquisitions: ABC Inc. in 1995, Starwave in 1998 to move into the internet field, Fox Family Worldwide in 2001, Marvel Entertainment in 2009, Lucasfilm in 2012, Fox Corporation in 2019.

Company Units

Today, the company has five segments: Disney Media and Entertainment Distribution for managing its content groups and direct-to-consumer services, Disney Park Experience and Products, Walt Disney Studio for its film and theatrical entertainment businesses, Disney General Entertainment Content for television channels and production companies, and ESPN and Sports Content.

Pandemic Impacts

To exam the impact of a pandemic on the company, let's take a look at its yearly financial status. As of its 2020 annual report, the total revenue encountered a decrease in 2020 to $65 billion, compared with $70 billion in 2019 and $59 billion in 2018. Its net income was negative $2 billion, compared with positive $11 billion in 2019 and $13 billion in 2018. Income (loss) from continuing operations before income taxes was a big drag in the third and fourth quarters of 2020, resulting in a $1 billion loss in yearly total compared to $14 billion income in 2019 and $15 billion income in 2018 [3].

The pandemic has caused a large loss to its Disney Park Experience and Product division to sustain the operation cost while the public was constrained with social distancing protocol. Its different locations of Disney theme parks have consecutively closed during the period from January 25 to March 16[3]. This has heavily hit its traditional segment which was 37.7% of its total revenue as of 2019[3]. Not only did it bring a huge financial loss to the company ($6.9 billion due to operational cost), but it also will terminate the employment of 32,000 employees in the first half of the fiscal year 2021 [3].

Besides this segment, other segments also endured different levels of detriments: its Media Networks (ESPN and Sports Content) had to postpone sports events to the future. Its Studio Entertainment deferred and canceled movie releases due to theater closures.

However, there is a significant growth in its Direct-to-Consumer & International segment, increasing from 9.3 billion in revenue of 2019 to 16.9 billion in 2020, with a growth rate of 81%. This presents the potential opportunities laying in digitalization and streaming services for the company.

Also, its globalization adaptation has mitigated the situation as Shanghai Disney Resort reopened in May 2020 [5] and Tokyo Disney Parks reopened in June 2020 [4]. This indicates that diversifying its market to a global degree can prevent future pandemics and national changes.

The popularity of Disney+ has elevated the confidence of its investors, resulting in a rise in the stock value from March 15th. As shown in its stock trend presented below, it encountered a downward trend from February 16th at $138.97 per share to the lowest point on March 15th at $89.98. After that, it started to climb upward steadily, reached a high point on December 6th at 175.72, and kept an overall increasing pace.

Image 1: Stock Overview [1]

In comparison to other traditional companies that require in-person services, like SixFlags, Disney has a quicker and stronger recovery with its current stock price even having surpassed its peak before the pandemic.

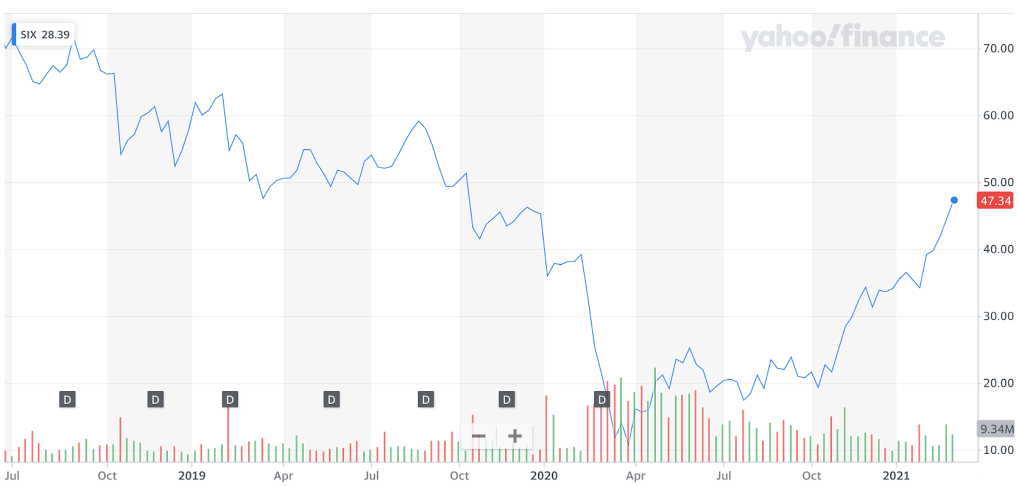

Image 2: SixFlags Stock Overview [6]

Strategy Suggestion 1: Keep Digital Transformation

The huge growth in its Disney Media and Entertainment Distribution has demonstrated the robustness and future potential of its digital products and services. I suggest they keep expanding on their online offerings from 2021 onwards, especially on its online streaming services like Disney+ and Hulu. On the other hand, the company should also catch up with the short video trend to adapt its content format to the new digital style of media consumption.

Disney has been pushing the boundaries of animation, imagination, and visual experience since its establishment. It introduced new forms of animation experience to the audience, from black-and-white animated short films to colored cartoons, to feature-length short films, to live-action films and documentaries, to theme parks, to television animations, etc. Its technology advancements provide a wider foundation for creative work and its leading position in the industry. To maintain its profitability and customers, the company should leverage new technologies like VR and AR to enrich its content and even invent new forms of visual experience, which can attract more audience and prevent the company from physical adversaries similar to COVID-19.

Strategy Suggestion 2: Remodel its Park Facilities

With the lifestyles of the public migrating to the virtual world, the physical resources and facilities of Disney have to be reduced in weight or changed through remodeling. It is possible that people might want to permanently migrate their entertainment activities to online or electronic devices, hinted by the rising sales of Oculus and PS5 and the increase in the revenues of streaming services like Netflix. This possibility despite the likelihood could severely affect the overall profitability of the company due to its large burden from its physical assets and operational liabilities.

I think the best way to reuse the facilities is to leverage digital elements on top of the physical location and enable virtual experiences like virtual tours or VR experiences. By remodeling the physical assets, the company can reduce the loss of reductions in visitors and increase business channels to generate revenues.

Another solution could be to divide the park into a number of regions to hold private events and leisure stays for remote working. This adapts to the remote working trend as two-thirds of the companies plan to make remote work permanent including Facebook[7]. The increase in Airbnb’s customers also proves long-stay services to be an attractive solution. Remodeling existing space into isolated areas for people to stay in for the long-term can be a new way to utilize the resources and rebuild the popularity of its theme parks.

Strategy Suggestion 3: Peripheral Products

My third suggestion to Disney is to partner with companies that offer essential products for Disney’s peripheral merchandise. The focus on the partnership should shift from clothes and accessories to essential items such as delivery-related products or household goods. Crossover partnerships in this difficult period of creating more comfortable and pleasant products and services for consumers can increase the sales and popularity of the company brand.

Conclusion

The company’s remarkable achievements in the film industry have bestowed its reputation and popularity that last 100 years later. It stood through adversaries such as World War II, the passings of Disney brothers and other chairmen, 9-11, and now, the COVID-19 pandemic. The diverse segments and markets of the company have mitigated the overall negative impact of the pandemic. Especially, its transition and expansion to the digital market have given its investors confidence and formed a bedrock for building its future digital business models and a larger user base. I think Disney should keep its digitalization transformation, remodel its entertainment services, and transform its merchandise lines so that it can better adapt to the major changes introduced by the pandemic and increase robustness when facing future challenges. The company has been a legacy in animations and film production since founded by Walt and Roy O. Disney. The power and passions of imagination and creativity have kept the light on for almost a century. By liberating imagination through the help of technologies, I believe it can go further and bring more inspiration to people around the globe.

References

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