

# Analysis of Business Operation Management under the Harvard Analytical Framework: A Case Study of the Walt Disney Company

Jingwen Yang

School of Economics, Hefei University of Technology, Hefei 230601, China

497787312@qq.com

**Abstract.** A comprehensive analysis of financial statements can help its users to understand the production and operation situations and development prospects of enterprises thoroughly and accurately in order to make scientific and rational resolutions. This research employs the Harvard Analytical Framework to analyze the finance and operation management situations of the Walt Disney Company. Development prospects of TWDC are discussed and some suggestions are proposed in this paper. This research is aimed to deepen the understanding and application of financial statement analysis methods.

**Keywords:** Financial analysis; operation management; Harvard Analytical Framework; the Walt Disney Company.

## 1. Research Background

With the constant development of capital market, the diversification of investment entities, and the complexity of investment and financing methods, investment and financing activities become increasingly important for enterprises, but at the same time, they are also led to the increasing uncertainties and risks of business operations. An accurate assessment of business operation and management situations can hardly be conducted without the financial analysis (Yin, 2012). However, Li (2015) finds that the current traditional financial analysis mode solely based on financial statements have its inherent flaws, for today's market economy is developing rapidly, the market operation is getting mature, the world economic exchanges are becoming more frequent, and the subject and object of financial analysis are increasingly diversified. Therefore, many scholars employ the Harvard Analytical Framework proposed by Krishna G., Paul M. and Victor L. from Harvard University to conduct strategic analysis, accounting analysis, financial analysis and prospect analysis. Li (2013) believes that the Harvard Analytical Framework is to take the development environment, accounting policy environment, financial analysis methods and industry prospects into consideration when analyzing financial reports, and combine its own strategic and business management situations to make a comprehensive and scientific financial report.

This research takes the Walt Disney Company (TWDC) as the study object and conduct the financial analysis under the Harvard Analytical Framework (HAF), which can make readers further understand such large enterprises and learn from their experience. For the researches on TWDC, Chinese scholars mainly concentrate on the site selection of Disneyland, the experience and lessons of overseas expansion, the idea and mode of business management, the marketing strategies and models, the related influences of the settlement of Disneyland in Shanghai, and the reference and enlightenment to the theme parks in China (Wu & Feng, 2013). However, there are few researches focus on making optimization proposals on the strategies of business operation management started from the financial situation of TWDC under the Harvard Analytical Framework. Therefore, this research is going to analyze business management strategies applied by the Walt Disney Company, a multinational media giant, in the current globalization based on its financial statements under the Harvard Analytical Framework and provide practical suggestions.

## 2. Literature Review

The Harvard Analytical Framework is a new approach of financial statements analysis initially proposed by three professors from Harvard University, Krishna G., Paul M. and Victor L. in *Business Analysis & Valuation: Using Financial Statements*. The financial statements analysis under the framework basically includes the following four parts: Strategic analysis, accounting analysis, financial analysis and prospect analysis. In specific, in the first place, the strategic analysis is to identify the macro and industry environment of enterprises in order to analyze the interest motives and business risks. The strategic analysis is the fundamental basis of HAF, which construct the framework for the accounting analysis and financial analysis. Secondly, the accounting analysis is aimed at assessing whether the accounting data of enterprises can reflect their actual business situations effectively. Through evaluating the flexibility of enterprises and the rationality of their accounting policies and estimates, researchers can judge the distortion degree of the accounting data and make restoration. Thirdly, the purpose of financial analysis is to evaluate the current and past financial situation and its sustainability of enterprises based on the financial data. Ratio analysis and cash flow analysis are the most frequently applied methods in financial analysis. As for the last step, prospect analysis is to predict and assess the future operation performance of enterprises, and the financial statements forecasting and valuation are the two main analytical tools.

Prospect analysis synthesizes the outcomes of strategic, accounting and financial analysis and makes anticipations based on the conclusions. Compared with traditional methods of financial analysis, the advantage of HAF is that it makes a full use of both accounting and non-accounting data, which leads to an all-rounded and multidimensional analysis of research objects with considerations of their development environment, related accounting policies, financial analysis methods, industry development prospects, their own operation management strategies and business situations. This mode of analysis can help users to make a much more objective and comprehensive understanding of the actual financial situations and development prospects of enterprises.

## 3. Case Study

### 3.1 Introduction to the Walt Disney Company

The Walt Disney Company (TWDC), founded by Walt Disney and located in Burbank, the USA, is a famous diversified multi-national company which has been involved in fields of media networks, parks and resorts, film and television entertainment, consumer goods and interactive media. In addition, PIXAR Animation Studio, Marvel Entertainment Inc., Touchstone Pictures, Miramax, Buena Vista Home Entertainment, Hollywood Pictures, ESPN Sports, ABC are all the sub-brands of TWDC.

### 3.2 Strategic Analysis

#### 3.2.1 Macro-environmental Analysis

##### a) Population Environment

The population environment is the primary factor that constitutes the market, and the population base directly determines the size of the market. According to the World Population Prospects, it is shown that the absolute number of the global population will continue to grow, and the growing population provides a considerable market size and provides an effective help for the sustainable development of TWDC. However, the intensifying trend of aging would restrict the development of TWDC to some extent. Given that the consumer group of TWDC is mainly under 35 years old and customers over 55 years old only account for less than 10%, the low consumption rate caused by population aging would influence the company earnings in a long run.

##### b) Technology Environment

The cultural and entertainment industry has higher requirements for technology, and nowadays more and more high-tech means have been applied to the entertainment industry, such as the digital marketing model of TWDC. Its digital ecosystem is a combination of digital technology and digital

business model, which includes the digitization of distribution channels, the digitization of marketing methods, and the creation of digital products. Technologies like VR, AR and AI are a new breakthrough for TWDC. The company has launched an application called “Disney Movies VR” with the favor of which an interventional virtual theme park can be developed. The immersive entertainment experience provide by these technologies can, to a certain degree, help TWDC make up for its shortcomings. At the same time, with the AR technology, TWDC has also launched a number of self-developed applications and products such as AR Museum, AR Robot, Star Wars First Order Stormtrooper, etc. In addition, its research department is also committed to combining AI technology with other businesses. The Internet of Things has also helped TWDC create built-in Bluetooth, RFID-chip built-in “Magic Bracelet”, and sensors built-in wearable toy Playmation. Disney has portrayed a fantastic dreamland for countless people in this world. Its immersive entertainment experience, artificial intelligence, the Internet of Things, future technologies of film production and the next-generation movie platform profited from the ever-changing technology environment undoubtedly expands its scope of business and enriches its marketing model.

#### c) Economic Environment

The irresistible economic globalization has become the trend of world development, and commodities, capital, services, etc. are constant flowing on a global scale. Countries become increasingly inclusive, and the market liberalization is getting more prominent. The development of TWDC, a typical intercultural entertainment company, and the globalization of the world economy bring out the best in each other. Specifically, the economic globalization provides a desirable development platform for TWDC, and in turn, the spread of Disney culture on a global scale has also accelerated the economic globalization. However, it has to be acknowledged that economic globalization intensifies the competition in the international market, which is a huge challenge for TWDC. In addition, the cyclical fluctuations in the financial market will also make an impact on the cultural and entertainment industry. In the researches on financial time series, many scholars have indicated the time-variation feature of the changes in financial market. In 2019, the Federal Reserve (FED) is apt to slow down its interest-rate hiking, which would definitely exert a repressive effect on the US dollar exchange rate, while some of the returned US funds may re-enter the high-risk and high-yield emerging markets. At the same time, the return rate of investment in 2019 may continue to perform poorly with the weak financial market, the slowed down economic growth, the central bank contraction and the continued market volatility, which may lead to the reduction of investments on cultural and entertainment industry.

#### d) Political Environment

A stable political environment can benefit the development of enterprises, while an unsteady one will limit it. The economic globalization and the development of international economic cooperation have made economic interdependence infiltrated into the political arena. International politics has undergone profound changes under such circumstance, and countries all over the world are getting involved in a complex interdependent mode. TWDC is headquartered in the United States, and its main theme parks are all located in areas with stable politics like the US, France, Japan, China, and Hong Kong, China.

#### e) Sociocultural Environment

The consumption custom and needs of consumers depend largely on the sociocultural environment. TWDC, as a typical intercultural company, should keep an eye on the uniqueness and diversity of the sociocultural environment on a global scale. Although cultures in different countries and regions can interact more conveniently and frequently nowadays, and people all over the world become more inclusive towards diversity, the cultural differences still exist. Therefore, the company should not neglect the barriers formed by cultural differences during its development. Thus, intercultural management is an indispensable process of business operation management. It is necessary to adopt an inclusive management approach for different cultures and overcome conflicts between them.

### 3.2.2 Industry Analysis

#### a) Internal Competition

The competition in the international market is intensifying, and, Disney, as an international cultural and entertainment giant, is undoubtedly a main force. From the perspective of overseas expansion, Universal Studios has a similar diversified marketing model to TWDC, which focuses on film and television entertainment and expands the theme park and consumer goods industries. The classical images of Harry Potter and Minions portrayed by Universal Studios have the same enormous influence as those cartoon characters created by Disney. As far as the Chinese market is concerned, a Disneyland opened in Shanghai in 2016, and in the near future, the first Universal Studios theme park in China will be settled in Beijing. Such an intense competition is a tough challenge for TWDC.

#### b) The Threat from Potential Competitors

The entertainment industry highly depends on large-scale capital and land. Both film and television entertainment and theme parks require a large number of senior talents with related skills. At present, the entertainment industry in China is constantly emerging, such as Wanda Group and H. Brothers, whose main business is similar to TWDC, including the production and distribution of movies and TV dramas, artist agencies, cinemas, music, online games, theme parks and other related businesses. Therefore, it is noticed that companies in many entertainment-related industries worldwide are constantly growing and will take a certain market share.

#### c) The Threat from Substitute Products

The entertainment industry is an important part of the cultural industry. On the one hand, it satisfies the cultural needs of people and carries entertainment functions; on the other hand, it plays a vital role in improving the cultural consumption level to promote the development of social economy. Setting the film and television entertainment as the core industry, TWDC employs a diversified business model and expands its business to theme parks, consumer goods, media networks and a range of derivatives, which makes Disney obtain an unshakable dominant position in the cultural and entertainment industry in the fierce competition. In addition, the distinctive themes and unique culture of TWDC also secures its irreplaceability.

#### d) Bargaining Power of Buyers

Primarily, it should be noticed that the customer scale of TWDC is huge. Taking the Disneyland as an example, in 2017, TWDC received 150 million visitors, ranking the first in all theme parks all over the world, accounting for 31.5% of the top ten group visitors. What's more, Disney's total box office in 2018 exceeded 7 billion US dollars, which breaks the industry record set by itself. Secondly, individual travelers are the main components of Disney customers. The consumption pattern of individual customers is relatively flexible, their consumption frequency is much higher, and they are less sensitive to the price. Although Disney's customers are mainly young individual customers with weak economic conditions, they have more leisure time to spend on cultural and entertainment industry, especially in the current society with rapid development of culture and economy. Besides, Disney's popularity and influence can also attract many customers; therefore, the impact of price on consumers is relatively small. TWDC carries out a portfolio pricing strategy setting different prices based on the type of products, point of sale, sales time and target groups. For example, the ticket price in the Hong Kong Disneyland is the lowest among the existing Disney parks in order to expand its customer base. TWDC takes a careful consideration of the location of Hong Kong and its potential customers to make that decision, for most of the customers in Hong Kong are from mainland China and Southeast Asia with comparatively low incomes, except for some higher-income groups. Meanwhile, its differential pricing in accordance with different age groups and time periods further reduces the bargaining power of buyers.

#### e) Bargaining Power of Suppliers

Since TWDC follows a diversified strategy of development, it has various suppliers. In the film and television entertainment industry, the suppliers of Disney include editorial companies and major theaters related to outsourcing film special effects and scene production. The investment on film production itself is a high-risk move as it has high requirements for professional technology. In addition, the number of films projected in theaters has a direct impact on the box office of the movie.

Therefore, the suppliers of the film and television entertainment industry have a strong bargaining power. Another main supplier of Disneyland is the amusement machine manufacturing industry, and the main operating place of amusement machines is the theme park with a relatively limited scope. Moreover, with the improvement of people's living standards, the demand for amusement facilities is gradually turning to an excited, interactive, personalized and embodied experience, which makes a higher requirement for the design and production of amusement machines. Thus, the bargaining power of suppliers in this industry is rather weak.

### 3.3 Accounting Analysis

#### 3.3.1 Inventory Analysis

The inventory of TWDC mainly includes vacation timeshare units, commodities, food, raw materials and supplies of which timeshare units are accounted for the lower figure between the cost and the net realizable value. The inventory of goods, food, raw materials and supplies is determined based on the average moving cost, and it is also accounted for the lower figure between the cost and the net realizable value. Utilizing the moving average method to account the inventory makes it easier for TWDC to manage its inventory balances.

Table 1. The Inventory Annual Comparison of TWDC (in Millions of USD)

<b>Indicators</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Inventory</b>	1,392	1,373	1,390
<b>Inventory Turnover Rate</b>	23.67	21.94	20.26
<b>Inventory Turnover Days</b>	15.21	16.41	17.77

As shown in Table 1, according to the analysis of the financial statements of TWDC from 2016 to 2018, it is concluded that its inventory level has fluctuated slightly in these three years, but its inventory turnover rate has continued to rise, which is much higher than the industry level of 5.69. It indicates that TWDC has embraced a developed inventory management level, an enhanced inventory liquidity, an improved company profitability, and eventually a promoted company value.

#### 3.3.2 Account Receivable Analysis

The original maturity of account receivables in TWDC are more than one year and are related to the rights of television program sales and vacation ownership units. At the same time, the company has made bad-debt provisions based on the past experience and the current financial status.

Table 2. Account Receivable Annual Comparison of TWDC (in Millions of USD)

<b>INDICATORS</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>CLOSING BALANCE OF ACCOUNT RECEIVABLES</b>	9,334	8,633	9,065
<b>PROVISION FOR BAD-DEBT</b>	192	187	153
<b>NET CLOSING BALANCE OF ACCOUNT RECEIVABLES</b>	9,142	8,446	8,912
<b>OPERATING REVENUE</b>	59,434	55,137	66,632
<b>CLOSING ACCOUNT RECEIVABLES/OPERATION REVENUE</b>	15.70%	15.66%	13.60%
<b>ACCOUNT RECEIVABLE TURNOVER RATE</b>	6.62	6.23	6.51
<b>ACCOUNT RECEIVABLE TURNOVER DAYS</b>	54.43	57.78	55.28

From Table 2, it is known that the closing balance of account receivables in 2018 is higher than the previous two years, so the provision for bad debts is also higher than before. The account receivable turnover rate of TWDC has remained relatively stable in these three years, which is higher than the industry level of 4.48. It indicates the fast collection of company accounts, short average collection period and small bad-debt loss of TWDC. The company can use the funds efficiently to improve the debt servicing capacity.

### 3.4 Financial Analysis

In order to further understand the operation and profitability of TWDC, this part will combine the ratio analysis and trend analysis to compare the company's financial data in the past three years from a horizontal and vertical perspective. (This study takes 21st Century Fox as the comparison object.)

#### 3.4.1 Profitability Analysis

Table 3. Profitability Indicator Comparison of TWDC

	INDICATOR	2018	2017	2016
TWDC	GROSS PROFIT MARGIN OF SALES	44.94	45.04	46.09
	NET PROFIT MARGIN OF SALES	21.98	16.99	17.60
	RETURN ON EQUITY	12.96	9.56	10.42
21 <sup>ST</sup> CENTURY FOX	GROSS PROFIT MARGIN OF SALES	34.97	37.63	37.32
	NET PROFIT MARGIN OF SALES	15.66	11.32	11.04
	RETURN ON EQUITY	25.30	20.09	17.84

According to Table 3, firstly, the gross profit margin of sales can reflect the ability of enterprises to obtain profits from project development. Due to the increase of company costs, the gross profit margin of Disney sales in the past three years has gradually decreased from 46.09% in 2016 to 44.94% in 2018. According to the 2018 annual report of TWDC, its cost increase mainly includes the increased contract rates of movies and TV shows, the increased costs of parks and resorts, and the acquisition of BAMTech. However, TWDC gross profit margin of sales is still higher than the industry level.

Secondly, the net profit margin refers to the ratio of net profit to operation revenue, which is to measure the ability of a company to obtain profits from sales in a certain period of time. It can be seen from the above table that TWDC net profit margin of sales has increased year by year with good performance and high profitability and is also higher than the industry level.

Thirdly, the return on equity is the net profit after tax divided by the percentage of net assets. It is an indicator used to measure the efficiency of the company's use of capital invested by shareholders. In these three years, the return on equity of TWDC has been maintained at around 10%, which is far from the 21st Century Fox Company. The biggest influencing factors of ROE are the net profit margin of sales and equity multiplier. Since the net sales margin of TWDC is much higher than the industry level, but its ROE is comparatively low, it can be concluded that the equity multiplier is the main factor making the ROE of TWDC slightly lower than the industry level. It is shown that the capital invested by the shareholders of TWDC accounts for a large proportion of the assets, and its financial leverage is small.

### 3.4.2 Solvency Analysis

Table 4. Solvency Indicator Comparison of TWDC

	INDICATOR	2018	2017	2016
TWDC	CURRENT RATIO	0.94	0.81	1.01
	QUICK RATIO	0.86	0.74	0.92
	ASSET-LIABILITY RATIO	44.45	45.28	51.82
21 <sup>ST</sup> CENTURY FOX	CURRENT RATIO	2.23	2.25	2.12
	QUICK RATIO	1.90	1.82	1.65
	ASSET-LIABILITY RATIO	59.95	65.24	68.09

In the first place, the current ratio represents the company's ability to use its current assets to repay current liabilities. As it is shown in Table 4, the current ratio of TWDC decreased significantly from 2016 to 2017, indicating its weakened short-term solvency. Its current ratio has rebounded from 0.81 in 2017 to 0.94 in 2018, but it is still lower than the previous level of 1.01. Secondly, the quick ratio of TWDC in the past three years is lower than 1:1, which suggests that its solvency ability needs to be strengthened. Therefore, the company should reduce investment and increase the amount of money held. In addition, as shown in the table above, the asset-liability ratio of TWDC has been declining in these three years, and it can be seen from the company's balance sheet that its total assets increase year by year, while the liabilities fluctuate slightly. The increase of its total assets is greater than the increase in total liabilities, so the asset-liability ratio goes down. Finally, compared with the 21st Century Fox, all simultaneous ratios of TWDC are lower than those of the 21st Century Fox, which indicates that, as far as this industry is concerned, Disney still needs to strengthen its solvency ability.

### 3.4.3 Growth Ability Analysis

Table 5. Growth Ability Indicator Comparison of TWDC

	INDICATOR	2018	2017	2016
TWDC	GROWTH RATE OF OPERATION REVENUE	7.79	-0.89	6.04
	GROWTH RATE OF NET MARGIN	40.29	-4.38	12.04
	GROWTH RATE OF TOTAL ASSETS	2.93	4.08	4.37
21 <sup>ST</sup> CENTURY FOX	GROWTH RATE OF OPERATION REVENUE	6.67	4.30	-5.73
	GROWTH RATE OF NET MARGIN	51.22	7.15	-66.83
	GROWTH RATE OF TOTAL ASSETS	6.13	4.88	-3.37

According to Table 5, The indicators of TWDC in 2016 are all positive and higher than those of the 21st Century Fox, indicating a good period of sales of TWDC. In addition, the growth rate of operation revenue and the growth rate of net margin of Disney in 2017 are negative, suggesting that the company's operation revenue and profits have both declined. At the same time, the growth rate of total assets has slowed down, showing that Disney's expansion rate has paced down during this period. Finally, in 2018, the growth rate of operation revenue of TWDC and the growth rate of net margin have rebounded, especially the increase of the latter one. The net profit equals the total profit minus the income tax. One of the reasons of Disney's increase of net profit in 2018 lies in the net gain from the lowered federal statutory income tax rate.

### **3.5 Prospect Analysis**

#### **3.5.1 Development Prospect**

From the perspective of macro and industry environment, the entertainment industry has become the focus of global attention and a new driving force for the development of the world economy. The cultural industry in the United States, where Disney is located, is leading the world. The value of its entertainment industry accounts for about 20% of US GDP and 40% of the international market share. Nowadays, although the dominant position of the American cultural industry is almost unshakable, the development of the cultural and entertainment industry in many countries, especially in China and some other Asian countries, has also shown great vigour. The competitions and challenges confronted by TWDC are numerous on its way of market expansion. For example, in the big market of streaming services in the United States, the new platform represented by Netflix and Hulu is grabbing the attention of consumers, and the emerging market led by China will also become a strong competitor of Disney.

#### **3.5.2 Investment Prospect**

The indicator that best reflects a company's investment prospect is the return on equity. The ROE of Disney in the past three years is relatively stable and is on the rise, but its value is still low. Meanwhile, as Disney has already been a mature company, there is little room left for further growth in its ROE.

#### **3.5.3 Risk Prediction**

For a large and complex company like TWDC, there are many factors affecting its future development and performance; therefore, the risk prediction is particularly important. Firstly, from the perspective of macro environment, the economic downturn in the United States and the rest of world may affect the demands of Disney businesses, such as the reduction in spending on parks and resorts by tourists and the decline in the purchase of consumer goods by companies. At the same time, the increased competition pressure may cause Disney to reduce its revenue or increase its cost. In addition, TWDC completed the acquisition of the 21st Century Fox in the first half of 2019, which will increase the international risks of Disney businesses. Meanwhile, the rise in debt levels and the decline in business flexibility will make negative effects on the company. The increase in debt after the acquisition may also reduce the capital available for expenditures, share buybacks, dividends and other business activities, resulting in a competitive disadvantage. Due to the dividend payments, its financial flexibility may be further limited by the issuance of common stock in the acquisition.

## **4. Theoretical Framework**

The traditional financial statement analysis is mainly based on the financial data of enterprises and analyzes the financial indicators such as solvency, operation ability and profitability so as to understand the previous business situations of enterprises. On this basis, general prediction is made towards the future development in order to make appropriate decisions on investments. However, it is not an uncommon phenomenon of whitewashing on the financial statements at present. Therefore, using traditional financial approaches to analyze the data of accounting statements can no longer meet the requirements of current financial analysis. The Harvard Analytical Framework is an improvement on the traditional financial statement analysis, and it avoids the "false" that may exist in traditional analysis methods to a certain degree. The HAF integrates the past, present and future, and combines strategy, accounting, finance, and prospects to effectively provide financial information for investors and business managers, which substantially enhances the integrity and authenticity of the analysis.

The following points should be noted when using the HAF to analyze the financial situation of the enterprises:

a) The integrity of the HAF. Harvard Analytical Framework is an inseparable whole. The analysis should be conducted coherently with no contradiction. For example, the prospect analysis is



absolutely not based on imaginations but the analysis of the first three steps. It is also combined with accounting and statistical methods to make forecasting and valuation.

b) The importance of strategic analysis. The strategic analysis mainly includes macro and market environmental analysis which is supposed to be carried out from the demographic, technical, economic, political, and cultural aspects under the Michael Porter's Five Forces Model to deeply explore the industry environment. The macro environment and the market environment are the essential reasons affecting the financial status of enterprises. Strategic analysis is also an advantageous part in HAF compared with the analysis of traditional financial statements. Therefore, the importance of strategic analysis cannot be ignored. It is difficult to derive the essential cause of a phenomenon from the data alone. For example, when analyzing a company's gross margin of sales, if its interest rate of sales is relatively low, it cannot be roughly concluded that the company's products are uncompetitive, because, in fact, the company may use a low-cost strategy.

c) The effectiveness of accounting analysis. When the financial data of enterprises is finally reflected in the statements, it will be affected by the choice of accounting policies and accounting estimates. Therefore, in the analysis process, we need to pay attention to accounting policies and estimates and disclosures, otherwise there will be deviations in the conclusion.

d) The specificity of financial analysis. The financial analysis includes the solvency ability, profitability and growth ability analysis. Ratio analysis and cash flow analysis are the two most commonly used methods. The financial analysis is not to collect a large amount of data but to analyze and compare those data in a hierarchical and focused manner. Accounting emphasizes the principle of "elaborating the primes and generalizing the subordinates", so does the financial analysis. Primarily, significant data like strikingly changed or large statistics should be analyzed. Secondly, appropriate methods ought to be chose to conduct the financial analysis. For instance, the analysis of the solvency ability, profitability and growth ability can be integrated, and the DuPont analysis is also an option. Theoretical frameworks which are familiar to readers are preferred, so that the final report can be more acceptable.

e) The comprehensiveness of the prospect analysis. The prospect analysis should not solely be a negative prediction, but also a vision towards future and an anticipation of risks. Combined with the analysis of the first three parts, we can find out the rationality as well as shortcomings of the current company policy, and put forward reasonable suggestions based on the previous experience.

## **5. Practical Opinions**

The amazing fantasy and unparalleled brand power of Disney make it a well-deserved entertainment hegemon, creating an amazing cartoon kingdom for generations. Disney is known as "the pioneer of art industrialization and popularization", and its operation management model behind its success deserves an in-depth exploration.

### SWOT Analysis

#### Strengths

- a) The One-touch Industry Management Model
- b) The Brand Multiplier Operation Model
- c) The Settled Market Positioning and Marketing Mix

#### Weaknesses

- a) The Excessive Franchise Management of Consumer Goods
- b) The Imperfect Operation Model of Theme Parks
- c) The Frequent Company Acquisitions

#### Opportunities

- a) The Technological Reforms
- b) The Increasing Demands for Cultural and Entertainment Products

#### Threats

- a) The Difficulties in Intercultural Management
- b) The Threats from Rivals

## 5.1 The Strengths of TWDC

### 5.1.1 The One-touch Industry Management Model

Taking its original “creative culture” as the core value, Disney expands its industry and promotes its films to the rest of the world. At the same time, classic cartoon characters like Mickey Mouse and Donald Duck have applied for patents and have already started their franchise. Subsequently, the completion of Disneyland makes the theme park culture popular all over the world. In addition, Disney has extended its vision to real estate and media networks, and its capital turnover rate has been greatly benefited from such a complete industry chain.

### 5.1.2 The Brand Multiplier Operation Model

Disney has made numerous significant achievements during its expansion, such as the brand franchise, the establishment of its own product store and book publisher, the creation of Disney programs, the development of Go.net Internet business and the acquisition of ABC television media. TWDC has substantially deepened its brand image in the hearts of customers and realized the multiplied brand expansion, which finally makes it become the American entertainment giant.

### 5.1.3 The Settled Market Positioning and Marketing Mix

The market positioning of Disney is “to make people happy”. Taking its theme park as an example, its idea is to create a happy atmosphere in Disney with the efforts of all tourists and employees. The staff in Disneyland are dressed in costumes to play the classic roles in the movie, showing their enthusiasm and conveying the happiness in this dreamland. At the same time, it brings a great profit for Disney to keep up with the popular entertainment promotions and come up with flexible pricing strategies.

## 5.2 The Weaknesses of TWDC

### 5.2.1 The Excessive Franchise Management of Consumer Goods

Disney has a large number of brand licenses with more than 4,000 Disney-franchised merchants worldwide with franchise sales of more than 1 billion USD, which accounts for more than 50% of the consumer goods. Although Disney has a strict selection criterion for licenses, excessive authorization will increase the risk of damaging the Disney brand and reduce the popularity of its brand in the hearts of customers.

## **5.2.2 The Imperfect Operation Model of Theme Parks**

Among all Disneylands around the world, the performance of Tokyo Disneyland is the best, and it is the only one that takes the franchise management model. Disney licenses its related intellectual property rights to OLC Japan, which takes charge of the daily operation of Disneyland TWDC does not participate in its operation, but it collects license fees at a certain percentage each year, which means that TWDC cannot obtain the earnings from the theme park. On the contrary, the Paris Disneyland and the Hong Kong Disneyland practicing the joint venture have been losing money for a long time. The failure in theme parks will bring a great loss to TWDC. In addition, the failure of the Paris Disneyland is largely due to the neglect of the market environment and its positioning. TWDC eventually makes itself be in trouble with an endeavor to understand Europeans from the perspective of American culture.

## **5.2.3 The Frequent Company Acquisitions**

After reviewing the history, TWDC is definitely a well-deserved “M&A madman”. In 2006, Pixar was acquired for 7.4 billion USD. Marvel Entertainment was acquired for 4.24 billion USD in 2009. In 2012, Disney announced the acquisition of Lucasfilm with cash and stock totaling 4.06 billion USD. Recently, on the 20th March, 2019, TWDC takes 16 months to officially acquire the 21st Century Fox for 71.3 billion USD. Although each acquisition brings great energy to Disney, and it can also revitalize its weaker sectors, too frequent mergers will increase its financial pressure and overdraft company resources. For example, its M&A in interactive field is the most, but its business has been difficult to develop, so that in the past ten years after the acquisition, Disney has been laying off employees and closing studios. In 2011, Disney closed the Propaganda Game Studio, and two years later, it announced the closure of the Junction Point studio. In 2014, Disney Interactive cut 700 people, and one year later, the Disney Interactive and the Consumer Products division are merged. Finally, in 2016, Disney announced the suspension of interactive toy production, while stopping all independent interactive researches and changing its game business into the authorized operation.

## **5.3 The Opportunities of TWDC**

### **5.3.1 The Technological Reforms**

In the first place, the innovation in technology is of great significance. Disney’s film production, theme park development, and other businesses not only need rich and profound contents, but also the strong technological support. Nowadays, high-tech products like the immersive entertainment, artificial intelligence, and the Internet of Things are favored by consumers. The development of technology has helped Disney carry out new products, broaden its business field, bring more profit opportunities to the company, and further enhance its enterprise value among consumers.

### **5.3.2 The Increasing Demands for Cultural and Entertainment Products**

Cultural entertainment is a series of entertainment methods to meet people’s spiritual needs, such as film, television, music, and literature. People tend to take cultural and recreational activities to enrich their spiritual world after their material needs have been met. Freedom, diversity, and entertainment have become the theme of today’s life, so the commercial value of cultural and entertainment products has become increasingly prominent. The main businesses of TWDC are film and television entertainment, media networks, theme parks and derivative consumer goods, which are in line with the current market demands. At the same time, Disney has a huge amount of IP which is of great value in this entertainment era.

## **5.4 The Threats of TWDC**

### **5.4.1 The Difficulties in Intercultural Management**

In the economic globalization, the support and protection of local countries to their own industries may have a certain impact on Disney’s expansion of overseas markets. In addition, the cultural differences between countries will also set up a barrier on its way of expansion. For example, the disappointment of Paris Disneyland is due to the overlook of the cultural differences between the

United States and France. The cultural barrier between the two countries makes it difficult for the French to understand and accept the Disney culture, and even provokes conflicts, which eventually causes the damage of the entire Disney brand image and the resistant of the locals towards TWDC.

#### **5.4.2 The Threats from Rivals**

The dominant position of TWDC is almost unshakable in the US and even in this world; however, in recent years, the development of many companies has, to some extent, threatened its hegemony. For example, Netflix, debuted 20 years ago, has made a huge impact on the whole industry and changed people's way of television watching. The emergence of stream media is one of the most revolutionary technologies throughout the development of entertainment industry, and it has been proved as a successful approach. The essence of competition in the entertainment industry is to contend for the remaining time of consumers. Regardless the screen size, as long as it can increase the attractiveness and stickiness of users, it will certainly obtain an advantage in competition. Therefore, TWDC needs constant innovation to meet the challenges from rivals.

### **5.5 Proposals on the Improvement of the Operation Management Model**

#### **5.5.1 Enhance the Franchise Authorization Standards**

The core business of TWDC is the film production; therefore, the company should focus on the film and television sector. For the direct-sale stores, the quality of products is more important than quantities. In addition, the company should seek cooperation with fashion brands of good reputation and high quality to further enhance the unshakable position among consumers and reduce the risk of damaging its own image due to the unqualified consumer goods.

#### **5.5.2 Conduct Researches and Avoid Self-reference in Overseas Expansion**

The success and failure of Disneyland are both valuable experience for the development of TWDC. For existing parks, they should fully investigate the consumption custom and satisfaction of visitors. In addition, Disney can combine the experience of the theme park with other businesses. For example, before the overseas expansion of consumer goods, a comprehensive research on the macro-environment and local consumer preferences ought to be made in order to choose the most appropriate marketing method.

#### **5.5.3 Fully Consider the Rationality and Necessity of M&A**

Mergers and acquisitions can indeed bring new blood to TWDC and help the company to expand rapidly. However, on the other hand, M&A requires companies to achieve integrations of strategy, personnel, business and corporate culture, which undoubtedly increases the pressure of its finance and human resources. Therefore, the company should reduce the number of mergers and acquisitions to avoid the impact of merger failures on the company's reputation.

## **6. Conclusion**

Taking TWDC as an example, this research employs the Harvard Analytical Framework to conduct an analysis of its financial status and business management model, which is different from the traditional financial analysis. Financial analysis should be conducted based on the macro and industry environment to accurately predict the company's development prospects and make scientific and reasonable business decisions. In addition, many studies have shown that corporate social responsibilities and enterprise economic benefits are tightly linked. Future researches on the financial analysis can be carried out from the perspective of corporate values. Finally, the study on TWDC, which is a large-scale diversified entertainment enterprise, should take its macro environment, previous experience and development status into serious considerations. The success of TWDC is not only manifested in its own performance, but also in its influence on the world cultural development. It has become a symbol and a culture deeply rooted in the hearts of generation after generation.

## References

- [1]. Hou, Zhichai. A Brief Discussion of Analytical Methods of Financial Statements [J]. *Financial Communication*, 2012 (35): 123-124.
- [2]. Jiang, Ruochen. The Success of Disney [J]. *Science Development*, 2010 (07): 103-113.
- [3]. Li, Jundong. The Analysis and Application of Financial Report under the Harvard Analytical Framework [J]. *Finance and Accounting (Finance Edition)*, 2013 (09): 50-52.
- [4]. Li, Yingchengyi. A Discussion of the Marketing Strategy of Disneyland from the Perspective of Global Marketing and Localized Marketing [J]. *Journal of Hubei University of Economics (Humanity and Social Edition)*, 2018, 15 (10): 68-70+76.
- [5]. Li, Yunxin. A New Choice of Financial Analysis Mode: Harvard Analytical Framework [J]. *Business*, 2015 (18): 160.
- [6]. Liu, Xiangyu. A Discussion of the Business Model of the Walt Disney Company [J]. *Qilu Realm of Arts*, 2010 (02): 88-92+96.
- [7]. Liu, Yicun. How International Marketers Overcome Cultural Barriers and Avoid Political Risks: A Case Study of the Walt Disney Company [J]. *China Economic & Trade Herald*, 2010 (09): 90.
- [8]. Tan, Duoqiao & Hu, Wenge. The Financial Story of the Walt Disney Company [J]. *Friends of Accounting*, 2014 (19): 127-128.
- [9]. Wang, Fengfei. An Advantage Analysis of International Operation of the Walt Disney Company from the Perspective of Culture Industry [J]. *Review of Economic Research*, 2012 (41): 77-81.
- [10]. Wei, Mingliang, Wang, Xue & Li, Jingming. An Analysis of Financial Statements in Department Stores under the Harvard Analytical Framework: A Case Study of the Wangfujing Department Store [J]. *Friends of Accounting*, 2016 (07): 82-86.
- [11]. Wen, Subin & Fang, Yuan. An Empirical Study of Enterprise Social Responsibility and Financial Performance Relationship: An Analysis of Panel Data from the Perspective of Stakeholders [J]. *China Industrial Economics*, 2008 (10): 150-160.
- [12]. Wu, Tao. The Analytical Report of PetroChina Co Ltd. from 2008 to 2010 under the Harvard Analytical Framework [J]. *Friends of Accounting*, 2012 (11): 65-67.
- [13]. Wu, Wenzhi & Feng, Xuegang. A Research Review of the Worldwide Disneyland and the Enlightenment to Shanghai Disneyland [J]. *East China Economic Management*, 2013, 27 (02): 142-148.
- [14]. Xiao, Yang. An Comparative Analysis of the Basic Financial Situation of the Walt Disney Company and H. Brothers [J]. *Assets and Finances in Administration and Institution*, 2017 (28): 73-76.
- [15]. Xu, Jia. The Development Trend of Worldwide Typical Theme Parks [J]. *Competitive Intelligence*, 2018, 14 (01): 58-63.
- [16]. Yan, Huahong. How to Analyze the Financial Management Activities of Enterprises with Financial Statements [J]. *Friends of Accounting*, 2006 (10): 36-38.
- [17]. Yin, Jianling. A Brief Discussion of the New Approach of Financial Analysis: The Harvard Analytical Framework [J]. *Business*, 2012 (06): 57-58.
- [18]. Zhang, Tao & Shao, Chuanpeng. An Analysis of Financial Quality on the Basis of Enterprise Operation [J]. *Friends of Accounting (Mid-month Edition)*, 2009 (12): 24-25.

- [19]. Zhang, Tingting & Zhang Xinmin. Strategic Framework, Strategy Implementation and Business Risk: An Business Risk Analysis Based on Financial Statements [J]. Contemporary Finance & Economics, 2017 (05): 126-133.