The Walt Disney Company
Studio Entertainment

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CEO Project

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BUS 109
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December 13, 2017

ABSTRACT

The Walt Disney Company 's studio entertainment division leverages its intellectual properties (such as characters, trademarks, and storylines) in order to captivate an audience from infancy to adulthood and for generations to come. By creating high quality, award-winning animated and live action films, the Walt Disney Company is able to fortify their dominance in the global entertainment industry. It is with these intellectual properties that the Walt Disney Company is able to differentiate themselves from their competitors and leverage customers to pay a premium for their services. When values and visions align, the Walt Disney Company and its studio entertainment division aims to acquire the best in the industry (e.g. Pixar, Lucas Films, and Marvel.) Thus, through the success of the heart of their company, the studio entertainment division of the Walt Disney Company acts as a catalyst of synergy amongst its diverse portfolio of brands to become a value maximizing and profit multiplying firm. In order to galvanize and perpetuate the formidable success of the Disney brand, the Walt Disney Company maintains a lead in new and cutting-edge technology that delivers their premier entertainment offerings.

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I. CURRENT SITUATION

1.1 History

The Walt Disney Company is a multi-mass media entertainment company that has four business segments: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products and Interactive Media. Walt Disney and his brother Roy O. Disney founded the company on October 16, 1923. Walt Disney's first series, *Alice Comedies* lasted for four years before he started to pursue a career in all-cartoon series. After losing the rights to his Oswald cartoons, Walt decided to move his entire staff to Hollywood where they built the Hyperion Studio in 1926. Disney's most popular cartoon character, Mickey Mouse, was born and the S*teamboat Willie* series followed along shortly after. In addition to Walt's motion pictures and consumer merchandise, Disneyland Park and Resort was built in Anaheim, California on July 17, 1955. Disneyland revolves around Walt's vision to create a park where families could go to and have a good time together. The park and resorts segment has expanded globally and remains incredibly popular till this day.

1.2 Current Performance

1.2.1 Ratio Analysis

Disney has been enjoying steady increases in revenue since 2012. Revenues increased 6% or 3.2 billion to 55.6 billion in 2016 compared to a 9% increase in 2015. Their net income increased 12% to 9.4 billion which has been consistent with past years. Cost of services increased 6% or 1.5 billion to 24.7 billion due to increased expenses and the opening of Shanghai Disney Resort. Diluted earnings per share increased 17% from 4.90 to 5.73 due to segment operating income growth, decrease in weighted average shares outstanding as a result of a repurchase program and a decrease in the effective income tax rate which reflected a deferred tax asset write off in the prior year. Total assets grew 6.3 billion in 2013 and have increased by an average of 3-4 billion every year since. Their stock price has seen an upward trend with a 6.85% increase in the last year.

1.2.2 Competitor Comparison

Disney's current ratio in 2016 was 1.07 compared to 1.14 in 2015. Time Warner's current ratio decreased 0.17 from 1.59 to 1.39 and Viacom Inc. had an increase of 0.14 from 1.05 to 1.19. Compared to its competitors, Disney has a lower current ratio which could be attributed to higher liabilities and assets. Their return on equity grew from 14.29% in 2012 to 21.71% in 2016 and has been increasing every year by an average of 2-3%. This is a faster growth than their competitors. Disney's debt-equity ratio of 0.94 is lower than Time Warner's (1.71) and Viacom's

(4.17) in 2016. This indicates that Disney has been less aggressive in using debt financing. Their dividend payout ratio fell from 36.94% to 24.78% in 2016 due to a decrease in dividends per share from 1.81 to 1.42. Disney's price/earnings ratio decreased 0.54 from 19.32 to 18.78 in 2016 compared to Time Warner's increase from 13.6 to 19.3 and Viacom's increase from 9.09 to 10.96.

1.2.3 Industry Comparison

The Walt Disney company controls 7.91% of the market share with its main competitors, Time Warner and Viacom controlling 4.94% and 3.36% respectively. Compared to its competitors, Disney's revenues increased 6% which surpassed Time Warner (4%) and Viacom (5.39%) signaling faster growth. Disney's inventory turnover ratio was 3.77 compared to the industry average of 6.3 meaning they were more efficient at turning over their inventory in the same period of time as competitors. Disney's 5-year gross margin average was 48.76% which was lower than the industry average of 63.23% indicating that they aren't generating as much profit relative to their costs. Disney's debt to equity ratio of 0.94 is lower than competitors which could make them a less risky investment due to their less aggressive use of debt financing.

1.3 Mission

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." With new hire training, it allows Walt Disney to efficiently instill their mission, vision, and values in their employees. Therefore, each employee that works for the company is aligned and strongly connected to the company's mission.

1.4 Objectives

It is their Studio Entertainment business that helped found the Walt Disney Company. Today the Studio entertainment division acts as a catalyst for the rest of the Walt Disney Company's portfolio. When a new movie is released by the Studio Entertainment division, attention is driven to: the Media Networks, Parks and Resorts, and Consumer Products and Interactive Media business segments. By synergizing the business functions within these segments, The Walt Disney Company has the ability to "maximize its earnings and cash flow, and to allocate capital toward growth and initiatives" (Walt Disney Company).
Below are the objectives of the Walt Disney Company to achieve their goals[1]:

[1] Based on the Walt Disney Company's MD&A

- ➢ to increase net income by 15%
  - o compared to a 12% growth in ROA for 2016

- ➢ to continue to increase service revenues by maintaining a 7% growth rate
  - o compared to a 7% increase in 2016

- ➢ to maintain product revenues; without a decrease in growth rate
  - o compared to a 1% decrease in 2016

- ➢ to maintain costs of services; without an increase in costs
  - o compared to a 6% increase in cost in 2016

- ➢ to "allocate capital toward growth initiatives that will drive long-term shareholder value" (Walt Disney company)

- ➢ to continue to synchronize product releases and theme park initiatives to coincide with movie releases

Disneyland Shanghai was a large investment for the Walt Disney Company; while they continue to expand their parks and resorts, their costs should not exceed those of the previous year.

i.e. the expansion of theme parks with *Star Wars* themed lands

ie. the expansion of film series such as *The Incredibles* and live action remakes such as *Beauty and the Beast*

1.5 Strategic Posture

1.5.1 Corporate Strategy

1.5.1.1 Directional Strategy

The Walt Disney Company is currently executing on a growth strategy that focuses on the distribution of its own library of media. As stated in the Q3 2017 Fiscal Report, the company increased its investment in BAMTech (streaming video technology) to a controlling stake. Disney plans to consolidate its media library in a subscription-based video service that will launch in 2019 as well as an ESPN-branded video service in early 2018. This vertical integration is a response to the rise of direct-to-consumer services across the media landscape. The acquisition of BAMTech is a move to ensure its leadership in the mass media industry. This is in line with the company's mission statement, "to be one of the world's leading producers and

providers of entertainment and information. (the Walt Disney Company)" Currently the company is still positioned as a leading provider of the most innovative and creative entertainment experiences in the world.

1.5.1.2 Portfolio Analysis

The Walt Disney Company excels as a leader in the mass media industry. The Disney Store is a part of its Consumer Products and Interactive Media division and it is responsible for selling . In terms of rivalry and competition between markets and products, the most comparable company to Walt Disney would be Mattel, Inc. Mattel includes items such as all Fisher-Price merchandise, board games, and many more. Essentially, Mattel became a catch-all for everything else that the Disney Store didn't carry. The corporate strategy that Disney has adopted to combat the tactics of Mattel's is through content marketing. Content marketing is essentially giving a backstory to your merchandise. Consumers appreciate having a meaning and purpose to the good they are purchasing. Every time the Walt Disney Company introduces a new animated film into the world, stocked on the shelves in the Disney Store are the merchandise that correlates to that movie. As will be affirmed throughout this report, this strategy has been proven to be successful for the Walt Disney Company.

1.5.1.3 Parenting Strategy

The company excels in maintaining a strong portfolio of brands that span its many media networks. ESPN, Disney Channels Worldwide, and Freeform are channels that the company owns and operates. They also have strong profits and diversified entertainment businesses in their theme parks and resorts, interactive experiences, and cable networks. The company has extensive customer reach through all of these brands and are able to differentiate themselves by relating to a wide audience of customer values.

1.5.2 Business Strategy

Most of the five competitive forces for Disney are low due to its high profitability and well known reputation. After further analysis, the only force out of the five that is high would be rivalry among the existing firms. Since Disney is known to be the largest mass media conglomerate in the world, its competitors range from providers of amusement services and theme parks to film and television production companies. With that said, many of these companies compete in having the most popular brand image, which inevitably makes this force high for Disney. Other competitive forces such as the threat of new entrants, and threat of substitutes are low. This is because there are many qualities of Disney that are incredibly

difficult to attain. For someone to even begin to develop the reputation of Disney, there would need to be a huge investment involved in terms of both money and time. Furthermore, since Disney is already a top competitor for even the most famous brands, smaller businesses that are similar to that of Disney's many sectors would not even come close to posing a challenge. The strong influence that Disney's distinct brand identity has on international levels makes this company pretty invincible, and makes the bargaining power of buyers weak. Even if Disney makes the prices of admission a tad more expensive, customers would not be phased due to Disney's ability to provide excellent quality in terms of customer experience and service. Lastly, the bargaining power of suppliers is moderate because there are many famous brand suppliers that hold quite an influence on Disney. Therefore, switching suppliers could be a struggle due to not being able to gain access to the same options.

1.5.3 Functional Strategy

Disney's functional strategy is comprised of the actions and goals of their organizational department, in which its ultimate goals mirror and back up the corporate and business strategies. Teams in human resources, IT, marketing, and operations generally make up the organizational department. Human resources, for instance, would make the hiring and employment of highly skilled candidates one of their main objectives. Other tactics carried out by human resources may include analyzing the strengths and weaknesses of individual members in order to properly place them in a position that suits best. This ensures the least amount of time and resources required to train the new employee, as well as increasing overall efficiency. In addition, maintaining a high employee morale--to increase workplace productivity--is also an important part of a functional strategy.

1.6 Policies

The Walt Disney Company is notorious for their vast array of company policies which range from product safety to the way employees are expected to conduct themselves during working hours. In part, this is a result of the large selection of products and services that Disney offers to the general public; in fact, live animals are even used as a part of some of their entertainment acts. There are twenty two total documents on the Walt Disney Company website, including: "Safety and Security Policy", "Governance", "Healthy Cleaning", "Standards of Business Conduct", etc. While it may seem as if these were simply created to ensure Disney's safety in case of civil litigation or lawsuits, the true importance of these various policies lies in the experience that Disney is attempting to create in both their movies and theme parks. One of the most famous examples of their commitment to maintaining this image is their policy in regards to shoplifters. The employee witnessing the crime is expected to contact Disney security who quietly ushers the perpetrator to a private section of the park. Under no circumstances are the employees - or "cast members" - allowed to make a scene out of the situation at hand. Disney is

a prime example of the importance of corporate governance and its impact on the business operations of a corporation.

1.7 Alignment

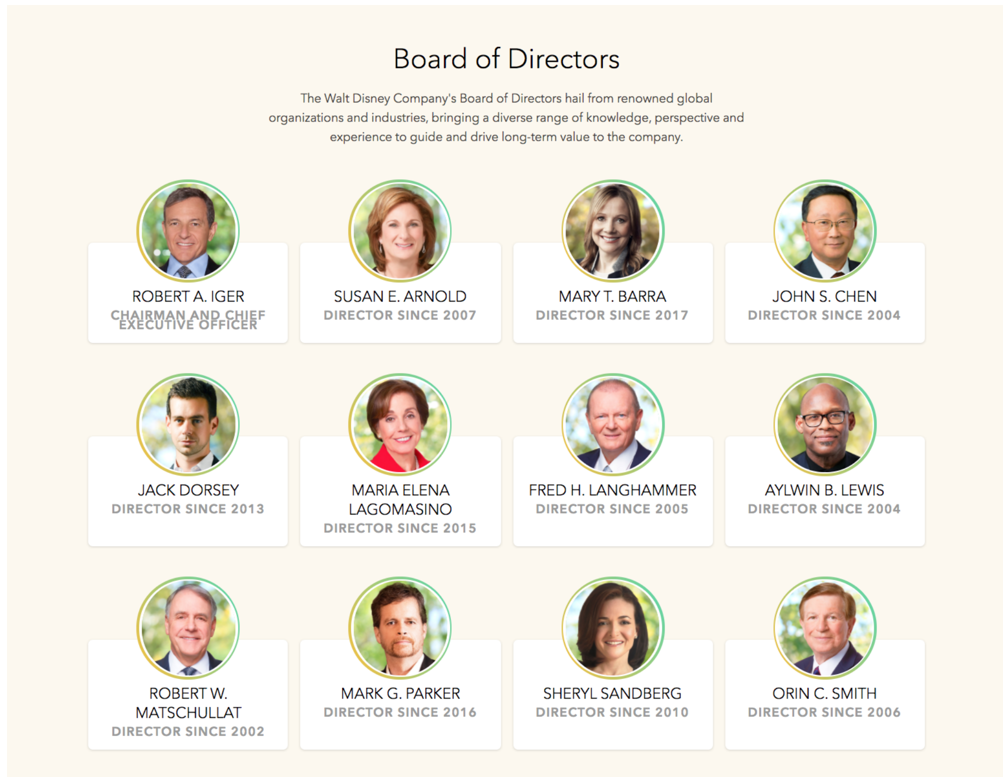
Disney's creative strategy is a decision-making process that is unique in the entertainment industry in which they are exceptional at discovering imaginative ideas and turning them into reality. There are three stages in Disney's creative strategy, each crucial in creating high quality entertainment and information based on their mission statement. The first section is called The Dreamer which involves a team of visionaries with the task of generating creative ideas for new products without any restrictions. This stage produces an array of innovative ideas that will determine its viability in the next stage. The Realist stage focuses on a more logical thinking style and converts the ideas from the previous stage into a manageable action plan if the idea is applicable. The final stage is called The Critic and focuses on constructive criticism of the plan created from The Realist stage. By being identifying the weak points and developing a final solution, the idea conceived from The Dreamer stage can be applied to reality. Disney's meticulous three step creative strategy is their functional in alignment to their mission statement because their decision making process has always delivered excellence in their products from time to time.

Disney's corporate objectives share similar characteristics with their mission statement in which they focus on developing high quality entertainment and maintaining capital growth. Disney corporate and business strategy revolves around their unique strategic map that displays foresight on how their industry is evolving and crucial resources they can utilize for production. Information gained from their strategic map is important as it allows Disney to support their mission statement in being a leading brand. Disney's functional strategy is aligned with their creative strategy which supports their mission statement through sustained growth in content creation.

II. CORPORATE GOVERNANCE

2.1 Board of Directors

The Walt Disney Company's (WDC) Board of Directors consists of 12 board members. Below are the list of members and their background:



Robert A Iger (Internal)

- **Chairman and Chief Executive Office**r
- As of June 2017, Iger owns 1,013,87 shares of Disney Stock

Orin C Smith

- Elected independent Lead Director in March 2012
- Former CEO of Starbucks from 2000 -2005
- As of September 2017, Smith owns 38,588 shares of Disney.

Susan E Arnold

- Former president of the Global Business unit at Proctor and Gamble
- As of September 2017, Arnold owns 43,706 shares of Disney.

Mary T Barra

- Chairman and Chief Executive Officer of General Motors

- Barra joined WDC’s Board of Directors in August of 2017; therefore, her shares of Disney are not publicly available at this time.

John S Chen

- CEO and Executive Chair of Blackberry Ltd.
- As of September 2017, Chen owns 54,653 shares of Disney Stocks.

Jack Dorsey

- CEO of Twitter
- As of September 2017, Dorsey owns 9,281 shares of Disney.

Maria Elena Lagomasino

- Former CEO and Chairman at JPMorgan Private Bank - a division of JPMorgan Chase
- As of September 2017, Dorsey owns 8,322 shares of Disney.

Fred H Langhammer

- Former CEO and current Chairman of Estee Lauder Companies
- As of September 2017, Langhammer owns 42,193 shares of Disney (Yahoo Finance)

Aylwin B Lewis

- Former CEO of Sears Holdings Corporation, Kmart Holding Corporation and current Director of Marriott International - formerly Starwood Hotels & Resorts Worldwide.
- As of September 2017, Lewis owns 78,863 shares of Disney

Robert W Matschullat

- Former CFO of the Seagram Company Ltd. and Chairman at Visa Inc.
- As of September 2017, Mastchullat owns 64,631 shares of Disney.

Sheryl Sandberg

- COO of Facebook Inc. and former Vice President of Global Online Sales of Google Inc. Also, former Chief of Staff of the United States Treasury Department
- As of September 2017, Dorsey owns 8,030 shares of Disney.

Mark G. Parker (External - Nike)

- CEO and President of Nike
- As of September 2017, Dorsey owns 4,944 shares of Disney.

*Morningstar
**Yahoo Finance

The Walt Disney Company is publicly traded on the New York Stock Exchange under the ticker symbol ‘DIS’. There are is one class of stock with similar voting rights. As of December 6, 2017, the Walt Disney Company stock is valued at $105.46 (Yahoo Finance). From the time span of 2009 to early 2015, the Walt Disney Company has shown a clear path of growth. However, in recent history, the Walt Disney Company’s Stock price continues to fluctuate. The Walt Disney Company has plateaued in terms of growth.

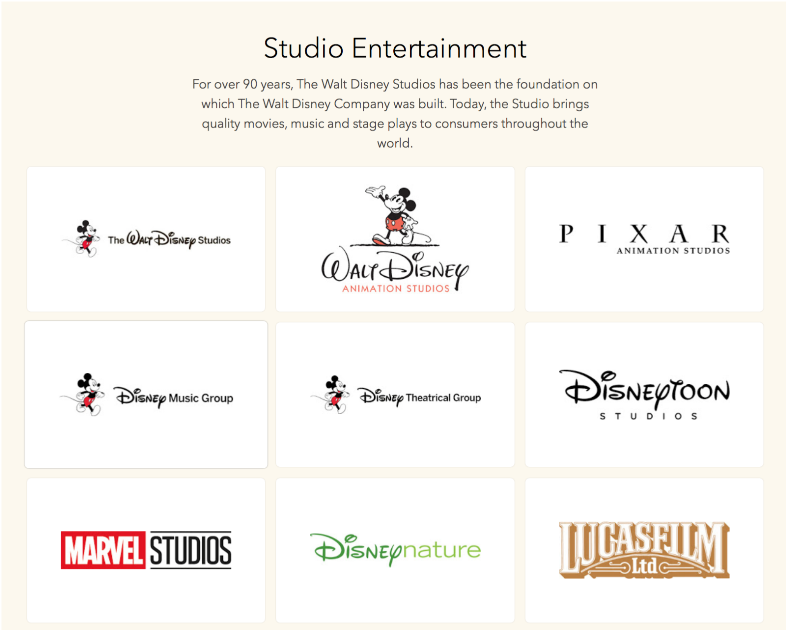
The Board of Directors of the Studio Entertainment Division of the Walt Disney Company are both internal and external members from a variety of different industries. Each has different experiences and expertise. Listed Below are the list of board members of the Walt Disney Company Studio Entertainment Division in order of seniority (The Walt Disney Company, Leadership):

- **Robert A Iger (Internal) -** Director since 2000
- John S Chen - Director since 2004
- Fred H Langhammer - Director since 2005
- Orin C Smith - Director since 2006
- Susan E Arnold - Director since 2007
- Robert W Matschullat - Director since 2010
- Sheryl Sandberg - Director since 2010
- Aylwin B Lewis - Director since 2011
- Jack Dorsey - Director since 2013
- Maria Elena Lagomasino - Director since 2015
- Mark G. Parker - Director since January 2016
- Mary T Barra - Director since 2017

The Board of Directors at the Walt Disney Company was referred to as having "one of the most impressive boards of directors in modern business" (Reed). Ranging from Facebook's Sheryl Sandberg, to Jack Dorsey of Twitter, and even Mark Parker from Nike, The Walt Disney company boasts some of the most influential business leaders from the most formidable firms around the globe. The Walt Disney Company's Board of Directors are active in the oversight of the company (Reed). The board takes part of business decision that uphold the mission and strategic intent of the company. However, Disney's Board of Directors have high-level responsibilities at their own respective companies in which they work for. With Disney's Experienced board of directors they bring great skill and a wiser group needed for judgment in creating globally affecting decisions.

2.2 Top Management

The Walt Disney Company is an expansive global conglomerate. Because their Corporate Strategy is growth through differentiation and strategic acquisitions, they have amassed a portfolio of several influential managers amongst different brands of the Studio and Entertainment Division of the WDC. Below are some Top level managers, specifically for the Studio and entertainment division. The Walt Disney Company is able to dominate the global entertainment industry as a formidable media conglomerate by differentiating themselves through their immensely large portfolio of brands that they have both built and acquired. It is through these brands that the Walt Disney company has been able to maintain its reputation for providing the best quality entertainment. The figure below is from the company website of the Walt Disney Company and it lists the several different business units within the Studio Entertainment Division within the Walt Disney Company.



Each business unit has its own management group which is able to build the top management for the overall Studio Entertainment Division. Below is a list of the board of directors for each respective business unit within the Studio Entertainment division of the Walt Disney Company. The Walt Disney Studios Executive Team is found directly below, while Pixar Inc., Lucasfilm LTD, and Marvel Studios – which are acquired companies -- also have a Board of Directors for their respective business unit.

The Walt Disney Studios

· **Alan Horn** - Chairman, The Walt Disney Studios
· **Alan Bergman** - President, The Walt Disney Studios
· **Sean Bailey**- President, Walt Disney Studios Motion Picture Production
· **Ken Bunt** - President, Disney Music Group
· **Dr. Ed Catmull** - President, Walt Disney, Pixar Animation Studios , Disneytoon Studios
· **Kevin Feige** - President, Marvel Studios
· **Kathleen Kennedy** - President, Lucasfilm Ltd. LLC
· **John Lasseter** - Chief Creative Officer, Walt Disney and Pixar Animation Studios / Principal Creative Advisor, Walt Disney Imagineering
· **Paul Roeder** - Senior Vice President, Global Communications
· **Thomas Schumacher** - President & Producer, Disney Theatrical Group
· **Ricky Strauss** - President, Marketing, The Walt Disney Studios
· **Carolyn Wilson** - Senior Vice President, Human Resources, The Walt Disney Studios

*Walt Disney Studios

Pixar Inc.

· **Edwin Catcall** - Co-Founder, Director and President of Walt Disney & Animation Studios
· **Joseph Graziano** - Member of the Board of Directors
· **Lawrence Levy** - Member of the Board of Directors
· **Larry Sonsini Ph.D., J.D.** - Member of the Board of Directors
· **Joe Roth** - Member of the Board of Directors
· **Susan Decker** - Member of the Board of Directors
· **Harry Brittenham** - Member of the Board of Directors

*Bloomberg

Lucasfilm Ltd.

· **Kathleen Kennedy** - Co-Chairman of The Board and President
· **Lori Aultman** - Vice President of Finance and Planning
· **Lynwen Brennan** - Executive Vice President and General Manager
· **John Knoll** - Chief Creative Officer and Senior Visual Effects Supervisor of Industrial Light
· **John Jason McGatlin** - Senior Vice President of Physical Production
· **George W. Lucas Jr**. - THX Ltd.

· **Kathleen Kennedy** - Lucasfilm Ltd. LLC

*Bloomberg

<u>Marvel Entertainment</u>

· **Isaac Perlmutter** - Chief Executive Officer
· **Dan Buckley** - President
· **Marcus Faust** - Chief Financial Officer
· **Alan Fine** - EVP of Office of the Chief Executive
· **Kevin Feige** - President of Production - Marvel Studios
· **Paul Gitter** - President of Consumer Products - North America
· **Joann McLaughlin** - Executive Vice President of Merchandising
· **Joe Quesada** - Chief Creative Officer

*Bloomberg

The top management of the Walt Disney Studios is substantial due to the immense size of the company itself. Just recently the Walt Disney company has acquired Lucasfilm Ltd. and Marvel Entertainment which has grown this list of influential top managers. These top-level managers also host a variety of different individuals with different expertise. The head of the Studio Entertainment division is Alan Horn, the Chairman of the Walt Disney Studios. He joined Walt Disney Studios in 2012. In a summation of his duties and obligations, Horn "oversees worldwide operations for The Walt Disney Studios including production, distribution, and marketing for live-action and animated films from Disney, Pixar, Marvel Studios, and Lucasfilm. He also oversees Disney's music and theatrical groups" (Walt Disney Studios). With his guidance, the Walt Disney Company has broken box office records year after year. During his time in office, Horn has helped the Walt Disney Company lead the box office with the following films: *Frozen*, *Zootopia*, *Finding Dory*, *Inside Out*, *Beauty and the Beast*, *The Jungle Book*, *Marvel's Avengers*: *Age of Ultron*, *Guardians of the Galaxy*, *Star Wars: The Force Awakens* and *Rogue One: A Star Wars Story*, and many more (Walt Disney Studios). In His past, Horn was President and COO of Warner Bros. Pictures (Walt Disney Studios). His portfolio of successes and projects led, especially in the same industry that the Walt Disney company operates made Horn the ideal candidate for this position.

The Walt Disney company takes pride in their corporate social responsibility initiatives. The Walt Disney company is extremely progressive and proactive regarding these matters. Strategic decisions are made ethically. In fact, there is an entire page dedicated to corporate citizenship on the Walt Disney Company's official website. The site states that, "Acting responsibly is an integral part of our company. At Disney, we refer to our broad efforts to conduct our business and create our products" (The Walt Disney Company). The Walt Disney company makes decisions in both socially responsible and environmentally sustainable manners. They address these aspects in terms of philanthropic initiatives and environmental initiatives. The Walt Disney company's philanthropic objective is "to strengthen communities by providing hope, happiness,

and comfort to kids and families who need it most" (The Walt Disney Company, Philanthropy). In 2016 alone, the Walt Disney company was able to donate upwards of $400 million to non-profit organizations that work with children, families, communities, and even public service announcements. Disney also has a literacy initiative that has donated more than 23.1 million books to schools and children (The Walt Disney Company, Philanthropy). Employees also take part in Disney's Philanthropy by volunteering with local organizations. Disney's philanthropic pillars include: Charitable giving, volunteering, inspiring kids and families, strengthening communities, living healthier, thinking creatively, and lastly conserving nature. (The Walt Disney Company, Philanthropy).

The Walt Disney Company also has environmental initiatives that help sustain the world we live in. The Walt Disney Company is aware of "the impacts of climate change, from extreme weather to droughts, demand changes in the way society, including businesses, uses natural resources" (The Walt Disney Company). They are constantly optimizing their business practices in order to lead by example. The environmental objective for the Walt Disney Company is, "to meet our long-term goal of attaining a "zero" state of net greenhouse gas emissions and waste, while conserving water resources when and wherever we can" (the Walt Disney Company, Environment). To put it simply, Disney is employing efficient and greener ways to conduct business where ever they see an opportunity for change. As a global conglomerate the Walt Disney Company has reduced 37% of emissions of the business' environmental footprint. Disney aims to further decrease their carbon footprint by reducing net emission to 50% by 2020 (the Walt Disney Company, Environment). Instead of sending waste to landfills Disney has diverted this waste and recycles consumer byproduct who has led to a 45% decrease in waste. By 2020 the Walt Disney company aims to reach a benchmark of 60% waste diversion (the Walt Disney Company, Environment). Lastly, water conservation is extremely important for the Walt Disney Company and is maintaining water consecration at pre-existing sites as developing water conservation plans for new sites (the Walt Disney Company, Environment). Disney also creates synergy amongst their environmental initiatives with their Studio Entertainment business with Disney Nature. Disney Nature is a separate business that allows consumers to view the world through documentaries about animals and nature. This unit highlights the Disney Conservation Fund which is "a key pillar in Disney's efforts to protect the planet and help kids develop lifelong conservation values [through] the study of wildlife; the protection of habitats; the development of community conservation and education programs in critical ecosystems; and experiences that connect kids to nature across the globe" (The Walt Disney Company, Environment).

The Studio Entertainment division of the Walt Disney Company has its own list of top managers within this specific division. The above roster of top managers as well as their experiences, and the initiatives that they believe in illustrates the sheer size and dominance that the Studio Entertainment division has. This extremely progressive group of diverse people and backgrounds

are not just sufficiently skilled, but rather, extremely well equipped with the skills and wisdom needed to cope in future challenges and initiatives. Although not all figures are not published, members of the board have a stake in the company which encourages them to work their hardest. This encourages them to work their hardest in order to receive a return on their time and investment in working for the Walt Disney Studios. The Board of Directors and top management work together to create synergy amongst the diverse portfolio of brands and business units under the Studio Entertainment division to maximize success for the Walt Disney company and also to deliver entertainment to children, families, and children-at-heart, now and generations to come.

III. External Environment: Opportunities & Threats (SWOT)

3.1 Natural Physical Environment: Sustainability Issues

The external environment includes any and all uncontrollable factors that affects businesses' ability to function within certain boundaries. All variables are unpredictable and require organizations to make adjustments and adapt to the changes in the environment. In an effort to save the environment, the government has put protective laws on usage of these natural resources. "To be successful over time, an organization needs to be in tune with its external environment. There must be a strategic fit between what the environment wants and what the corporation has to offer, as well as between what the corporation needs and what the environment can provide." (Wheelen and Hunger, 93). The natural environment that affects Disney's sustainability include climate change, weather-related events, and solar phenomenon.

Climate change is real and it is happening at a rapidly fast pace. Glaciers are melting, temperatures are rising, and the environment is suffering — including that of freshwater availability in the world. Water is a free natural resource that is being taken advantage by society. Since it is easily obtainable, water is often consumed at large quantities with no recollection of protecting the natural resource to expand its sustainability. Most human activities that use water produce wastewater and a huge portion of wastewater is released directly to the environment without adequate treatment, with detrimental impacts on human health, economic productivity, the quality of ambient freshwater resources, and ecosystems (Wastewater). Of all the water on earth, only 2.5% is freshwater that is obtainable -- 30% of freshwater is located in aquifers that is unobtainable. This phenomenon is affecting not only the natural ecosystem but also businesses around the world who require the use of water in order to produce goods to satisfy the needs of their consumers.

The Clean Water Act (CWA) is a federal law put into place by the United States government on October 18, 1972. This is also commonly referred to as the Federal Water Pollution Control Act Amendment. "This act establishes the basic structure for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters. The CWA made it unlawful to discharge any pollutant from a point source into navigable waters, unless a permit was obtained" (EPA). This law, which can also be considered as a political-legal force, sets standards for industries and regulates the amount of contaminants, or pollution, an industry discharges into un-permitted waters. The reason for this act is to not only contain the amount of pollution in water, but also protects the safety of human health, restores and maintains oceans, ensure safe drinking water, and provide healthy ecosystems for all living creatures and wildlife. With this law in place, it restricts Disney's ability to use water or dispose of it the way that is most convenient to them and as a result, poses as a threat to their many business segments, including their Studio Entertainment business unit.

Back in 2009, a lawsuit was filed against Disney by Environmental World Watch and local residents that charged the company for polluting local waters near its motion picture studio lot in Burbank, California. This lawsuit claimed that the company dumped contaminated waste such as hexavalent chromium into nearby waters posing as a threat to the health and safety of others. This case was a six year long trail that involved evaluating the waters of Los Angeles to see if Disney did in fact violate the Clean Water Act by not having adequate permits for unregulated water pollution. Disney continues to deny that they needed a permit to discharge pollutants in the water, but agreed to install filters by run-off points in the surrounding areas of their studio. On February 10, 2015, the lawsuit was finally closed when the government stated that what Disney did was not entirely inconsistent with the CWA (Gardner). Although no drastic measures were made besides paid expenses on civil penalties, the duration of the lawsuit really put a strain on the company's sustainability and posed a continuous strain on the profitability of their motion picture studio. Climate change and government regulations on the natural environment such as the Clean Water Act to protect the society poses as a threat to many companies such as Disney. However, because of this lawsuit, it allowed Disney to take measures such as reducing the volume and concentration of their pollutants. An environmental opportunity arises for Disney during the lawsuit — the company created a water conservation plan that is committed to maintaining potable water consumption and pollution management at 2013 levels at existing sites by 2018. This includes not only common water usage in their resort parks, but also their media network studios as well (The Walt Disney Company, *Environment*). No longer do they take unregulated measures of discharging their waste into water but they have now started an initiative to protect the environment in which they do business in.

In addition to reducing water waste, Disney follows an environmental policy that tailors to the strengths of the company. It states that "The Walt Disney Company seeks to establish and sustain

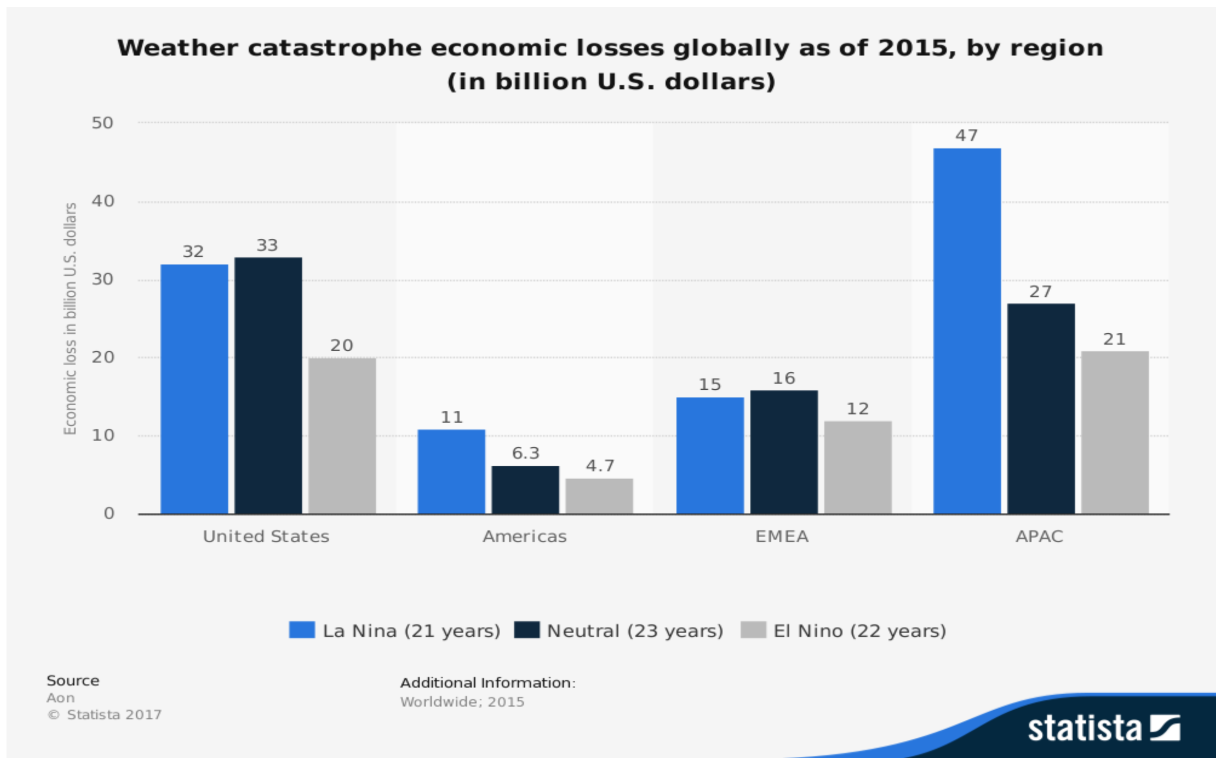
a positive environmental legacy for Disney and for future generations. Specifically, Disney aims to conserve water, energy and ecosystems; to reduce greenhouse gas emissions; to minimize waste and to inspire public consciousness in support of environmental sustainability" (The Walt Disney Company, *Environmental Policy*). Global warming is the result of extreme greenhouse gas emissions so in an effort to protect the environment and stray away from the potential of another lawsuit, Disney has put their environmental policy in place to restore and keep a close eye on the effects their business has on the ecosystem. There are many areas of focus for this policy and in turn, many opportunities for the company to protect the natural environment from further damage. Disney's long term goal is to minimize their product footprint, or more commonly known as their carbon footprint. In 2010, Disney developed common approaches that they can use in order to achieve this goal: sourcing of raw materials that are sustainable, holding their suppliers responsible for sustainability sourcing, and decrease in pollution and gas emissions for their business units. In 2016, Disney has successfully reduced their net emissions by 37% and aim to reduce emissions by 50% by 2020. (The Walt Disney Company, *Environment*) Disney also practices "zero waste in all their operations and business activities. The company consciously makes "reduce, reuse, recycle" as a standard operating procedure. It is events like these that turn changes in the natural environment from threats into opportunities to protect the world.

Uncontrollable forces in the natural environment such as weather-related events can impact Disney by increasing costs for providing their services, increasing costs for repairs, decrease in demand for goods from customers, and ultimately impair the company's ability to provide their products and services to the world. Occurrences such as telecommunication and internet failures due to heavy rain or storms impairs Disney's ability to provide or create films and distribute it properly to viewers. Media networks and studios are vulnerable to factors beyond their controls such as adverse weather conditions and catastrophic natural disasters (Form 10-K, 2016). Seasonality is also a critical success or threat factor that impacts all of Disney's business units. Revenues in their Studio Entertainment segments, in particular, fluctuate in relation to the timing and performance of film releases in the theatrical, home entertainment and television markets (Form 10-K, 2016). These release dates are determined not only by competitor release dates, but also the seasonality of holidays and peak seasons. In the occurrence of a natural disaster that disrupts Disney's ability to produce and release entertainment content, the timeline of which they plan to release such films will be tampered with. Although the event of this happening is minimal, it continues to pose as a threat to the profitability of their media segments. On the flip side, seasonality can play a role as an opportunity to real in more revenues. For example, Disney's *Frozen* was publicly released on November 27, 2013, just days before the month of December. Due to budget allocations for the peak season of the winter months, the film was strategically released during the holiday period to generate large revenues. The film itself was set during the winter months where snow is apparent and plays a huge role in the plot of the story, hence its title name. *Frozen* is the ninth highest-grossing film of all time up to date with a

worldwide gross of $1.3 billion -- not adjusted for inflation (Schrodt). This example is used to support the claim about how changes in the natural environment like seasonality can provide opportunities for Disney's Studio Entertainment to release films in accordance to the seasons in order to generate more box office sales and grossing revenues.

A solar phenomenon that could very well threaten the livelihood of everyone on the planet is known as solar storms. These storms consist of three major components: solar flares, solar proton events (SPE) and coronal mass ejections (CMEs). These occur in the event of solar spots that release radiation and charged particles in the solar wind and are ejected towards earth at a speed of 4 million miles per hour (Omatola, 2012, p. 3). In the event of this occurring, solar storms can disrupt communication and navigational equipment, damage satellites, and have the chance at inducing worldwide blackouts due to damaged power plants. Thousands of satellites drift in the world's ionosphere and are subject to damage in the event of an CME, disrupting the world's entire telecommunications infrastructure. Walt Disney's Studio Entertainment unit is largely dependent on these infrastructures in order to maintain their business. The use of satellites and energy flow allow Disney to broadcast their streaming services, create content through the use of the internet, and distribute their films to viewers worldwide. If Disney cannot create and distribute their content, they risk the profitability of their company and their ability to maintain it thereafter. Solar phenomenon are perhaps Disney's greatest natural environmental threat that can happen since there is virtually no way to stop this from occurring and unfortunately, minimal opportunities can arise in an event like this.

The natural environment and changes in climate as discussed earlier is applicable to all regions in the world. These forces are once again, unpredictable and affect Disney's sustainability in businesses overseas the same way as it would if occurred domestically. Disney's studio entertainment segment distributes films primarily under the Walt Disney Pictures, Pixar, Marvel, Lucasfilm, and Touchstone banners. The headquarters of each of these facilities lie within the states and are subject to the same threats from changes in the climate within this region. Disney's media networks, primary cable networks, consists of ESPN, the Disney Channels, and Freeform, all of which are, again, located in the states. Business segments that are not Disney's main form of media distribution lie in locations around the world such as those is Europe, Asia, Australia, and Latin America. These segments generate revenues primarily in corporate transactions, consumer products and interactive media, parks and resorts, as well as a few units that do focus on studio and media content. As of 2015, Asia-Pacific regions have seen a total loss of $47 billion U.S. dollars from the effects of La Nina, and a loss of $21 billion from the effects of El Nino as compared to losses of $32 billion and $33 billion in the U.S. respectively (Aon).



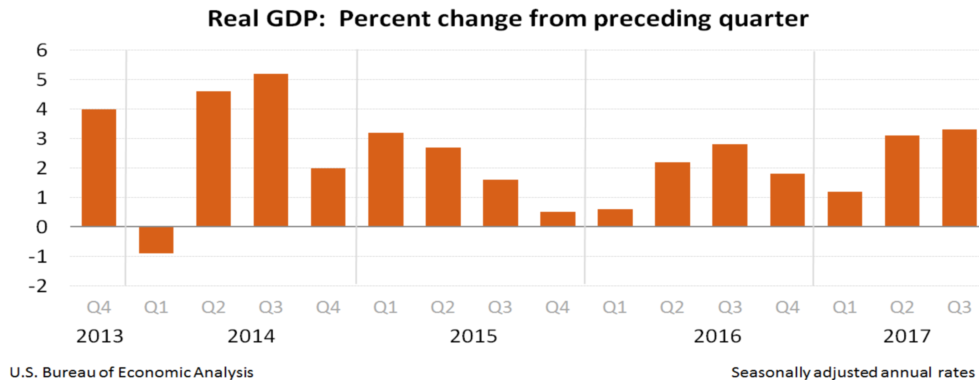
These ocean-atmosphere phenomenon are opposing cycles of fluctuations in the oceans atmospheres that refer to both cold and warm phases with changes in surface temperatures. Third parties that Disney does business with in addition to the parks and business segments located in these regions are strongly affected to these phenomenon on a yearly basis no matter the intensity of the forces. Since Disney is dependent on the success of these parties, any and all events that happen to these businesses due to changes in the natural environment will disrupt Disney's ability to provide for their customers.

3.2 Societal Environment:

3.2.1 Economic

Economic forces such as growth rate and inflation rates may affect the way Disney does business and their sustainability. GDP, or gross domestic product, is the best way to measure a country's economy; it is "the value of the goods and services produced by the nation's economy less the value of the goods and services used in production. It is also equal to the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures" (BEA). The growth rate in particular indicates how fast a country's economy is growing and their overall health. If an economy grows too slowly or if GDP is negative, it can

result in a recession. This means higher unemployment rates and declines of business revenues and consumer spending. If the economy grows too quickly, it may lead to inflation or rising prices that impacts the cost of living, cost of doing business, borrowing money, government bonds, and practically every aspect of the economy (Koba). The current real GDP of the U.S. increased at an annual rate of 3.3 percent in the third quarter of 2017 (BEA). The ideal growth rate ranges between 2-3 percent change. Ideal inflation rates are around 2.0 percent and as of October 2017, the current inflation rate for the U.S. is 2.0%.



	Advance Estimate	Second Estimate
	(Percent change from preceding quarter)	
Real GDP	3.0	3.3
Current-dollar GDP	5.2	5.5
Real GDI	…	2.5
Average of Real GDP and Real GDI	…	2.9
Gross domestic purchases price index	1.8	1.8
PCE price index	1.5	1.5

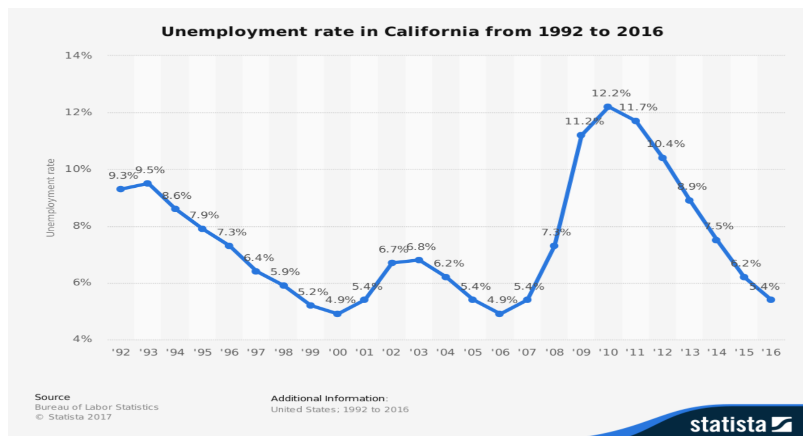
The current GDP growth and inflation rates indicates that the economy is healthy, people are consuming and spending at nominal rates, and businesses are thriving. The health of the economy provides great opportunities for Disney and their business segments. The indication of a healthy economy signals that consumers are getting more income and spending more on goods and services. The real gross domestic income (GDI) increase 2.5% in the third quarter, compared with an increase of 2.3% in the second (BEA). GDI is another indication of the health of an economy by calculating the sum of incomes earned in the country. Disney's shift into streaming services will require the attention and money from consumers in order to be profitable. Since this platform is new to Disney, they depend on the health of the economy and their customers in order to launch their new business off the ground. This streaming service will not be available until their launch in the beginning of 2018 so no real financial measures have been accounted for. However, if GDP and inflations rate stay constant until then, Disney's studio entertainment segment will see positive opportunities for growth and revenue.

External economic forces are extremely unpredictable and changes by the minute. One year the economy is stable and the next, in complete disaster. Unstable economic activities such as inflation periods and recessions strongly affects demand for Disney's products and services, thus reducing their total revenue and profitability. The Great Recession, a decline in economic conditions that occurred in the late 2000s and early 2010s has greatly reduced demand for all of Disney's business segments. Their studio entertainment segment saw a 84% loss ($911 million) in total operating income between the years 2008 and 2009. In 2008, their business segment's income was $1,086 million, but saw a dramatic decline the year afterwards with an income of only $175 million. The change in total revenues for this business segment was a loss of 16%. (Form 10-K, 2009).

BUSINESS SEGMENT RESULTS – 2009 vs. 2008

				% Change Better / (Worse)	
(in millions)	**2009**	2008	2007	**2009 vs. 2008**	2008 vs. 2007
Revenues:					
Media Networks	**$ 16,209**	$ 15,857	$ 14,913	**2 %**	6 %
Parks and Resorts	**10,667**	11,504	10,626	**(7) %**	8 %
Studio Entertainment	**6,136**	7,348	7,491	**(16) %**	(2) %
Consumer Products	**2,425**	2,415	1,990	**— %**	21 %
Interactive Media	**712**	719	490	**(1) %**	47 %
	$ 36,149	$ 37,843	$ 35,510	**(4) %**	7 %
Segment operating income (loss) (1):					
Media Networks	**$ 4,765**	$ 4,981	$ 4,534	**(4) %**	10 %
Parks and Resorts	**1,418**	1,897	1,710	**(25) %**	11 %
Studio Entertainment	**175**	1,086	1,195	**(84) %**	(9) %
Consumer Products	**609**	778	689	**(22) %**	13 %
Interactive Media	**(295)**	(258)	(291)	**(14) %**	11 %
	$ 6,672	$ 8,484	$ 7,837	**(21) %**	8 %

Disney's studio entertainment segment was impacted the most compared to their other business segments. Their loss was primarily due to decreases in worldwide home entertainment, worldwide theatrical distribution and worldwide television distribution reflecting the changes in the economic market. During the great recession, unemployment rates in California specifically increased from 7.3% in '08, 11.2% in '09, and reached an all-time high when it peaked at 12.2% in '10. (Bureau of Labor Statistics, *Unemployment Rate*).

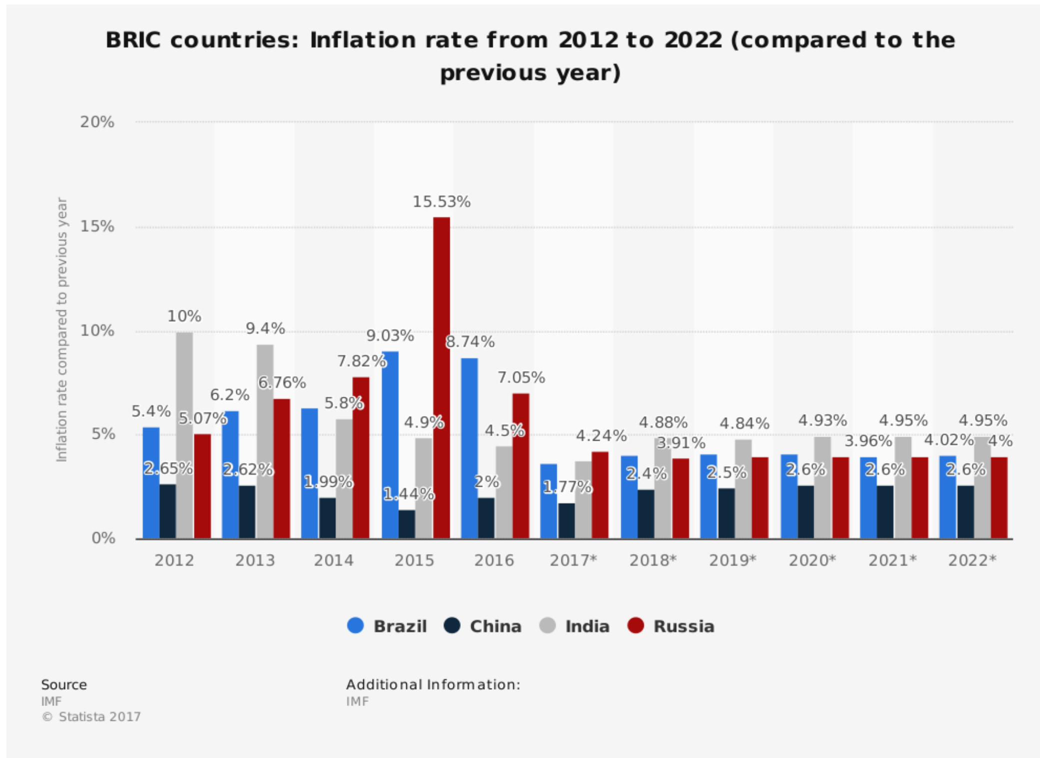


Labor Force Statistics from the Current Population Survey											
Original Data Value											
Series Id:	LNS14000000										
Seasonally Adjusted											
Series title:	(Seas) Unemployment Rate										
Labor force status:	Unemployment rate										
Type of data:	Percent or rate										
Age:	16 years and over										
Years:	2007 to 2017										
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2007	4.6	4.5	4.4	4.5	4.4	4.6	4.7	4.6	4.7	4.7	4.7	5.0
2008	5.0	4.9	5.1	5.0	5.4	5.6	5.8	6.1	6.1	6.5	6.8	7.3
2009	7.8	8.3	8.7	9.0	9.4	9.5	9.5	9.6	9.8	10.0	9.9	9.9
2010	9.8	9.8	9.9	9.9	9.6	9.4	9.4	9.5	9.5	9.4	9.8	9.3
2011	9.1	9.0	9.0	9.1	9.0	9.1	9.0	9.0	9.0	8.8	8.6	8.5
2012	8.3	8.3	8.2	8.2	8.2	8.2	8.2	8.1	7.8	7.8	7.7	7.9
2013	8.0	7.7	7.5	7.6	7.5	7.5	7.3	7.3	7.2	7.2	6.9	6.7
2014	6.6	6.7	6.7	6.2	6.3	6.1	6.2	6.2	5.9	5.7	5.8	5.6
2015	5.7	5.5	5.4	5.4	5.5	5.3	5.2	5.1	5.0	5.0	5.0	5.0
2016	4.9	4.9	5.0	5.0	4.7	4.9	4.9	4.9	4.9	4.8	4.6	4.7
2017	4.8	4.7	4.5	4.4	4.3	4.4	4.3	4.4	4.2	4.1	4.1	

The total unemployment rate in the U.S. averaged to 9.3% in 2010 (Bureau of Labor Statistics, *Labor Force*). These unemployment rates were the highest they have been since the Great depression during the 1930s. The families that did not have jobs and were affected by the recession saw a decrease in their total income and thus in their total spending. This affected Disney's studio entertainment segment when they saw the huge decline in their total revenue. It is positively related to the unemployment rate and their consumers not having enough money to spend on Disney's products. In economic crises like these, Disney has seen reduced spending on marketing and advertising on their broadcast and cable networks as well as their own stations, resulting in decreases in revenue. The unstable economy poses as a huge threat not only to Disney's studio entertainment segment, but all of their subsidiaries and acquired business units. As stated earlier, the current U.S. economy of 2017 is stable, but that status can change any time. Like that of the great depression, Disney's businesses are vulnerable to dramatic changes in the economy and must always be prepared in the chance that inflation or recessions occur again.

Similar economic activities that happens overseas can also affect those who have an obligation to provide supplies and resources to Disney as their business partners. The rapid development of Brazil, Russia, India, and China (often called the *BRIC* countries) is having a major impact on the rest of the world (Wheelen and Hunger, 98). These countries have become the world's dominant suppliers of manufactured goods, services, and raw materials. These countries are also the fastest growing market economies that often act as a source for promising opportunities of investment and expansion for markets. Disney's business units often rely on third parties in these countries to produce and distribute their products not only for their consumer goods but also in the development of their media networks and studio films. However, economic forces such as inflation rates tend to be exponentially higher in *BRIC* countries due the amount of money flow going in and out of their markets. Inflation rates in Russia back in 2015 reached a high of

15.53%, about 13% higher than the ideal inflation rate of 2%. This rate gradually decreased to 4.24% in 2017 (IMF).

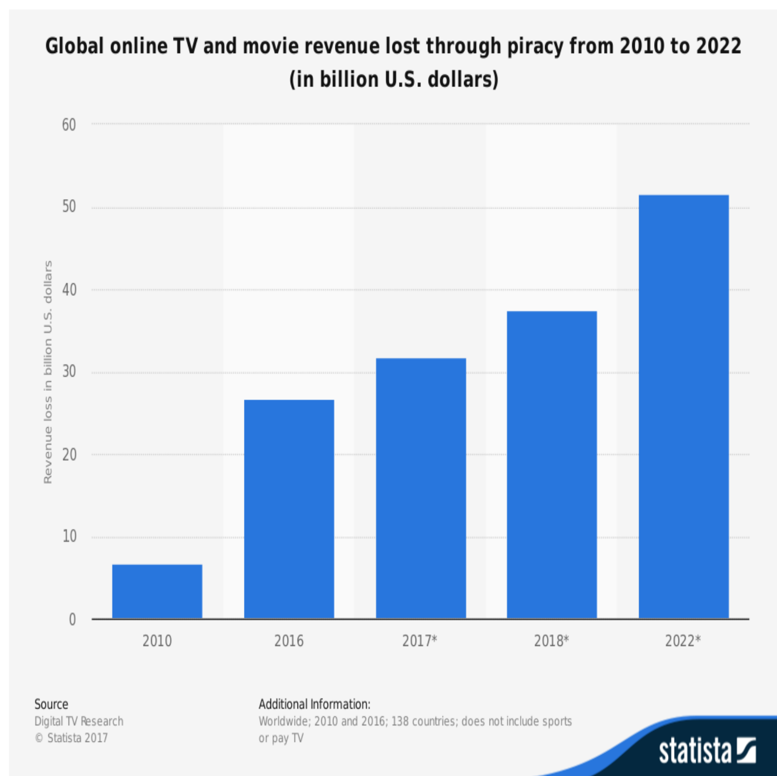


Inflation rates in Brazil and India are both generally higher than the ideal inflation rates signaling a small economic state of inflation. When this occurs, a country's economic health is threatened by decreases in consumer spending and businesses' ability to provide resources for other companies. The uncertainty of increases in price levels generally pose as a threat to Disney's profitability as well. Since Disney depends on the success and profitability of their third party segments overseas, economic factors that affect other regions of the world also negatively affect Disney's overall profitability.

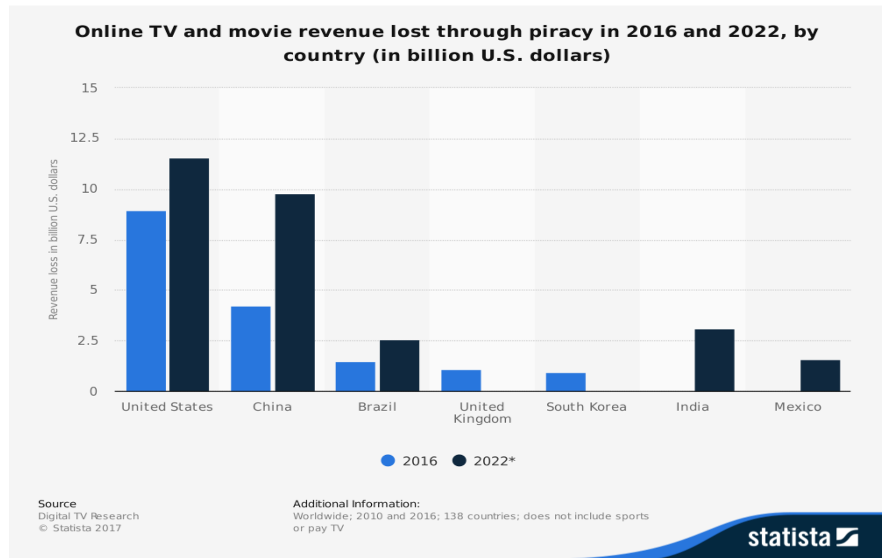
3.2.2 Technological

Walt Disney's studio entertainment division creates high quality, award-winning family friendly films for their consumers and viewers. Their films are often demanded by popularity and are highly anticipated as fans patiently wait for the next up-and-coming film to premiere. However, through the advancement of technologies, Disney's ability to keep their films within their legal boundaries have been extorted. Advancements in technology does not only bring in opportunities but comes with a series of threats from external forces as well. Events of hacking, piracy, and unauthorized use of Disney's intellectual properties pose as extreme threats and makes the company vulnerable from these attacks. Earlier this year, it has been stated that Disney's film "Pirates of the Caribbean: Dead Men Tell No Tales" has been released without the company's authorization by a hacker who threaten the company to pay large amount of money to him through Bitcoins. The hacker stated that he would release the film in parts over time until his demands were met. Disney worked with the FBI in this case and told the public that they were not going to comply with these threats and demands. Although Disney has the funds to support their security measures, it is not to say that events like these do not occur. Unfortunately, technology is often used for the wrong purposes and crimes. Therefore, occurrences in theft will always pose as a threat to Disney's Studio Entertainment division. To protect Disney's content, higher costs are incurred to protect their rights on their intellectual properties as more and more people find ways to copy and distribute their films in ways that do not cooperate with the law. This in turn, decreases revenues for Disney's studio entertainment and media networks segments.

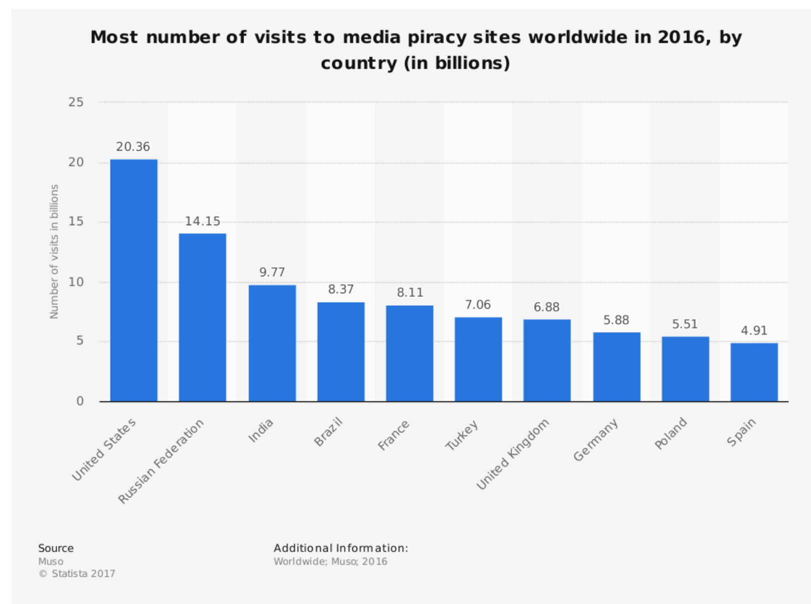
Another threat is piracy of movies, or the unauthorized duplication of content that is protected by an intellectual property. Disney's films are no longer solely available on their own sites — their content has been stolen and posted on unauthorized websites such as Pirate Bay for people to illegally download and stream. There are countless online websites that now allow consumers to stream Disney films online at no additional charge. These websites, however, include large number of ads and users are vulnerable to high risk of malware and viruses on their computers. Piracy is an extremely large threat



to the profitability of Disney. The global online TV and movie revenue lost through piracy in 2017 alone is around $32 billion U.S. dollars. Data from 2010 indicates that revenue lost was less than $10 billion, but is projected to lose over more than $50 billion dollars by 2022 (Digital TV Research, *Global Online TV*).



Disney's films, although viewed globally, is developed and produced in the United States. Revenue lost through piracy in the United States alone in 2016 is $9 billion dollars, or a total of 32% of global revenues lost. (Digital TV Research, *Online TV and Movie Revenue*) The speed at which piracy is created and consumed is only going to increase with the years to come. In the U.S. alone, there were 20.36 billion visits to media piracy sites in 2016 and that contributes to revenues lost for media businesses such as Disney (Muso). The more people that visit these sites, the less revenue is gained than if people viewed media directly from their original sources. Unfortunately Disney cannot do much to stop this from happening since more of their content is already pirated and duplicated publicly. As technology gets more and more complex, such as the technology used for security measures, Disney must comply and maintain their systems on an annual basis. Costs to maintain their system are high and the continuous updating of these systems in relations to advances in technology will evidently increase their total costs and expenses. However, this is not to say that the risk of intrusion is not possible because it can never be entirely eliminated. In addition, Disney uses third



parties for their business ventures and these third parties also have access to Disney's confidential data and content. If information from the third parties are compromised, Disney also runs a chance at losing valuable data in the hands of these parties. The risks that come with advancements of technology can directly harm the company by incurring additional costs, loss of reputation, opportunities, and overall profitability.

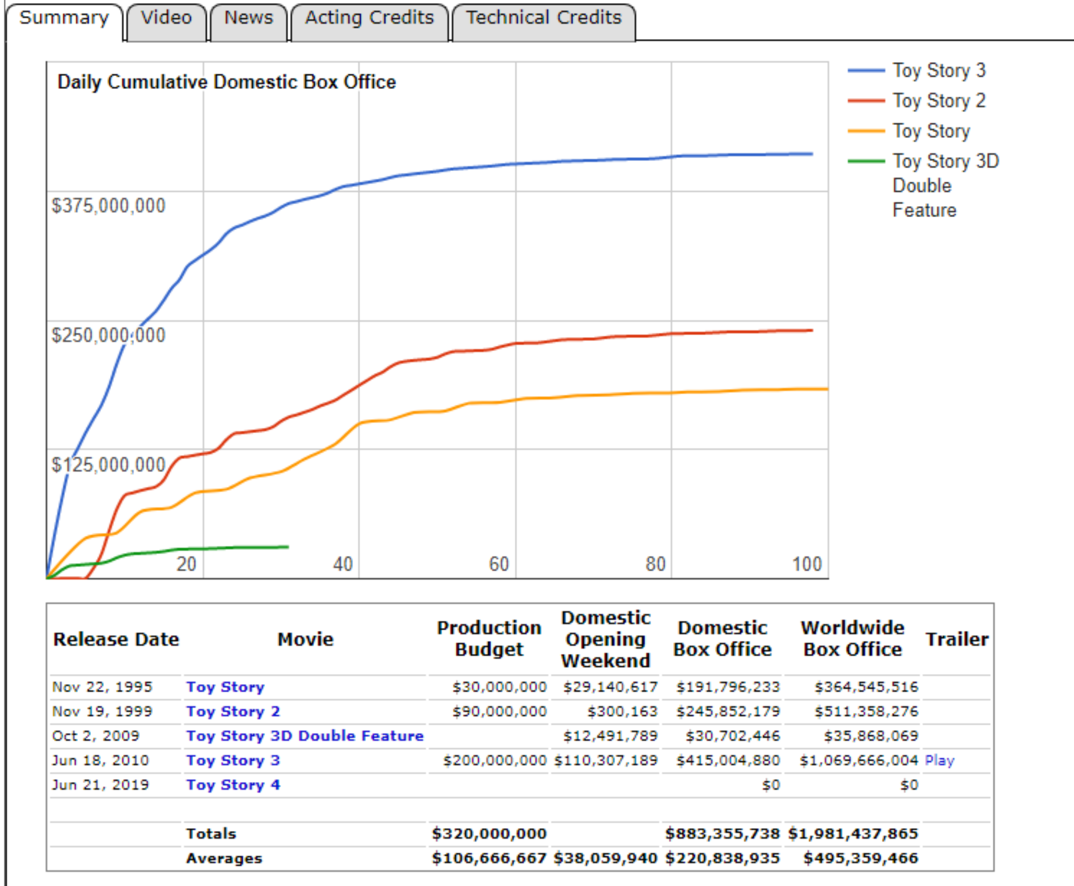
With advancements in technologies comes new opportunities for growth and expansion into new industries. VR, or virtual reality, is a computerized technology that uses virtual reality headsets and gear and enables users to experience movies and video games like never before. Users are able to engage with the artificial world and by utilizing motion sensors embedding into the technology that allows people to "walk" in the virtual environment and interact with certain aspects of the world. In July of 2016, Disney released to the public that they are moving into the VR industry now that VR devices are being more and more popular within their consumers. Virtual reality will begin to have a huge impact on new Disney experiences as their movies will now be interactive and viewers will be able to gain a full 360 degree view of their cinematic films. "Our angle with VR is on cinematic storytelling," The Walt Disney Studios SVP and CTO Jamie Voris said during the panel (The Walt Disney Company, *Disney CTOs Talk*). Disney has already taken one of their recent films, the recreated Jungle Book, and created four different experiences with VR and released it to the public. These VR experiences are now currently available to the public on the Disney Movies VR app that places users inside the themed worlds of Disney, Lucasfilm and Marvel movies (*Disney CTOs Talk*). Their expansion into the new industry in the global marketplace using VR will play an important role in bringing the magic of Disney in new ways to virtually everyone and anywhere in the world. Technology such as that of virtual reality really serves as a catalyst of potential growth for businesses like Disney. Disney is able to take this technology and push towards a new industry where there is opportunity for generating revenue as well as ways to make their movies and films more entertaining for their consumers.

3.2.3 Political-Legal

Political legal forces are external variables that "allocate power and provide constraining and protecting laws and regulations" (Wheelen and Hunger, 93). In Disney's case, such forces are enforced by an independent government agency known as the Federal Communications Commission whose job is to regulate "Interstate and international communications by radio, television, wire, satellite, and cable in all 50 states, the District of Columbia and U.S. territories." (FCC). It is of Disney's best interest to comply with FCC regulations to avoid violations that could result in fines and forfeiture of the company's license to broadcast television networks. Disney's media network segment owns and operates programs such as ESPN and Disney Channel that requires the company to renew their license to broadcast every eight years. It is crucial for Disney to continually renew their license upon the expiration date to ensure that

Disney's ability to broadcast their television networks will not be impeded. However, the FCC has the option to delay the renewal of Disney's license if such circumstances arise which poses a threat to Disney's broadcasting operations. Fortunately, the FCC has allowed Disney to continue the company's broadcasting operations when delays to license renewal has occurred in the past. "Although we have received such renewals and approvals in the past or have been permitted to continue operations when renewal is delayed" (Form 10-K, 2016). Nonetheless, there can be no guarantee that the FCC will provide leniency in the future. One of Disney's cable networks, Disney Channel is catered towards children which requires the company to comply with "The Children's Television Act." The act states, "The Children's Television Act requires each U.S. broadcast television station to air programming specifically designed to serve the educational and informational needs of children. It also limits the amount of time broadcasters and cable operators can devote to advertisements during children's programs" (FCC). The FCC demands children broadcasting networks such as Disney Channel to provide television programs with an education purpose for at least three hours per week. The FCC also limits the number of commercials that can be shown on children programs under the age of twelve. As a result, "Disney Channel" is bound to a restraint regarding to the profits the program can deliver from commercials aired. In regards to International Channels, Disney also airs Disney Channel to several other countries such as South Africa, France, and China. However, the FCC's jurisdiction only pertains to U.S territories and the District of Columbia. Europe is currently under the process of legislating "The Audiovisual Media Services Directive" which aims to provide governance over audiovisual media in Europe. "The mandate consists of the amendments the Culture Committee voted on earlier and which strengthen the protection of children against violence and hatred on TV and online platforms" (European Parliament). Similar regulations concerning with violence on network television already exists under the FCC in which Disney Channel does not violate. In conclusion, Disney broadcasting television network is required to satisfy the rules and regulations demanded by the FCC in order to remain operational. However, Disney is unable to accurately foresee the effects of new domestic and international legislation and regulations on the company's operations. Such changes to international laws or Disney's involvement within corrupt countries hinder the company's ability to react and commence activities that would be of benefit to the company's operations.

Currently the chairman of the FCC, Ajit Pai, is attempting to remove Net Neutrality in favor of internet service providers. "Net neutrality, or open Internet, is the principle that Internet service providers (ISPs) should give consumers access to all legal content and applications on an equal basis, without favoring some sources or blocking others." (Snider). Currently, ISPs do not have the ability to charge consumers a premium for faster internet based on the content they want to view due to the rules and regulations on Net Neutrality. This subject at matter is very important to Disney because currently, the company is advancing towards the streaming industry by developing their own streaming platform. However with the removal of Net Neutrality, ISPs such as Verizon, AT&T, and many others will have the power to throttle internet speeds of



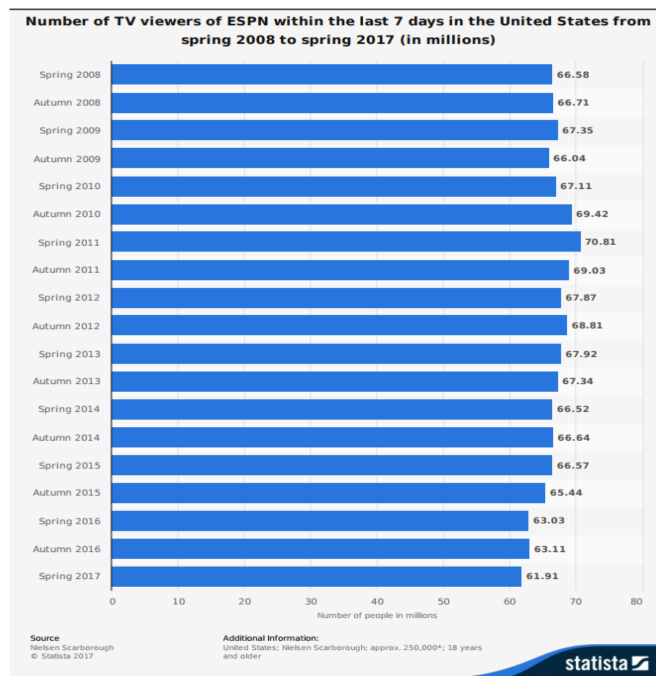
Release Date	Movie	Production Budget	Domestic Opening Weekend	Domestic Box Office	Worldwide Box Office	Trailer
Nov 22, 1995	Toy Story	$30,000,000	$29,140,617	$191,796,233	$364,545,516	
Nov 19, 1999	Toy Story 2	$90,000,000	$300,163	$245,852,179	$511,358,276	
Oct 2, 2009	Toy Story 3D Double Feature		$12,491,789	$30,702,446	$35,868,069	
Jun 18, 2010	Toy Story 3	$200,000,000	$110,307,189	$415,004,880	$1,069,666,004	Play
Jun 21, 2019	Toy Story 4			$0	$0	
	Totals	$320,000,000		$883,355,738	$1,981,437,865	
	Averages	$106,666,667	$38,059,940	$220,838,935	$495,359,466	

consumers who are using Disney's streaming platform unless Disney pays a premium to those servers. For example, if Disney develops an alliance with Version, consumers that do not use Version as their ISP will be faced with slow internet speeds when using Disney's streaming services. As a result, consumers will be less inclined to subscribe and will negatively impact Disney's overall revenue. Disney has the opportunity to support Net Neutrality in order to ensure that the public's internet speed will not be tampered. Currently Disney does not have a stance on Net Neutrality, however if they are able to show their support for preserving Net Neutrality by lobbying against its removal, it will protect the public internet rights and guarantee consumers satisfaction. Consumers outside of America that utilize Disney's streaming services will not be affected by the ongoing debate on Net Neutrality because the ISPs pertaining to laws and regulations of Net Neutrality are based in the United States.

3.2.4 Socio-Cultural

The success of Disney's Studio Entertainment relies heavily on the public's taste and preferences that are constantly changing in today's society. In order for Disney to adapt to the sociocultural forces that affect Disney such as age distribution of population and lifestyle

changes, it is necessary for the company to continuously produce entertainment films and broadcasts that meet the needs of the consumers. In Disney's 2016 annual financial report, the company states the importance in, "consumer products that meet the changing preferences of the broad consumer market and respond to competition from an expanding array of choices facilitated by technological developments in the delivery of content." (Form 10-K, 2016). Disney Studio Entertainment has provided consumers with high quality films since 1937; classic films of the past such as *The Lion King*, *Snow White*, and *Tarzan* have influenced children around the world. However, the children that have viewed Disney's past films during their release are adults as of today and their interest in viewing animated film targeted for children today have decreased. One of the sociocultural forces that affects Disney is the age distribution of population because the majority of Disney's films are targeted towards children based on the themes they are established on. By taking a movie and extending its lifetime through sequels,



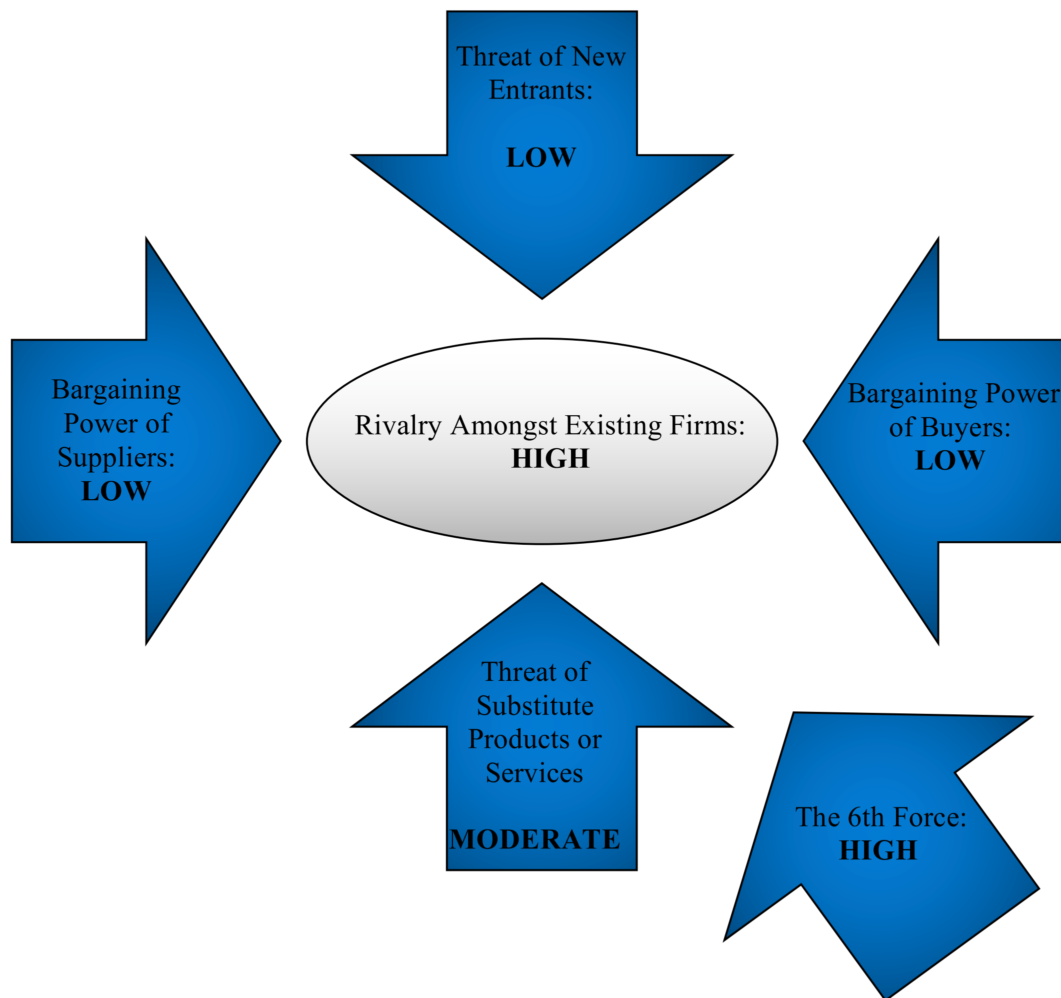
Disney is able to utilize age distribution of their target as an opportunity for future growth and expansion to future increase revenues for their Studio Entertainment division. Disney's ability to develop sequels for films such as the *Toy Story* series benefits the company by providing both nostalgic experiences for adults while also catering to children's interests. The *Toy Story* series has proven itself to be one of Disney's most successful product based on box office results. (Nash Information Systems). Disney's ability to innovate past films into sequels in order to continually captivate their audience of children and adults is an opportunity the company should continue to seize in the foreseeable future.

ESPN has been one of Disney's major source of revenue delivering billions of dollars from its subscribers. However, recently ESPN's subscriber count has been in decline with a loss of

around nine million subscribers since 2011 (Nielsen, Scarborough). The main reason in ESPN's loss of subscribers can be attributed to consumers abandoning the premium costs required to view ESPN content on cable television. As the number of channels provided by cable television grows, so does its price. Consumers can choose to use different alternatives such as social media sites where sports fans can view highlights for free. Consumer lifestyle changes have shifted towards social media and direct-to-consumer services such as Netflix which poses as a threat to ESPN and Disney's overall profits. "The network plans to begin selling a direct-to-consumer ESPN-branded internet service that will supplement the TV channel" (E,G.). Disney has the capability to minimize the damages of this threat by analyzing consumer lifestyle changes as more consumers begin to shift towards less expensive alternatives compared to cable television.

3.3 Task Environment

The Walt Disney Company and its studio entertainment division has an international presence that spans the globe. However, a large part of their box office revenues are from the domestic market. These analysis of the five forces are largely based on factual information gathered regarding the American market. These forces vary internationally as there are several localized entertainment companies within each geographic region and country in the world. Moreover, there are different regulations that may cause such forces to fluctuate. It is clear that the domestic analysis of these forces are an overarching representation of the Walt Disney company's global empire and the forces acting on it.



3.3.1 Threat of New Entrants

There are only a handful large conglomerates that are considered in the same arena as the Walt Disney Company and its Studios Entertainment Division. Some comparable companies include: Time Warner, Sony, Twenty-First Century Fox, Viacom, and Universal Pictures (Neilson). Within the streaming industry, the threat of new entrants is relatively high due to the attractiveness of direct to consumer platforms. Our main competitors such as Time Warner may plan to enter in this industry to match the profitability of other streaming services. Disney focuses on economy of scale because of its high volume productions, which gives companies cost advantages. Disney also focuses on the economies of scope by differentiating their films and creating high quality and award winning productions. These are all formidable firms with a foothold in the Studio Entertainment industry. Each of which has a large amount of equity and

capital requirements needed to produce these films. Human resources are extremely vital and key. Reputable and award winning directors and actors are paid an exorbitant amount of money which only large companies such as these can afford. Lastly, these films take time to produce, edit and finalize, there are a lot of hands working on these films and a lot of specializations needed. Smaller production studios have cost disadvantages due to their size and therefore cannot compete in these large conglomerates. While there may be smaller grass root and independent film companies, they are not in the same industry as the Walt Disney company which is marketed in masse. There is a low threat of new entrants due to the complexities of creating films. It is also worth noting that as tides turn with Walt Disney Studios' venture into streaming, some of their new competitors will be Netflix, Hulu, and Amazon. While they may not necessarily be new entrants, they will be new threats for the Walt Disney Company's Studio Entertainment Division. The Walt Disney Company must keep a close eye on these new competitors as they will likely introduce new innovations an added features to retaliate and retain customers.

3.3.2 Bargaining Power of Suppliers

The bargaining power of suppliers of the Walt Disney Company Studio Entertainment division is low. The suppliers of the Walt Disney Comp include major movie theaters around the globe. Nationally, the largest movie theater chains include AMC Entertainment, Regal Entertainment, and Cinemark Theaters (Timmons). These suppliers are the ones that sell the actual movies to customers though tickets and box office sales. The suppliers facilitates the revenues in the box office. Moreover, there are a lot of suppliers so there is competitive pricing for their services. More over the Walt Disney company has the largest market share in the entertainment industry. In fact, the Walt Disney company was able to make more than $2.6 billion globally in summer 2016 alone (McKlintock). Because Disney films are essentially a guaranteed revenue stream for these suppliers, they would not dare to lose Disney as a client. Howe ever, once the streaming service is launched, the bargaining power of suppliers of the Walt Disney Company Studio Entertainment division is practically eradicated and nonexistent. The streaming service would make the Walt Disney Company the supplier itself. Therefore disintermediating the supply chain and the need for a third party supplier.

3.3.3 Threat of Substitute Products or Services

Disney's films and animations are known to be high in quality and experiences that are unmatched by any other entertainment industry in the world. Disney's ability to create content that is relatable to both children and families have won over the hearts of millions of people. Through acquisitions of Marvel, Lucasfilms, Touchstone banners, and Pixar, Disney's target market has continued to grow and so have the content of their films. No longer are they subjected

to creating romance movies that involve a prince and his princess, but they are now able to expand into the action-packed world of superheroes and Jedi fighters. Back in 2009, Disney made an agreement with DreamWorks Studio to distribute live-action motion pictures produced by DreamWorks for seven years under the Touchstone Pictures banner. Seven years later in 2016, Disney agreed to end this contract (Form 10-K, 2016). This means that DreamWorks is once again their own independent company and is now considered as a studio entertainment segment that serves as a substitute, or competition, to Disney's films. Other competitors of Disney include Time Warner, Sony Pictures, Twenty-First Century Fox, Viacom, and Universal Pictures. These businesses are major corporations in the media and film business and their content serves as substitutes to Disney's films. However, these competitors do not focus on creating content that Disney specializes in, that is in family friendly movies that create lasting experiences for all their viewers. It is Disney's strategy of catering solely to families coupled with their ability to create touching stories that wins over their consumers. As mentioned above, streaming services like Netflix, Hulu, and Amazon will become threats to the Walt Disney Company. This new industry that Disney is occupying can create more content; however, it is not necessarily a substitute for Disney's high caliber and award winning films. The threat of substitute films is medium due to high number of competitors but also the complexity of creating content that relates to consumers the way that Disney does.

3.3.4 Bargaining Power of Buyers

There are many different factors that sets the Walt Disney Company apart from its competitors. The Studio Entertainment Division is known for their high entertainment value and award winning films. Disney Studio Entertainment had positioned itself as a family friendly studio and each of their films is set to engage families all around the globe. Not only does Disney captivate families but now it's growing portfolio helps them target teens and young adults. Families, teens, and young adults alike flock to the theaters the day a new movie premieres. Disney's diverse portfolio of brands is incomparable to any media company in the world. The heritage and formidableness of the Disney brand is entrusted by consumers around the globe. Because of Disney's dedication to excellence and its ability to differentiate itself from its competitors, the bargaining power of buyers are low.

While Disney's competitors can easily produce films, they are not up to the same standards as Disney and are not at the same caliber. Moreover, the Intellectual properties that The Walt Disney company can leverage is unsurpassed. Whether it be *Toy Story, Finding Nemo*, *Mickey Mouse*, or the Disney Princesses these characters are all trademarked by Disney. Because these stories and characters are one of a kind, and because the Walt Disney company has differentiated itself from their counterparts, they are able to charge a premium for their products. Buyers can turn to competitors for other movies, but they will not have the same level of entertainment and excellence as the ones Disney has produced. The Walt Disney company is an

extremely large conglomerate that can set its price, therefore the bargaining power of buyers is low.

However, it is important to note that once the streaming service is live and available for mass consumption, the bargaining power of buyer fluctuates. Immediately after the launch, the buyer can control the price of Disney's new service. There is already some skepticism from consumers because some are resistant on paying extra for media that used to be free. Because the Walt Disney company is withholding all of their entertainment offerings and are exclusively available on this service, this streaming service is one of the only ways to watch videos on demand. Because it is a fairly new concept for producers and studios to own their own platform to publish material and due to the disruption and disintermediation of the entertainment industry there is a lot of ambiguity and a lot at stake for Disney. Immediately after the music streaming service launches, the bargaining power of buyers will be high. In fact, the Walt Disney Company has already predicted this and is planning to introduce the service at a significantly lower cost compared to its competitors such as Netflix or Hulu. If the streaming service successfully rolls out with any problems or negative press, the Walt Disney company can raise prices which will ultimately reset the bargaining power of buyers to low. If the streaming service becomes successful, then the power maintains homeostasis at low and will reach an even lower point than before the streaming service because there are less outlets to view Disney movies and entertainment.

3.3.5 Rivalry Amongst Existing Firms

Disney's Studio Entertainment business segments competes with all forms of entertainment that is in films, animations, live screenings, media networks, and music. The more areas and industries that they have to compete in, the more competitors Disney has. Some of their competitors include the aforementioned Universal Pictures, Sony Pictures, Time Warner Cable, DreamWorks, and Viacom under which Paramount Studios lie. Moreover, in the streaming industry, rivalry among existing firms such as Amazon Video, Hulu and Netflix is high due to the intense need for content differentiation. These large entertainment companies compete in practically the same industries as Disney does and as a result, makes it more difficult for Disney to differentiate their products to their consumers since their success is heavily dependent upon public taste and preferences. In addition to films and content, Disney has to compete to obtain creative and performing talents, story properties, advertiser support and broadcast rights that are essential to the success of our Studio Entertainment Businesses. (Form 10k, 2016). The creative and performing talents that is stated relates to Disney's theatrical groups that perform live entertainment events on Broadway and around the world. Competition in live entertainment is extremely tough since the number of highly skilled performers is relatively low. Disney also has to compete in their broadcasting rights, that is forming alliances and mergers with certain broadcasting stations that will distribute their content to media stations around the world. With

all the industries that Disney's Studio Entertainment division has to compete in, rivalry amongst existing firms is high.

3.3.6 The 6th Force

Porter's 6th force focuses on a business' complements, a company or an industry whose product works well with a firm's product without which the product would lose much of its value (Wheelen and Hunger, 108). Perhaps Disney's largest complement or in their Studio Entertainment Industry is the global movie distribution industry. Disney produces content and films but the way it is distributed is through distribution centers in order to generate box office sales. The industry "comprises establishments that primarily distribute motion pictures. Distributors work with theatrical and home media entertainment products, including digital and physical versions" (McGinley). The primary role of this industry is distributing and marketing motion pictures, like that of Disney's content. According to the IBISWorld Industry report, The Walt Disney company is considered a major player in this industry next to Universal, 21st Century Fox, and Time Warner Inc. Disney's market share within this industry is 7.2%. Although they have the largest market share out of their competitors in this industry, it is not to say that they are largely dependent on the success of this industry to be successful. For example, Disney's featured films are largely distributed to the public through movie theaters across the globe. Without them, Disney would have to find other ways to generate profits. Fortunately for Disney, they do through the use of DVD sales and the long-term profitability and life cycle of all their movies. "In general, the company experiences a degree of stability that many film studios do not. Due to Disney's diversification and its strong brand, which sustains licensing and merchandise revenue long after films leave theaters, the company is not as reliant on volatile and unpredictable box office performances" (McGinley). Therefore, Disney's complement, or 6th force, is considered a medium threat to the company since Disney is not as reliant to their success in order to be profitable.

The key factor in the immediate environment that is affecting the Walt Disney Company is its competitors. It is not competitors in the studio business but rather the streaming services industry that can significantly impact the SWOT of the Walt Disney Company. Because the modern day era has so many technological advancements. Traditional media is beginning to decline as digital media rises steadily. Disney has released its plans to finalize and actualize its idea to build its own streaming service centered around all of Disney's portfolio of brands and intellectual properties. Reputable firms such as Hulu, Netflix, Amazon Prime, and even YouTube are shaping the immediate environment causing the Walt Disney company to act in reactive measures. The future of the Walt Disney company and its venture into streaming services is largely in part due to these growing competitors in streaming which is therefore a substitute to the traditional studio business.

3.4 EFAS Table

External Factors	Weight	Rating	Weighted Score	Comments
Opportunities:				
1. Increased demand for streaming services	0.2	4.5	0.9	External acquisition of BAMtech is vital.
2. Preservation of Net Neutrality	0.1	4.0	0.4	Ensure consumer satisfaction
3. Leveraging intellectual properties into a series	0.05	2.5	0.13	Satisfies demand for children and adults
4. Protecting the environment through Disney's policy	0.1	3.5	0.35	Bring awareness to environmental protection and reduce pollution
5. Media partnerships and acquisition	0.1	4.5	0.45	Necessary for the growth of new streaming platform
Threats:				
1. Intellectual Properties stolen via piracy	0.1	1.5	0.25	Significant loss of revenue
2. Poor economic health	0.05	4.5	0.68	Reduction of consumer spending
3. Loss of ESPN Subscribers	0.1	4.5	0.9	ESPN's state of decline endangers the company's profits
4. Increased Government Regulation	0.05	4.0	0.4	Policies can impair business operations

5. Natural Disasters 6. Business Volatility 7. Increased Competition	0.05 0.05 0.05	5.0 4.5 4.0	0.25 0.23 0.2	Has the capability to cease operations entirely if such a circumstance occurs. Shifts in consumer preferences Disney's diversified portfolio leads to competition of various companies from different industries
Total Scores	**1.00**		**5.14**	

IV. INTERNAL ENVIRONMENT: STRENGTHS AND WEAKNESSES (SWOT)

4.1 Core Competencies

The Walt Disney Company has diversified entertainment businesses across its business segments. It maintains a well-balanced revenue stream which is spread amongst these segments. This diversification has allowed the company to spread its business risks. The company holds over 7000 different trademarks and patents protecting its intellectual properties — including one patent regarding "immersive storytelling environments" with auditory and visual elements to be interacted with using augmented reality devices. Another patent involves the use of robots that are designed to safely interact with humans and particularly, children ("Soft body robot for physical interaction with humans," 2016). The Walt Disney Company's stalwart defense of its holdings prevent other competitors from imitating the company's unique entertainment experiences.

Disney's corporate structure drives value creation in all of its segments. The company is organized in such a way that allows cross-selling of its products between its business segments which allows them to maximize revenue per customer. An example: Studio Entertainment releases a film — say *Coco*, which generates huge box office returns from customers who love the film so much that they want to bring their child to a Disney park or resort. At the park, they buy *Coco* merchandise and take pictures with the costumed cast members. After the customer leaves, they show off their merchandise and pictures to their friends and family. This type of relationship between its divisions, maximizes the company's revenues per customer (Marketline, 2017).

The Company also has extensive customer reach with its cable networks operations. The memorable moments and iconic characters developed by Disney are ingrained into the culture of multiple generations of movie goers. With an unmatched ability to tell widely relatable stories through animated features, Walt Disney Studios anchors the company's future endeavors with strong brand recognition and consumer appeal. The company's leadership position as a provider of information and entertainment creates stability for its operations .

4.2 VRIO Analysis for Studio Entertainment

Resource	Valuable?	Rare?	Imitable?	Organization?
-Corporate headquarters located on same campus as film studios in Burbank	Yes	No	No	Yes
-Corporate structure that drives value	Yes	Yes	Yes	Yes
-Specialized/Diverse Human capital (ie engineers, actors, animators etc.)	Yes	No	Yes	Yes
-Copyrighted Characters & trademarks	Yes	Yes	Yes	Yes
-Diverse Portfolio of entertainment businesses, brands, and franchises	Yes	Yes	Yes	Yes

Disney is a massive company with formidable resources. The company is headquartered in Burbank, California on the very same campus as Walt Disney Studios, where many of their production offices, sound stages, and animation studios are housed. This campus has been the foundation from which the company was built a multimedia empire. From the beginning, Disney's studios have created quality films and content using its studios. Located nearby is the Walt Disney Animation Studios where classic films such as *Beauty and the Beast, The Lion King,* and the Oscar®-winning *Big Hero 6* were created. Disney Toon Studios, which creates direct-to-video and occasional theatrical animated feature films is located in Glendale, CA. Disney Nature which creates Academy Award-winning nature documentaries and films is headquartered in Paris, France. The Studio Entertainment division also releases films under the following banners: Pixar Animation Studios, Disney Live Action, Marvel Studios, and

Lucasfilm. Although valuable, the use of a studio campus itself are already a norm amongst competitors such as Universal, so ultimately it is not a core competency.

The company is organized with Studio Entertainment at its core so that each time a feature film begins production this sets off a network of value-added activities, focused on creating products that complement each other (i.e. toy tie-ins to film releases, merchandise for popular franchises). This structure is the one of the pillars that lead to the company's success in the past and is highly likely to be the core of our success in the future.

Disney creations draw the best and brightest talent from actors, screenwriters, and directors. From *Finding Nemo* to *Up* and *The Incredibles,* the company's ability to draw in special talent with industry veterans often result in winning Academy Awards for Best Animated Feature. With complimentary corporate structure, the studios create memorable and widely-appealing experiences for both children and adults that is uniquely Disney.

4.3 Business Model

A business model is a company's method for making money in the current business environment -- it includes how a business earns revenue and generates profits. (Wheelen and Hunger, 142). Walt Disney invented the profit multiplier model which is a concept that may or may not make money on its own but, through synergy, can spin off many profitable profits (143). Disney's studio entertainment division creates cartoon characters that are utilized in all of their business segments by developing high margin theme parks, merchandise, products, music, and other intellectual properties. By taking a staple character from one of their popular films, Disney is able to exploit that asset by creating other profitably products from that entity alone. That in turn, multiplies as Disney continues to use this model to make each and every one of their cartoon characters profitable for the company. This model can also be related back to Disney's corporate theory as described by Zenger. He states "Disney sustains value-creating growth by developing an unrivaled capability in family-friendly animated (and live-action) films and then assembling other entertainment assets that both support and draw value from the characters and images in those films" (Zenger). This quote suggests that Disney's sustainability comes from drawing value from their characters and creating synergy within the rest of their business segments. Their corporate theory revolves around a core idea that feeds off other assets that are vital to the company and in Disney's case, their unique core is the "creative talent of studio" of theatrical films. Disney's use of the profit multiplier model in relation to their corporate theory allows the company to create synergy, be sustainable, and generate profit from simply utilizing the value of their characters.

4.4 Value Chain

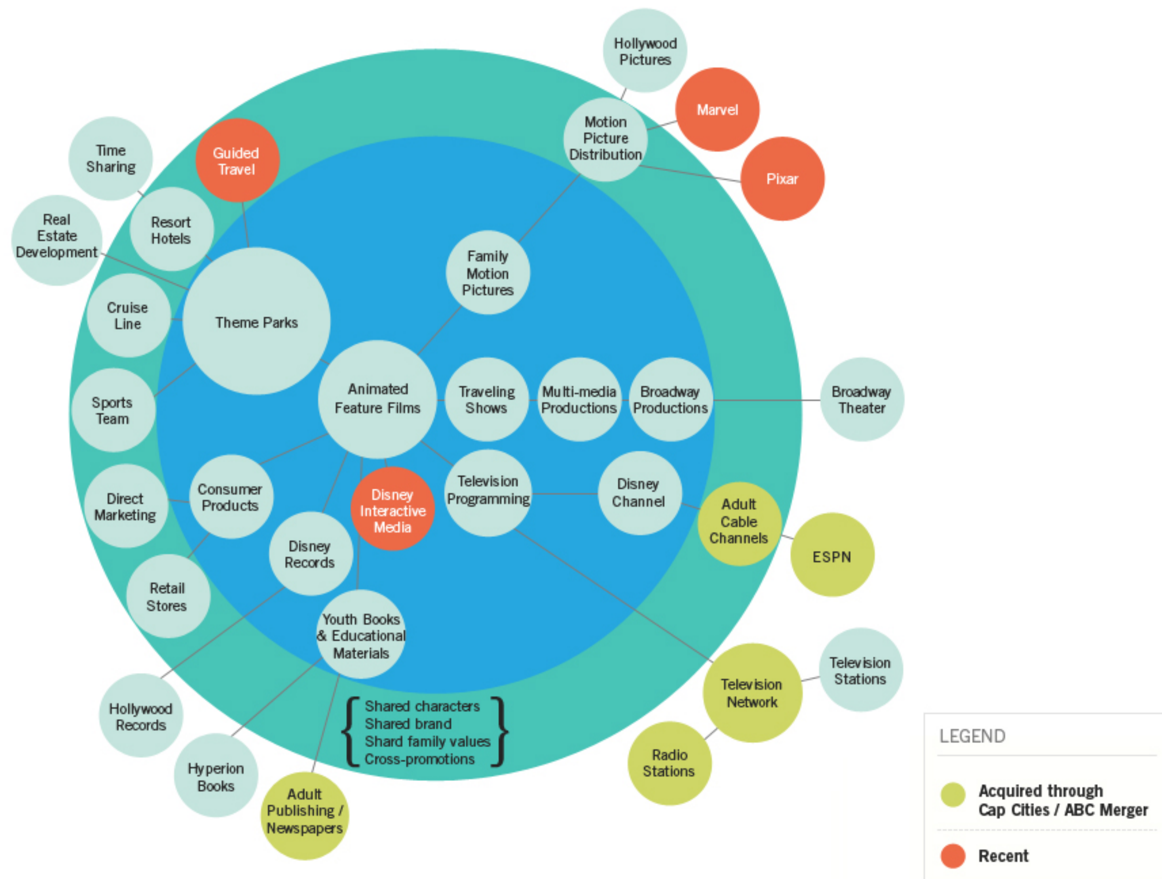
The company's value chain has Studio Entertainment at its core, but it also finds synergies between activities in its different segments. The studios that it owns and operates are the most important part in the value chain and are the point where the company's greatest expertise and capabilities lie. This is the company's *center of gravity*. The value chain begins at Walt Disney Studios or Walt Disney Animation Studios which transforms actors, screenplays, and characters into animated feature films through production by animators, composers, and directors. These feature films are then distributed by the company's film distribution subsidiary, Walt Disney Studios Motion Pictures, to theaters all over the globe. The company is able to leverage synergies between functions in different segments. For example, the film distribution subsidiary develops marketing campaigns for these films during which, toys, coloring books, and game adaptations--developed by Consumer Products and Interactive Media--are distributed to retailers. Families can purchase these toys and books to add to the experience of seeing a new Disney animated feature. When the movie Frozen was released, kids could play the web-based game "Frozen Double Trouble", in preparation for seeing the movie. Walt Disney Records also released the soundtrack before the general theatrical release of Frozen. The company also owns the Disney cable network which acts as another distribution channel that broadcasts its feature films on Disney Channel (Form 10-K, 2016).

4.6 Corporate Structure

The Walt Disney Company operates through four divisions, which it calls business segments: Media Networks, Parks and Resorts Studio Entertainment, and Consumer Products and Interactive Media. Decision-making authority is delegated to an executive team that has one chairman for each of the following divisions: Studio Entertainment, Consumer Products and Interactive Media, and Parks and Resorts. The Media Networks division is represented by two co-chairmen.

While every employee may not understand how the corporate structure works in the big picture, they are trained from the beginning to conduct business by standards which align with the company's mission and vision. At its parks the company offers its employees classroom training, seminars, formal mentoring programs, on-site training, and newsletters to keep them updated on how they expect each employee to act (Kok, 2009). The company hires only employees who demonstrate friendly behavior at the parks and gives them guidelines on how to act in alignment with a purpose given to them by their current leader. Each employee is trained in the same manner beginning with Disney Traditions, an orientation process that every employee from cast member to vice president of sales goes through (Jones, n.d.). After this they are given peer

training from more experienced employees on how to perform their roles in everyday operations. All of this is done to ensure the cast members can deliver exceptional quality service, which is a company-wide initiative for its parks and resorts.



The figure above provides a look at how the company creates value amongst its segments with Studio Entertainment products at the center of a web of value-adding activities. The company is organized on the basis of how they design complementarities between its assets. The divisional structure of the company aligns with the company's objectives. With Studio Entertainment at the core of the structure, every function is managed to maximize the revenue generated from each customer. The company's insight and cross-sight into its segments' resources and capabilities, has allowed them to create unique ways to experience the films and experiences it creates.

Under the management of Walt Disney International chairman Andy Bird, the company's international efforts have consistently generated favorable returns, opened up new distribution channels, and accessed new markets in India, China, and Korea. They manage all of Disney's businesses outside North America, except ESPN and theme parks. Operations have been revamped significantly in Asia. This has been done in order to "maximize efficiencies" and align opportunities around certain regions to create momentum that will accelerate growth for the

company in these markets (Frater). Andy Bird claims that this success is because they cater their efforts to each country rather than use a cookie-cutter approach. The company's international efforts have aligned their objectives with the overall company's because they seek to be the "leading provider of entertainment and information" that is catered to each country.

Comcast operates in four business segments or divisions: Cable Communications, Cable Networks, Broadcast Television, and Filmed Entertainment and Theme Parks--collectively known as the "NBCUniversal segments". Disney's competitor seems to be structured in relatively the same way, except that Disney does not operate as a cable services provider. In the past, Comcast sought to increase their mergers and acquisition in growing opportunities in China, India, and Latin America (Zack's Equity Research). The company is another leading entertainment and media firm that is seeking to grow internationally. Comcast has a larger team of executives because it operates in one more industry than Disney.

4.6 Corporate Culture

Much of Disney's vision revolves around the rich tradition and heritage in generating memorable experiences that have engrained an emotional connection with its employees and customers. When it comes to Disney's culture, there are four interconnected processes: employee selection, training, care and communication, which are all imperative to this company's foundation. First, is the recruitment and selection process, where employers are required to hire those that they consider to be suitable, but what is the criteria for that? In order to congregate the right individuals to join the Disney family, it is absolutely vital for employees to hire those who not only possess great skill and personality, but also display behaviors that align with Disney's values. The latter is paramount to ensure that Disney is welcoming individuals who respect and understand the importance of innovation, quality, community, storytelling, optimism, decency, and American and family values above all else. Values are the basis of what any company is founded on; therefore, it is crucial for Disney to hire individuals who best portray these values on a daily basis. Next is the orientation process and training, where the company helps the newly recruited employees understand more about the company's principles along with what skills and knowledge is required with their new position. How a company trains their employees is a direct reflection of the company's culture, and Disney emphasizes on the significance of providing the necessary education for employees to continually grow in their roles. Lastly, care and communication are processes that Disney takes extremely seriously, as they have professional development courses to help employees with engagement techniques in order for everyone to conjunctively improve the company environment. There needs to be shared beliefs that creating genuine relationships with people in the workforce and caring about them will foster a healthy culture.

When it comes to the company's position on environmental sustainability and philanthropy, Disney is strongly committed in building a better and brighter tomorrow. From charitable givings, book donations, and volunteering to reducing emissions and waste, and conserving water, Disney understands the importance in helping the world, which is one of the many reasons why this company is so highly respectable. Ever since 2012, Disney has donated 23.1 million books to schools and children throughout the world, and in 2016, gave more than 400 million dollars to nonprofit organizations in order to help kids, families, and communities. Furthermore, Disney has been able to help protect more than 400 species through its annual conservation grants and gave 65 million dollars to protect the magic of nature. By 2020, Disney aims to reduce net emissions by 50%, and divert 60% of waste.

Disney has been recognized for diversity leadership, where Disney's employees from all around the world have put in much of their efforts to create high quality entertainment experiences to viewers around the world. This company has a huge commitment towards maintaining a diverse workforce and inclusive environment, along with generating "a rich diversity of voices, perspectives, and experiences - both on screen and among their workforce" (The Walt Disney Company).

4.7 Corporate Resource:

4.7.1 Marketing

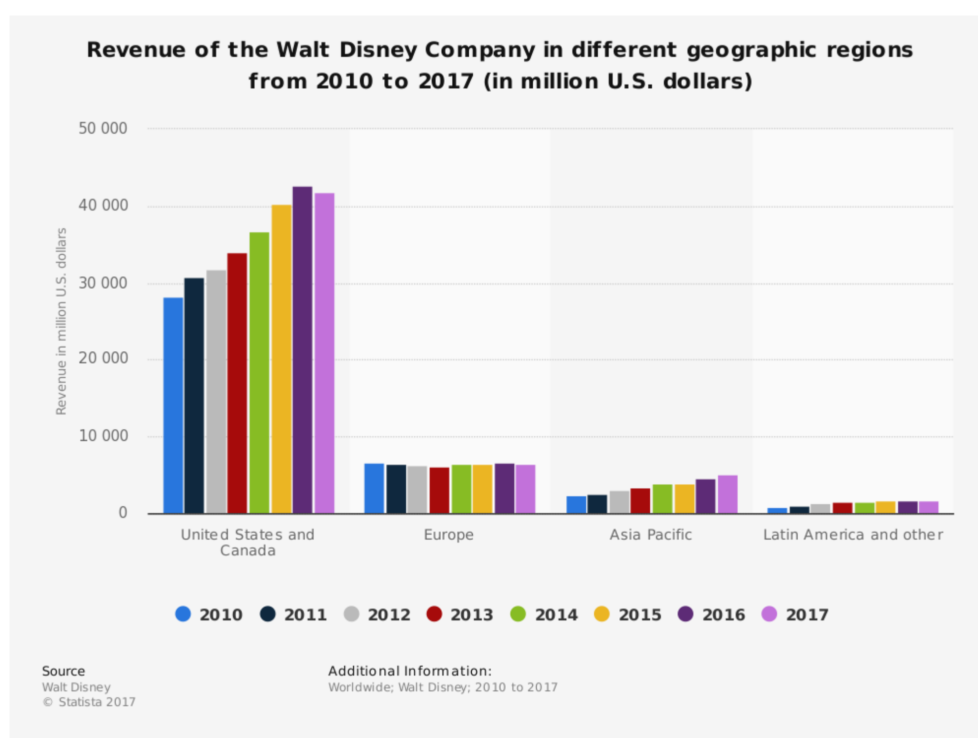
The Studio Entertainment segment under Walt Disney Company "produces and acquires a number of film projects including live-action and animated motion pictures, video content, musical recordings, and live stage plays. It distributes films under The Walt Disney Studios, which includes primarily Walt Disney Pictures, Pixar, Marvel, Touchstone, and Lucasfilm" (Pelts). In addition, Disney's Studio Entertainment can be summed up into three primary markets, including: "theatrical, home entertainment, and television or SVOD (subscription video on demand)." These are the three markets that Disney's Studio Entertainment can be found distributing their films and marketing them in. Disney's marketing capabilities are one of their strongest assets, as the company knows exactly how to differentiate themselves from their competitors--especially so in the media industry. This is due to the fact that they have an abundance of intellectual properties under their brand portfolio. Since The Walt Disney Company initially began with the studio entertainment segment at its core, they are familiar with how to use their intellectual property by "monetizing their assets successfully across their segments. It is doing this through the creation of content that utilizes its intellectual property by retailing merchandise, creating console games, and adding attractions at its theme parks that showcase its characters" (Pelts).

As times change and technology increasingly becomes an integral part of the way we function as a society, many companies can find the Millennial generation causing a shift in the demand for alternative media platforms. For example, "as Millennials increasingly prefer to watch content online, media companies such as The Walt Disney Company are increasingly looking at distributing content digitally" (Pelts). Essentially, despite the fact that Disney mostly caters to younger kids, one of Disney's studio entertainment division's main marketing objectives is to captivate as many audiences as they can without jeopardizing Disney's image--and this audience includes the Millennials. To do so, their marketing strategy is to adapt with new technological inventions and create their own digital distribution platforms. This not only gives the company another service that they can associate with their brand name, but it also provides another revenue generator as a benefit. One of the programs that Disney has implemented in an attempt to attract the Millennials occurred on April 24, 2017, when "*Broadcasting & Cable* reported that Disney's ABC Television Group had signed around 160 affiliate stations for Clearinghouse. Clearinghouse is Disney's initiative to make its network and affiliates available for OTT (over-the-top) distribution on its ABC application and other streaming services such as AT&T's DirecTV Now and Google's YouTube TV" (Pelts).

Disney's strategies are usually no secret as Bob Iger, Disney's official chief executive officer (CEO) since 2005, has said before that he believes good management leads to good marketing, and therefore his message says to "embrace technology, embrace risk and embrace positivity as a leader" (Mullaney). Nearly every single one of the decisions Disney makes backs up this idea because they are a company that, when they see potential, they make sure they have it before any other of their competitors do. This is shown through the decade-old deal "to buy Pixar back in 2006--which Iger pitched to Disney's board on his second day as CEO, and using movie acquisitions like Lucasfilm and Marvel to not only provide a bump at the box office but bolster Disney's theme-park business" (Mullaney). Acquiring relevant companies and projects, and using the latest technologies indeed means that Disney's marketing objectives and strategies also align with their corporation's mission "to be one of the world's leading producers and providers of entertainment and information. Using their portfolio of brands to differentiate their content, services, and consumer products, they seek to develop the most creative, innovative, and profitable entertainment experiences and related products in the world" (The Walt Disney Company). Disney is fully aware that no matter what progresses or advancements they make in the future, every single action must tie together to bring long-term value for the company as well as never compromise the internal values and environment that makes up Disney's foundation.

Disney operates using a "value-based positioning strategy [since they are] the second largest media conglomerate with such high brand value [that they are able to] garner a high share of heart and share of wallet in the industry" (Bhasin). It is almost unanimous to say that Disney has a rather successful and refined marketing mix that propels them to be the powerhouse that they have been for essentially the entirety of their existence. The Walt Disney Company's production

company is one of the major products of the corporation and is "involved in making movies and cartoons with stellar characters like Mickey and Minnie mouse, Goofy, Donald duck and others. The Walt Disney production house drives the magic that is Walt Disney as all the movies are magical and they rope in the audience making life-long follower of Walt Disney" (Bhasin). In terms of pricing in the marketing mix, Disney wants to garter the attention of as many people as they can, and so their pricing is set using the middle class as their inspiration. There is no specific place from Disney's Studio Entertainment segment for their consumers, but their films and productions can be found in theaters all over the world. The promotional strategy of their marketing mix does not require much work considering their reputable name brand, but they do "engage their customers through TV programs, movie teasers, competitions, commercials, billboards, online ads, etc. [so that] people will eagerly wait for their movies" (mbaskool.com).



Disney's performance in terms of their marketing position and marketing mix is also clearly doing exceptionally well as its media networks generated over 40 percent of the company's total revenue in 2016; "this revenue stream brought the company 23.69 billion U.S. dollars, up from 20.36 billion in 2013" (Walt Disney). Studio entertainment has also been a hit overseas as *Thor: Ragnarok*, one of Disney's most recently released films, "brought in $122.7 million domestically during its debut weekend, and $431 million globally within just 13 days of its release. In addition, Disney's Marvel franchise has now passed the $5 billion mark domestically and $13 billion globally" (Sparks). This renowned worldwide success definitely conveys that Disney is not dependent on a few customers—while one of their core values is customer loyalty, their immense popularity allows them room to experiment with targeting a wider variety of audiences.

Disney's market, therefore, is immaculate because studio entertainment and media consists of everything from movies to television shows, which totaled together results in a large profitable network. The studio entertainment productions are also most popular in developed regions, as the United States and Canada take the lead for generating the most revenue for the company. As a result, Disney's studio entertainment segment is also likely undergoing the maturity stage of the product life cycle since their products are already well established and the objective now is to simply maintain their market share and ensuring they retain a competitive advantage against other competitors in the industry.

From this analysis, readers can see that Disney is a well-established company that is popular amongst audiences of all different backgrounds; however, their target consumers are those who ideally have more spending power than others. Despite this, the company still does their best to make sure they satisfy as many of their supporters as they can by revolving their business decisions around factors that will uphold their company image and help them increase value in the long-run. Generally speaking, Disney has done a good job at keeping their financial statements at impressive numbers and in recent years, have not done anything to harm the company otherwise. According to this marketing analysis, Disney does indeed support their corporation's past and pending strategic decisions because they stick to their company's founding mission. Simultaneously, additional marketing does not necessarily increase their competitive advantage as the name Disney already holds most of the power within the company.
Compared to a majority of their industry, Disney does exceptionally well. Despite the fact that in their third quarter earnings of 2017, Disney's studio entertainment made up 6.49% of the market share with other companies reporting the following percentages of market share: CBS 2.59%, Comcast 7.2%, Twenty-first Century Fox 6.06%, News Corp 5.53%, Time Warner 8.31%, Warner Bros 10.48%, and Viacom 2.1% (CSIMarket, *DIS's Competition by Segment*). As shown, while there are a couple of companies who have a slight advantage over Disney's marketing performance, overall it remains in top percentile of its industry. Disney also for a majority of its operations has always operated through accepted marketing concepts and techniques in order to garter better information to improve their products. However, according to journalist Dani Deahl, recently the company has come into issues of violating privacy protection laws over the company's alleged use of 42 gaming applications to spy on children to share data with third-parties without prior consent from the parents. Besides this recent issue, Disney typically does not engage in questionable behavior that may jeopardize their precious company brand and image.

The marketing of Disney does get adjusted depending on the conditions of the country they are operating in because "since the company operates in the consumer discretionary sector, an increase in price levels generally could result in a shift in consumer demand away from the entertainment and consumer products Disney offers, which could also adversely affect its revenues and increase its costs" (Nielson, S.). The company obviously wants to avoid any

possibility of a deficit occurring within their operations, so they remain cautious about adjusting prices in countries that would not be able to pay for the increase. Disney also is reputable for being environmentally-friendly as the company is "committed to using resources wisely and protecting the planet as they operate and grow their business. They conserve nature and inspire kids and families to join them in caring for the planet" (The Walt Disney Company, *Environment*).

Moreover, the studio marketing manager is essentially responsible for all of the marketing and promotion for upcoming and released Disney movies. Their role in the strategic management process is to work on the marketing strategies to make sure they align with the company's vision and goals, and to execute their promotional activities in such a way that it works concurrently with the strategic management process. The marketing manager does a lot to ensure the smooth process of executing the studio's new films, which include activities such as coordinating with various other segments within the corporation and managing their budget and reporting to their department heads.

4.7.2 Finance

The corporation's' current "primary financial goals are to maximize earnings and cash flow, and to allocate capital toward growth initiatives that will drive long-term shareholder value" (Healy). In addition, there also appears to be a revitalized effort on Disney's part to pay more attention on their company's operating and net margins. What is also important to the company is that "financial analysts are watching closely to see if Disney's return on invested capital and return on equity will drop as a result of business headwinds" (Blokhin). The company's programs also revolve heavily "on the production and distribution of media content across multiple channels, including its own networks" since studio media and entertainment make up a large portion of the company's overall operating margin. All of these factors are clearly stated within the company's mission statement, while their performance has been lacking lately. There is no doubt that Disney is trying their hardest to counteract the shaky earnings from the most recent quarters, but the numbers are having difficulty rising back up. For the most part, the corporation's current financial objectives do align with their mission statement even if the results are not showing quite the same amount of potential.

Company Description

Expand

The Walt Disney Co. is a diversified international family entertainment and media enterprise. It operates through four business segments: Media Networks, Parks & Resorts, Studio Entertainment and Consumer Products & Interactive Media. The Media Networks segment includes cable and broadcast televisio...

Valuation

P/E Current	18.84
P/E Ratio (with extraordinary items)	18.47
P/E Ratio (without extraordinary items)	17.32
Price to Sales Ratio	2.83
Price to Book Ratio	3.58
Price to Cash Flow Ratio	12.60
Enterprise Value to EBITDA	10.94
Enterprise Value to Sales	3.28
Total Debt to Enterprise Value	0.14

Profitability

Gross Margin	39.80
Operating Margin	24.92
Pretax Margin	25.10
Net Margin	16.34
Return on Assets	9.56
Return on Equity	21.23
Return on Total Capital	13.81
Return on Invested Capital	14.94

Efficiency

Revenue/Employee	276,095.00
Income Per Employee	45,126.00
Receivables Turnover	6.21
Total Asset Turnover	0.59

Capital Structure

Total Debt to Total Equity	61.22
Total Debt to Total Capital	37.97
Total Debt to Total Assets	26.40
Long-Term Debt to Equity	46.28
Long-Term Debt to Total Capital	28.70

Liquidity

Current Ratio	0.75
Quick Ratio	0.68
Cash Ratio	0.21

As of December 7th, 2017, the financial valuations of Disney consist of its Price to Equity ratio, which is 18.47 with extraordinary items and 17.32 without extraordinary items. Their gross margin is 39.80, operating margin is 24.92, net margin is 16.34, return assets is 9.56, return on equity is 21.23, receivables turnover is 6.21, total asset turnover is 0.59, total debt to total equity is 61.22, total debt to total capital is 37.97, total debt to total assets is 26.40, long-term debt to equity is 46.28, long-term debt to total capital is 28.70, current ratio is 0.75, quick ratio is 0.68, and cash ratio is 0.21 (Walt Disney Company). As depicted, the financial performance of Disney in its most recent quarters have been mixed, in addition to overall decreased percentages in revenue and operating income. However, these results do not have too heavy of an impact on Disney's past performance as the company strives to look forward and do better, and as long as the company stays optimistic by developing better strategies to increase their financial outlook, their investors will reciprocate. Their brand name, mission, and corporate strategies are so strong that time and time again, many shareholders can be seen overlooking minor financial difficulties that the company may be experiencing.

Despite the fact that Disney's "revenue and earnings per share missed estimates, Wall Street shrugged off the news and brought Walt Disney stock anyway. This buying on bad news indicates investors are looking beyond the quarter and valuing the strategic moves Disney is making to bolster its long-term future" (Healy). Disney's media segment's stocks have also endured negative results as of late due to changes in the industry causing limitations on the

company’s mission to maximize their earnings and cash flows. Although Disney is struggling to regain their momentum, the company is putting in their best effort to allocate the capital necessary towards specific initiatives that may help increase shareholder value in the long run. The reason why Disney remains successful compared to many other companies is due to the fact that “many weaker companies limit their focus to only the next earnings report. Instead, Disney stocks are always doing what it takes to report higher earnings in 2019, 2020, and many years beyond” (Healy).

The following table summarizes the third quarter and nine-month segment operating results for fiscal 2017 and 2016 (in millions):

	Quarter Ended			Nine Months Ended		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Revenues:						
Media Networks	$5,866	$5,906	(1)%	$18,045	$18,031	– %
Parks and Resorts	4,894	4,379	12 %	13,748	12,588	9 %
Studio Entertainment	2,393	2,847	(16)%	6,947	7,630	(9)%
Consumer Products & Interactive Media	1,085	1,145	(5)%	3,618	4,241	(15)%
	$14,238	$14,277	– %	$42,358	$42,490	– %
Segment operating income:						
Media Networks	$1,842	$2,372	(22)%	$5,427	$6,083	(11)%
Parks and Resorts	1,168	994	18 %	3,028	2,599	17 %
Studio Entertainment	639	766	(17)%	2,137	2,322	(8)%
Consumer Products & Interactive Media	362	324	12 %	1,371	1,541	(11)%
	$4,011	$4,456	(10)%	$11,963	$12,545	(5)%

While the Walt Disney Company’s quarterly earnings can be seen as a reflection of the “‘underlying strength of their brands and franchises, and their continued investment in high-quality content,’” their earnings as of late have been experiencing tumultuous results (Walt Disney Company, *About*). Revenues in the Studio entertainment segment experienced a change of 16%, by dropping from $2,847 million in the previous year’s third fiscal quarter to $2,393 million on July 1st, 2017. However, the numbers show much more stability when comparing the entirety of the first three fiscal quarters of both 2016 and 2017, with the revenue of Disney’s Studio Entertainment being $7,630 million in the first nine months of 2016 to $6,947 million in the first nine months of 2017. Moreover, the segment operating income for Disney’s Studio Entertainment has seen decreases as of late as well. In the quarter ended July 2nd, 2016, the studio entertainment’s operating income was $766 million versus a staggering drop down to $639 million in the quarter that ended on July 1st, 2017. The decrease between the two years remains consistent as in the first nine months of 2016, with the period ending also on July 2nd, 2016, the studio entertainment’s operating income was $2,322 million compared to the first nine months of 2017, with the period ending July 1st, 2017’s numbers equating to $2,137 million.

Additionally, as of July 1st, 2017, the ending of Disney's third fiscal quarter experienced a decrease in diluted earnings per share. The dollar amount dropped 5%, from $1.59 in the third fiscal quarter of 2016 to $1.51 in 2017. Factoring in the previous two fiscal quarters of 2017, the diluted earnings per share from the past nine months, ending July 1st, 2017, saw a decrease from $4.63 in the same nine months in 2016 to $4.55 in 2017. However, if Disney excludes the factors that have the ability to affect comparability, then the numbers show that earnings per share for the third fiscal quarter actually only decreased by 2%, from $1.62 in 2016 to $1.58 in 2017. Likewise, taking away the factors that influence comparability, diluted earnings per share for the nine months that end on July 1st, 2017, actually see an increase from $4.61 in 2016 to $4.63 in 2017.

Compared to that of their competitors, Disney is doing quite poorly in their financial performance and ratios. As stated earlier, the company has found itself in a rut and experiencing unfavorable financial returns. To exemplify this, Disney's financial ratios will be holistically compared to their competitors'. Disney's quick ratio is 0.22; their working capital ratio is 0.9; their debt to equity ratio is 0.11; their asset turnover ratio is 0.59. The following numbers reveal the ratios of some of their competing companies: for quick ratio—CBS 0.07, Twenty-first Century Fox 0.78, Viacom 0.19, and Time Warner 0.2. For working capital, the ratios are as follows—CBS 1.64, Twenty-first Century Fox 2.22, Viacom 1.37, and Time Warner 1.49. For debt to equity, the ratios are as follows—CBS 0.01, Twenty-first Century Fox 0.02, Viacom 0.03, and Time Warner 0.05. Lastly, for asset turnover, the ratios are as follows—CBS 0.53, Twenty-first Century Fox 0.57, Viacom 0.57, and Time Warner 0.46. These ratios are important because first, a quick ratio measures how well a company is able to meet their short-term financial liabilities. The working capital ratio is another term for the current ratio, which essentially reveals what the proportion of the company's current assets is to their current liabilities—this shows whether or not the company has the ability to pay for their current liabilities with their current assets. The debt to equity ratio indicates the amount of shareholders' equity and debt that is used in order to provide finance for the company's assets. The asset turnover ratio is then an efficiency ratio that helps measures the company's likelihood of generating sales from their assets through the process of comparing net sales to their average total assets. This ratio helps reveal how well the company uses its assets in order to generate sales. Other important ratios include return on investment, for which Disney's is at 15.54% compared to CBS at 2.61%, FOXA at 13.38%, VIA at 23.12%, and TWX at 11.77%. As can be seen, Disney has some advantage in some of these fields but is still beat out just as frequently by its competitors.

Disney's financial managers do a good job at using accepted financial concepts and techniques to evaluate and improve current performance. Their results are genuine considering the most recent quarter has experienced declines from several perspectives. Disney is continuously looking to improve themselves by gauging consumer desires and carefully using their capital for ingenuities

that will benefit the company. Furthermore, perhaps as a reaction to their poor financial performance in the past year, analysts can find Disney likely adjusting their finances according to the conditions of the country that they are operating in. Since North America makes up the bulk of Disney's overall sales and financials, they put in the most money to make sure their audience from that sector remain loyal supporters. While Disney is working on improving their international sales, they must be cautious to not be too overly zealous and lose focus on their main consumers. As such, the role of the financial manager is a big one when it comes to handling responsibilities within the strategic management process. "The Disney financial manager is responsible for the overall direction, coordination, project management, implementation, execution, control, and completion of financial systems projects ensuring consistency with department strategy, commitments, and goals" (Disney Careers, *Senior Manager*). They are also in charge of being responsible for their project's life cycle and establishing thorough communication with other leaders. Their role is a vital one that interacts with other segments such as the supply chain, and assist with everything from overall strategy to leadership.

4.7.3 Research & Development

Walt Disney's current research and development objectives are growth and productivity through "enabling more complex entertaining augmented reality for theme parks" (Disney Research). In specific, they are currently working to expand the portfolio of additional characters. Their current strategies for research and development include purchasing more entertainment companies, which would also allow them to access more characters. These information are merely implied from their achieving performance. Everything the company does, including their research and development strategically aligns with their mission, objectives, strategies, and programs.

The role of technology is the key to their corporate performance, which can be seen from their mission. As it "is to be one of the world's leading producers and providers of entertainment and information…" (The Walt Disney Company, *About).* Technology enables their innovations to expand. Anything the company does, including research is consistent with their corporate mission and strategy allowing them to be efficient and strategic. With the amount of in depth and expansive research and development that the company has done, it is proven through their success that it does in fact give them a competitive advantage over their competitors. From extreme investment in research and development, it has allowed the company to be aware not only outsiders, but also learning ways to improving itself. Walt Disney is competent in technology transfer as it acquired Pixar, a computer animation film studio; since the acquisition, they had made many successful entertainments together. Because of this technology transfer, it has allowed them to learn, absorb and improve their company, and therefore will continue to increase the rise of research and development. The company uses concurrent engineering

because to satisfy their customers efficiently they use cross-functional work teams in their process design, which allows them to have a competitive advantage. Technological discontinuity highly affects Walt Disney because it is an approach where some industries build alliances to receive a necessary technology for a new product development. This is a disadvantage for Walt Disney because companies can absorb their strategies and excel further.

The research and development of Walt Disney does adjust to the conditions in each country that the company operates in because the environment including people's demands is constantly changing. Additionally, they also consider environmental sustainability in development because Walt Disney has a commitment to the planet by "using resources wisely and protecting the planet [they] operate and grow [their] business in" (The Walt Disney Company, *Environment*). It is important to them that they also inspire other people to join them in caring for their planet.
Strategic management deals with implementing objectives and goals, evaluation of externality and internality of the company and assessing a company's strategies. The main role that research and development managers play in strategic management is being able to gather a group of well experienced team to improve and develop new product strategies, along with making extremely important decisions in funds, and project selection.

4.7.4 Operations and Logistics

As Walt Disney is capable of maximizing their earnings and cash flow along with allocating capital toward growth and initiative, it allows them to further achieve their objective. Currently, the company has about 2 billion shares that are worth almost 4.5 times more that its current value (The Walt Disney Company, *Reports Record*). The corporation's current service objective in their studio entertainment is to increase net income, service revenue, and to maintain product revenues. In the end of year 2016, they had an annual revenue of 45 billion, and a large portion goes into their operation objective. Currently, the company is implementing a new vertical growth strategy, which allocates their main attention on the distribution of their own entertainment and media.

Walt Disney's website reveals that that the company follows twenty-two policy and law related documents to ensure that the company stays out of trouble (The Walt Disney Company, *About*). The company is recognizable for the their wide ranged policies from safety of the product to behavior and attitude of their employees. Because this segment is strictly regulated by the Federal Regulations, it is important that the corporation and all the employees provide work that follows the policies. A beneficial program that the company offers is a national internship, called the Disney College Program (Disney Careers, *Disney College Program*). Offering this to the young community allows people to gain the experiences of living, learning, but also earning. Some positions include working in the environment of attractions, hospitality, and food and beverage. The company recruits students that are enrolled in college and are selected based on

their interview and then hired to work at either Walt Disney World Resort or Disneyland Resort. These students play a huge role in not just contributing to operation and company image, but also are being a representation of the company. Therefore, it is crucial for the company to train these students and all other employees to be aligned with the corporation's mission, objectives, strategies and policies in both their internal and external workforce, when contributing to the operations and logistics.

Walt Disney's studio entertainment has the operation capabilities that allow them to differentiate from their competitors. This segment of the corporation is responsible for producing both live-action and animation through content such as videos, films, musicals, and live stage plays as well. The studio distributes its content with their acquired companies such as Pixar, Walt Disney Pictures, and Marvel. The studio entertainment operations makes up 14% of the company's revenue in 2015 (*Disney Consumer Products Segment: A Closer Look*).

The studio distributes their products both domestically and internationally. Two years ago in 2015, the studio made a historic achievement. They gained $5.84 billion globally; $2.28 billion domestically and $3.57 internationally (The Walt Disney Company, *Reports Record*). Outsourcing of animation content has recently become very popular in the entertainment industry. As Walt Disney has slowly increased their animation production internationally to both Asia and India, it has been enough to give them a competitive advantage. The reason for these two specific countries is because the English language is highly valued and considered when selection a destination for outsourcing that is needed for animation.

Because Walt Disney truly believes in environmentally friendly manners and have partnership with eco-friendly programs and organizations, they do have concern and promote their both their suppliers and distributors to also operate in an environmentally sustainable manner. A product from Walt Disney Entertainment studio that has the highest profit margin is their movie, *Frozen* with $1.29 billion (Walt Disney Studios, *Disney's Frozen*). The product that has the lowest is the movie *Fantasia*, with $120 million. Although this movie was released in 1940 and brought an extreme failure, they were able to spring forward in making further improvements that would make them successful today.

Walt Disney studio entertainment is focuses on both product and service oriented, which gives customers the highest satisfaction. The studio is able to serve their mission statement to producing high quality products in their movies, music and stage plays to their customers through having qualified workers that are experienced and skilled to bring a creation with the use of technology (Walt Disney Studios, *Executive Team*). The corporation has a mass communication system that allows them to communicate with their consumers and understanding their demands and feedback. With the right mix of people assigned into

appropriate positions, it allows the maximum efficiency in the corporation's operation and logistics.

As Walt Disney studio entertainment is able to balance inventory costs with logistic costs, the corporation does indeed outperforms their competitors. The operation cost has increased drastically by 86% from $544 billion in 2014, to $1,014 billion in 2016 (The Walt Disney Company, *Reports Record*). Their logistic costs are from transporting goods to the company. They have approximately 250 suppliers in the United States and 75 suppliers internationally, which does keep their costs low (Nafi). Although one of their competitor, Time Warner's operation cost is lower at $7,547 million (Stock Analysis). With further development in improving and optimizing the corporation's operations, it will allow them to sustain their competitive advantages over major competitors.

4.7.5 Human Resources

Being such an iconic brand in promoting joy and happiness, the Walt Disney Company reinforces its culture and values to all members in their workforce. In particular to Walt Disney's Studio Entertainment business unit, the executives (aforementioned in section 2.2) in this division strive to create a strong and positive organizational culture. Disney's current human resources management objective is to maintain their organizational structure and do so by strategizing and making it their priority to instill the brand's core values and beliefs into each and every employee. The values that the studio entertainment division uphold is the importance of courage, honesty, and integrity. There are clearly stated in their policies and are crucial requirements in being a member of The Walt Disney Studio Entertainment division. As with any vision, value, strategy, and action that is contingent with The Walt Disney brand, all must be consistent with the corporation's mission and objectives. Currently, this business unit makes up 14% of the entire Walt Disney brand, and has a phenomenal reputation in providing a positive and respected working environment and culture. The employee turnover in this business unit is low because Disney's Studio Entertainment provides all of its members a reputable and stupendous quality of a work environment. A trend that does not cease to exist is the high regard of ethics that coincide with the Disney brand. The company provides an open floor in allowing its employees to have an opportunity to be innovative and included into the visual arts process. This has impacted the employee's past performances because they felt valued and significant in having a tangible object and skill to contribute to the company. Employees who are given creative freedom are happier and more satisfied in the workplace because they feel like they can make a difference. As the human resources management team only deals with issues pertaining to The Walt Disney Company Studio Entertainment employees and working environment, it offers no competitive advantage at all. In comparison to those of its competitors, Disney's human resources management performance has been rated one of the highest than any other entertainment brand in regards to employee satisfaction, benefits, working environment, among

many others. Taking into consideration of their working environment, Disney's Studio Entertainment division has a fantastic reputation in being diverse in its workforce. As can be proven through the films throughout the decades, Disney prides itself on being diverse and incorporating the importance of differentiation in race into its brand. This can also be vouched for in its workforce as Disney is an equal opportunity employer, and thus has a notable record on human rights. As for human resources management conditions in other countries in which the company operates, the code of conduct is just about the same. As with any business, and any other segment of the Disney brand, the company does have a code of conduct for human resource management. All employees of the company must conduct themselves in such a way that correlates to The Walt Disney Company's mission and protect the brand's intellectual properties while being consistent with Disney's culture and values. This is the role of the human resources manager in this strategic management process: to uphold and instill each and every employee to embody and respect Disney's core values and mission statement.

4.7.6 Information Systems/Technology

Walt Disney's Studio Entertainment division seeks to expand its business unit through the integration and development of other entertainment studios and subsidiaries alike. Its strategy in doing so consists of acquiring Fox's film studio, Twentieth Century Fox, which are known for their rated-R movies. In the event of the enactment of this acquisition, Disney's Studio Entertainment may very well be producing films in the near future in categories they have never even touched upon. In the past, one of the most notable integrative company that Walt Disney's Studio Entertainment has continuously partnered with throughout the years and eventually acquired, was Pixar. With Pixar, Disney's Studio Entertainment division has created iconic and award-winning films such as *Toy Story, Monsters Inc, and The Incredibles*, to name a few. This has enabled the film studio to not only create movies that target one specific demographic, but multiple markets across the board (horizontal integration), and is what the business unit hopes to achieve with the acquisition of Twentieth Century Fox. In creating films with other film studios and companies, Disney's Studio Entertainment segment has been able to expand its horizon in not just in film, but in its other business units such as Media Networks, Parks and Resorts, Consumer Products and Interactive Media as well. Walt Disney Studio Entertainment information technology team has a database and an automating system that allows them to gather the responsiveness and feedback of their consumers. This is crucial for the IT department to gather these type of data so as to make adjustments and do better for future projects. The trends that has emerge from this analysis are predominantly positive and reinforcing, thus allowing the brand to expand on their innovation and products onto the other business outlets. The impact these trends had on past performances have aided the company in reaching its financial goals and objectives and are expected to do the same in affecting its future performance. By taking advantages in resources such as the integration of Twentieth Century Fox, Disney's Studio Entertainment division is able to expand, grow, and stay competitive. Disney's information

performance and stage of development has proven to be successful compared to its competitors. This is because it appropriately incorporates its content and intellectual properties into the right business segments and meticulously utilizes its marketing tactics and strategies in alignment with the company's mission, goals, objectives, and vision. IT managers are responsible for maintaining privacy and structure to all Disney's intangible properties (intellectual properties), this includes managing complex databases in establishing websites with firewalls and virus protection. The company has a global IT and internet presence because it reaches its consumers worldwide. There are consumers on the other side of the globe who are heavily involved in Disney's Studio Entertainment division and the corporation must accommodate to those needs accordingly. Through the entire strategic management process, the IT manager must communicate with the information technology team to plan and monitor Disney's security in its database and intellectual properties while working with working with other departments in the brand's goal in expanding its business unit.

4.8 IFAS Table

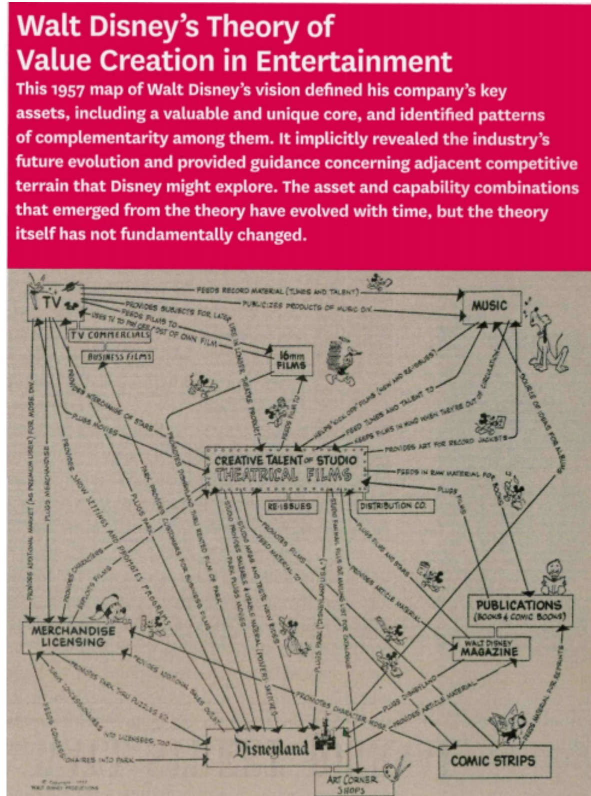
Internal Factors	Weight	Rating	Weighted Score	Comments
Strengths:				
1. Strong Brand Portfolio (Content)	0.15	4.5	0.68	Ability to differentiate
2. Infrastructure	0.30	5.0	1.5	Key to success
3. Quality of films	0.15	5.0	0.75	Reputable products
4. New distribution channels	0.05	2.5	0.13	Revamped operations
5. Strong organizational culture	0.05	3.1	0.16	Four interconnected processes in corporate culture
6. Philanthropic and environmental initiatives	0.05	2.3	0.12	Charities, book donations, etc
Weaknesses:				
1. Slow development of characters/movies	0.15	4.3	0.65	Takes years to produce and release one film
2. Target audience is catered toward children	0.05	3.9	0.20	Rated PG and PG-13
3. Major source of revenue dependent on single region	0.05	3.5	0.18	Studio Entertainment: film
Total Scores	**1.00**		**4.37**	

V. ANALYSIS OF STRATEGIC FACTORS SWOT

5.1 Situational Analysis (SFAS Table)

Strategic Factors	Weight	Rating	Weighted Score	Comments
S2 - Infrastructure	0.2	5.0	1	Key to success
S3 - Quality of films	0.15	4.5	0.68	Reputable products
W1 - Slow development of characters/movies	0.1	4.3	0.43	Takes years to produce and release one film
S1 - Strong brand portfolio	0.1	3.7	0.37	Ability to differentiate
O1 - Increased demand for streaming services	0.15	4.5	0.68	External acquisition of BAMtech is vital.
T1- Intellectual Properties stolen via piracy	0.1	1.5	0.15	Significant loss of revenue
T3 -Loss of ESPN Subscribers	0.1	4.5	0.45	ESPN's state of decline endangers the company's profits
O2 - Preservation of Net Neutrality	0.1	2.5	0.25	Ensure consumer satisfaction
Total Scores	**1.00**		**4.01**	

5.2 Review of Mission and Objectives



Throughout the 90 years of Disney's existence, the company has secured itself as the forefront in developing animated and live action films worldwide. The company's method of value creation was based on a clear theory that revolved around the core values of the company's theatrical films (Zenger). After the death of Walt Disney, the company lost sight of their theory on value creation and was at the brink of being acquired through a hostile acquisition. However, CEO Michael Eisner and Robert Iger were able to save the company by allocating Disney's investment funds into animated productions such as acquiring Pixar Animations Studios which reinvigorated the company's vision around theatrical films. Disney's early position in the animated films market has allowed the company to establish their brand as the leading producers in animated films and gaining the trust and recognition from families and children around the world. Its powerful brand continues to grow to this day, as more intellectual properties are developed due to the company's well established mission. "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" (The Walt Disney Company, *About*). The company's mission statement is one of the major reasons for its success due to its guidance in

decision making. They expect to be the cutting edge producers and providers of entertainment and information through their efforts on developing innovative, creative, and profitable entertainment services with its diverse portfolio such as their theme parks and films. The center of Disney's mission is focused on the product portfolio they have; the company lacks details about their products. The company should add factors into their mission statement such as their target audience, market position, and leadership in order to better clarify the mission statement. Overall the mission statement of Disney is well established and has helped build the foundation in which the company and its brand rests upon.

Disney has a variety of objectives geared towards the future of the company such as finding new ways to increase revenue, developing new entertainment services and products that stimulate consumers, and being more environmentally aware. Currently Disney is a strong supporter in environmental stewardship. The company ideology on sustainability consists of two areas which is to reduce the company's operating impact on the environment and to inspire communities to do the same. Disney currently has a team of employees called "Green Teams" in which their job is to analyze components of the company in order to ensure that the different departments of the organization is conducting environmentally safe practices. Disney has also invested their funds into researching alternative practices for the purpose of reducing greenhouse gas emissions and electricity consumptions. Disney's main business strategy has always been focused on developing services and products that provide a unique experiences for families and their children. Their success is not only attributed to their films but also the theme parks they have established across the globe. By maintaining the ability to produce high quality entertainment products and aligning its film's themes to their theme parks and merchandise, the company will maintain a dominating presence in the foreseeable future.

VI. STRATEGIC ALTERNATIVES AND RECOMMENDED STRATEGY

6.1 Tows Matrix

	External Opportunities	**External Threats**
	1. Increased demand for direct to consumer platform 2. Media partnerships and acquisitions 3. Increased demand for streaming services 4. Preservation of Net Neutrality 5. Leveraging intellectual properties into a series 6. Protecting the environment through Disney's policy	1. Intellectual Properties stolen via piracy 2. Intense Competition 3. Increased Government Regulation 4. Natural Disasters 5. Loss of subscribers at ESPN 6. Business Volatility 7. Poor economic health
Internal Strengths 1. Strong Brand Portfolio (Content) 2. Infrastructure 3. Award winning films 4. Global customer loyalty 5. Strong organizational	1. Utilize our diverse brand portfolio, high quality films, strong infrastructure & organizational culture, to expand into content distribution 2. Diversify our brand portfolio using our free cash flows to acquire companies	1. Utilize our free cash flows to invest in technology and safety practices that would render piracy obsolete 2. Leverage our global customer loyalty and strong brand portfolio to offset loss of revenue due to lack of demand for cable TV

culture 6. Free cash flows 7. Philanthropic and environmental initiatives	such as 21st Century Fox and attain rights to X-Men and Fantastic Four	(ESPN) to launch ESPN+, a sports streaming service
Internal Weaknesses 1. Slow development of characters/movies 2. Target audience is catered toward children 3. Major source of revenue dependent on single region	1. Increase production time of feature films by utilizing talent from strategic acquisitions of companies such as Maker (Youtube production network) and Fox 21st Century 2. Expand our target audience to adults by offering the entire range of Fox 21st Century franchise films as well as shows from their tv networks such as FX (The Simpsons, Buffy the Vampire Slayer)	1. Minimize impact from shift in consumer preference by increasing target audience to include all ages. 2. Minimize impact of piracy by increasing output of feature films to offset loss of revenue.

In the matrix above, we utilize the SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to assess potential strategies for Walt Disney Company. Our first external opportunity pertains to the shift in consumer preference to direct-to-consumer platforms as evidenced by the widespread popularity of Netflix and Hulu. The second external opportunity deals with the possibility for partnerships and acquisitions in the media industry. The major external threats facing Disney deal with piracy, intense competition, increased government regulation, natural disasters and business volatility. The shift in consumer preference away from traditional cable television is an aspect of business volatility that contributed to a loss of subscribers from our ESPN network. Our major internal strengths include our portfolio of brands, existing infrastructure, customer loyalty, organizational culture, free cash flows and our philanthropic and

environmental initiatives. These are offset by our internal weaknesses that include the slow development of movies, narrow target audience and overdependence on a single region for revenue.

6.2 Strategic Alternatives

The first alternative is growth through forward integration into content distribution. Walt Disney Company is an expert in content creation within the film industry. Their diverse film offerings spur synergy between the various business units. However, a developing external threat is the shift in consumer preference from traditional pay TV to direct-to-consumer platforms. To mitigate this external threat, Walt Disney Company can develop a streaming service that will rival Amazon Video, Hulu and Netflix. The loss of revenue from traditional advertising will be offset by monthly subscription revenue. However, in order to gain market share and compete with established companies in the industry, Disney will price their service at $5.

The second alternative is to diversify our brand portfolio using our free cash flows to acquire companies such as 21st Century Fox and attain rights to X-Men and Fantastic Four. Currently, Disney's financial success allows them to maintain a large cash balance that they can use at their discretion. This is an advantage in the content distribution industry because Netflix, the industry leader, is twenty billion dollars in debt. We recognize that our traditional film offerings and characters appeal to children rather than adults. However, we need to take into consideration that adults will be the ones paying for our service and therefore we plan to expand our intellectual properties. By acquiring 21st Century Fox's studio division, we will have access to their vast intellectual properties. These include X-Men and Fantastic Four and TV networks like FX. Acquiring FX will give us range to shows such as Buffy the Vampire Slayer and The Simpsons.

Our third alternative strategy is to pause all acquisitions and focus on improving internal processes to remain competitive within an industry plagued by piracy as well as shorten production time for films. By pausing all acquisitions and expansions, we can focus our resources on creating quality films and mitigate the loss of revenue due to heavy investment. This would allow us to avoid the potential loss of revenue due to the launch of a streaming service that would be further increased by loss of ad revenue.

Our fourth strategic alternative is based upon retrenchment. In order to generate revenues for research and development in virtual reality technology, we can reduce costs by selling off companies such as Pixar and Lucasfilms. This would allow us to concentrate on improving customer experiences during our films and in our amusement park. However, Disney has a strong competitive position in this industry, so a retrenchment strategy is not the most viable option.

6.3 Recommended Strategy

It is our recommendation that Disney pursue growth through forward integration into content distribution to regain control of their intellectual properties and further their competitive advantage. By maximizing our internal strengths, we can also maximize the opportunity of shifting consumer preference to streaming services. Our diverse portfolio of brands, existing infrastructure and vast free cash flows position us to enter the content distribution industry. By developing an exclusive subscription-based streaming service equipped with 4 new movie releases per year and exclusive content, we can continue to create value and sustain our competitive advantage. We also plan to launch ESPN+, a sports streaming service that will offset losses in our traditional pay TV ESPN channel.

6.3.1 Corporate Strategy

The recommended corporate strategy is that of growth through forward and horizontal integration. Disney's core competency lies within their studio entertainment division. Disney's timeless films generate customer loyalty which is the foundation of our continued success. By leveraging brand loyalty, we aim to increase our profits through strategic acquisitions and new business ventures. This culminates in our development and launch of two new streaming services that address the changing landscape of media consumption. These new services will directly appeal to consumers of all ages who prefer to consume content at their own discretion and pace. Furthermore, we plan to expand globally to countries outside the United States. We've opened Shanghai Disney and hope to reach audiences throughout the world directly through our streaming service.

A major aspect of our growth-oriented corporate strategy deals with strategic acquisitions of companies that will diversify our portfolio of brands. Disney's acquisition of Pixar, Marvel and Lucasfilms has generated vast amounts of profits due to the films it generated. With the widespread success of films such as *Tangled* and *Frozen*, the acquisition of Pixar has paid for itself. Furthermore, the decision to acquire Marvel and Lucasfilms allowed Disney to reach a new target audience of teenage and young adult men who avidly consume films such as *Thor* and *Captain America*. These acquisitions allowed Disney to continue creating value by differentiating their content, similarly to the way an acquisition of Fox 21st Century would. At this point in time, our diverse entertainment portfolio puts us in a position to launch a streaming service that will appeal to a wide audience.

6.3.2 Business Strategy

Walt Disney company places an emphasis on differentiating their portfolio of brands rather than cost leadership. Their time-honored films carry a sense of nostalgia for audiences around the globe and allow them to position themselves as the lead provider of entertainment in the world. As a result, customers are willing to pay a premium for their films and subsequent entertainment experiences. However, when analyzing the industry forces we recognize that competition among rivals is high in the streaming industry. At the time we believe that the strategic choice is to also focus on cost leadership and price our streaming service far lower than Netflix and Hulu. This will allow us to gain market share within the first few years of our launch and re-evaluate pricing later. We have seen price increases by streaming leaders such as Netflix in the past year and this option will be considered once we develop a large customer base. We pride ourselves on our unique content, and believe our streaming service showcases a business strategy of differentiating our content as well as cost leadership. After attracting customers to our service, we can raise prices and focus primarily on differentiation.

6.3.3 Functional Strategy & Implementation

The studio entertainment business unit pursues a competitive strategy of differentiation through high quality films and entertainment. This strategy is communicated to each functional unit of the studio entertainment business and influences the orientation of their functional strategy. The functional strategies for the various functional units are discussed in detail below.

6.3.3.1 Marketing Team

The marketing team will focus on a marketing development strategy that will introduce our streaming service and attract customers. The market segments that we will target are current fans of Disney's content and current users of competitor's streaming services. Our age range is anywhere from 5 years old to 80 years old because our content is universally consumed. The streaming service will be pitched as the next logical step for a Disney fan, similar to owning an annual pass to Disneyland. Furthermore, their efforts will be focused on emphasizing that our streaming service will be priced at $5 compared to Netflix's $10.99 and Hulu's $7.99 (Walt Disney Company, 2017). With our acquisition of Fox 21st Century, our portfolio of brands will be increased to hold titles that appeal more directly to adults. This will position our streaming service as a viable alternative to Netflix, with all of Disney and Fox 21st Century's combined movie and television titles. In the past, Disney has focused on differentiation based upon price skimming. However, due to skepticism on our success in entering the streaming industry, Disney will first utilize price penetration to attract new customers and later revert back to price skimming.

Operations Team

The operations team must refocus their functional strategy to ensure ease of use of the streaming service. Customer support will be necessary to deal with billing and general questions raised by consumers. Furthermore, it will be necessary to employ data analysts and information technologists who will analyze data and resolve technological issues. As popularized by Jack Welch (2005) at General Electric, the operations team will take a Six Sigma approach, or "a disciplined, data-driven approach and methodology for eliminating defects" (p. 224) to ensure perfection at the user level in order to attract and retain customers. Therefore, we will place a higher emphasis on quality and dependability over cost efficiency. From our analysis, the streaming service will not require a significant amount of capital due to our existing talent infrastructure. The major loss will be from a loss of ad revenue from pay TV. This loss can be mitigated through customer subscription revenues that will be dependent on a quality, dependable service.

6.3.3.2 Human Resources

The human resources team will be required to focus their efforts on attracting top talent to manage our streaming services. This will require human capital in the areas of technology, management and customer support. We will require a division devoted to the streaming service that will require managers and customer support to deal with customer complaints and billing issues. We will direct the human resources team to first look within the company to identify talent that would be well suited to open positions. In this way, we can save on the cost of external recruitment. The human resources team will be tasked with finding talent that is aligned with Disney's vision to be one of the leading producers of entertainment in the world. Furthermore, they will be required to demonstrate passion and interest in our sustained growth. The new employees should be well oriented with our corporate strategy of growth through forward integration and strategic acquisitions. The human resources team will have to develop new training procedures for employees within this division. From a functional standpoint, the human resources team will have a timeline of one year to complete the recruitment and hiring process.

6.3.3.3 Research and Development

The research and development team will play an integral role in fulfilling our business strategy. Their functional strategy is focused toward our sustained growth. Their main focus will be research into the improvement of customer experiences to differentiate our product. Although we will price our service to compete with Netflix and Hulu, we plan to raise prices after gaining

customers. Therefore, the focus will then be on differentiation of our customer service experience. The research and development team will work on research into virtual reality technology and the development of this into our streaming service.

6.3.3.4 Policies

In order to implement the recommended strategy, Disney will need to revamp their technological processes to ensure the functionality of their streaming service. We will implement internal controls to ensure ease of use of the service.

VII. IMPLEMENTATION

7.1 Implementation Program

The overall implementation plan is largely a "three-step" program, which ultimately ends in a slight increase in market share but more importantly creates additional revenue streams for Walt Disney Company without a significant increase in the production of movies and franchises. Previously, a large selection of Disney's overall library of entertainment products had been available on third-party streaming services such as Netflix and Hulu. While this fostered consumer viewership, it was much less profitable than the lucrative box office deals that Disney had only a decade ago. Therefore, the first step is— or was — to pull the aforementioned products from the third-party services. This is a medium-term investment, since this initially makes their movies/shows much harder to access for the average consumer.

The second step, which began with the acquisition of BAMTech by Disney a couple years ago, is the development of their own exclusive streaming service. The same entertainment productions as before will be available from this platform, with new productions being released solely on their new platform and in the box office. This will allow Disney to retain a much larger portion of their streaming revenues, as opposed to their previous deals with other streaming platforms. The largest difficulty in this step lies in "coercing" customers into either holding both a Netflix and Disney subscription, or making the switch from Netflix/Hulu onto their own product. This can be achieved through student and family deals, making it much more affordable. In addition, many of ESPN's broadcasts have - up to this point - only been available through cable packages through companies such as Time Warner and Dish Network. ESPN has also seen a decline in subscriber base and raw viewer numbers, which may possibly be reversed by a change in distribution strategy.

Lastly, this shift in entertainment output must be reflected in the business operations of the rest of their corporate segments. The prestigious image of the brand must be maintained despite

Disney's separation from its usual avenues of distribution. It has yet to be seen how much impact the "movie-going experience" has on the way Disney's storytelling and character creation imprints itself on its viewers.

7.2 What Must be Done

7.2.1 Programs Activities

The first step to our recommended strategy is to remove Disney's products and services from third-party streaming services such as Hulu, Netflix, and Amazon Prime. Furthermore, re-evaluation of the ESPN brand's contracts with the cable networks should be undertaken as well. Disney may not be able to completely remove itself from third-party platforms due to outstanding contracts - these should not be renewed. Much of this has already been completed by Disney's management and board of directors in preparation for their new distribution strategy. The initial "investment" will be the opportunity costs that are lost when reneging on these current contracts and also when rejecting potential future contracts.

Next, Disney must develop and create a proprietary streaming platform that offers Disney's animation productions and ESPN broadcasts either together or separately. The acquisition of BAMTech is a step forward in this regard, since the employees were also acquired in this merger. This will reduce the need for software engineering talent acquisition. Understandably, this implementation step will take the longest amount of time, due to the time constraints associated with creating a new platform that holds up to Disney's high standards of product quality.

Of course, this service will be provided on a monthly/annual subscription basis. While the streaming platform is being developed, Disney will have to formulate pricing strategies that will accomplish two goals. Essentially, Disney must discover a price point that will attract a large enough consumer base away from the other existing media streaming platforms, while also generating sufficient revenue for Disney to make a healthy profit. The price of the subscription must be low enough to attract a large consumer base away from the already existing media streaming platforms. As discussed before, this can be partially achieved through offering package deals such as the Spotify family subscription. Disney's unique brand positioning will also help them achieve these goals.

Throughout this entire process, Disney must also continue acquiring media entertainment businesses and studio production units. This will allow Disney to maintain its competitive advantage in superior storytelling and character creation. For example, Pixar was one of Disney's major competitors prior to their merger. Through this, Disney was able to capture and

retain a much larger portion of the market than they would have been able to before. Moreover, Disney's "raw product" is largely talent based. By continuing to attract the top talent within the studio productions industry, they will maintain a talent advantage over their competitors.

7.2.2 Action Steps

There are a couple action steps that Disney should manage during these program activities. First, the marketing team must direct consumer flow towards the new subscription services rather than towards box-office and cable sales. In doing so, Disney will have the opportunity to reduce profit-sharing with other corporations. In addition, they will offer exclusive content that cannot be consumed outside without the purchase of a subscription. This will also give Disney a much more accurate view of their viewer base and demographic, since the software will have the capability of recording customer data.

Disney must also consider the different avenues and approaches to funding this new venture. When a firm traditionally finances these new projects, they are either funded by existing capital allocation by Disney's finance division, or by generating new capital through the issuance of corporate bonds. In Disney's case, raising of new capital is unneeded. Taking a look at their most recent financial statements, Disney can make use of their existing excess cash flows and cash reserves in order to fund the new streaming platform. Furthermore, this will only require significant investment before the product goes "live", since the cash flows generated from the new product and services will compensate for the loss of capital during its operation.

7.2.3 Who Implements Strategy

The majority of this change would be implemented and approved by the board of directors. After the vote, it would be up to Disney's in-house coders to create and maintain their new streaming service. Furthermore, Disney may have to acquire more talent in their studio productions team in order to create exclusive content that would entice consumers to subscribe to this new service. The marketing team will also have to change their approach, since most of their recurring revenue up to this point was created using the box-office and cable subscribers as their main catalyst. The driving force behind this strategy will be the capabilities and outputs of the studio production and marketing teams — namely, whether or not these exclusive media productions will be well-received by the general public. This recommended strategy will require the cooperative effort of the entire studio productions team to be successfully implemented.

7.2.4 Matrix of Change

X-Axis: Target Practices ***Y-Axis:*** Existing Practices	**Productions**	**Distribution**	**Branding**	**Support**
Productions	+	+	+	
Distribution	+			+
Branding/Position	-	+	+	
Support	+	+	+	-

This table shows how the changes from the strategic plan will affect the current practices and their quality at Disney's studio productions team. The "+" signs show the areas that show potential growth from the practice changes, while the areas showing the "-" signs show the areas that can potentially see additional strain from these changes. The blank squares show areas that will see little to no change due to the practice changes.

This investment stands to create large growth and positive change in productions, distribution, and branding/positioning. Unfortunately, this comes with additional responsibilities to Disney's support team, since troubleshooting and customer guidance will be needed for their new products.

7.3 Organizing for Action

7.3.1 Divisional Structure

This will largely maintain Disney's corporate structure - which itself largely stems from Disney's corporate vision. There is no need to significantly alter the self-sustaining entertainment vehicle that Walt Disney himself envisioned in 1950, since the business model is proven to be quite successful. The studio productions arm spurs a decent portion of the firm's economic activities in its other departments. However, the studio productions unit will likely need to be slightly restructured, with a team being created for the content creation in its streaming services while the original team will continue to work on creating box-office hits. This additional team can be integrated within the current structure of Disney without being much of a disruptive force. The divisional structure will largely be untouched, since this is simply an addition to the existing structure that is present in Disney's employee workforce. Although it is

typical of divisional structures to not affect the other divisions of the corporations, in Disney's case the studio entertainment business spurs growth in all other divisions. As a result, this is our core competency that creates synergy within all divisions.

7.3.2 Job Creation

The three largest departments that will require talent acquisition — and therefore job creation — are the studio productions, marketing, and in-house coding teams. While finding these individuals who are fit for the job will not be cheap, this will be an investment towards future growth. This new exclusive content must be high quality, since Netflix and Hulu are both commissioning their own exclusive media that has been highly reviewed for the past half-decade.

Furthermore the marketing team must be expanded, in order to advertise and generate a subscription base for the new service that Disney will be providing. Disney will also have to either hire in-house software engineers or outsource the programming to a third-party contractor. In-house coding, in the long run, will be more cost-friendly since the streaming platform will undoubtedly have to be maintained as well. While this is not as important for hiring the software engineers, human resources will have to be extremely vigilant in their hiring of new employees (artists, directors, and actors) due to their dedication to brand image and attracting the top talent. Therefore, human resources is a crucial aspect of the business segment whose functional strategy will have to be closely measured using the balanced scorecard.

VI. EVALUATION AND CONTROL

8.1 Measuring Performance

Disney knows it is important to ensure that all employees are aware of its placement over key performance indicators in order for all levels of the company to be clear towards how to achieve the company's goal. To understand the particular actions to implement, Disney's executives translates its objectives into terms that are specifically tailored to each department in the company. By identifying objectives, measures, targets, and initiatives for the financial, customer, internal business process, and learning and growth perspectives, Disney is able to improve and maintain growth in all of its sectors.

As you can see below, there are a whole range of objectives, measures, targets, and initiatives that Disney works toward to conform with its recommended strategic plan. Since employees are recruited based on whether they align with Disney's values or not, it is crucial that much of the internal business and learning and growth processes revolve around training, care and

communication as stated in the corporate culture. There needs to be a constant analysis on how well each employee does on his or her own, along with how each employee works with others. This can be done through each employee having their own personal balanced scorecards, where supervisors can create targets on what they should accomplish depending on what position they currently have. Performance results will then be pinpointed based on whether targets are accomplished at the initially stated timeframe. Employee skill and improvement is only one one out of many objectives that Disney knows to measure. Other major objectives that have been noted below involves Disney's aim in utilizing current technologies to stay up to date in terms of the latest entertainment trends. Please look at the balanced scorecard in the next section to understand more about Disney's measures, initiatives and targets for each of the specified objectives listed below.

Since Disney is known to be a top competitor throughout all of the sectors it is involved in, other companies look at Disney as a benchmark for "gold standard" in customer delight and customer services. For Disney to be as reputable as it is now, this corporation uses guidelines and organizational strategies to evaluate its functions and activities. After going to the Management Update Conference in Orlando, Precision Machined Products Association members learned five standards that Disney utilizes to stay on top of their game in terms of manufacturing and accuracy. These five standards include: standard work is an in-control process, employees are called "cast" members because they are always "on", controlled processes require ongoing improvement for them to continue to satisfy customers, attention to details should be a way of life, and committing to the message is as important as the message itself (Free). Customers expect to have zero defects and for products to be delivered 100% of the time; therefore, Disney is intolerable of anything below this standard. When it comes to the second standard that deals with "cast" members, Disney expects and assures that employees are committed to behaving as if they were on stage. Next up is the ongoing improvement standard that emphasizes the importance of persistently growing.

For Disney, there is no such thing as staying stagnant because that is essentially equivalent as getting worse. Attention to detail is the fourth standard, as it explains how it is the utmost crucial to prevent customers from encountering situations where this company is not at its prime. Lastly, is committing to its message, where the only reason why Disney has such a loyal consumer base is because this company never fails to do what it says. Disney understands that by providing a clear message to consumers over how the company will improve, it must be completely engaged in accomplishing this message, as customers expect nothing less than what was given to them before. All of these standards have generated a guideline over how Disney develops its objectives, measures, targets, and initiatives.

How Disney has been able to reward its employees and provide them with incentives to stay motivated is by "creating experiences that are specifically tailored to each organization's needs

and the preferences of their award winners" (Staff). Some examples include enabling employees to attend grand events such as a red carpet Hollywood movie premiere at the Disney MGM Studios or even a private sunset safari at Disney's Animal Kingdom Theme Park.

8.2 Balanced Scorecard

8.2.1 Customer Perspective

Objectives	Measures	Targets	Initiatives
Customer acceptance of new streaming services (Disney branded library on-demand)	1. Percentage of market share 2. Percentage of customer satisfaction	1. Have a higher subscriber base than top competitors in the streaming services business 5 years after it is launched 2. To make up for expenses in TV licensing, which is $2 billion a year, Disney will need 32 million subscribers just to break even at $9 per month (McAlone, 2017)	1. Research other competitive platforms such as Netflix and Hulu to be aware of their profitability and subscribers 2. Develop appropriate marketing strategy
To provide quality content in a timely manner to children and families	1. Increase in attendance and view for all Disney movies 2. Number of awards won	1. Increase number of reputable movie productions in order to leverage customers and increase box office sales by 6% based on the 2016 10k (The Walt Disney Company, 2016)	1. Increase the number of films being produced through Disney's assets, LucasFilm and Marvel, while also maintaining the number of releases from Pixar
Attracting new customers worldwide and increase global market share	1. Percent increase in sales from overseas markets 2. Monitor number of customers that	1. 5% increase in sales from overseas markets annually 2. An expansion of	1. Research and development of countries that have the highest potential to be

	have been watching our movies and channels quarterly 3. Separate the numbers by country to know specifically which part of the world needs improvement	Disney's company to parts of the world it has not yet touched	the next top loyal consumers

8.2.2 Financial Perspective

Objectives	Measures	Targets	Initiatives
Strong financial growth for the studio entertainment business unit	1. Monitor shareholder value/cash flow/revenues 2. Number of tickets sold in the box office	1. Increase revenue of Studio Entertainment 1.3 times (to $10,892 million) 2. Maintain a 28% total of revenues based on 2015-2016 data from 10k form (The Walt Disney Company, 2016)	1. Distribute films globally via streaming platform, international theater chains/media networks 2. Marketing push for Disney streaming platform 3. Increase portfolio of brands
Ensuring that Disney continues to acquire assets that are beneficial to the profitability of the company	1. Quarterly observation of how the acquired asset has benefited the company 2. Monitor the revenue that has been gained through that specific asset	1. For the newly acquired asset to help Disney increase its revenue by 5-10% annually	1. Develop a new list of potential assets annually for Disney to acquire 2. Research about assets that could be beneficial to Disney's future strategies - Focus on emerging technology
Increase number of suppliers/partnerships to help with Disney's	1. List of suppliers with a cutoff for rates above 5	1. Develop contracts and deals with	1. Develop a new list of suppliers annually for

expansion into other sectors (i.e. streaming)	million dollars for streaming	suppliers/partners	Disney to partner with 2. Research the new sectors Disney is looking to expand into, and find suppliers that relate to those sectors

8.2.3 Internal Business Perspective

Objectives	Measures	Targets	Initiatives
Increase brand image	1. Increase in global subscribers for our streaming service 2. Check ranking for top companies in the world by market value	1. To be in the top 20 ranking for global market value 2. Reduce net emissions by 50% in 2020 3. Aim to divert 60% of waste by 2020	1. Increase volunteer hours especially in communities where analytics show a lack of viewers and subscribers 2. Continue long-term goal of attaining a "zero" state of net greenhouse gas emissions and waste 3. Develop water conservation plans for new sites
Developing and leveraging intellectual properties	1. Create virally consumed films that can be turned into a series/franchize (i.e. Toy Story, Finding Nemo, Pirates of The Caribbean) 2. Shortened production time from 10 years to 1 year	1. Annually create 1 film that anchors a movie series and to further develop other series/franchise 2. Develop 4 new films per year for our exclusive streaming service	1. Storyboard concepts as multi-film series — as opposed to a single film. Makes films like *Coco* (6 years of development) more worthwhile. 2. Leverage strategic

			acquisitions to create synergy between characters such as the X-Men franchise
Recruiting, hiring and retaining the best employees that are aligned with our vision	1. Shortened recruitment process to attract top talent 2. Enhanced performance after rigorous orientation measured by employee ratings and performance appraisals 3. Employee retention rate	1. For 100% of employees to promote the company's purpose 2. For management and employees to maintain candor through weekly open forum discussions	1. Continue to hire recruiters who are loyal to the company's purpose 2. Re-contract skillful employees 3. Reform orientation process to target new employees within the streaming unit 4. Shorten recruitment process by 2 weeks to ensure talent does not accept other employment
Creating high quality films with wide appeal	- Monitor revenues for theatrical distribution - Critic Reviews - Number of awards won - Increase in global viewers	- 1.5 times last year's revenues (to $4,355 million)	- Plan more movies for future release - Invest more in data analytics to ensure understanding of global market and potential market segments

8.2.4 Learning and Growth Perspective

Objectives	Measures	Targets	Initiatives
Increase employees' awareness on citizenship commitment and ethical practices	Tracking employee community service hours	By 2020, it is our goal to contribute more than 5 million hours of employee community service	- Creating a supervisional department on employee daily ethical practices
Sustainable expansion through utilizing technological advancements	- Costs of research and development will need to be matched with profit from ticket sales and subscribers - Return on Investment in Virtual Reality companies - Loss of ad revenue from pay TV must be offset by subscriber revenue in the first year after launch	- Gain 32 million subscribers to breakeven for all its licensing expenses (McAlone 2017) - To transcend changing industrial conditions, and maintain Disney's ability to utilize current technologies to be a top competitor amongst all its sectors - Produce feature-length film in Virtual Reality	- Increase in research and development budget increase in order to develop new technologies needed to maintain a competitive advantage amongst rivals. - Partner with Google, Samsung, and Facebook as they are leading the Virtual Reality industry - Greenlight production on Virtual Reality film - Push toward mobile entertainment
Developing skill and employee productivity	- Peer-to-peer evaluation - Personal balanced scorecard for each individual in every department - Performance appraisal	- To increase our annual revenue by 5% for upcoming 2018 - To have every employee know our Mission, Vision and Values by heart	- To increase candor throughout all levels of the company - Promote company's purpose

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