Influences After Disney Acquired Fox

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ABSTRACT

The Walt Disney Company holds a significant commercial position around the globe. It is well-known not just in the amusement park sector, but also for its accomplishments in film and television production. This paper was mainly focused on the impact of the acquisition of Disney Company and 21st Century Fox. Through careful screening of the material, this paper came up with a series of results. Including acquisition analysis, and analysis of Disney's development in the future. This paper also offered solutions to these challenges on a one-to-one basis in the Discussion section after thoroughly comprehending these concerns. The conclusion was outlined around the current state of Disney, Disney's future development, and Disney's rivals, to name a few topics. The findings of this study was extremely valuable to Disney on a commercial level. Disney can learn about other people's perspectives on their current situation. This also provide a solution to several constraints that Disney has faced around the globe.

Keywords: *The Walt Disney Company (Disney), 21st Century Fox Corporation (Fox), Market Strategy, acquisition, SWOT analysis.*

1. INTRODUCTION

1.1. Background

An acquisition between The Walt Disney Company and 21st Century Fox Corporation took place on 20th March 2019. The acquisition was finalized at $71.3 billion [1]. It is an online acquisition of the entertainment and media industry located in the US. This acquisition took place at a time when the whole industry is not doing so well. According to the Box Office report from IMDbPro, the domestic yearly box office within the U.S decreased by 4.8% in 2019 compared to 2018 [2]. Furthermore, it is the steepest decline in the past 5 years [3]. This is due to the increased market share of Netflix, a streaming platform. It causes a decreasing number of people to be willing to go to the cinema for movies as they can easily access great content at a relatively cheaper price per movie at home. For that reason, Disney is desperately looking for content to start their own streaming service, Disney+. According to the Figure 1, the number of customers of Subscription Video on Demand (SVOD) platforms kept increasing each year, as Netflix is always in the lead. The gap between itself and Amazon Prime, the second biggest SVOD platform, is getting larger and larger each year [4]. Netflix is likely to become dominant in the market in the near future, thus, the later Disney+ gets released, the less competitive it will be with other streaming services.

Y. Jiang et al. (Eds.): ICEDBC 2022, AEBMR 225, pp. 1283–1290, 2022.
https://doi.org/10.2991/978-94-6463-036-7_190

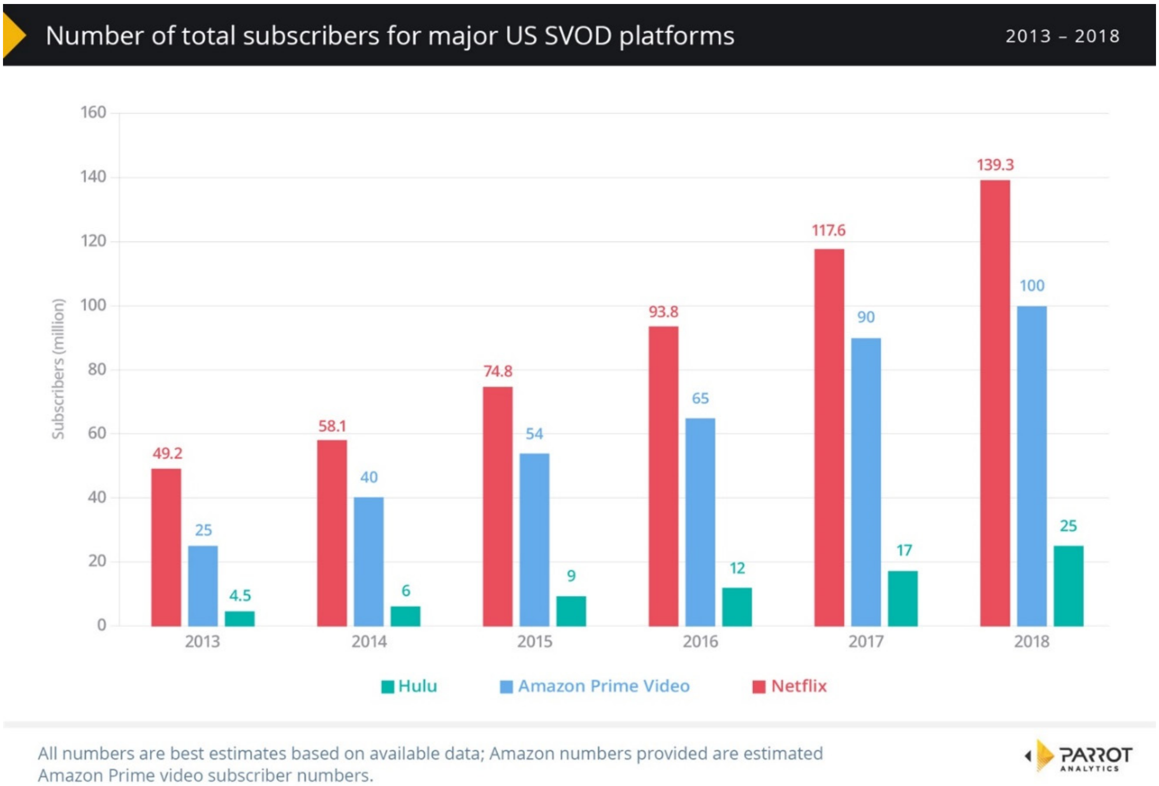

Figure 1 Number of total subscribers for major US SVOD platforms between 2013-2018[4]

Disney is a multinational media company, it is well-known for the work of its film studio, which is one of the six major film companies in Hollywood. Disney's worldwide box office was more than $7.3 billion in 2018, behind its own record of $7.6 billion in 2016, and it is in the leading position in the industry [5]. A report called "It's a small world after all: an international analysis of the Walt Disney Company" by Coral Douglas published in 2019 has examined the specific international business topics about the company [6]. Tatiana Korenkova has reported the trends, competition, and historical financial performance of the company's corporate strategy in 2019 [7]. Another report published in 2019 by Bruno et al. examined and calibrated valuation changes associated with the acquisition [8]. Alexandre Bohas analysed transnational corporations and globalization using Walt Disney Company as an example in 2014 [9]. There is another report published in 2019 by Marius Peter Krafczyk that is aimed to investigate the acquisition between Disney and Fox [10]. The paper focuses on the rationale behind Disney's motivation for the merger.

1.2. Main Research Gap

As people preferred to watch streaming video at home, Disney's worldwide box office was declining, and Disney eventually decided to develop Disney + and acquire 21st Century Fox Corporation for more content. After researching information, there is a lot of research about future plans and business planning, whether Disney will move in streaming or other directions. According to previous research, Disney strives to do business as honourably as its resources allow [11]. Disney, according to Coral Douglas, encompasses many various entertainment areas, selling to both children and parents all over the world [6]. Some outlets began to focus on Disney's competition with other firms, rather than on the company's own growth [12]. It discussed what lessons might be learned from the Disney/Comcast competition in their quest to deliver greater customer service. Nonetheless, the inevitable factors have emerged. Due to the emergence and uncontrollability of the epidemic, Disney's plans for the future have changed and taken on new qualities. In more detail, after the epidemic, Disney decided to acquire 21st Century Fox Corporation due to a decline in ticket sales. Which is a decision that had a huge impact and was not anticipated by some of the earlier papers and materials. Naturally, few people have studied the impact of this decision in depth. Therefore, the gap in research material emerged, and this paper needed to fill the gap in this area of research. This helps to decide the research question, namely, what are some influences after Disney acquired Fox?

1.3. Fill The Research Gap

This research assumes the answer to the research question is that the competitiveness and efficiency of Disney increased after Disney acquire Fox. The significant intellectual property (IP) rights owned by Fox can allow Disney+, the streaming software launched by Disney, become more competitive against competitors, especially Netflix. In addition, synergies may occur as a result of a horizontal merger between Disney and Fox, hence attractiveness increases, and customer volume becomes larger. However, Disney has to provide works with high quality and frequency to enhance customers' loyalty. This may lead to an increase in online consumption and a fall in box office revenue. For the purpose of verifying whether the assumption of the research question is true or not, this paper will involve several steps. First conclude the theory of horizontal mergers and acquisitions, then validate it by empirical analysis. This paper will also analyze the situation and data from the company and the market. At last, draw conclusions about Disney's market position and development prospects, as well as the advantages and disadvantages brought by Fox.

2. LITERATURE REVIEW

2.1. Definition and Development

A large and growing body of literature has investigated the theory of horizontal merger and acquisition(M&A) recently. It is a merger or acquisition that occurs between two or more rival companies that produce and sell similar products in the same industry. It is now well established from a variety of studies that this often results in the economics of scale. Since firms can acquire advantage resources, lower costs, and expand market share through mergers, which greatly increases production and revenues. Competition in the market also tends to be eliminated cause two powerful separated companies combine into a powerful one.

Most resources tell that the appearance of the horizontal mergers was based on the first merger wave in America during the period of the late 19th and early 20th century [13]. It was the era of the transaction between capitalism free competition market and monopoly and took horizontal merger among similar enterprises as the principle. 2,864 mergers and acquisitions occurred in the first merger wave, involving $6.3 billion [13].

Synergy theory is the base of horizontal M&A theory, the first serious discussions and analyses of synergy theory were proposed by Weston. In summary, it formed the result that the whole society may benefit from horizontal mergers between companies. And mainly through synergies in order to improve efficiency, in terms of operating synergy and financial synergy. On the other hand, the company's competitiveness raises following the horizontal merger. Then results in net cash flow exceeding the expectation of total cash flows of the two companies. Later, Williamson argued that industrial monopoly was created while horizontal mergers brought the economics of scale, then lead to losses in social welfare. Thus, the criteria for judging whether a merger is positive or negative depends on the change in social welfare. It’s good when net social welfare raise, vice versa.

2.2. Important Results

Two theories were mentioned previously, horizontal merger and synergy theory, which used to analyze the impact of Disney's acquisition of Fox. According to the study of Skype k, by including change management evaluation into pre-agreement activities. For instance, the formulation of the acquisition approach, target identification, and due diligence and the two merging firms. These may enhance their chances of making the most favorable strategic decisions for their organizations. This paragraph will go through their exact usage and areas of use in detail. The acquisition can actually be used in many ways, two companies from different countries can come together to discuss a merger [14]. His paper examines the issues posed by foreignness liability and the accompanying country-of-origin prejudice. As well as their impact on Western managers' judgments on whether or not to depart when their business is acquired by an emerging-market multinational. Some papers also specifically distinguish between the concepts of merge and acquisition, for example, stating that merger and acquisition both are different from each other [14]. Examine the outbound merger and acquisition of selected Oil and Gas Companies. The above is based on these papers, this essay summarizes and list some characteristics of these two theories of the concept.

2.3. Summary

This essay examined both horizontal merger and synergy theory. This acquisition is very beneficial for both parties because horizontal mergers allow them to benefit from economies of scale, cheaper costs with higher efficiency. This can happen because they can share resources from alternate companies. For example, company A is well known for its promotion strategy and company B is prominent for making animation, they can cooperate with each other's strengths, hence it is more efficient. Synergy is another theory that is applied in this essay, it states that the sum of the value from two parties will be greater than a separated form of each party [15]. In this case, the customer of the two parties may now be one, the market share for Walt Disney Co. will be able to grow, from 26.24% in 2018 to 33.25% in 2019, and therefore revenue of it will increase rapidly in the long term [16]. This essay will analyze the influences after the acquisition between Disney and Fox by using the two theories mentioned above. Since they are qualified, well-developed through time, and suitable for M&A analysis.

3. METHODOLOGY

3.1. Research Design

This paper will focus on the qualitative analysis of Disney by using the method called SWOT analysis. Which involves the analysis of Strengths, Weaknesses, Opportunities, and Threats. There are two reasons why SWOT analysis is very useful in this case. First, there is a paper published by Jeff Blevins in 2002 that used SWOT analysis on a very similar topic, which is whether Disney should acquire “Yahoo!”. Also, SWOT is very suitable the reasons of allowing companies to assess both internal and external factors. When companies need to decide whether to embark on a certain strategy or not, SWOT analysis can be very helpful because it visualizes the advantages and disadvantages of that strategy.

3.2. Introduction of Disney

Disney was founded on October 16, 1923 [17]. It is a multinational media company located in Burbank, California, United States. The first offer from Disney to Fox was made in December 2017, at $52.4 billion [18]. However, it was finalized at $71.3 billion in March 2019 [19]. According to Disney's announcement, this acquisition includes 20th Century Fox Film Corporation, 21st Century Studios, National Geography, Fox extended, 30% stake in Hulu [20]. The negotiation process took about 16 months to settle down due to the involvement of Comcast, it started bidding with Disney with an offer of $66.1 billion. The Antitrust Division department of the US government was also involved to make sure there is no monopoly being created.

3.3. Data Analysis

3.3.1. Strength

Disney has a large market share, 26% of the market in 2018 [21]. This allows it to make a profit, in fact, its annual net income in 2018 is $12598 million [22]. Disney and Fox both have a high reputation, the acquisition of them will expand Disney’s market share to 33.1% [21]. They both has a very proficient team, such as its great promotion and marketing departments, great scriptwriter, and designers, allowing Disney to produce great content in order to obtain its market share. Other than this, the economies of scale brought by the horizontal merger allow Disney to produce movies or TV series efficiently. This is because as Fox and Disney are in the same industry, they are able to share each other’s resources in movie production. Such as animators, art designers, and other parts of movie production will allow Disney to produce at both higher quality and quantity. Moreover, Disney may bundle Hulu and Disney+, and sells them together at a relatively low price may create synergies. This can help Disney to expand its market share in the SVOD industry since consumers want the best quality content at a reasonable price. In addition, the IP rights from Fox can be very beneficial to Disney. IP is the form of content that contains a brand value, which means that it must have its own propagation attributes. It will attract consumers to watch the movie made about it, and buy related merchandise such as toys, posters, and others. For instance, Iron Man's fans will pay for the movie if Iron Man is in some of the scenes and buy the merchandise of the film if they do like it. Therefore, IPs from Fox will allow Disney to create its own ecology, from movies to theme parks, and the better IP there is the more money they can make, and the better content they can produce. All this creates a positive loop. This means the outputs that are generated in the process can be reused as inputs. In this case, the outputs are the better contents, these contents can be used as an input to generate more money, then this money could be used to produce better content. This enables high-quality output with high income. As the production film industry often are high input but unstable output, other companies usually charge a high price. Whereas Disney's large scale allows it to set a relatively lower price because it is not rushing to cover the cost, with a lower price, there is higher demand.

3.3.2. Weakness

Since both Disney and Fox are from America's film industry, most of Fox's IP attracts audiences in Western countries, this leads to heavy dependence on income in North America, or the western world, ignoring markets elsewhere in the world, and Disney may lose many opportunities because of this. For example, Netflix is very popular in Korea right now, this is not only because Netflix has great content, but also because some of the content is also based on Korean culture, whereas Disney may only have western stories that Korean consumers are not as interested in. This can be very dangerous to Disney because once Netflix becomes dominant in a certain market, it is even harder to compete with. Another weakness Disney will have is the lack of new stories. Fox and Disney’s tastes in movies are quite similar, leading to similar stories. Certainly, Fox allows Disney to have more IP, but they are famous already. One way to keep consumers is by introducing new characters in a completely new background, consumers may get bored if the stories and characters in a series are always the same. However, because they both have similar tastes, their scriptwriters are only good at writing a certain style of story. It is very hard for Disney to diversify enough to attract enough consumers.

3.3.3. Opportunity

There are a lot of external opportunities in the market, such as an increasing number of subscribers that are willing to pay for streaming services. Disney is willing to join the market to earn higher profits. Buying Fox including their IP rights and resources is effective because once these films have been off from cinemas, Disney can own the rights and exclusive broadcast all films online. Moreover, Fox was a strong competitor for Disney in the film industry originally, and the threat made by Fox will disappear after the acquisition. Also, Disney can expand itself, increase market share and raise market competitiveness at the same time through the horizontal merger with Fox. Besides, Disney+ will allow Disney to try something new in its production. This is because there are fewer concerns on whether the box office will be able to cover the cost or not, having Fox's content allows Disney to be much more creative and create productions that may become significant.

3.3.4. Threats

The most significant threat that Disney will face if they do acquire Fox is the limited job opportunities will definitely lead to layoffs of employees. Some positions with high overlap can only lead to choosing the best. If Fox's employees are retained, they may be inconsistent with Disney's philosophy and culture, difficult to manage and even influence the company to make optimal decisions. Similarly, in the early stage of the acquisition, production will be stopped for a period of time for running-in. If the rival company develops any new technology at this stage, Disney's competitiveness will be greatly reduced. Lastly, because the Fox acquisition is so expensive, Disney's ability to recoup its costs in a certain time or not is also a threat that it’ll face.

4. RESULT AND DISCUSSION

4.1. Result

This essay aimed to find the impact on Disney after the horizontal merger with Fox. From the analysis above, it is concluded that the Disney acquisition was generally successful, with Disney's market share and annual revenues rising significantly after 2019 when the acquisition was reached as shown in Figure 2 and Figure 3, which brings benefits to Disney.

There are two main advantages that come with the acquisition. Firstly, Disney becomes more competitive in streaming services, and Disney+ is able to offer users more attractive choices with high quality. Besides, Disney has gained a higher market share in the film industry as all of Fox's films, TV IP rights, and resources will be owned by Disney, along with 60% stock in Hulu. Hulu and Disney+ together may lead to synergy.

Comparatively, the only disadvantage it noticed is that cost of Disney's acquisition of Fox was extremely high, reached to $71.3 billion [23]. Hence, it's difficult to make the cost back and may lead to a financial deficit in the short term.

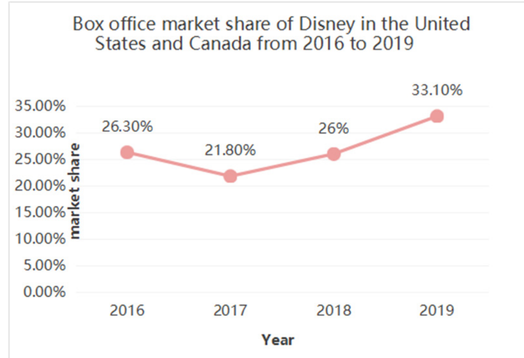

Figure 2 Box office market share of Disney in the United States and Canada from 2016 to 2019 [21]

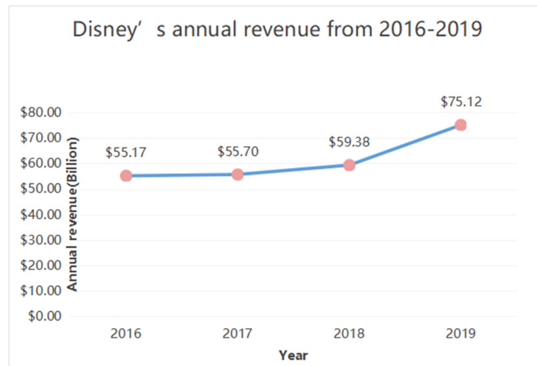

Figure 3 Disney's annual revenue from 2016-2019 [22]

4.2. Discussion

The whole study was about the impact of Disney's acquisition of Fox. Whether the Disney company suffered a loss because of this huge acquisition. From the research, it is clear that Disney has made strong use of the acquisition. It got the most out of the fox acquisition and profited from it. In the past, Disney has begun to lose some of its strongest competitors. The Walt Disney Company now occupies an oligarchic position in the world. The Walt Disney company seems to be very perfect but still has many flaws. Disney, for example, will struggle to recoup its huge acquisition. In addition, Disney parks have many global competitors, such as Universal Studios Hollywood. Based on this research, the advice to Disney is that it cannot only consider streaming but also make a big impact in other areas, such as theme parks if it grows quickly. The hardest thing to prevent is natural disasters, and Disney should be best prepared for future emergencies like the COVID-19.

Disney may have had several flaws in recent years that have slowed its growth. According to an earlier study, Disney's massive acquisition of Fox, because it doesn't know how to handle streaming media, would not only result in big losses for Disney, but it may also result in tragedy for Fox. Disney's acquisition, on the other hand, appeared to be a success based on examination and analysis. Following the purchase, Disney's market share and yearly revenue climbed dramatically in 2019, resulting in major gains for Disney as well as a beneficial influence on Fox.

After rereading the research paper, this review identified the following limitations and defects, and had no other option for finding useful information but to use a secondary resource. A lack of first-hand evidence is linked to a misunderstanding of what the general public believes. It is unclear how the public reacted to Disney's acquisition of Fox because all the information was from government sources. People's ideas change all the time as a result of the rapid growth of civilization. No one can predict what will happen next. In future studies, focus on increasing the range of methodologies used in the study is applicable, such as surveys and interviews, in order to assure the research's authenticity and correctness.

5. CONCLUSION

This essay is done under the significant development of streaming media and increasing online acquisition in the movie industry, then studies Disney's market position before and after the acquisition with Fox. Afterward, explores the research question "What are some influences after Disney acquired Fox?" through the theory of horizontal acquisition which includes usage, benefits, and consequences, as well as the "SWOT (Strength, Weakness, Opportunity, Threats)" analysis to Disney after the merger. Eventually concludes that horizontal acquisition with Fox brings dramatic benefits to Disney, raising revenue and competitiveness or experiencing economics of scale to improve efficiency, etc.

The result mostly fits the assumption proposed, except for the statement of the box office for Disney. The hypothesis claims that box office revenue will fall as Disney concentrate on online media, while the analysis shows Disney's box office market share continued increasing after the acquisition. The most important point given throughout the essay is that by acquiring Fox, Disney acquire sustained well development in various areas.

According to the investigation, so far there is no paper has used SWOT analysis to analyze Disney's acquisition of Fox. This article analyses the advantages, disadvantages, opportunities and threats for Disney in a specific term, which might be able to fill in the gaps not mentioned in other papers effectively and lead to an insightful understanding of this event.

This paper successfully examined most of the influences on the research question. Through the research and analyses, the result showed that with good use of the resources Disney gained from the acquisition, Disney will be able to boost its market share and higher its revenue in the long run. However, the limitations of the present studies naturally include the consideration of factors that can't be expected such as covid-19. Since all information and data used are second-handed, this paper is not able to examine the impact made by the pandemic on the film industry and the SVOD market in depth.

Also, this study uses SWOT analyses as the main tool, and it is only a process in the business when trying to make a strategy corresponding to market response. SWOT analysis may be limited because it only focuses on one party, and it doesn't provide any alternative decisions. For a more detailed plan, the future studies will need to do more in-depth research and analysis to make the decision. Since this paper has not analysed from the perspective of consumers, the analysis process had only considered the optimal conditions. Such as with more IP, consumers will definitely join Disney+, or if Disney+ has a lower price, consumers will definitely switch from Netflix or any other streaming services to Disney's. However, things may not be as successful as expected or planned. Future studies will also need to focus on the behaviours of consumers. Therefore, it will need to use surveys or interviews to provide a more comprehensive solution.

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