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Business Acquisition Analysis:
A Case Study of Disney-Fox Deal

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ABSTRACT
The media and film industry has been experiencing constant development in the past decades. In this context, an increasing quantity of mergers and acquisitions have been witnessed, essentially changing the layout of power distribution of the film industry. This study reviews one of the most renowned acquisition cases between 21st Century Fox and Walt Disney. More specifically, this article introduces what factors lead to this acquisition and how is negotiated between these two industrial giants. Ultimately, an aftermath analysis is employed to appraise the results of this acquisition. It is found that this acquisition generally reaches a win-win consequence, especially concerning the economic benefits and the enhanced competitiveness of Walt Disney. In line with strategic business negotiation tactics, this case study respectively discusses the implications for strategic negotiation theories and puts forward an array of suggestions for the ensuing business acquisition practices in the film industry.

***Keywords*：** *business acquisition, Walt Disney, Fox, strategic negotiation.*

1. INTRODUCTION

Acquisition is a business strategy used to combine two or more companies as one to integrate the competitive advantages of all the individual companies [1]. As a result, it aims to achieve the “one plus one is bigger than two” effect and finally reach better performance in the stock market. The approach of business acquisition is often applied in those fiercely competitive market environments to ensure that the buyer can absorb others’ advantages to maintain its position or to enter another new field with the least entry costs [2]. Thus, the business acquisition is also deemed as an integration and expansion strategy, either horizontally or vertically, in nowadays business world [2].

In the film and media industry, this strategy has also been widely used. Many film producer giants in Hollywood like Disney would purchase other film companies to consolidate their market positions and enhance their competitiveness in other domains. For instance, in 2012, Disney has ever bought Lucasfilm to gain the copyrights of the Star War series, which has also been considered as a very successful business acquisition case in the film industry [3]. In March 2019, Disney made another acquisition transaction by acquiring 21st Century Fox for $71.3 billion US dollars, which was reacted as one of the largest acquisition transactions in history [4].

Before reviewing why these two media can walk together, it is necessary to know who they are. As a brief introduction of Disney and Fox, they are both worldwide famous media players. Respectively, Walt Disney was founded by brothers Walt Disney and Roy Disney in 1923. For now, it is the world’s largest entertainment company, based in Hollywood, California, US. It adopts diversified operational strategies, doing businesses in the areas including theme park operation, retailing, filming, online media, studio and so forth. To date, it offers traditional film productions while starting to adapt to the ever-changing market profiles by providing more and more online services such as Disney Plus.

On the other side, 21st Century Fox Inc. is a famous media giant founded by Rupert Murdoch in New York, USA, in 1980. By the time being acquired, this company has 29 broadcast television stations in the US, demonstrating the contents including news, sports, technology, and entertainment. For now, it is still one of the largest television stations in the US. Aside from the television channels, the other assets of Fox are comprised of Fox Entertainment and National Geographic Magazine, etc.

2. Driving Forces of the Acquisition

With the dramatic rise of online streaming platforms such as Netflix, Amazon, and YouTube, the Hollywood entertainment tycoons, Walt Disney Company, is under considerable threats from other newcomers. In order to regain its competitive advantages, Disney decided to compete with them by launching an acquisition project. When it came to December 14, 2017, Walt Disney surprisingly announced its acquisition plan of Rupert Murdoch's 21st Century Fox Film with a total price of 52.4 billion US dollars. This acquisition includes 20th Century Fox Film, television department, cable entertainment networks, international television business, Fox TV, and National Geographic and 30 percent of the stock of Hulu.

The reasons for Fox to decide to sell its businesses can be traced back to 2014, when Fox posed a plan to carry out a more than 80 billion US dollars acquisition of Warner Film. However, after the announcement of the acquisition plan, the stock price of Fox commenced falling, ultimately making Fox become extremely underfunded. In consequence, Fox had to finally cancel the plan, causing a massive waste of its resources. After this tricky issue, Fox cannot maintain its market position, especially amidst the increasingly fierce competition from other technological giants that have already gained a dominant position in the digital online distribution of film and television video content [5].

At that time, those emerging technology companies like Apple and YouTube have already obtained 3 trillion dollars market value. In comparison, Fox had only valued $37.4 billion in the stock market. In that scenario, Fox's management executives believed that to survive amid the substantial market competition, they must seek additional funding, and failing to do so means they will go bankrupt sooner or later. In that case, the Murdoch family ultimately determined to instantly sell the company for a good price when Fox still had some remained values [1]. This was when Disney came in to propose an acquisition plan to Fox in 2017. On the other hand, Disney also desired a transformation of their business model when encountering high competition of those streaming and online services like Netflix or Amazon Prime. As perceived by Disney, the customer demand inside the industry was shifting significantly to digitalization, forcing the entertainment industry to innovate its services and adjust to the fast-changing conditions [5].

Nevertheless, on June 13, 2018, another media giant "Comcast" announced that it would use all cash to bid for the assets of 21st century fox with $65 billion USD to compete with Disney. Comcast, headquartered in Philadelphia, Pennsylvania, is the largest cable television company in the United States and the parent company of Universal Pictures, another large Hollywood studio. Universal Pictures has developed a series of well-known series films as Jurassic Park, The Fast and the Furious, etc.

In the end, Comcast's participation forced Disney to raise its purchase price. On June 20, 2018, Disney raised its offer to $71.3 billion USD in the form of cash plus stock. Subsequently, Disney and Fox shareholders approved the merger of the two companies, and the full deal was completed on March 20, 2019, with the permission of the major international market regulators [5].

Disney remained absolutely competitive in the animation market in 2006 with a $7.4 billion acquisition of Pixar. In 2009, Disney bought Marvel Entertainment for $4.24 billion. In 2012, Disney announced an acquisition of Lucasfilm for $4.06 billion, allowing Disney to grab one of the world's most mature and largest IP "Star Wars" series in the sci-fi space. By acquiring Fox's film and television business and acquiring a stake in its streaming company, Disney is well-versed in the path of acquisition. But whether it can use the acquisition to gain a foothold in the streaming war remains to be seen.

3. Analysis of the Negotiation Process

In the negotiation process between Disney and Fox, Disney applied multiple tactics that lead to the success of the acquisition [6]. According to previous studies, the most important strategies involved in the negotiation include comprehensive preparation, flexibility of the decision-making process, delicate design of payment methods, and trust construction, all of which are discussed as follows.

As mentioned in the last section, Disney's proposal was $52.4 billion US dollars in the beginning. However, Comcast's bid was $65 billion and all of them were in cash. In fact, as early as December 2017, Fox had rejected Comcast's offer of $60 billion of shares. But for this time, the new proposal seemed to be very attractive to Fox. To show the determination of the acquisition, Disney made a very quick follow-up proposal to raise the price to $71.3 billion, with a payment method by combining cash plus stock. This decision can be deemed as the key reason ascribing to the final agreement. Superficially, this action may seem like a very normal and common bidding decision. However, as shown in previous literature, there are massive works behind the scene to achieve such an efficient and effective reflection and adjustment.

First, before the bidding, Disney has already made a comprehensive preparation by understanding its competitor's capabilities and the needs of Fox [6]. They prepared ample financial recourses including the budget of cash and stocks to ensure that they were equipped with ample capacity to conduct the negotiation. In other words, their comprehensive feasibility analysis ensures that they can act easily in the following negotiation process.

Also, they did try to learn about how much money Comcast can offer to FOX and the actual valuation of FOX. As been acknowledged by previous strategic acquisition theories, in the preparation stage, it is very important to thoroughly consider the income of both sides, the capability of other competitors, the change of enterprise's equity structure and financial arrangement [6]. Disney, in this case, did a pretty good job in the preparation stage.

Then, the comprehensive preparation, in the later stage, directly led to an enhanced decision-making process. As mentioned by extant studies, this decision to raise the price was incredibly fast. To avoid the possibility that Fox may agree with Comcast's proposal, Disney in fact, speeded up its response rate and internal management process. The acceleration of the negotiation speed ends up defeating the counterpart's confidence to keep proposing new biddings [6].

In addition, to obtain the best benefits for Disney, the payment methods were also reasonably selected by comprehensively considering its own economic strength, financing channels, financing costs, and the merged enterprise's actual situation [7]. Mixed payment in an acquisition refers to purchase something through cash, stock and corporate bond warrants, asset-backed income certificates, etc. Disney adopted the method combining cash and stock, which can avoid paying excessive cash, causing the tension of the capital chain, and prevent the dilution of the original shareholders' equity or the transfer of control. Eventually, as the Disney stock value continues to grow, this payment method leads to a win-win situation for both Fox and Disney [8].

In sum, all the facts revealed above show that the choice of acquisition model plays a crucial role in the success of acquisition negotiation. The smooth negotiation should thereby be ascribed to the indispensable component of the acquisition, and facilitate the following success of the operation, which would be reviewed next section.

4. Aftermath Analysis of the Acquisition

After the acquisition of Fox, Disney has become one of the largest online streaming service providers, followed by Netflix and YouTube. A new streaming service Disney+ has also been put forward recently. For now, it can be said that the combination of Disney and Fox has successfully formed one of the largest films and media players in the world, and this will continue to reshape the layout of the worlds' film and media industry.

When looking at the financial performance of this acquisition, the price (cost) of the acquisition was 71,3 billion US dollars. In contrast, the market value of Walt Disney has been increased by more than 40 percent, with an average annual increase rate of more than 18 percent [9]. Even though the growth of market value can be attributed to various reasons, it can be always adopted as an initial indicator to evaluate a company's performance in a given time period.

Then, from the perspective of the revenue of Walt Disney, it has witnessed a similar growth pattern, with an annual increase rate of more than 6 percent (from 90000 million USD in 2018 to 100000 million USD in 2021) [9]. With respect to the market share percentage, before the acquisition, Disney had a market share of around 16 percent and Fox of less than 8 percent. By the end of the year 2020, their market share had grown to 26 percent and is expected to continue this trend of an annual increase rate of more than 6 percent [9].

Other than the indicators of stock value, revenue and market share, other financial indicators such as costs, cash flow, return on investment and so forth, all of which have experienced dramatic growth after the acquisition. Thus, it can be said, in the dimension of the financial performance after the acquisition, it is definitely a win-win situation for both sides.

Beyond the financial performance, it is considered that Disney has gained even more advantages in strategic positions. After the expansion of Disney, it gradually becomes to enter into the dominant position in the US film making supply and distribution chain [10]. It can be further expected that, in the foreseeable future, Disney would obtain substantial market power in all its business areas.

After acquisition, Disney compare with old rival Netflix:

First, in content resources, Disney's acquisition of Fox, the total size of the film and television content library is still not comparable to Netflix. Disney's system will have an impact on Netflix's content supply, but in the short-term Disney's content library will be hard to beat Netflix. Second, in terms of content creation, Netflix, while creating new IPs such as House of Cards, is far worse than the Disney-Fox combination.

Third, Disney's volume and capital are on Netflix, and the overall content investment will exceed Netflix's. But Netflix isn't weak either, spending more than $6 billion a year on content and $8 billion in 2018.

Fourth, in terms of user development, Netflix users have already passed 100 million, of which the United States domestic users, international users basically accounted for half, international business has made great progress, and is in a state of rapid development. Disney 2019 full launch of OTT, there is a domestic and international OTT user training period, in the short term it is difficult to completely shake The status of Netflix.

Fifth, in the way of thinking, Disney's media, creative thinking and Netflix's Internet thinking are two completely different ways of thinking. If Disney can't change its mindset, or run OTT in the media way, there's little chance of success, which is an insurmountable obstacle to many traditional business transformations.

Sixth, for Disney, it is necessary to take into account the traditional film and television channels, which is a cash cow that cannot be abandoned. Content operations strategy certainly cannot be fully committed to OTT regardless of traditional channels.

Seventh, the logic of OTT market is not that if there is content, there will be users. HBO has traditional users, but its OTT business HBO now business has always been weak. China Mobile has users, and it can't do video business after pouring in content. Migu is a failure. Disney's OTT strategic transformation has this kind of risk. As long as the content of Netflix is improved, there will certainly be user improvement, but Disney is not necessarily.

On the whole, if the strategic transformation of traditional media can rival the media business of the four Internet giants FANG is to be seen. At present, traditional media has the advantage of content, but the result is hard to say.

5. Reflection and Conclusion

In the sum of the above analysis and review, it can be concluded that through the acquisition of Fox, Disney has achieved multiple benefits, including but not limited to the enhanced market competitiveness, bargaining power and influences in the online media streaming field. From the perspective of financial performance, it is also an undoubtedly successful acquisition case in history. In light of the analysis conducted in this study, it can be inferred that strategic negotiation plays an essential role in success. Some implications can be thereby reflected as below.

First of all, it is important to be fully prepared for the negotiation: to obtain comprehensive information and complete plans. The factors that influence the choice of negotiation are not vague factors such as psychological expectation, but must be based on a certain reality. The acquisition of relevant information has a direct impact on the behavior choice of both parties in the negotiation. The acquirer can continuously adjust the M & A pricing in the negotiation to optimize its own strategy by obtaining more information, and finally reach an agreement with the other party in the negotiation to complete the acquisition. As in this case, Disney investigated a lot of information about competitors and fox, and made a series of plans based on this.

The negotiation plan is the programmatic document of the negotiation and the action guideline and plan of the negotiation. With a negotiation plan, those who participate in the negotiation will have a clear idea of it and be able to compare it with the plan at any time during the negotiation so as not to make mistakes. Therefore, it is important to formulate a concise, concrete and flexible negotiation plan. To make a negotiation plan, the company should have a broad mind, especially a repeated comparative study of the intentions of both sides. A variety of options should also be sought.

After that, based on the negotiation plan, it is extremely important to construct specific strategies on the negotiation table, such as to make corresponding countermeasures, and choose the payment method that is in line with the interests of both parties. Through the analysis of Disney Company's case, we can see that Disney has a clear goal for this acquisition, to accurately grasp the position of the target company in the group and enhance its competitiveness from various aspects such as content and technology channels.

At the same time, we should adjust the negotiation strategy in time according to the specific situation, and consider the impact of many other bidders' behavior on the negotiation between the two parties (that is, the possibility of negotiation breakdown). In special cases, we can speed up the decision-making process and speed of the negotiation, and adopt the "push" strategy to achieve our own negotiation purpose. Disney adjusted the purchase price in a short time, accelerated the response speed and internal management process. It not only hit the confidence of competitors, but also prompted fox to speed up the negotiation agreement with Disney.

Finally, for media giants, there are many ways to achieve their own development, but M & A is undoubtedly their favorite way of expansion. The reason is that M & A can achieve rapid development and quickly occupy new markets. However, since film and media enterprises generally have distinct corporate cultures, it is an extremely complicated task for mergers and acquisitions to be made. Therefore, it becomes increasingly essential for both sides to create the synergy effect, which may greatly affect the success in the long term. Moreover, it should be noted that through mergers and acquisitions, the market pattern can only be gradually formed as time goes by; thus, the case of Disney and Fox is only at the early stage of integration and is far away from concluding. Even for the media giants like Disney, it has to think carefully about how to ensure the coordinated development of various departments and give full play to their energy in the future. For other media companies, if they want to develop themselves, they should first actively lay out new media and new markets; Secondly, strengthen the production of their own advantages; Finally, they should build their own advantageous industrial chain. Although M & A is an important means for media groups to achieve rapid development, they still need to pay attention to brand building, content marketing and new media development to enhance their core competitiveness.

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