

The Walt Disney Company's Challenge

Zile Zhou^{1,a,*}

¹*Ulink College of Beijing, Sijiqing road, Beijing, China*

a. sols@usf.edu

**corresponding author*

Abstract: Walt Disney is the most famous and largest entertainment company in the world. However, it also met plenty of problems from the time it started until now. These problems can occur on the financial side, it can happen in the copyright of the films and characters, and it also can occur in the making of the movie and the relationship with their employees because no one company can be operated mainly without any challenges. Walt Disney Company met different problems during different periods. For example, in early 1940, the company had a severe financial problem. In the early 20th century, the company met the challenge of its film industry. In the 21st century, the company had the risk of being outdated with the rapid development of the internet and the entertainment platform. In 2019, the company was influenced by the covid-19, during the pandemic period, the global economy into recession, the tourism industry was declined significantly. This article analyzes Walt Disney's solution to face these challenges.

Keywords: Walt Disney Company, Lack of finance, Takeover.

1. Introduction

In 1923, Walt Disney company established the Disney Brothers studio in Los Angeles, California, with his brother Roy. At the beginning, they made an "Oswald Lucky Rabbit" short film. After that, they made a new character, Mickey Mouse. In 1928, they released "Willie Steamship", which was the first animated short film with sound in the world. After that, Mickey Mouse became famous. In the 1930s, Walt Disney started to produce a lot of animations, such as "Snow White" and "The Chain Gang". This brought a massive profit for the company.

In the early 1950s, Walt Disney company decided to establish the first theme park. He got funds from ABC Television Group and gave them the park exclusive television broadcasting rights. Therefore, the first Disney Park was established in California in 1955. After that, Walt Disney expanded its businesses all over the world. In 1971, the Florida Disney park was established. In 1983, in Tokyo, Japan, Disney Park was opened. In 1992, a new Disney Park was built in the French. In 2005 and 2016 were established new Disney parks in Hong Kong and Shanghai, respectively. Until now, there are 7 Disney Parks in the world. In Disney Park, tourists can play a lot of various gaming projects. Such as "Soar Over The Horizon", "Fantasy Castle", "Pooh Bear's Adventures", and "Peter Pan's Flight". Tourists also like to buy souvenirs in the Disney Store, like Shirley Mei's plush toy, and have a meal in the Disney restaurant.

In addition to theme parks and films, Walt Disney also has other services, such as media and brand products. In the 1990s, Walt Disney took over a large media company to start expanding their business

to television and music. In the early 21st century, Walt Disney focused on the digital media field, they launched Disney Online and Disney Games and also cooperated with Apple. In 2019, Walt Disney took over 21st Century Fox Entertainment Company to be one of the largest entertainment companies in the world and expand their business map. Walt Disney Pictures, Touchstone Pictures, Miramax Film, 20th Century Studios, Pixar Animation Studios, LLC, and Marvel Studio, LLC are the six film distribution brands that the Walt Disney Company now owns.

Walt Disney is the Oscar winner with the highest number of awards. He was awarded 59 Oscar Nominations and 26 Oscar Awards. Most of his awards were the Best Animation Award from 1932 to 1969, and from 1931 to 1939, he was awarded Oscar awards for eight consecutive years. Walt Disney built its first ocean liner, "Disney Magic", in 1988. This provides a good luxury travel option for many families. It is a cruise line with 875 cabins, four restaurants (Lumiere's, and Polo), a canteen (a Buffet called Topsider), two cinemas, three swimming pools, and other facilities.

Walt Disney's influence is comprehensive, it includes economic, cultural, and entertainment. The Walt Disney Effect can illustrate the significant economic influence. This means that when Disney Park contributed, it brought economic growth to the nearby areas, including creating more job vacancies, increasing the region's employment rate, and promoting local tourism and relevant industry development. For Shanghai, when Disney Park contributed, it increased the total Shanghai's GDP by 0.34%, and the consumer spending in Disney Park increased the total Shanghai tourism industry consumption by 4.09%. Besides, the park provided direct job opportunities of more than 10000 each year, indirect job opportunities of more than 60000, and the investment of the park provided job opportunities of 27800. For the culture, Walt Disney is already a consumption preference and a fashion trend. It also helps the cultural construction of a city and improves the region's cultural image. In addition, Walt Disney has had a significant impact on the entertainment industry, and it is leading globally. Walt Disney film's box office takes 51% of the global top 50 box office films.

In October 2019, Walt Disney Company was the 9th of the 2019 Forbes Global Digital Economy Top100. After that, the company is the 4th on the Fortune Global Most Admired Company List and the 7th on the Forbes 2020 Global Brand Value Top 100. In the 2023, Walt Disney company earnings conference call, CEO Robert said the Walt Disney company will make the most significant increase and value in three businesses: Studios, Parks and Experiences, and Streaming within the next five years.

2. The Problems of the Company

In the early 1940s, Walt Disney had a severe financial problem. In the summer of 1938, the company built a new studio in Burbank, using the reinvested profit which was made from the film "Snow White ," but the construction of the building led the company to use full of available money. In 1939, the Second World War caused a significant loss in Walt Disney's Box of Pinocchio. This film was produced with a budget of 45 million euros, which is the most expensive Italian film ever made, but it only received 26 million euros [1]. Also, Walt Disney's European market had all but dried up as a result of the Second World War [2]. 1940, the Pinocchio and the more experimental Fantasia were financial disasters for the company. These features, especially the latter experiment, imposed even more labor-intensive requirements on Walt Disney company's already disgruntled workforce. "Lessing suggested Walt Disney to head it off by decreasing the official workweek from forty-six to forty hours a week" [3]. Roy Disney addressed this issue in a memorandum distributed to studio employees on October 24, 1940. "Naturally", Roy Disney explained, "the reduction in working hours will add a further burden of overtime payments to the losses already suffered through the curtailment of foreign revenues" [4]. The bad financing performance requires the company to find a method to solve it in order to keep the firm operating.

Walt Disney Company is famous for its films, such as "Snow White", however, in the early 20th century, the company met the problems of its film industry. In 1991, the company started to cooperate with the Pixar Animation Studio - a company specializing in producing computer animations, which was a takeover by Steve Jobs, paid-\$10 million in 1986. From May 1991, the two companies cooperated to produce a lot of successful films, such as "Toy Story". This cooperation brought significant profit and a good reputation for both companies. However, the personal conflict between Steve Jobs and Eisner stopped the co-production agreement between the two companies in 2004. After that, Walt Disney company's film score was low, receiving scores between 36% and 54%. For example, Brother Bear in 2003 - 38%, Home on the Range in 2004 - 54%. However, Pixar's film scores were at a peak, which was between 74% and 99%. For example, Finding Nemo in 2003 - 99% and the incredible in 2004 - 97% [5]. Also, the box office had different trends between the two firms. Walt Disney Company's box office declined significantly than before, but Pixar had a high box office. This unexpected lousy performance in the film making industry let Robert Iger, the CEO of the Walt Disney Company, realize the original success in the film industry relied on Pixar. If they wanted to be successful in film making like before, they needed to hold the animation business right and the most developed technology - "the more developed Computer Graphics technology that was rapidly replacing hand-drawn animation" [6]. Therefore, the company needs to find a method to keep its original success in film making.

In the 21st century, digital media and the internet are developing rapidly, and the entertainment and Intellectual Property (I.P.) industry is becoming more competitive — for example, TikTok and the Sanrio I.P. Furthermore, the development of the internet makes people more willing to stay at home. For example, the takeaway and express delivery and more and more people like to watch movies after the films are removed from the cinema, they can watch the films by watching applications, for example, Netflix or iQiyi. However, Walt Disney company focuses on producing films that are showcased in the cinema. However, this obviously is not suitable for this internet-developed era. Suppose Walt Disney company continues making cinema films. In that case, this may lead them to become outdated and have less competitiveness in the market, which will be wrong on its excellent reputation and score in the entertainment and media industry. Even though the company has been a success in film making before, it also needs to adopt new market trends and consumer tastes to keep its highly competitive power.

3. The Solutions to the Problems

Due to the lack of finance, Walt Disney company reissued Snow White for the first time in 1944, which brought a significant proportion of Walt Disney company's revenues. After that, Walt Disney company starts to reissue many films. However, relying only on reissuing the old film is a short-term plan. Therefore, Walt Disney company decided to earn more income by making movies such as Song of the South (1946) that mixed live action with animation. Further diversification included the creation of Walt Disney Music Company to control Disney's music copyrights and recruit top artists. Walt Disney company's first television special in 1950, One Hour In Wonderland, reached 20 million viewers at a time when there were only 10.5 million television sets in the United States [7].

Walt Disney company wants to keep their films successful, and Iger knows they must keep the relationship with Pixar. The bad individual relationship made the Iger want to take over the Pixar. This takeover for both Walt Disney company and Pixar is a good deal because they are competitors and are two firms in the same industry. For these two businesses, the integration can increase their competitiveness. For this takeover, investment bank estimated that the Walt Disney company purchased Pixar have to pay an enterprise value fee of between \$6.5 billion and \$7.4 billion, given Pixar's market capitalization of \$5.9 billion. The deal would be done as an exchange of stock at a price of \$7.5 billion, would take place at a 2.3:1 Disney: Pixar share exchange ratio. Credit Suisse

valuations of Pixar, which the bank compiled for Pixar's board using a variety of techniques, ranged from 1.093:1 to 2.365:1, although that price included the cash on Pixar's balance sheet [8]. However, many analysts thought this price for a takeover was too high for Walt Disney because the projected price-to-earnings ratio for Pixar is 46, their main competitor, DreamWorks, had a Price Earnings Ratio (P/E ratio) of 30 with a market value of \$2.6 billion and revenues of nearly \$1 billion. Moreover, the Walt Disney company P/E ratio is 17 [8]. So, the analysts think this deal is not deserved for Walt Disney company. However, the Deutsche Bank analysts rationalized that Disney could make 65 sequels to the Pixar hits for the proposed \$6.5 billion purchase price [8]. Therefore, Walt Disney company took over Pixar in 2006, this deal brought success to both companies.

Walt Disney company wants to maintain its high competitiveness in film making, so it decided to take over Fox in 2019. This was considerable information for the film industry, especially for Hollywood, because Walt Disney company and Fox are two major companies in Hollywood. The significant pictures in Hollywood have Universal Pictures, Paramount Picture, 20th Century Fox, Columbia Pictures Industries, Warner Home Video, Metro-Goldwyn-Mayer, United Artists and Walt Disney Pictures. In December 2017, Iger announced that Disney wanted to take over Fox for \$52.4 billion or \$28 per share. However, "in June of 2018, Comcast- the cable gain that owns Universal- came up with a counter bid to take Fox at \$35 per share. In response, Walt Disney increased its offer to \$71.3 billion or \$38 per share [9]. This horizontal merger brings more opportunity and more substantial competition power for both companies. Disney's box office and annual revenue increased significantly after this takeover, this can be seen in the Figure 1 and 2 [10]. This surprise takeover has brought good results for the company.

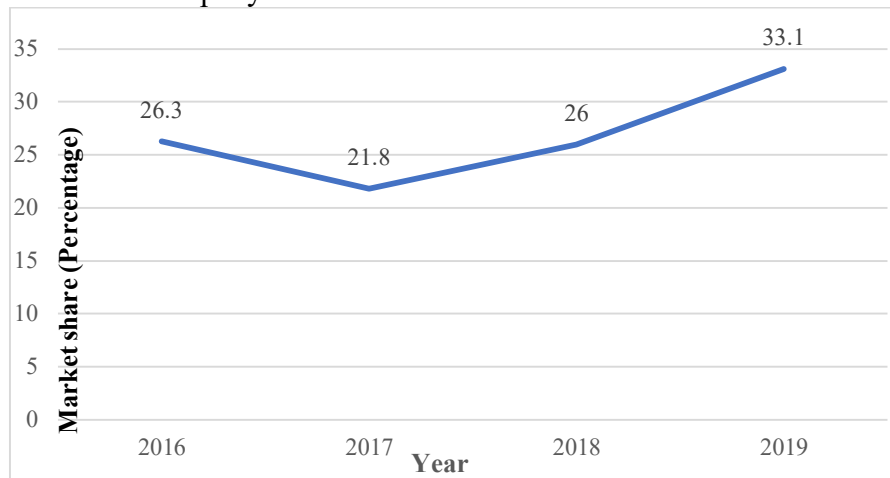


Figure 1: Disney's box office market share in the United States and Canada from 2016 to 2019.

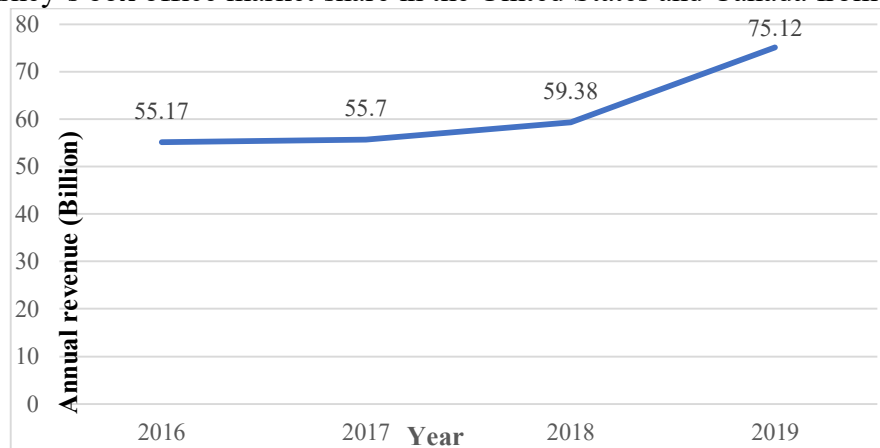


Figure 2: Disney's annual sales revenue from 2016 to 2019.

4. Disney in Post-Covid-19

At the end of 2019, COVID-19 started to influence people's lives. The global economy went into recession, people had low purchasing power, and firms had low profits even shut down during the COVID-19. Furthermore, during that period, many countries banned people from going outside, this had a significant impact on the tourism industry because of the restriction of international transport and travel. The attractions, restaurants, and entertainment places all had meager customer traffic. Walt Disney, also influenced by the pandemic, faced the pandemic as a big challenge for the company. For example, the company has furloughed as many as 100,000 employees and closed significant parks around the world [11].

First of all, Walt Disney's most sales revenue is from media, theme parks, products, studio entertainment, and direct-to-consumer and international. During the pandemic, the consumer flows for the park decreased significantly. More and more people were staying at home. This represents the trends in Disney's revenue structure, which started transform from theme parks to online content. This could be seen from Disney's revenue structure in 2019 and 2020. The annual data also showed that this prediction was correct. "According to the 2020 annual report data, revenue from theme parks, resorts, and consumer goods business, media network revenue accounted for 36%, film and television entertainment revenue accounted for 16%, and streaming media business accounted for 13%. In 2021 according to the latest data, cable network revenue in the fourth quarter of 2021 was \$7.706 billion in the quarter, flat compared to the same period. The direct-to-consumer business achieved revenue of \$4.69 billion, a year-on-year increase of 34%, but the operating loss increased by 27% to 6 hundred million U.S. dollars [11]. "This trend accelerated the development of digital entertainment and also provided a new opportunity for Disney to satisfy customer's new demands and get more sustainable income for the company. This also pushes the company to transform its strategy. For the transformation of the strategy, it could be split into three stages. "The first stage is to establish a digital model based on the company's financial data. The second stage is to judge the value and risks of the digital model and compare different digital indicators. The last stage is to integrate all the financial data for a complete analysis to explore new enterprise strategic opportunities" [12]. Walt Disney produced Disney+ to help them transform into the digital entertainment field.

Disney+ is an online streaming platform launched by Disney's streaming services. It was launched in November 2019, and many of Disney's IP are available on Disney Plus. They provide members with films, animations, education programs, sports programs, and variety shows produced by Walt Disney Studios, Marvel, Star Wars, Pixar, 20th Century Pictures, ESPN, National Geographic, and Sony Pictures. "Under the current prospect of solid competition in the streaming media industry, even I.T. companies such as YouTube, Facebook, and Apple have begun to enter the self-made content market, trying to get a share of the pie [13]. Disney+ was really successful. It was an achievement that took Netflix seven years in just five months [12]. Until February 4, 2019, it has 28 million subscribers. On April 8, it had over 50 million global paying users. As of December 11, Disney+ global paid users have exceeded 86 million. In March 2021, the number of its global subscribers exceeded 100 million. From those data, we can see the success of Disney+, which was an essential tool for the company during the pandemic period.

5. Conclusion

This essay is about Walt Disney Company, starting from its introduction to the analysis of the three challenges for the Walt Disney Company and the solutions it and the company under COVID-19. The problems of the company are analyzed following the time, from early 1940 to 2019 through 20th and 21st century. From these problems, people can see how a successful company overcomes its problems in plenty of fields, like lack of finance, difficulty making attractive movies, and avoidance of being

obsolete by the rapid development of the internet. During the pandemic, the company was hazardous because the park lost tourists and people were less likely to go outside, the company started to transfer their mode, especially for their movie field, they focused more on the online movie platform instead of playing the movie in the cinema. This transformation made the firm earn a profit during the pandemic period, and it also let Disney attract more young consumers and become more sustainable.

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