

Coexistence of Opportunity & Challenge: Research on Evaluation and Strategic Integration of Amazon's Acquisition of MGM

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ABSTRACT

Amazon and MGM's acquisition is an opportunity for both companies to develop their career in the entertainment business. However, without an organized integration system and proper resource allocation, the two companies will also risk splitting apart. With the secondary data analysis, comparative analysis and literature research, this paper will discuss the opportunity of the acquisition with an indication about the bargaining power analysis, common objectives and leverage points, then analyzing about the root causes and negative effects of some potential problems among the integration system and firms' independence, and proposing corresponding solution and Strategies to maximize the growth of Amazon and MGM after the merger.

Keywords: Strategic integration, Amazon, MGM, Opportunity, Challenge

1. INTRODUCTION

1.1. Research Background

On May 26, 2021, Amazon and MGM signed an agreement for Amazon to acquire MGM Studio for \$8.45 billion, one of Amazon's most ambitious actions to develop its entertainment business. Amazon, an iconic example of the e-commerce industry, sells various products like movies and electronics to millions of consumers as an online retailer. Also, its cloud computing business has developed rapidly and has become a core piece of the internet. As for MGM, it is a media corporation specialising in the production and distribution of feature films and television shows and is one of the oldest film studios in the world. Despite being the last studio to transition to sound, Metro-Goldwyn-Mayer was the most dominating motion picture studio in Hollywood from the end of the silent cinema era until the late 1950s. The deal underscores Amazon's willingness to

invest heavily to stay competitive in the fiercely competitive streaming market. Amazon, Netflix, Disney and other video streaming services have long sought to beef up their content libraries to win users and invest billions of dollars to buy licensed content and develop original programming. However, Amazon is mainly trying to stay competitive in the market. So far, Amazon's media business is a relatively small part of its overall empire, although it still spends billions of dollars a year on content. In addition, a significant number of Prime users take advantage of the included free Prime video streaming. More than 200 million people worldwide who currently subscribe to Amazon Prime, more than 175 million used streaming video last year. Both numbers could benefit from adding thousands of movies and TV shows.

1.2. Literature review

Currently, more and more companies utilize acquisition as a way to strengthen their position in the market. It is also a method for the firms to expand and

develop into new markets. However, with proper management towards social and human resources, acquisition success could not be assured. According to Professor Rajdhani College University of Delhi Mayur Taneja, "If success is to be achieved in M&A, a cohesive, well-integrated and motivated workforce is required who is willing to take on the challenges that arise in the process of M&A" [1]. Amazon and MGM's acquisition also faces the same condition since this deal is one of the most significant steps for Amazon to develop media business aims for Prime Membership and advertising potential. Anjali Midha, co-founder and CEO of predictive content analytics platform Diesel Labs, stated that "It is a worthy investment, especially as the streaming wars begin looking beyond subscriber acquisition and toward metrics like share-of-hours-watched to solidify the value of their services (prices) and to establish robust 'bases' on which to develop next-gen advertising strategies" [2]. Docteur PhD in Business Administration, Christian University. Dr Justin Siewe Wadeu also discovers that Amazon hopes to develop Prime Video into a bigger habit for consumers worldwide through "stir MGM's extensive library of titles into the mix" [3].

1.3. Research Framework

Most scholars have discussed the acquisition's essential factors and studied Amazon's potential cooperation with MGM. However, there is still lack study about Amazon and MGM's future strategic integration and latent challenges. This paper will utilize secondary data analysis, comparative analysis and literature research method to find out some current problems between the two companies' current operation and future development. Through the deal analysis and comparison with Disney and Pixar's acquisition, this paper will also discuss some problems, like Amazon and MGM's allocation resources problems, and MGM could not maintain its absolute control over its films and TV plays' products as the previous time. This paper will base on these problems, analyzing the current situation, coming up with corresponding solutions that could prevent the problems and helps the two companies implement strategy integration to better cooperate

2. METHODOLOGY

2.1. Secondary data analysis

To begin with, this investigative report would utilize the secondary data collected from MGM's and Amazon's official websites and therefore evaluates the acquisition of the two companies. Then, with the SWOT and bargaining power analysis of these two companies, this paper will define the peculiarity of Amazon and MGM,

discussing the similarities between the objectives, mission and vision, which could judge the effectiveness and main targets of this acquisition. Additionally, the report could show completely the development priorities that the two companies should focus on and thorough risk analysis to reveal some negative aspects that should be avoided and attribute to the evaluation of the opportunity and challenges inside this acquisition.

2.2. Comparative analysis

In addition, the report will conduct a comparative analysis between Amazon's acquisition towards MGM and other previous social media deal makings, like Disney and Pixar. Since Disney and Amazon are both companies that have developed well in their own careers and they wished to branch out to entertainment business through acquiring other enterprises that are proficient in the production of movies and TV plays, with the proper comparison, this report could base on the cooperation and integration that the previous companies used and based on this foundation to explore about more possible schemes that Amazon and MGM could adopt. Therefore, with the comparison, the reports will show different kinds of strategic integration of companies with similar structures, which would offer a variety of potential developmental patterns for Amazon and MGM.

2.3. Literature research method

Moreover, this paper also contains a literature analysis of previous industrial reports that studied the deals of social media enterprises. The writing steps of a literature review could be generally divided into literature collection, literature reading and classification, literature processing, comparison and review, forecasting trends or proposing problems to be further studied [4]. Combining with the materials and statistic data contrasting of different companies that chose different sorts of cooperation models, this report will indicate the potential optimal operation mode for Amazon and MGM.

3. RESULT

3.1. Secondary data analysis on each of the two firms

3.1.1. Bargaining power analysis

The bargaining power of Amazon's consumers is reasonably high at this stage as there is strong e-commerce industry competition, low switching costs and high availability of substitutes. The retail consumers are really sensitive towards the prices, which increases buys'

bargaining powers: customers would shift from one retailer to another easily if a new retailer offers high-quality products at a lower price. Moreover, the low switching costs would make customers easily transfer from Amazon to other companies like Walmart because it would not cost the buyers a lot to switch to a new service. On the other hand, the Bargaining power of Amazon's suppliers is moderate because the size of suppliers is medium. Hence, sellers utilize Amazon as the platform competing to keep the prices low. Additionally, Amazon has a prominent position in the e-commerce business, so it holds superiority over its suppliers. Therefore, it would force the suppliers to follow the strict rules and regulars made by Amazon. Moreover, Amazon is utilizing forward integration that is "a business strategy that involves a form of downstream vertical integration whereby the company owns and controls business activities that are ahead in the value chain of its industry, this might include, among others, direct distribution or supply of the company's products" [5] and the moderate forward integration will limit suppliers' actual impact on Amazon.

As for MGM, the bargaining power of its customers is low to moderate. MGM created one of the best classical films- "Gone with the Wind" and cinematic classics-007, which helped form a huge customer base. And after its bankruptcy in 2010, it attracted a lot of new consumers with its high-quality movies investment and obtained large revenues. Also, there is effectively zero switching costs for customers to transfer from one film firm to another. Therefore, its increasingly large customer base and low switching cost are reasons that lead to the low bargaining power of the customers. The bargaining power of MGM's suppliers is moderate, as MGM is a leading entertainment company focused on the production and global distribution of film and TV content across all platforms. It has advanced technology as well as engineering and human resources. It has talented people be responsible for the film production, and MGM's property of self-independent also low down the bargaining power of its suppliers.

3.1.2. Key objectives

As for key objectives for each side, Amazon is ambitious to move into the entertainment business by acquiring MGM. Amazon has been making investments in streaming services to buoy its Prime memberships. And with MGM's help, it will make Amazon's TV and film library even more robust, improving the Amazon Prime Video content. Also, Amazon could premiere MGM's films on its Prime Video, which could be beneficial for the company to ingratiate and attract more Prime subscribers, who, in turn, would be willing to spend on the site. After it encountered bankruptcy, MGM made some successful investments that helped alleviate the financial risks, but it is still continuously looking for

buyers in the Hollywood market. After the acquisition, MGM would have more funds to produce high-quality films and TV content with advanced physical and human resources. Moreover, with Amazon's strong brand name, as Amazon is not only a famous retails company, but also has a high reputation in film and television plays, such as "The Big Sick" and "Manchester by the Sea", which would also help MGM to attract more customer and expand its range of clients. According to Senior Vice President for Production at MGM, Peter Bart, "Amazon's unique structure offers filmmakers access to its formidable digital marketing capabilities" [6], which is also one of the keys that leads Amazon to have such successful film promotion.

3.1.3. leverage points

Therefore, in the negotiation, one of Amazon's leverage points will be its successful brand of the largest online retailer. With its low-cost structure, huge product range and the vast number of third-party sellers, Amazon has grown much faster than the entire U.S. e-commerce market continuously. As a result, comparing with MGM's urgent need for financial funds, Amazon regard this acquisition as an opportunity to develop its branch of entertainment, But for MGM, as it has the advanced technology of produce film and TV plays, and has created one of the best classical films-"Gone with the Wind" as well as cinematic classics-007, which is the most significant resources that Amazon hopes to obtain. Therefore, to increase the competitiveness of its Prime Video Platform, Amazon needs to improve the quality of its films and TV plays and tend to continue the classical cinematic characters that can represent its platform and attract more consumers and investors.

This acquisition is an opportunity for both companies to expand their films and TV plays' quality and attract more consumer spending and investment. Therefore, with similar objectives, there is a high possibility for the two companies to implement the deal successfully. To maximize their value through the deal, Amazon should utilize its brand name and successful development in the e-commerce business. MGM should create values with its relatively advanced technology of film production and cinematic classics. Through harmonious cooperation, both companies could gain revenue and increase customer quantity through developing the streaming video and film production business.

3.2. Comprehensive analysis with Disney&MGM

3.2.1. Problems in film production

Comparing with Disney and Pixar, which is also one social media acquisition aim to branch out in the

entertainment business, Amazon and Disney are both companies that have strong formulation in other careers and have already formed a high reputation for their brand names, and they tend to acquire enterprises that are great in film production to develop its social media aspects. However, though Amazon is trying to attract more Primer users who cooperated with MGM and offered various kinds of TV plays in its video serves, Amazon still lacks film production. But for Disney, after it acquired Pixar, it has been making an effort to develop its streaming video platform-"Disney+", and accomplished subscription for more than one hundred million with the popular IP film made by Pixar and other acquired film-making-companies like Marvel. John Horn, who covers entertainment for KPCC, stated that "if you are selling stories, there's a lot of money coming your way. And in theory, you are going to be able to tell, you know, good stories because there are so many openings" [7]. As for Amazon, it is also possible for it to make something original like Netflix. Therefore, Amazon needs to consider whether it will concentrate on developing its streaming video platform like Disney or improve the technology of film-making and create more high-quality films.

3.2.2. Resources allocation dispute

Moreover, the same as Disney, Amazon is struggling with the cooperation system with MGM, and MGM would not be able to create and arrange its products independently as usual as both Disney and Amazon have put some high-quality films made by Pixar and MGM on its streaming video platform for free for the VIP Users. However, MGM and Pixar should have gained much more profits through screening in the cinema, which leads to problems about the recourse allocation.

4. DISCUSSIONS ABOUT STRATEGIES TO IMPROVE THE COOPERATION SYSTEM FOR THE FIRMS

4.1. The solution towards the resource allocation and lack independence problems between Amazon and MGM.

4.1.1. Amazon should allow MGM to make independent movies to a certain extent, not unnecessarily restrict it

Amazon's acquisition of the company will severely limit MGM's creative flexibility. Disney's decisions had influenced Pixar's artistic approach to some extent since Disney purchased Pixar in 2006, just as they did when Disney acquired Pixar. Pixar's animation content shifted to target younger and family audiences as a result of this

shift. Simultaneously, Pixar has decided to expand the number of films produced since 2010, resulting in a drop in the quality of succeeding works, leading to audience discontent with Pixar, which Disney definitely aids. So, in this scenario, Amazon may take a cue from Disney. Amazon could create a division to authorize Prime Video and film productions. This can not only improve the quality of the works published on Prime Video to some level and improve the most stringent examination of the works, but it can also give MGM and other film and television production companies fast feedback and ideas. At the same time, Amazon can promote MGM's films under its own brand name. Digital strategist Dr Dave Chaffey, co-founder and Content Director of online marketing training platform, indicating that "A company like Amazon could (and did) record every move a visitor made, every last click and twitch of the mouse. As the data piled up into virtual heaps, hummocks and mountain ranges, you could draw all sorts of conclusions about their chimerical nature, the consumer. In this sense, Amazon was not merely a store, but an immense repository of facts." [8] With proper analysis of the consumers' behaviors and then film promotion based on the customers' interest, Amazon personalization/recommendation collaborative filtering system plays a role in Amazon's advertising strategies. It could increase the efficiency of the promotion of the cinematic products.

4.1.2. Amazon could implement a strategy of making movies available simultaneously in cinemas and on streaming platforms

Amazon can maintain MGM's films broadcast in theaters and benefit from offline movie tickets to enable MGM to gain money from film works and attract more Prime members. At the same time, the movie will be shown on Prime Video after a period of release, when the number of movie slots and viewers steadily diminishes, and the purchase and viewing price will be set at 2/3 of the movie price. Finally, two weeks after the final film has been shown, they can make films only available to subscribers. This will increase Prime Video income by attracting more members.

4.1.3. Production platform limited content, attract customers.

Amazon might allow MGM to develop side episodes of well-known dramas in existing TV shows and air them exclusively on Prime Video to attract more users without impacting movie earnings. In addition, Amazon can produce sequels to popular films, ensuring that the number of fans continues to rise. For example, this year, Disney + debuted Wanda Vision and The Falcon and the Winter Soldier, two episodes based on the \$22.6 billion-plus Marvel Universe, much higher than the "\$4billion

that the Walt Disney empire to buy the superheroes stable Marvel Entertainment" [9]. Disney uses the brand impact to attract consumers and to increase user loyalty to IP via many channels. Amazon should also leverage MGM's brand and IP to entice more Prime members.

4.2. Strategies to maximize the growth of Amazon and MGM after the merger.

4.2.1. Bridging the gap between the two firms' cultures

One of the most significant impediments to effective integration has emerged as culture. The culture was determined to be the cause of 30% of failure integrations in one study. Companies with diverse cultures find it difficult, if not impossible, to make timely and accurate judgments or operate efficiently. Different corporate cultures have a variety of effects. Different decision-making styles, for example, can result in sluggish decision-making, failure to make decisions, or failure to put decisions into action. Both Amazon and MGM have their own CEOs. They must make decisions in different ways [10]. To solve this problem, they need to identify who "owns" corporate culture and have them report to senior management. Choose owners from both companies to the integration to represent all views, even in a takeover. These "owners" typically will be senior Human Resources or Organizational Development, practitioners. This is also an appropriate task for outside assistance, given the value of external insights in identifying culture.

4.2.2. Changing structures, integrating existing systems and rewriting roles and responsibilities rapidly

According to research, old loyalties linger long after a merger or acquisition has resulted in the formation of a combined organization. Strong communication efforts, led by senior managers and supported by change-oriented human resource employees, strategies, and systems, will be required to develop common new culture and accomplish complete integration. The HR function must completely comprehend the existing organizations' structure, culture, and processes and analyze and characterize these structures, cultures, and systems to make them more "transparent" and recognize potential bottlenecks and traps during the integration process.

4.2.3. Maintain the trust of employees and reduce the loss of staff turnover

M&As are a time of fear and uncertainty for many employees. When two firms or entities merge, new regulations, teams, management, and even an entirely new culture are frequently created. To address this, managers should encourage regular feedback from all staff, old and new, on how the integration is progressing and what areas need to be improved. Setting up feedback boxes or even online forums where people can offer their feedback, for example. Your employees should not only be asked for feedback, but they should also feel and see that their ideas are being listened to and implemented. Be open and honest about the input you receive and how you plan to correct or improve the entire process. Demonstrating your skill and commitment to doing the right things for your employees is critical to keeping them happy and engaged during an M&A. This could involve maintaining open and consistent communication, setting appropriate expectations, providing financial compensation, and assisting them in their professional development.

5. CONCLUSION

Recently, a variety of companies have utilized acquisition to branch out and develop into new markets and, therefore, continuously increase their influences and reputation. Focusing on the deal analysis between Amazon and MGM, the study shows that the acquisition requires both companies to confirm their common objectives and vision and concentrate on combining each companies' strengths to attract a larger range of customers. In addition, to maximize the revenues and future development space, Amazon is supposed to offer MGM enough belief and independence rather than restrain it, and they also need to cultivate common culture and absorb knowledge about the structure and advanced technology from each other. As a result, it would be possible for Amazon and MGM to create innovative and powerful products with concerted efforts.

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