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| **Company Analysis** |

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**Executive Summary**

This report provides a comprehensive analysis of The Walt Disney Company. Methods of analysis include external and internal environments. Recommendations and conclusions will be made based on the analysis.

**Company History**

Founded on October 16, 1923 as the Disney Brothers Cartoon Studio, The Walt Disney Company established itself in the animation industry before expanding into the global mass media corporation that it is today.

**The Walt Disney Company Today**

The current mission is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world.

**Corporate Governance**

*Board of Directors*

* 10 members with CEO on the board

*Top Management*

* 9 members
* CEO – Robert A. Inger – Also chairman of the board

**SWOT External**

*Opportunities*

* Emergent countries – Specifically China’s growing consumer market
* Expansion of online presence

*Threats*

* The reduction of competitor cable fees
* Increasing costs of sports rights
* The creation of competitors in sport media

**SWOT Internal**

*Strengths*

* Brand reputation
* Excellent strategic acquisitions
* ESPN’s cable dominance
* Financial strength of A++

*Weaknesses*

* Expensive box office failures
* Broadcasting segment underperforms

**Recommendations**

* Use global brand image to move into the Asia-Pacific and Chinese markets
* Continue to support ESPN sports rights
* Focus more on producing established big budget films (Star Wars 2015)
* Sell ABC while maintaining ownership of ESPN
* Foster an online presence



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| **Company Analysis** |

**Company History and Background**

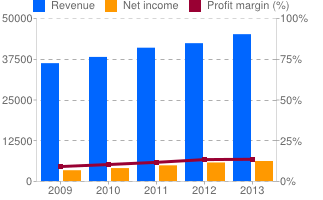
The Walt Disney Company (commonly known as Disney) was originally founded on October 16, 1923, as The Disney Brothers Cartoon Studio by Roy and Walt Disney. The initial Disney Brothers Cartoon Studio became an established leader within the animation industry before expanding into the multifaceted and international mass media corporation that it is today. The company took on its current official name in 1986 and is now the largest media conglomerate in the world in regards to total revenue. In collaboration with its 142 subsidiaries, Disney owns and operates: broadcast and cable television networks, publishing, merchandising, theatre divisions, a music division, and 14 amusement parks worldwide. Disney has been a constituent of the Dow Jones Industrial Average since 1991 and is headquartered in Burbank, California. Disney is traded in the New York Stock Exchange and listed as: DIS.

**Current Situation**

*Past Corporate Performances Index*

Over the past five years Disney has shown a slight growth in net income and revenue as well as maintaining a stable net profit percentage, which can be seen in Figure 1 on the next page.

Figure 1: 2009-2013 Financial Revenue and Profit Margin Overview



Source: Google Finance NYSE DIS

Disney has a Debt to Total Capital ratio of 24.56%, which is lower than that of previous years (Financial Times, DIS:NYQ).

*Strategic Posture*

* Mission Statement: “The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world.”
* Current Strategies revolve around the drive to fully develop and monetize franchises and to increase the company’s international presence. This is put into motion through Disney’s self defined ‘chain of excellence’. This chain includes; leadership excellence, cast (employee) excellence, guest satisfaction, and financial results.

*Competition*

Disney competes in many business segments but has the advantage of having the Entertainment and Sports Programming Network (ESPN) in its portfolio, accounting for about 50% of the company’s total profits.

Top competitors of Disney include:

* Time Warner Inc. (TWX) – A multinational media corporation based in New York City. It is the world’s second largest entertainment and media conglomerate in terms of revenue. Key holdings include Time Inc., Turner Broadcasting, Warner Brothers Entertainment, and HBO.
* Viacom Inc. (VIA) – Global mass media company focused in cable television and cinema. The world’s fourth largest media conglomerate. Key holdings include Paramount Pictures, BET Networks, and Viacom International Media.
* Twenty-First Century Fox (FOXA) – A multinational mass media corporation formed from the 2013 split of News Corporation. Key assets include the Fox Entertainment Group and its array of Fox subdivisions.
* Comcast Corporation (CMCSA) – Enormous mass media and communications company. The largest cable company and Internet service provider within the United States. Key holdings include NBC Universal Inc. and Universal Pictures.
* CBS Corporation (CBS) – Mass media corporation concentrated on television production, commercial broadcasting, and publishing.

Figure 2: The Walt Disney Company’s Market Share by Segment With Competitors

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Cable Networks** | **Media Networks** | **Parks & Resorts** | **Studio Entertainment** | **Consumer Products** | **Interactive Media** | **Media Network Fees** | **Media Networks Advertising** |
| ***Disney*** | *29.36%* | *18.96%* | *46.47%* | *16.62%* | *28.74%* | *16.18%* | *37.88%* | *22.02%* |
| **Time Warner Inc.** | - | 15.13% | - | 35.07% | - | - | - | - |
| **Viacom Inc.** | 19.84% | 9.11% | - | 5.98% | - | - | 16.94% | 12.51% |
| **21st Century Fox** | 23.15% | 5.84% | - | 21.74% | - | 5.5% | 33.67% | 22.51% |
| **Comcast Corporation** | 18.15% | 7.98% | 7.31% | 12.71% | - | - | - | 5.68% |
| **CBS Corporation** | 3.73% | 7.93% | - | 7.88% | - | - | 8.61% | 22.67% |
| **Other** | 5.77% | 35.05% | 46.22% | - | 71.26% | 78.32% | 2.9% | 14.55% |

*Source: Commodity Systems Inc. 2014*

**Corporate Governance**

Disney defines its corporate governance as being committed to policies and practices that promote the thoughtful and independent representation of shareholder interests. Disney’s Chief Executive Officer as of 2005 is Robert A. Iger. Iger has been valuable to the company through his immediate impact beginning with but not limited to the 2006 acquisition of Pixar Animation Studios (Pixar).

*Board of Directors*

The Disney board of directors boasts a diverse body of ten members with the CEO, Robert A. Iger, sitting on the board and acting as the Chairman.

* Board of Directors
  + Robert A. Iger – Chairman and CEO
  + Susan Arnold, John S. Chen, Jack Dorsey, Fred H. Langhammer, Aylwin B. Lewis, Monica C. Lozano, Robert W. Matschullat, Sheryl Sandberg, Orin C. Smith

*Top Management*

* Corporate
  + Andy Bird, Alan Braverman, Ronald L. Iden, Kevin Mayer, Christine M. McCarthy, Zenia Mucha, Jayne Parker, Jay Rasulo, Brent Woodford
* Business Unit
  + George Bodenheimer, Bob Chapek, Alan F. Horn, James Pitaro, John Skipper, Thomas O. Staggs, Anne Sweeney

**External Environment: Opportunities and Threats**

*Opportunities*

Disney is very strong within the United States and boasts a loyal fan base, therefore the logical opportunity for company growth is to expand and develop in foreign markets. The worlds fastest growing consumer market is China with an average growth rate of 10% over the last thirty years (International Monetary Fund). The Asia-Pacific region alone accounted for over half of the world’s paid television subscribers market share as of 2011 and is expected to continue its trend of growth. This would indicate that China and the Asia-Pacific region are the greatest external opportunity for Disney, as the company will be looking to enter and solidify itself within new foreign markets.

In today’s world, digital information and social media are dominant. In order for businesses and people to be relevant an online presence is mandatory, but in order for the online presence to be effective it needs to be powerful. Disney in the past has struggled to assert a strong online presence but if achieved the company will be able to expand the reach of its already established brand. Disney’s primary target audiences are children between the ages of four and fourteen. These audiences are considered primary due to the fact that these children are the most loyal to the brand and have the greatest amount of influence on parental decision-making. With 95% of teens in the United States actively online and comparable percentages in emerging markets worldwide, having an online presence is an easy opportunity for Disney to exploit.

*Threats*

Cable television is Disney’s main revenue generator. The threat exists in the possibility of a material drop in cable fees from Disney’s competitors, as it would place pressure on the company’s bottom line due to pricing changes. This specifically refers to sports programming as ESPN dominates this particular segment which forces all prospective newcomers to drop their fees drastically to get picked up by cable providers.

The rights to distribute marquee sports are expensive and the battles to obtain these rights are ruthless. Increased competition for these rights will likely drive programming fees higher in the future, which could threaten profits.

ESPN is a definite winner for Disney, however new competitors, regardless of how small must be considered threats. ESPN now competes for viewers with NBC Sports (Comcast) and Fox Sports (Twenty-First Century Fox). This competition has the potential to push programming costs higher.

**Internal Environment**

*Strengths*

The Walt Disney brand has existed for over ninety years and is renowned globally as a family entertainment provider. The company is the 13th most valuable brand in the world and boasts a consumer perception rank of 8th globally (Forbes). These lofty rankings are largely due to excellent strategic acquisitions. Disney acquired Pixar in 2006 followed by Marvel Entertainment in 2009 and Lucasfilm in 2012 all of which have proven to be prosperous in regards to revenue and profit growth.

ESPN, another Disney acquisition, is the worlds most valuable media property valued at $40 billion (Badenhausen, Forbes). ESPN is responsible for approximately 50% of Disney’s total profits making the sports media conglomerate a strongpoint for the company.

Disney has exceptional free cash flow, along with a financial strength rating of A++. This permits Disney to remain active in the stock buyback front.

*Weaknesses*

High profile and big budget movie flops are risky for Disney’s potential growth. Examples not limited to *John Carter, Mars Needs Moms,* and *The Lone Ranger* cost Disney hundreds of millions of dollars of potential revenue. Film operations accounts for approximately 15% of Disney’s total revenue, therefore any large-scale film flops are a definite weakness to the company.

Disney’s broadcast segment leaves much to be desired due to the expensive cost of programming coupled with the company’s poor ratings within this segment and low advertising revenue. The rise of social media and alternative methods of watching television have furthermore revealed Disney’s broadcast segment, specifically ABC as a company weakness.

Disney has not properly addressed social media’s relationship with the company’s target audience. Disney’s interactive media initiatives have operated in the red for the past few years primarily due to poor video game sales. Interactive media will continue to be a company weakness until it turns profitable.

*Financials*

* Total revenue of $45,041 billion
  + Total revenue increase in the fourth quarter by 8.54% year on year
* Gross profit of $9,450 billion
  + Net margin of 15.47% - higher profitability than all competitors

Figure 3: Disney’s % of Total Revenue by Business Segment

Source: Commodity Systems Inc. 2014

**External and Internal Environment Summary: SWOT**

Strengths

* Massive brand reputation worldwide. ESPN remains a Disney’s strong point due to their dominance of the sports media segment and all the advertising money that comes with it. Strategic acquisitions of advantageous companies continue to build the Disney brand and drive profits. Disney also boasts a financial strength rating of A++.

Weaknesses

* Reoccurring film flops remain a weakness of Disney as well as poor television broadcasting. Furthermore the lack of understanding of interactive media remains a shackle on Disney’s potential growth.

Opportunities

* Disney has two clear opportunities for potential growth in front of them with the expansion into growing Asian and foreign markets, as well as the bolstering of the company’s online presence in order to effectively reach their target audience through a more relevant channel.

Threats

* Falling cable fees can spell trouble for Disney along with the increase of sports rights due to heightened competition and new competitors.

**Conclusion/Recommendations**

Disney’s current opportunities and strengths profoundly outweigh the company’s threats and weaknesses. Suggestions for the future are rooted in the play on company strengths of brand reputation and cable prowess. Disney should look to expand into the Chinese and Asian-Pacific market by utilizing their worldwide brand image with intent to gain and consolidate consumer loyalty in the world’s fastest growing economy. Disney is already a legitimate success within North America thus the logical direction is to look east for growth. In regards to the company’s cable prowess, Disney should assure that its bread winner, ESPN continues to hold as many lucrative sports rights as it can regardless of cost as the advertising revenue resulting from those rights will pay for the rights themselves. The 2012 acquisition of Lucasfilm is set to pay dividends with the release of a new Star Wars film in the summer of 2015 continuing the trend of strategic acquirements while also providing an established big budget film that is unlikely to flop. Integrating the company’s established brand characters from Pixar and Lucasfilm into the interactive media segment can amend Disney’s weakness within the segment. As for Disney’s weak broadcasting, it might be the ideal time to place ABC on the selling block while maintaining the rights to ESPN. The company can get a struggling segment off their books at the appropriate time as more people are trending to cable television and alternative methods of media. Overall Disney is in fantastic shape looking forward with only minor tweaks detectable that could better the company.

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