



The
WALT DISNEY
Company

Strategic Audit

Business Policy
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Performance as of 2009

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7 % drop in revenue and a 46 % drop in Walt Disney's profitability for the first quarter of 2009

Stock price \$17 (average for the 1st quarter of 2009)

The Walt Disney Company is an American diversified multinational mass media and entertainment conglomerate headquartered at the Walt Disney Studios in California. It is the world's second largest media conglomerate in terms of revenue.

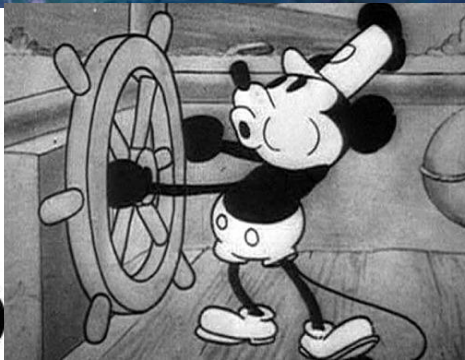
- "The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world."
- No vision statement

The WALT DISNEY Company

History



- 1923 - the start of the Disney company first known as The Disney Brothers Studio
- 1925 - The name of the company was changed to Walt Disney Studio
- 1928 - Mickey Mouse emerged
- 1955 - Disney's most successful series, *The Mickey Mouse Club*, began
- 1955 - the new Disneyland Park in California was opened
- 1971 - the Walt Disney World project in Orlando, Florida
- 1983 -Tokyo Disneyland opened
- 1990s - *The Little Mermaid*, *The Beauty and the Beast*, and *Aladdin*
- 1992 - Disneyland Paris opened in France
- 2005 - Hong Kong Disneyland opens



Objectives

- creative achievements
- investing in the strength of the brands and the quality of the products
- leveraging technology to provide consumers with entertainment when and where they want it
- expanding globally to better reach consumers around the world.
- creating exceptionally high-quality content for families
- strengthening Studio Entertainment SBU
- entering video games industry

Financial:

- strengthening the financial results
- long-term shareholder's value (ROI)

Marketing

- More places, more people, more often!
- growing the value of the brands
- pricing strategy to keep products attractive to customers

HRM

- a horizontal, decentralized and informal management approach
- group creativity and team-work
- innovation

Strategies

SBU's

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Walt Disney
Company

Disney Consumer Products

1. Disney Hard_Lines
2. Disney Soft_Lines
3. Disney Toys
4. Disney Publishing
5. Disney Press
6. Disney Editions

Studio Entertainment

1. Walt Disney Pictures
2. Touchstone Pictures
3. Miramax Films
4. Buena Vista Home Entertainment
5. Buena Vista Theatrical Productions
6. Walt Disney Records
7. Buena Vista Records
8. Hollywood Records
9. Lyric Street Records
10. Pixar Studio

Parks and Resorts

1. Walt Disney World
2. Disneyland
3. Tokyo Disney
4. Disneyland Paris
5. Hong Kong Disneyland
6. Disney Cruise Line
7. Disney Vacation Club

Media Networks Broadcasting

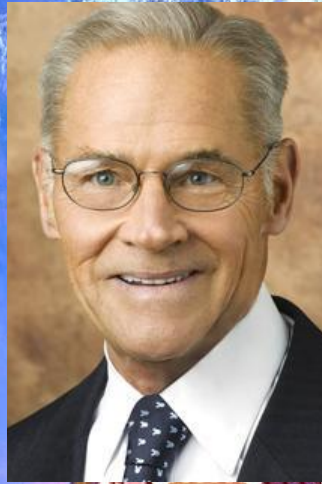
1. Disney-ABC Television
2. ESPN Inc.
3. Walt Disney Internet Group
4. ABC-Owned Television Stations
5. ABC Radio

Corporate Governance

Chairman of the board of directors

John E. Pepper, Jr.

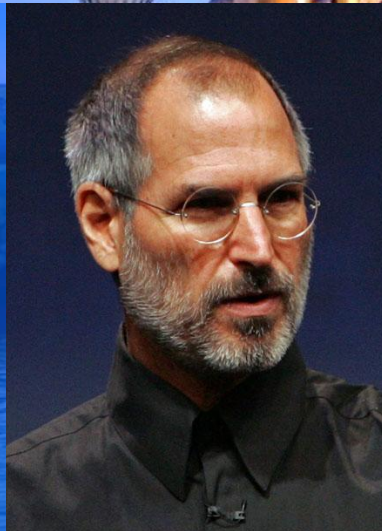
- an American businessman
- serves as Chief Executive Officer of the National Underground Railroad Freedom Center



- Board of directors**
- 12 members – 11 are outsiders
 - Well-respected Americans with the outstanding education, experience, and career
 - Directors from P&G company, Apple Inc., The Estée Lauder Companies Inc., Starbucks Corporation, Edison International, and JLABs, LLC
 - publicly traded stock (common stock)

Father Leo O'Donovan, President Emeritus of Georgetown University and a professor of theology, left the company. *Susan Arnold* (President, Global Business Unit in Procter & Gamble) joined the board of directors.

The member of the board of directors
Steve Jobs acquired the 138 million shares which is a 7.7 percent stake in Walt Disney (the largest single shareholder)



CEO Robert Iger

- Bachelor of Science degree in Television & Radio
- Joined ABC in 1974
- President of Disney since 2000
- Very experienced in the industry
- Owns approximately 1 million shares

External Environment

General Layer PESTLE

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Political

- The American Recovery and Reinvestment Act of 2009 (specifically designed for individuals and small businesses) - \$260 billion in federal funding through tax cuts, tax credits and unemployment benefits which intends to increase the demand
- 56th presidential elections of 2008 Barack Obama won the elections: *change we need* (universal healthcare, full employment)
- Corruption Perceptions Index

2006	2007	2008	2009
7.3	7.2	7.3	7.5
- Higher tax brackets for progressive tax rates
- Movie production incentives that were first launched in 1990s

Economic

	2006	2007	2008	2009
GDP	4.5%	1.66%	(2.04)%	(0.27)%
Inflation rate	3.99%	2.4%	5.2%	(0.3)%
Unemployment rate	4.5%	4.7%	5.8%	9.3%
Interest rate	4.7%	5.2%	3.1%	2.5%
Disposable personal income	10,600 b	10,800b	11,200b	10,900b
Consumer Spending on home entertainment	21.6 b	21.4 b	21 b	19.4 b
Money supply (M1)	0.22%	(0.16)%	4.5%	14.2%

External Environment

General Layer PESTLE



Social

- Watching TV is the №1 leisure activity in the USA
- Family size - 3.2 persons- doesn't change significantly
- The fastest growing family structure is single parent family
- 46% of children live in a traditional family
- In 2009, tourist arrivals fell 5% worldwide. Nevertheless, it increased 2% in the last quarter of 2009, led by recovery in the Asia Pacific and the Middle East
- local cultures and history of the place significantly affect customers' preferences

	0-14	15-24	25-50	50+
2007	20.5%	14%	35.5%	30%
2009	20.3%	13.8%	34.7%	31.2%

	2006	2007	2008	2009
Population Growth	1	1	0.9	0.9
Birth rate	14.14	14.16	14.18	13.82

Technological

- Increasing popularity of 3D technology
- Maturation of films in DVD format
- 2008, June - release of iPhone 3G
- July 2008 - IMAX begins the rollout of the digital theatre systems at AMC locations across North America
- R&D government expenditure % of GDP

2006	2007	2008	2009
2.55	2.63	2.77	2.82

External environment

Industry Porter's 5 Forces

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- **Rivalry:** Highly consolidated mature industry, Switching costs are high, Industry size about \$400 b, 2006-2009 7% growth
- *Consumer products:* CR = 89%
- *Studio Entertainment:* CR = 68%; declining because of a drop in DVD sales, Exit barriers are high
- *Parks and Resorts:* CR = 100%, Exit barriers are high
- *Media Networks:* CR = 60%
- 10% growth 2006-2009
 - **Threat of new entrants:** Economies of scale, Economies of scope, Differentiation of products, High brand loyalty
 - *Studio entertainment and Media Networks :* Advanced technologies, High capital requirements
 - *Parks and resorts:* Capital requirements, Favorable government policy towards respectable brands
- **Power of buyers:** Discretionary sector, Intangible returns on the buyer's money, Low switching cost
- Brand identity, Low price sensitivity, Many buyers, Highly differentiated product, No threat of backward integration
- *Parks and Resorts:* The purchased product represents a high percentage of a buyer's spending.
- **Threat of substitutes:** Low switching costs, Substitute has completely different performance
- **Power of suppliers:** no threat of forward integration, Order in large volumes
 - *Consumer products:* Low concentration of suppliers
 - *Studio Entertainment:* celebrity agents in the movie and production businesses, few suppliers
 - *Parks and Resorts and Media Networks:* few suppliers

Financial Analysis

	2008	2007	2006
Revenues	\$ 37,843	\$ 35,510	\$ 33,747
Costs and expenses	(30,439)	(28,681)	(28,392)
Other (expense)/income	(59)	1,004	88
Net interest expense	(524)	(593)	(592)
Equity in the income of investees	581	485	473
Income from continuing operations before income taxes and minority interests	7,402	7,725	5,324
Income taxes	(2,673)	(2,874)	(1,837)
Minority interests	(302)	(177)	(183)
Income from continuing operations	4,427	4,674	3,304
Discontinued operations, net of tax	—	13	70
Net income	\$ 4,427	\$ 4,687	\$ 3,374
Intangible assets, net	2,428	2,428	2,428
Goodwill		22,151	22,085
Other assets		1,763	1,484
Total Assets		\$ 62,497	\$ 60,928
Total current liabilities		11,591	11,391
Borrowings		11,110	11,892
Deferred income taxes		2,350	2,573
Cash and cash equivalents	\$ 3,001	\$ 3,670	
Receivables	5,373	5,032	
Inventories	1,124	641	
Television costs	541	559	
Deferred income taxes	1,024	862	
Other current assets	603	550	
Total current assets	\$ 11,666	11,314	

Gains on sales of equity investments and businesses: the Company sold its 39.5% interest in *E! Entertainment Television* to Comcast for \$1.23 billion => Income before taxes (2007) \$ 6.721 million

Total current assets increased by 3%, BUT Cash decreased by 18% AND Current assets increased due to an increase in receivables and inventories, meaning that sales have dropped and it take more time to receive cash after making a sale

Financial Analysis

Ratio analysis

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	2008	2007	
Gross Profit margin			F
Profit margin			U
Return on investments			U
Return on equity			U
Debt to asset ratio			F
Debt to equity ratio			F
P/E ratio			F
Divided payout ratio			F
Dividends yield on common stock			F
Book value			F
Book-To-Market			F

F – for investors
In 2007 profit margin showed an unfavorable change because of \$1 billion income on sale of E! Entertainment which is not Disney's regular business. Additional investments do not generate more sales.

$$\text{Current ratio} \frac{\$11,666}{\$11,591} =$$

1.01 times

$$\text{Quick ratio} \frac{\$3,001 + \$5,373}{\$11,591} =$$

0.72 times

$$\text{Receivable turnover} \frac{\$37,843}{\$5,373} =$$

7.04 times

Days' sales uncollected

$$\frac{365}{7.04} = \mathbf{51.8 \text{ days}}$$

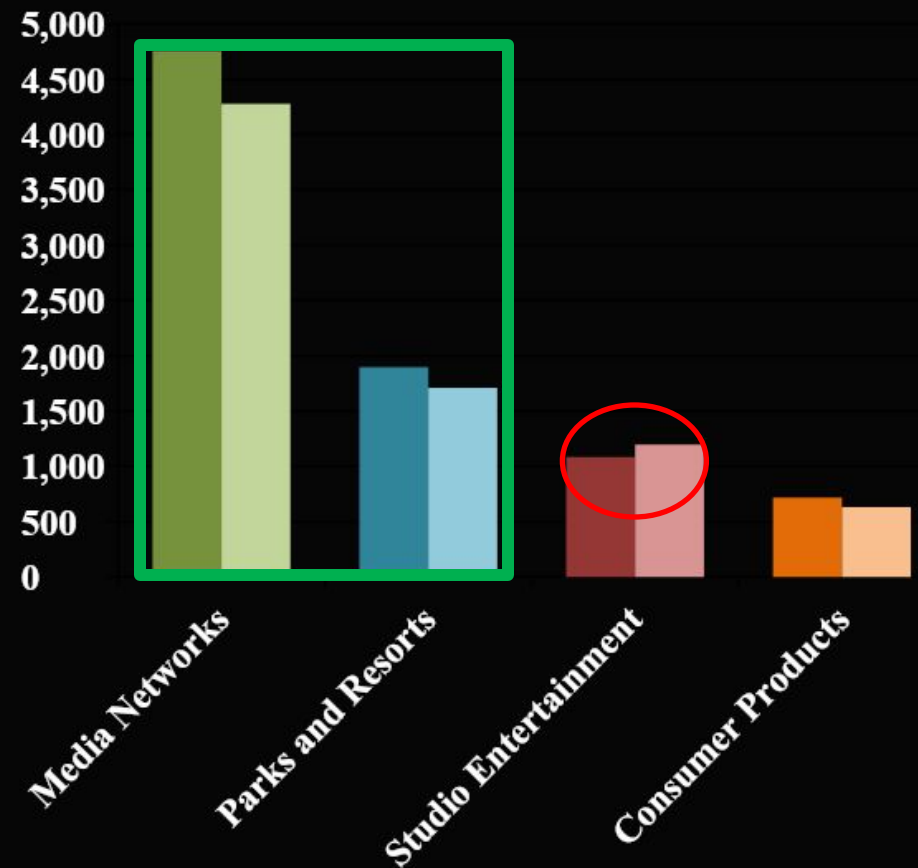
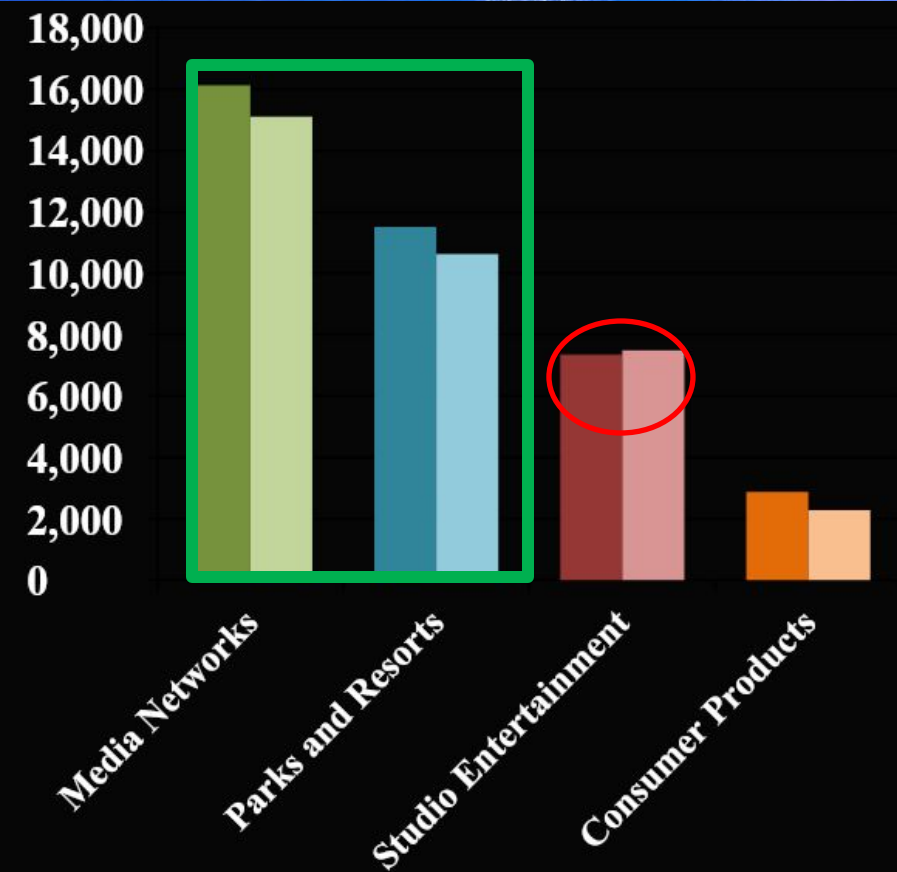
Financial Analysis

(by segment)

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Revenue

Operating income



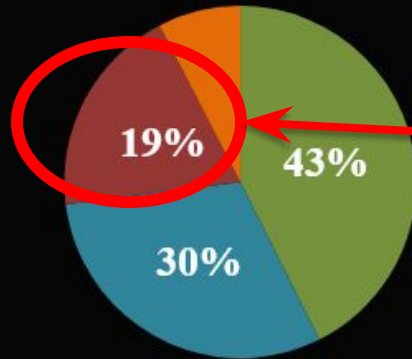
Financial Analysis

(by segment)

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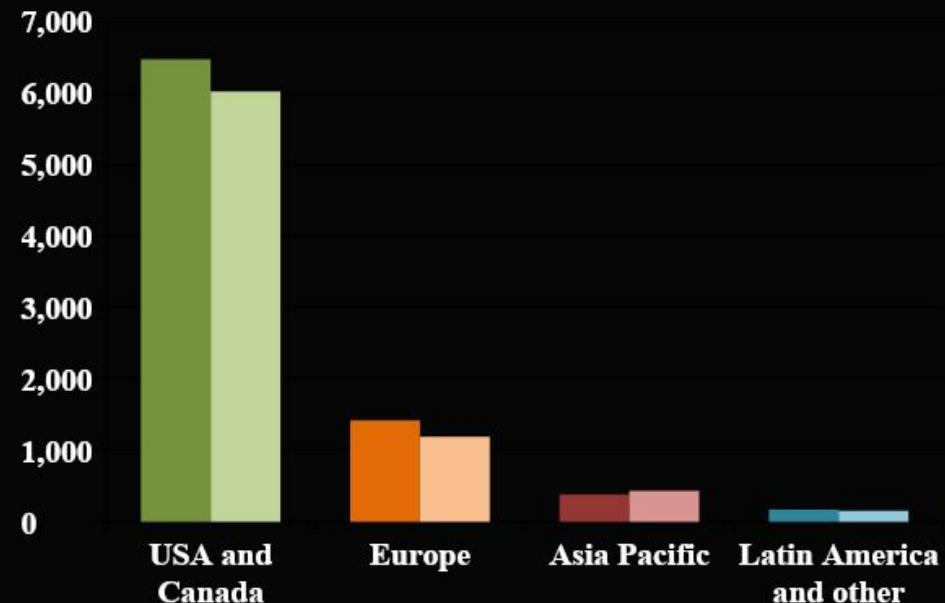
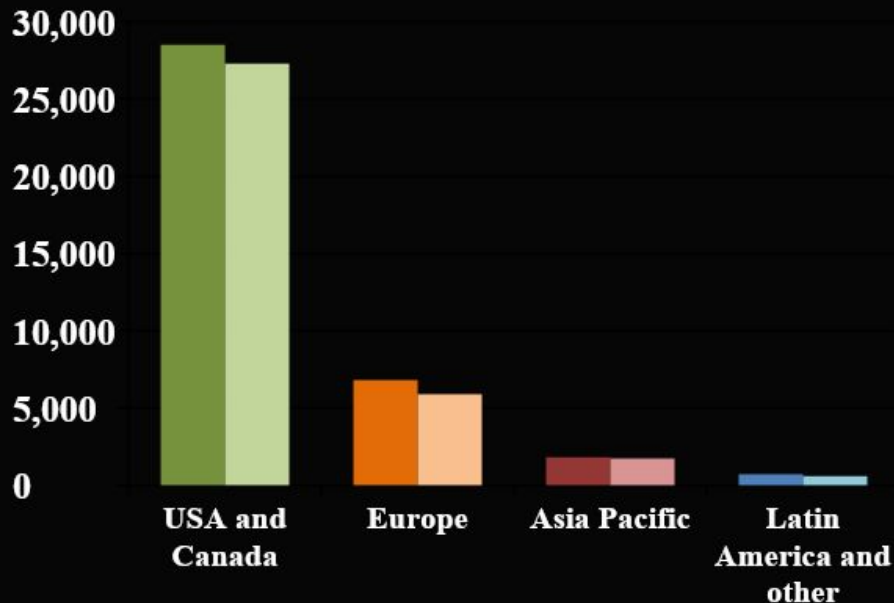
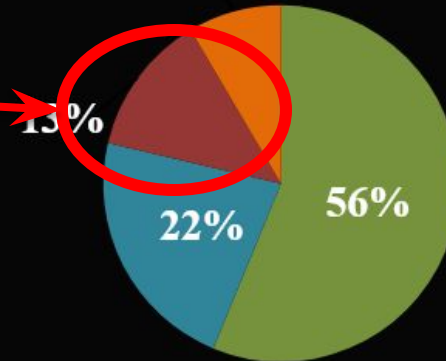
Revenue 2008 8%

■ Media Networks
■ Parks and Resorts
■ Studio
■ Entertainment
■ Consumer Products



Operating income 2008 8%

■ Media Networks
■ Parks and Resorts
■ Studio
■ Entertainment
■ Consumer Products

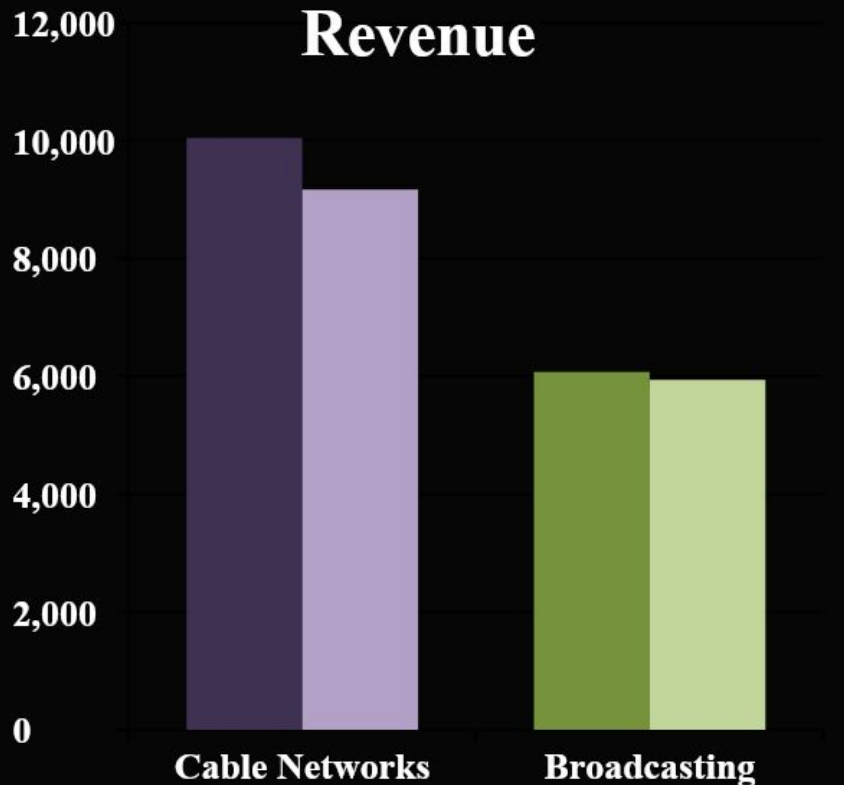


Financial Analysis

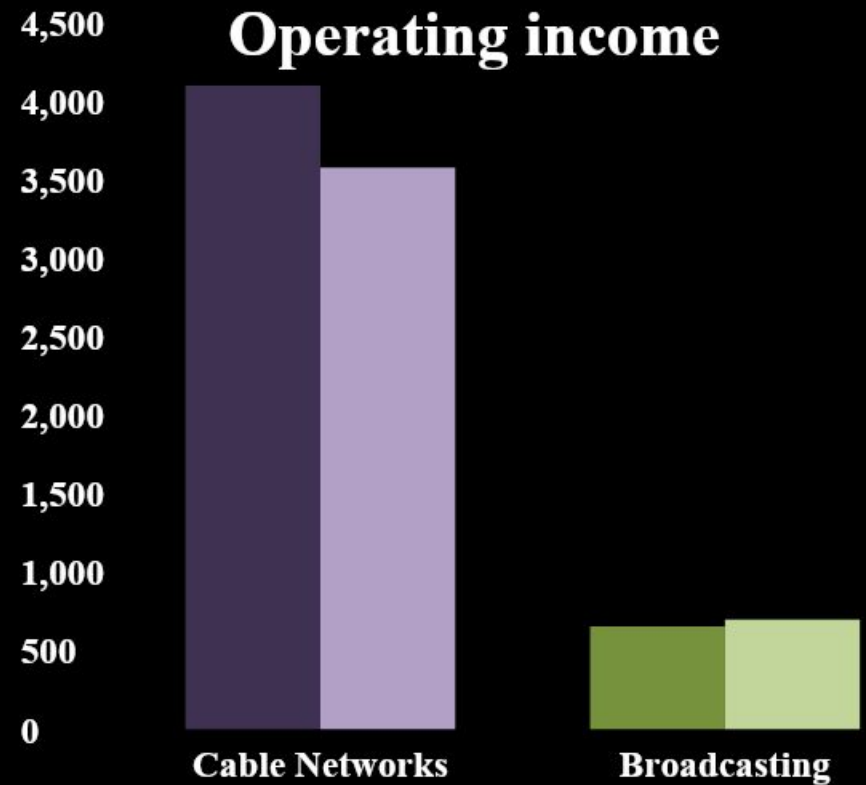
Media Networks Segment

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Revenue



Operating income



Competitor Analysis

By segment

The global media industry is a \$1 trillion business .

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Walt Disney	Time Warner, Inc	News Corp.	CBS Corporation
\$16 billion 43% of total revenue	\$44 billion 90% of total revenue	\$21.2 billion 65% of total revenue	Television \$8.99 b 64% of total revenue Radio \$1.5 billion 11% of total revenue
ABC television, ESPN, Walt Disney Internet Group, ABC radio, Cable networks	AOL, Cable, Filmed Entertainment, Networks, and Publishing	Filmed Entertainment, Television, Cable Network Programming, Direct Broadcast Satellite Television, Magazines and Inserts, Newspapers, Book Publishing	Television, Radio, Outdoor, Interactive, and Publishing
		MySpace.com, one of the Internet's most popular social networking site, and IGN.com (a gaming and entertainment site)	
ABC 5.4 million viewers		Fox TV 7.6 million viewers	6.7 million viewers

Competitor Analysis

By segment

- Number of amusement parks in the US > 400
- \$11.5 billion in revenues
- 500,000 year-round and seasonal employees

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Walt Disney	Six Flags, Inc	Ocean Park
The Magic Kingdom in Florida, Tokyo Disneyland, California Disneyland 51% of ownership in Disneyland Paris 43% ownership in Hong Kong Disneyland	2 nd largest amusement park company after Disney 20 parks across the United States, Mexico, and Canada and soon in Dubai and Qatar	Ocean Park in Hong Kong, New locations in Shanghai <i>The advantage of understanding the local market</i>
11 billion in revenue (2008)	\$1 billion in revenue (2008)	5 million tourists each year

Competitor Analysis

By segment

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Movies comprise more than \$150 billion in revenues annually. The most important regions contributing to this industry are the United States (49.8 percent), Europe (33 percent), and Asia and developing countries (14 percent).

Warner Brothers	Walt Disney	Twentieth Century Fox	Viacom	other
17.10%	11.70%	10.3%	6.3%	54.6%



Consumer Products: Warner Brothers, Fox, Sony, Marvel, and Nickelodeon
Disney competes in its character merchandising and other licensing, publishing, interactive, and retail activities. Disney is the largest worldwide licensor of character-based merchandise and producer/distributor of children's film-related products based on retail sales.

Operating results for the licensing and retail distribution business are influenced by seasonal consumer purchasing behavior and by the timing and performance of animated theatrical releases.



External and Internal Environment: SWOT

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Resources, Brand name (the world's 9th most valuable brand), Diversification strategy, Strategic acquisitions (ABC in 1996, Pixar in 2006), Vertical integration, High EPS, Experienced management, Creativity of employees, Strong product portfolio, well-known characters, Content integration

W

Communication problems due to large size of the company, High bureaucracy level, Heavy dependence on US market, Financial losses, Declining profit margin, Company's name is highly associated with an specific target audience – children

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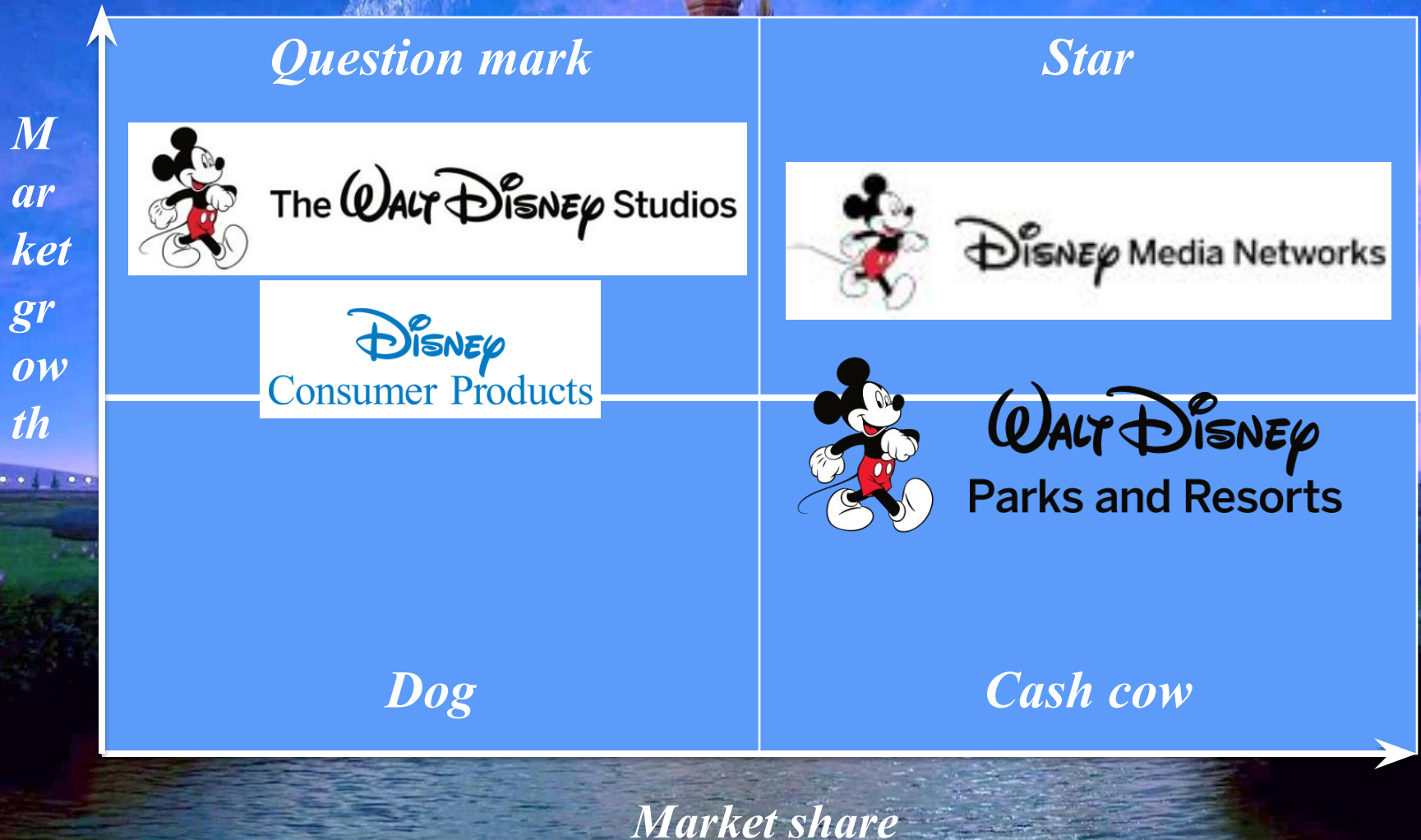
Positive government attitudes, Barriers to entry are significant, Expansion into various segments (Gaming and social network industry), Growth of emerging markets, New acquisitions, Video-on-demand is expected to grow to \$3.9 billion by 2010

T

Increasing piracy, Economic recession, High dependence on customer preferences, Healthy lifestyle trends, Population growth rate and birth rates are declining, Population is getting older, Aggressive competition in Asian market

BCG matrix

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Recommendations

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- Retrenchment strategy towards Studio Entertainment during times of economic difficulties
- Growth strategy towards Media Networks and Parks and Resort segment
- More focus on Cable Networking
- More focus on the Asian market (consider joint ventures with Six Flags, Inc. to outperform Ocean Park)
- Proceed with diversification strategy and consider entering gaming and social networking industry
- Creation of luxury product line
- Proceed with strategic acquisitions
- Change in Studio Entertainment business model to protect intellectual property: amplify Blockbuster model with Advertising model (show movies free online and collects fees for advertisement on the web-site)
- Target new segments – elderly people
- Creation of new characters that meet new social trends (for example, people are not satisfied with the old concept of “a Prince of a White Horse”)
- Consider entering food market (cornflakes, snacks, crisps, soft drinks). During times of economic difficulties consumers spend money on what they need rather than what they want, and Disney can use its brand name to provide their customers with such products