Business Synergy Merger Between Walt Disney Studios and Marvel Studios

Yige Zhai[1]

[1]*Miss Porter's School, 06032, Farmington, CT, USA*
**Corresponding author. Email: yzhai23@missporters.org*

ABSTRACT

On December 31st, 2009, right towards the end of the Global Financial Crisis, an important acquisition took place in the entertainment industry. Walt Disney Studios officially announced the acquisition of Marvel Studios. The purpose of this study is to explore the impact of the acquisition on Disney as well as Marvel Studios. This research primarily employs the model of SWOT analysis to help examine Disney's business conditions before and after the acquisition. This research concludes that the acquisition substantially diversified Disney's audience demographic and added a lot of characters and stories to Disney's film collections. These values made the deal very successful and beneficial for Disney. The implication of this study includes suggestions for Disney as well as other studios in similar positions. These include studios in the entertainment that are also trying to make synergistic acquisitions and mergers.

Keywords: *Walt Disney, Marvel Studios, business acquisition, synergy effect, SWOT analysis*

1. INTRODUCTION

1.1 Background

Firms at early stages often show very steep growth curves. However, as firms grow big into market leaders and command large market shares, their growth curves often flatten, and they find it more and more tricky to maintain the growth momentum they used to have at their early stage. They find themselves in an uphill battle if they keep doing the same thing. They need to find new sources of expansion, such as launching new business or product lines, expanding into new geographies, penetrating new customer segments, acquiring new licenses, or developing or acquiring new technologies to get ahead of their competitors. Mergers and Acquisitions are common ways that firms utilize to expand their business scale and extend their business to different fields. Enterprises can gain control over competitors and new market segments more easily and quickly by buying or merging with other companies.

Successful mergers and acquisitions bring benefits to both companies, creating greater financial significance than the sum of its parts. A business merger gives the acquiring company a chance to grow its market share and gain bigger market dominance. However, not all mergers and acquisitions are successful. Unsuccessful mergers and acquisitions often fail to achieve the original target, or even result in a destruction of the shareholder value for both sides.

On December 31st of 2009, Disney officially acquired Marvel Entertainment. The $4.24 billion transaction took place in Los Angeles, California [1].

Looking through the macro lenses, the United States has not walked out of the Global Financial Crisis at the end of 2009. The GDP of the United States fell by 4.3% compared with two years ago [2]. Walt Disney reported a 46% decline in net income. Most of the company's loss came from the amusement parks. Disney Parks was greatly impacted and experienced a 4.5% decline in fiscal and a 6% decline in guest spending [3]. Resort occupancy rates also diminished as guests chose to stay in cheaper hotels. Despite these difficulties, by the end of the year, Disney still managed to make up for most of its losses. Compared to other companies in the industry, Disney definitely succeeded in terms of controlling losses in 2009.

During the late 2000s, Disney experienced slight financial instability. However, Bob Iger still decided to make the purchase of Marvel Entertainment. Opinions on whether this is a good decision varied but mostly remained positive. Before the acquisition of Marvel Entertainment, the target audience and demographics of Disney has been mostly the female group, especially mothers and daughters. According to media journalists

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Tom Lowry and Ronald Grover, "The U.S. has 30 million males aged from 5 to 19, and capturing their attention with a TV show, movie, or magazine article is a boon to advertisers. Boys (or their parental proxies) are ravenous consumers who spend billions each year on apparel, toys, and video games." [4] Young boys are one of the most profitable demographics that Disney has not yet touched upon. By acquiring Marvel Entertainment, Disney expands its business into the untouched fields and areas, adjusting its target audience to young boys as well as girls. This helps Disney reach a wider and more diverse audience.

1.2 Identified Research Gaps

Even though there are many previous studies on the merger between Disney and Marvel, most of these studies focused on the strategy and the process of the acquisition. Past research has also investigated the two companies, their history, and their business models. However, there are minimal studies concerning the end results of the acquisition, especially the impact of the deal on Disney in the entertainment industry.

1.3 Filling in Research Gaps

To fill in the previous research gaps, this research paper is specifically targeting the analysis of the results of the deal between Disney and Marvel. The goal of this research is to explore how the acquisition of Marvel Entertainment impacted Disney's performance in the film industry and whether the acquisition was beneficial to Disney. The object of this research will be Disney Studios. This study will examine how Disney utilized the synergized merger to maintain its leading position in the entertainment industry. SWOT analysis will be used to analyze the opportunities and challenges that this deal faced. By looking into the synergy merger between Disney and Marvel, readers can gain knowledge on whether a synergized acquisition is an appropriate choice for content enterprises in the entertainment industry.

The remaining sections of this research paper are organized as follows: Section 2 will be the Literature Review of previous case studies and research on the deal between Disney and Marvel. Section 3 will discuss the method and logistics of this research paper. Section 4 will present the results of the research, and Section 5 will go in-depth into discussing the results. Section 6 will sum up the research. Section 7 will include the reference sources used throughout the paper.

2. LITERATURE REVIEW

2.1 Definition

The Synergy effect in business refers to when two or more businesses combine or merge together to create a greater shared value for all parties. The term "synergy" came from the ancient Greek word "synergia", meaning work together [5]. This term and its meanings were modified several times before being finally adopted into the business world by Abraham Maslow. According to Maslow, synergy is defined as "a culture that is beneficial for the individual is beneficial for everyone" [6].

2.2 Important Results

Maslow discovered that a lot of the time, in the business world, one firm cannot stand alone [6]. Its improvements and success build off and depend on its competitors in the same industry. As a result, companies in the same industry sometimes cooperate with each other or even merge to maximize their collective profits. In 1999, St. John and Harrison defined the concept of business synergy: when the total entity after cooperation is greater than the individual entities combined, synergy is achieved [7].

In the real business world, synergies can be derived in many ways. It is mostly applied when firms engage in some sort of collaboration or partnership with each other while remaining independent from one another. However, a much more complicated way of securing synergy is through mergers and acquisitions. In synergic mergers, the combined value of the two parties is greater than the individual values added up, and both parties feel like they have gained from the merger.

This study will be looking at how Disney derived the synergy effect through the Marvel acquisition.

2.3 Summary

Previously, the synergy effect has been applied to other studies in the entertainment industry.

In the 2021 study completed by Nuo Chen, Xuantong Lin, Ruitao Luo, and Guanzhong Shao, focusing on the acquisition between Walt Disney Studios and 21st Century Fox, the synergy effect was discussed in depth [8]. The study focuses on explaining the cause and process of the synergistic acquisition between Disney and Fox. The conclusion of the study was that Disney benefitted greatly from the merger through enhanced market competitiveness, expanded influence on social media, and strengthened bargaining power.

Another study done by Lawrence Nwaeke focused on how synergy could be achieved through partnerships and alliances. In her study, Lawrence explained the synergy effect in mathematical terms and equations. She provided some examples, such as 2+2=5 or 2+2=7, to help readers better understand the concept of synergy in business. According to her, synergy is when "the whole is greater than the sum of its parts" [9]. The conclusion of the study was affiliation, such as partnerships and alliances, helps firms reach business synergy and benefit from economies of scale.

Three researchers, Byung Chul Shine, Jongwon Park, and Robert S. Wyer Jr., examined when and under what circumstances will synergy effect be most pronounced. After several experiments, they reached the conclusion that the business synergy effect works best when the two firms' products are complementary to each other [10]. The effect is not as apparent when the two companies are completely similar or unrelated.

Research done by Zsuzsanna Fluck and Anthony W. Lynch explained why enterprises merge in a financial context [11]. The study has proven that good mergers benefit both parties financially by increasing the combined value of firms compared to when the two firms choose to stand alone.

Finally, Joseph Calandro's analysis of Disney and Marvel's merger provided a brand-new perspective on this deal [12]. The study examined the acquisition through the financial lens. Unlike other studies' results, this study dived into the underlying risks of the deal.

3. METHODS

3.1 Research Design

SWOT analysis is primarily used for this research because it is the most suitable analytical tool for assessing Disney's situation in the merger. SWOT analysis focuses on analyzing a company's strengths, weaknesses, opportunities, and threats. It has been widely applied to assess a business' competitive condition. SWOT analysis has been used to analyze how the acquisition of Marvel benefitted the commercial opportunities of Disney in the previous case study "Superhero Meets Princess: New Commercial Opportunities Obtained by Walt Disney's Acquisition of Marvel" [13]. It has also been used to assess how Disney has grown after the launch of Disney Plus in 2019 in the study "Disney Plus: Launch & Beyond" [14]. It is appropriate for analyzing and assessing a company's growth after an important alteration or decision. It can help gain great insights into a company's internal and external factors that contribute to its success. By using SWOT method, it could be much clear to know about the strengths and weaknesses of a company which could determine the internal factors that influence the company's performance, while the opportunities and threats introduce the external factors that play an important role in the company.

3.2 Description of Walt Disney Studios

Established on October 16th, 1932, the Walt Disney Studio (previously named Disney Brothers Cartoon Studio) was founded by the brothers of Walt and Roy Disney. The studio initially focused on short films until 1937. Over decades of development, the Walt Disney Animation Studio worked its way up to become what it is right now, the leader of the animation production industry. In the recent decade or so, Disney made a lot of acquisitions. On December 31st, 2009, Disney officially announced the $4 billion acquisition of Marvel Studios. The $4 billion valuations exceeded the expectation of many at that time. However, the subsequent history of Disney proved that money was well spent, and the merger brought significant benefits to Disney, including broadening Disney Studio's target audience and enriching its IP inventory, providing important runways for the next decade.

3.3 SWOT Analysis

3.3.1 Strengths

Walt Disney Studios itself possesses an extremely strong brand (an American cultural icon with admired history), strong IP inventory, and strong appeal to the American families, esp. the female audience. It also runs one of the world's largest entertainment conglomerates with diversified business lines, including studios, TV stations, and amusement parks. The company boasts a vast, powerful marketing network and distribution channels, and its workforce is the largest in the industry and includes many of the industry's top talents. The company's financial resources were also leading the way. With the acquisition of Marvel Studios, Disney also acquired rights to many more films and film characters. This gives Disney a more robust film collection to attract a much wide spectrum of audiences. After incorporating Marvel Studios, Disney also gained an advantage in expanding its viewer demographic. Disney was most famous for its princess characters, which mostly attract underage girls and their families. By including the superhero aspect, Disney is opening its market to young boys and teenagers. Through the acquisition of Marvel, Disney benefitted from Marvel's loyal customers. Marvel's fanbase became that of Disney's. In the 2009 Marvel movie Wolverine, Marvel fans generated a box office of $223.1 [15]. This shows that Marvel has always had a very strong fanbase. Thus, Disney gained a lot of viewers by simply acquiring Marvel.

3.3.2 Weaknesses

One of Disney's biggest weaknesses is social and cultural criticism. Even though Disney is impressive for its long history, this is also one of its weaknesses. Living in a fast-changing society, the core values of society are renewed very easily. Many old Disney films are already outdated and often criticized for conveying the wrong message [13]. For instance, feminists today often comment on Disney princess movies, saying that they help promote gender inequality and sexism, teaching young girls that they are incapable of accomplishing things on their own. The merger between Disney and Marvel also increased underlying costs. A typical Marvel film costs extremely high in the industry. Purchasing Marvel Studios means that Disney needs to undertake these costs and be responsible for bigger budget computer-generated films. The risks are also higher for Disney, especially because audiences have high expectations from Marvel Studios.

3.3.3 Opportunities

The opportunities for Walt Disney Studios lie in the fast-growing entertainment market domestically and internationally. As people are increasingly willing to spend money on movies and film productions, Disney theme parks are also getting promoted by the market. Customers are no longer satisfied with simply seeing the movies through the screen. They also want to engage and interact with the fantasy that Disney has built. With the addition of Marvel-themed movies, Disney parks are gaining more and more visitors and becoming more and more popular around the globe. Internationally, with the increase of technology and globalization, information spread faster and wider than ever before. Disney greatly benefits from the increased international connection, gaining fans and viewers around the world. This introduces Disney to a whole new platform that is yet to be explored.

3.3.4 Threats

To Disney, the quick market expansion also has its underlying detriments. The barrier of entry into the entertainment industry is relatively low, which encourages many competitors to emerge for Disney. More and more film studios are being established. As new productions and new ideas are introduced, many Disney characters are no longer attractive to the audiences. The quick change in the audiences' taste makes it uncertain to Disney whether Marvel characters are attractive enough to audiences nowadays, especially when Marvel characters also emerged very early. The United States' economy was in recession right when Disney acquired Marvel. Most other firms in the business world were experiencing a decline in their stock market and financial value. However, with the acquisition that cost $4 billion, not only did Disney stabilized its economy, but it also gained a steady increase in its stock market.

Figure 1 The Walt Disney Company Stock Market (2000-2020) [16]

Disney managed to overcome the potential financial threat during the Great Recession.

4. RESULTS

From the above analysis, Disney benefitted a great deal from this acquisition. After Walt Disney Studios merged with Marvel Studios, the stock market of Walt Disney Studios was on a continuous rise after the acquisition in 2009 [16]. There is a steady growth within five years of the acquisition, which made up for the decline in the early 2000s. Even right after the Great Recession, when most other firms were struggling, Disney managed to stabilize its stock market and prevent it from big declines. This demonstrates that the merger of the two companies greatly benefitted Disney and helped save the studio's economy.

The company gained not only a lot of profit but also many iconic characters as well as a wider audience. Through the acquisition of Marvel Studios, Disney no longer only targets young girls and female audiences. Teenagers and boys also became important fanbases. This allows Disney to expand to a wider audience. External opportunities also contributed to Disney's success. The entertainment industry itself was rapidly growing and expanding in 2009. It also extended beyond the domestic market. Marvel characters gained a loyal fanbase in foreign countries. The acquisition also comes with many costs on Disney's side. After fully purchasing Marvel, Disney is entirely responsible for Marvel's characters and film productions. Generating Marvel films is extremely costly due to the need for advanced computer-generated images (CGI). By owning Marvel Studios, Disney is entirely responsible for anything that happens to these films. Externally, the fast-changing entertainment industry also leads to rapid change in consumers' tastes. Disney must take time to get used to the character styles of Marvel Studio. The process of experimenting with new characters makes viewers' preferences even more uncertain to predict for Disney.

5. DISCUSSION

Even though Marvel Studios brought a lot of extra expenses and risks to Walt Disney Studios, Disney still made profits that were way more than its costs. The merger between Disney and Marvel Studios is a success for both sides, especially for Disney. After purchasing the Marvel company during the Great Recession, unlike other firms in the industry, Disney's stock market demonstrated steady growth in the following five years. Disney has proven the acquisition of Marvel Studios did not damage its economy. On the contrary, the merger actually helped Disney overcome its external obstacles.

The benefits that Marvel brings to Disney significantly outweigh its detriments of extra expenses and management risks. Marvel provided Disney with a more robust fanbase and a wider audience group. It also gave Disney its most precious assets: Marvel characters and stories. With exclusive rights to produce based on Marvel comics and previous movies, Disney can keep the story alive and profit from it. This allows Disney to benefit from Marvel characters and ideas. The major benefit that Disney receives from this deal is the new target audience. Instead of young girls and their parents, Marvel Studios tend to attract teenagers and young boys more. Disney now has a larger fanbase and loyal customers. This also benefits its amusement parks and other niche industries. Marvel Studios gave Disney the platform to expand and reach a wider audience domestically and internationally.

In the long-term, since the entertainment industry is currently growing rapidly, it is important that Disney maintains its current market share while continue expanding globally. There are more opportunities outside the domestic market with more opportunities and customers that Disney will want to grasp. In addition, Disney should also focus on developing new memorable characters. Productions from the two companies always cost a huge amount. Disney needs reliable and well-loved characters to attract investors. To do so, Disney needs to do substantial research on the market taste and cultural values of the rapid-changing society. This will guarantee that they understand what types of characters are popular amongst audiences today. It is important that new characters satisfy the development of culture and society while being innovative, unconventional, and atypical.

6. CONCLUSION

This research project focuses on the merger between Walt Disney Studios and Marvel Studios in the year of 2009. The research focuses on Disney and whether the merger is beneficial for Disney. The merger between Disney and Marvel Studios is a synergy merge. The primary method of analysis used is the SWOT analysis, focusing on the strengths, weaknesses, opportunities, and threats of Disney after acquiring Marvel Studios.

The result of the study supports the initial hypothesis. The merger between Disney and Marvel is a good move for Disney. The most important suggestion for Disney's next step is to create and experiment with more Marvel characters and to try its best to produce unconventional and memorable characters.

Through reading this research paper, readers should be expected to understand how the merger between Disney and Marvel benefits Disney. This research paper is meaningful both theoretically and practically. Theoretically, this research paper introduced and explored the concept of the synergy effect and applied it to the entertainment industry. It also provided a new perspective and interpretation of the deal between Disney and Marvel through SWOT analysis. Through the application of SWOT analysis, this research paper also examined the industry. It analyzed the opportunities and threats that were relevant to the film industry at the time. This will not only help Disney and Marvel but also other studios in the industry too. Practically, this research paper provided two major suggestions for Disney's next step. These solutions will hopefully not only inspire Disney but also other studios in the industry to make changes to their current business model. Without strong characters and frequent reformations, a studio cannot succeed.

Possible limitations of this study include the lack of firsthand references. Most references that were used were case studies and research that other people have done. Only a limited few came from newspapers published at the time. Therefore, the case study might be somewhat biased. The analysis section of the study was not thorough enough. There was a lack of data on the economic status of Disney after the merger. The study lacked quantitative models since relevant data on this topic were hard to find.

Future research on this topic should focus more on adding supportive evidence and models to the current research. For instance, using more analytic data for in-depth SWOT analysis or examining more firsthand references for research.

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