Positive or Negative Impacts: Twentieth Century Fox After Its Merger with Disney

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ABSTRACT
Twentieth Century Fox is one of the oldest movie studios in the United States and has produced many iconic films such as Titanic, Avatar, and X-Men. In 2017, the Walt Disney Company announced its intention to conduct a merger with 20th Century Fox, and the horizontal merger is successfully conducted and closed in March 2019. The purpose of this paper is to explore whether the acquisition deal between Disney and 20th Century Fox brings more positive or negative impacts on Fox. This paper refers to the horizontal merger theory and conducts a thorough SWOT analysis on the research subject, 20th Century Fox. This research concludes that the acquisition deal between Disney and 20th Century Fox brings more positive impacts on Fox than the negative. To compensate for its existing flaws, 20th Century Fox can concentrate on diversifying its content, preserving its intellectual property, and increasing its bargaining leverage with its channel partners such as fubo TV and Hulu+. To summarize, the acquisition agreement between Disney and 20th Century Fox benefits Fox by allowing it to broadcast its content on Disney+, broaden its movie genres, increase its global markets, and access to additional funding for larger-scale productions.

Keywords: *Twentieth Century Fox, Walt Disney Company, horizontal merger*

1. INTRODUCTION

1.1 Research Background

The summer of 2017 was the summer of hell for the United States' movie industry as it witnessed an industry-wide box office plummet. The overall ticket sales dropped about 10.8% when statistics were collected during the summer, and the year-to-date rate was off by 3% this year. The poor industry performance significantly hit the cinemas such as AMC theater, which experienced a 27% loss in its value. Since the beginning of August, the four theater chain tycoons in the United States have lost $1.3 billion in value [1]. Not only the movie theaters but also nationwide film production companies, including the research object for this paper, 20th Century Fox, suffered heavily from this box office crisis. This crisis can be attributed to two main reasons: the audience's "over-reliance on sequels catching up to Hollywood" and the competition created by the streaming services [1]. To have a clear understanding of the impact of the crisis on film production companies, a chart conducted by the website The Numbers describes the box office and market share history for Fox from 1995 to 2021. The market share of 20th Century Fox fell by 1 percent from 2016 to 2017 and by 3 percent the following year, and its total ticket sales plunged by about 28 million from 2017 to 2018 [2]. Twentieth Century Fox, a television broadcasting and film production company, was the fourth-largest media conglomerate in 2017 and was one of the members of the "Big Six" film production studios in America. It was now divided into two sectors after Disney's acquisition: 20th Century Studios, Inc., referring to 20th Century Studios and Searchlight Pictures, and 20th Television, Inc., referring to 20th Television and 20th Television Animation productions. However, its performance in the industry was not as outstanding as its rank. From the statistics collected for the fiscal year ended in 2016, Fox's total revenue was down by 5.7%, and its profit was down by 66.8%. Its poor performance entailed the company undertaking many debt issues, which had resulted in a total of $1872 million repayments of borrowings for 20th Century Fox by 2018. The long-lasting debt problems for Fox finally came to an end when Disney offered the acquisition deal to Fox and announced to assume approximately $19.2 billion of its debts [3].

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1.2 Research Gap

The issue of Disney's acquisition of Fox has received considerable critical attention from the public, and many scholars have done research papers related to Fox's financial history or about the acquisition deal between Disney and Fox. For instance, a previous study published in 2020 written by Jeong-Suk Joo, an associate professor at Jungwon University, reported facts about Disney's acquisition of Fox and the changing media environment in the U.S [4]. However, few had dived into the topics related to the impact of the acquisition on 20th Century Fox. This is the aspect that this research paper mainly focuses on: Did the acquisition deal between Disney and 20th Century Fox bring more positive or negative impacts on Fox? The desire to examine the acquisition deal from the perspective of the acquired side, which is generally regarded as the disadvantageous side, and to prove that an acquisition deal can bring more positive changes to the acquired side, in this case, 20th Century Fox is the motivation behind this research question.

1.3 Structure of the paper

To test this hypothesis, this research paper will review the theory of horizontal mergers between firms and will give an account of the research paper done by David and Roger in 1984 titled "The Price and Profit Effects of Horizontal Merger: A Case Study". Following that, the next section introduces the methodology used in this paper and offers a thorough SWOT analysis for 20th Century Fox. The final section provides the conclusion of this case and a summary of how these results can be inferred from other acquisition cases in the industry.

2. LITERARY REVIEW

2.1 Definition

Horizontal merger usually refers to business consolidation and mergers that happens between firms that operate in the same industry. This type of merger happens when large firms in the industry want to create a more influential company with more effective economies of scale and greater market shares [5]. This theory mostly and originally applies to economics and business fields.

2.2 Important Results

The Horizontal Integration Theory can be traced back to the 19th century when John D. Rockefeller, an American business magnate, used this theory to build the Standard Oil Empire by making deals with the railroad companies. Its business in the oil industry was big enough to negotiate the best term with the transportation companies by transporting vast amounts of oil and paying lower costs than other small oil companies. Furthermore, it often bought other small oil companies to eliminate competition. Eventually, it kicked other small oil companies out of business and took hold of approximately 90% of the oil-refining work in the United States, thus, creating a monopoly in the industry [6]. This kind of horizontal integration is potentially harmful to the economy overall; therefore, the government issued regulations regarding the issues. In 1968, the Antitrust Division of the Department of Justice issued the first horizontal merger guideline. The present Horizontal Merger Guideline was issued by the Acting Assistant Attorney General for the Antitrust Division of the Department of Justice (DOJ) and the Chair of the Federal Trade Commission (FTC) cooperatively in an effort to "assist the business community and antitrust practitioners by increasing the transparency of the analytical process underlying the Agencies' enforcement decisions" [7]. As discussed above, the theory of horizontal merger (integration) was initially used in the business fields; however, it was later expanded into other fields such as healthcare and course offering. In hospital networks, horizontal merger usually refers to the grouping of several hospitals, integrating outpatient clinics with the hospital, or a geographic network of various healthcare services. It can lower the aggregated costs, eliminate unneeded services, and increase market shares for companies [8]. Moreover, horizontal integration can also be utilized in course offerings. Horizontal integration aims to create linkage connecting courses within the same course category, such as anatomy and physiology. Horizontal integration in course offerings promotes clinically relevant learning and increases study outcomes [9]. A large volume of published studies describes the role of horizontal mergers in the industries and their benefits. Milford and Robert conducted a case study in 1982 of a firm in the pulp and paper industry and concluded that the industry experienced an increase in employment following the horizontal merger. The merger process is believed to have a positive short-run impact on the employment levels in the industry [10]. Some scholars have proved that horizontal mergers are beneficial to the acquiring company. The research paper written by David and others offers a thorough case study focusing on the price and profit effects of the horizontal merger on the company Xidex in 1984. The research states that the acquisitions resulted in a substantial increase in the market share of the acquiring company. Besides that, the price of each affected product line increased after the merger, which generated considerable amounts of profit gains that can recover the costs involved in the acquisition for two years [11]. Research on merger review carried out by Volker and Michael in 2010 tests that pre-existing market power possessed by a company can be enhanced via horizontal merger [12].

2.3 Summary

In conclusion, the horizontal merger can boost the short-run employment rate in the industry, increase the market share of the acquiring company, and better equip the merged company to face the increasing competition. However, the studies published either focus on the impact of the horizontal merger on acquiring side or the impact on the market economy overall. They do not consider or address the impact of the merger on the acquired side, which is the research topic of this paper.

3. METHODS

3.1 Research Design

This research paper utilizes a SWOT analysis as the qualitative research tool to answer the research question. Since the research question focuses on whether the merger brings more positive or negative impacts on 20th Century Fox, a SWOT analysis will perfectly answer the question because it analyzes the strength and weaknesses of 20th Century Fox after the acquisition. Moreover, conducting a SWOT analysis will allow the analyst to be aware of the company's relative strengths, weaknesses, opportunities, and threats and then figure out a solution that can mend the weaknesses and deal with the threats by utilizing the strength and opportunities the company possesses. To sum up, using SWOT analysis in this research paper helps to answer the research question and offers an integrated solution.

3.2 Twentieth Century Fox

The research subject for this paper is 20th Century Fox. In 1933, Darryl F. Zanuck, the head of the production at Warner Brothers, and Joseph M. Schenck, head of the United Artists, cooperated to form the Twentieth Century Company. Due to the rich experience that the two founders had in the past, the Twentieth Century Company produced 18 films in 18 months and won two Academy Award-winning films in the 1940s. However, in the 1950s, along with the invention of television, movie theaters and studios nationwide all suffered significant losses. The Twentieth Century Company lost approximately $48.5 million from 1959 to 1961 and lost $39.8 million in revenues in 1962 alone [13]. The Twentieth Century Fox experienced its peak in 1988 with the production of the all-time blockbuster, the Titanic. It broke all box office records and successfully won 11 Oscar accolades [13]. For over 80 years, Twentieth Century Fox has been the "Big Six" American film studio. However, the company lacks sufficient scale and funds to compete with other media behemoths in the film and entertainment industry. Hence, it wants to focus more on its competitive TV news and sports sector. In 2017, the Walt Disney Company announced its intention to purchase the 20th Century Fox for $52.4 billion. Several competitors appeared during the bidding process in the next two years, such as Comcast, which bid for $65 billion. Nevertheless, in March 2019, Disney finalized the acquisition of 20th Century Fox for $71.3 billion in total, leading 20th Century Fox into the Disney era [14].

3.3 SWOT analysis

3.3.1 Strength

After being acquired by Disney, 20th Century Fox possesses more strength. Twentieth Century Fox used to face fierce competition from online streaming services. After its merger with Disney, its movie can now be displayed on Disney's streaming service, Disney+. Not only does it benefit 20th Century Fox but also Disney since it now can provide more high quality and variety content. Besides that, 20th Century Fox would gain more international prestige after the horizontal merger. Disney has always been an influential giant in the entertainment and film industry; from its movies to its theme parks worldwide, Disney attracts millions of millions of fans every year. Thus, being acquired by Disney would extensively increase the fame of 20th Century Fox as well as provide it with ample funds and cash flows. In 2017, Disney had a market capitalization of $155.413 billion, while $50.49 billion for Fox. Disney's profit margin was 16.22 percent, per Yahoo Finance stats, while Fox's was 10.36 percent [15]. Besides that, being acquired by Disney also offers 20th Century Fox a larger production scale, for Disney claimed to have 195,000 full-time employees, while Fox only had 21,700 [15].

3.3.2 Weakness

Disney acquired Twentieth Century Fox rather than cooperating with Disney, which means there would still be many uncertainties and limitations that Fox needed to face after the acquisition. One of the biggest concerns was that Disney would scale back the production of costly movies that do not fit into the established "Disney formula" [16]. Thus, the content that Fox produces will be more strictly judged and selected by Disney before it can release, and this will potentially restrict the creativity of Fox's producers. As a result, the movie content produced by the company will become more consistent and monotonous, and the audience will be less willing to pay for similar content over time. Moreover, Fox has a low investment in its customer-based services, which means its competitors may gain an advantage from this. Additionally, although Fox is entitled to more funds for production after its merger with Disney, it still has a higher operating cost in the motion picture industry. It will eventually become a threat to Fox since many small-scale motion picture companies tend to use technology to attract customers from Fox. Last but not least, being acquired by Disney indeed increases the production scale, but it also increases the collective bargaining power of the trade employees for better services. Also, since the employee base for the company is vast, many of them actually lack the perception of the company's strategy.

Over the past few years, several promotional campaigns published by Fox were not actually corresponding with the company's strategy [16]. As a result, the number of Oscars won by Fox was not ideal over the past few years.

3.3.3 Opportunity

One of the most evident opportunities that Fox faces is that it can expand its online streaming distribution and earn complementary sources of revenue from this. By streaming from Disney+, Fox will potentially increase its side income besides its traditional income source. As a multinational company also entitled to Walt Disney's fame, 20th Century Fox can expand its influence and businesses into more global markets. With the advancement of the Internet, new marketing strategies are opened for Fox as it can release its promotional campaign online rather than offline. This method also proves to be effective in reaching global audiences. Moreover, it can develop and release new products on the Internet or in APP stores which can cut production and marketing costs and still achieve the same or even better effects. Twentieth Century Fox can also leverage technologies such as artificial intelligence, analytics, and machine learning to automatize the production process and to get better insights into consumer preferences and behaviors.

3.3.4 Threat

Although streaming on Disney+, 20th Century Fox still faces intense competition from other streaming services; the most notable one is Netflix. Unlike Disney+, which targets kids and families, Netflix has a broader range of audiences, from teenagers to adults. Moreover, as 20th Century Fox stepped into global markets, it would be harder to regulate illegal selling and downloads of the movies since there lacks an appropriate law to protect the intellectual property created. Besides protecting the patents of the movies, changing political policies and currency are also things to be considered as Fox targets its films to an international audience. Furthermore, with the advancement of technology, the standard for entry into the film and motion picture industry lowers. It will potentially present 20th Century Fox with a more significant number of strong competitors worldwide and put downward pressure on pricing. Under the regulatory requirements in the United States, 20th Century Fox often faces the high bargaining power of its channel partners, which is a crucial component contributing to the high production costs.

4. RESULTS & DISCUSSION

To sum up, the horizontal merger between 20th Century Fox and Disney brings more positive impacts to Fox, which can be seen from the SWOT analysis conducted above. After the merger, 20th Century Fox can stream its content on Disney+, expand its movie genres and global markets, and is entitled to more funds and a larger scale of productions. However, the merger does set some limitations on Fox. Its content is now examined and regulated by the Disney side, resulting in many costly productions that do not fit the "Disney formula" being abandoned. Similar to the results of many other studies mentioned in the literary review section, the horizontal merger between 20th Century Fox and Disney extensively increased the company's market share, cut off unneeded sections, and provided more funds for production. Moving forward, 20th Century Fox can adopt the suggestions given below to mend its weaknesses and resolve threats by utilizing its strengths and opportunities. Expanding its variety of contents is one of the steps that Fox can take. Its greatest weakness after the acquisition is that the content produced is regulated by the system of production set by the "Disney formula" so that the content will fit the "family-friendly" theme that Disney promotes. By expanding its content variety, Fox can widen the range of its target audience and better compete with other streaming services and studios such as Netflix and Paramount. It is also essential for the company to consider producing movies with lower production costs but thought-provoking effects. Fox can potentially increase its reputation by producing these types of movies. Moreover, Fox needs to formulate a strict policy to protect its intellectual properties online and around the world, as well as a policy to protect the rights of its employees. Last but not least, the 20th Century Fox can increase its bargaining power with its channel partners by mentioning its brand awareness and high market share in the industry.

5. CONCLUSION

This research paper is conducted three years after the close of the horizontal merger between Twentieth Century Fox and Disney. This is a qualitative study focusing on whether the acquisition deal between Disney and 20th Century Fox brings more positive or negative impacts on Fox? A thorough review of horizontal mergers is the first part of the qualitative analysis. Analyzing different horizontal merger cases in different fields makes it clear that horizontal mergers often bring more positive benefits than negative ones. Then, a SWOT analysis is conducted on the research subject, 20th Century Fox. By examining the strengths, weaknesses, opportunities, and threats, 20th Century Fox faces, a similar result is drawn, stating that the horizontal merger brings more benefits to Fox. To summarize, the acquisition agreement between Disney and 20th Century Fox benefits Fox by allowing it to broadcast its content on Disney+ and broaden its movie genres. Moreover, it also increases its global markets and allows 20th Century Fox to gain access to additional funding for larger-scale productions. This result proves the hypothesis mentioned in the introduction to be true. Benefitting from the horizontal merger with Disney, 20th Century Fox should seize the opportunity to expand its variety of contents, produce thought-provoking movies, formulate policies to protect its intellectual properties, and increase its bargaining power with its channel partners. This research paper is exploratory because it focuses the study on the acquired side of an acquisition deal. In most cases, authors analyze the acquisition deal's positive or negative benefits to the acquiring parties. This research paper distinguishes by assessing the benefits that the acquisition deal between 20th Century Fox and Disney brought to the acquired side, Fox. By doing a literature analysis on horizontal mergers and analyzing them in the context of 20th Century Fox, it is demonstrated that the benefits of horizontal mergers exceed the disadvantages. This research report does, however, have certain drawbacks. Examples are drawn from a variety of sectors, including public health, education, and business, when conducting the literary evaluation. Because this research study focuses on the acquisition deals between two media and entertainment organizations, it is preferable to collect more horizontal merger cases in the business area, particularly in the movie industry. In future research, the research paper will collect data from more relevant domains regarding the research subjects to analyze common qualities and undertake qualitative research.

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