

## Disney and ABC: A good match?

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## **Introduction**

Long recognized at the leader in film animation and family theme parks and resorts, The Walt Disney Company stands today as the second largest conglomerate in the United States. Disney also controls television networks, radio stations, a cruise line, international Disney theme parks, Touchstone and Miramax Productions and multiple e-commerce sites. This huge company was put together largely by acquisition.

One of those parts, ABC television network, has not been performing well post acquisition. Ratings are week and the network is suffering huge losses. Disney has engaged Blaisdell Consulting to evaluate the situation at ABC and to make strategic recommendations. Disney is particularly interested in whether it should attempt to fix the problems at ABC or to sell it.

The present situation at the ABC television network can be described as follows:

1. Revenue from Disney's media networks has decreased by roughly \$400 million per year, which can largely be attributed to problems with ABC.
2. ABC's ratings have dropped considerably and with only 7 million viewers it has fallen behind Fox and is now ranked fourth among the national networks
3. The network does not have any hit programs

Additionally, the television industry is changing. The introduction of cable and satellite TV has increased greatly the number of channels. Blaisdell Consulting predicts that the concomitant decrease in market share that the national networks have been experiencing will continue. The large number of channel options that viewers have will shift the emphasis away from the four large national networks.

Blaisdell Consulting recommends that Disney divest itself of ABC for the following reasons:

1. Disney does not appear to be able to increase ABC's ratings. Whether this is due to ABC being unable to integrate with Disney's other assets or not jiving with management, any additional investment of resources will most likely not yield an adequate return.
2. Claims that ABC would provide synergies for Disney programming have, in the main, not been realized. Moreover, Disney can use its other media networks to air its production companies' programs. A&E and The Disney Channel are ideal networks for Disney's original programming to be shown.
3. The television industry is changing and the market share available for broadcast networks is diminishing. It is best for Disney to exit this industry while ABC is still considered valuable.

## Company History

The Disney brothers, Walt and Roy, started the Walt Disney Company in 1923 in Los Angeles. It was there that they produced a series of short live-action/animated films collectively called the ALICE COMEDIES. Within four months, the ever-growing staff moved next door to larger facilities, where the sign on the window read "Disney Bros. Studio." A year later, in 1925, they made a deposit on a Hyperion Avenue lot in the Silver Lake district of Los Angeles. Construction began on the new studio shortly thereafter. It was here that Mickey Mouse was "born" in 1928, followed by Pluto, Goofy, Donald Duck, and the rest of the Disney gang.<sup>i</sup>

The expansion of Walt Disney Company was gradual. Initial changes were made in response to an increase in demand for Disney films and products. In 1937 Disney built a new studio in Burbank, California to allow faster, and easier film production. From 1950 to 1988, the studio lot continued to expand so that live-action shots, television programs, and high-budget films could be included in Disney's portfolio. In 1950, Disney bought 200 acres of orange groves in Anaheim, California and began construction on Disneyland.

In 1984 Michael Eisner took office as chairman and CEO of Disney. Since Walt Disney's death, The Walt Disney Company had been nervous to take on new ventures for fear that they would not have been what Walt envisioned. Michael Eisner pushed The Walt Disney Company and made the conglomerate that it is today. He wanted a diversified company that would give back to share holders and provide a place for Disney goods and services. As a result Disney invested in television networks, radio stations, a cruise line, international Disney theme parks, and Touchstone, another film production company.

## Company Vision and Mission:

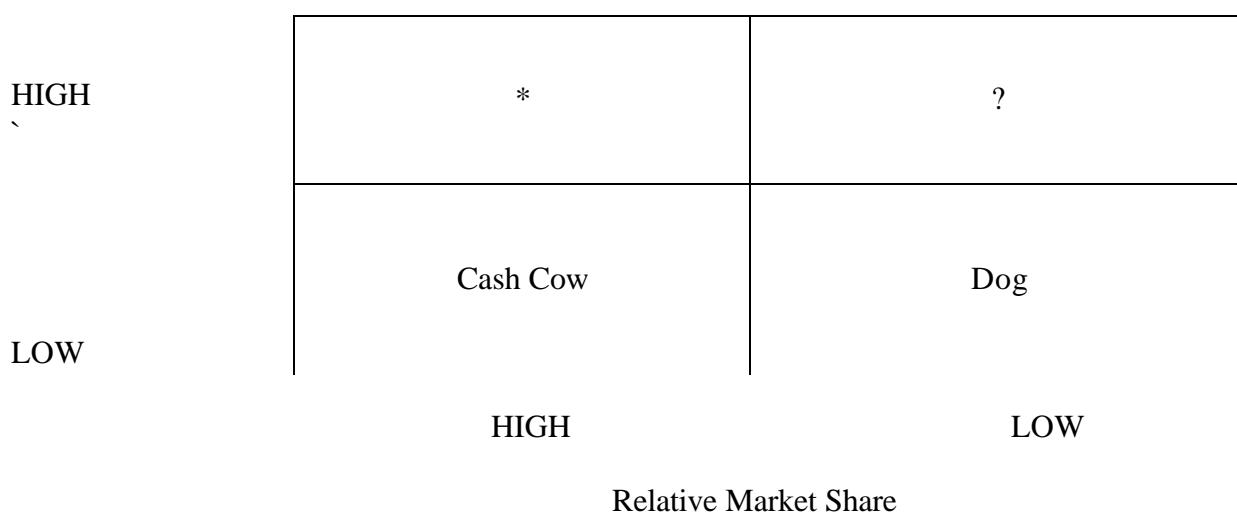
The Walt Disney Company's objective is to be one of the world's leading producers and providers of entertainment and information, using its portfolio of brands to differentiate its content, services, and consumer products. The company's primary financial goals are to maximize earning and cash flow, and to allocate capital profitably toward growth initiatives that will drive long-term shareholder value.<sup>ii</sup>

## Portfolio Analysis

Disney has investments of all sizes in many different industries. It is therefore beneficial to analyze The Walt Disney Company using a portfolio analysis. This allows us to consider the market share and market growth rate within each industry. Disney has a large and diverse portfolio of capital that can be divided into four major categories: media networks, parks and resorts, studio entertainment, and consumer products. It controls the ABC television network, 10 broadcast TV stations, and more than 60 radio stations. It also has stakes in several cable channels such as ESPN (80%) and A&E Television Networks (38%). Its Walt Disney Studios produces films through imprints Touchstone, Hollywood Pictures, and Miramax. Walt Disney Parks & Resorts, which includes Walt Disney World and Disneyland, owns the most popular resorts in North America and has recently added Disney Cruise. Walt Disney Internet Group oversees the Mouse's Web properties (ABC.com, Disney Online, ESPN.com), and although it did not succeed, Go.com was also one of its responsibilities.

A portfolio analysis is an elegant way of showing the relationship between market share and market growth and the position of products within it. The vertical axis represents the degree to which a market place for a product is growing. At the top of the axis is fast market growth (HIGH) and at the bottom is slow market growth (LOW). The horizontal axis represents market share of a specific product in a specific market. Products in each of the four boxes are described in terms of the picture in each box and decision regarding their management is made accordingly. Stars are products that hold high market share in a growing market. Star products generate cash but can consume it as well. Cash cows generate cash. These are products with high market share but in markets where growth has slowed. Question marks are products that have low market share in high growth markets. The products or companies in this category have the potential to generate a lot of money for a company if there are able to obtain more market share. Dogs are products with low market share in a slow growing or even declining market.

Relative Growth Rate



### Parks and Resorts

Disney theme parks and hotels have the largest market share in North America. As the original theme park company, Disney was able to build capital, expand, and claim a large share of the market because it did not have any competition. Disney's size and reputation now acts as a deterrent for entering companies because it is extremely difficult to compete. Along with the competition that Disney's theme parks present, the industry in general is hard to enter due to the large amount of capital necessary to invest. These two barriers to entry make the theme park industry a low growth market. Since Disney has such a large market share, theme parks are a 'cash cow' for the company.

Disney has one main competitor, Universal Studios Theme park, located very close to Disney World in Orlando, Florida. In Southern California Disneyland in Anaheim also has Universal Studios nearby, along with Six Flags Magic Mountain. These competitors steal some customers away from Disney, but they do not act as perfect substitutes. Disney theme parks are essentially competing in an oligopoly market where other parks are on the fringe. Disney further sets itself apart by attracting customers that stay for longer than one day, which is not the basis on which other theme parks (i.e., Great America, Six Flags) work. This quality classifies some of Disney's parks as resorts and puts them in a different industry entirely.

Disney has invested and continues to invest highly in its theme parks so that they do not lose the position that they currently hold. The number of visitors that come to Disney's parks and resorts is a direct determinant of how profitable they are. Disney parks and resorts rely on a 75% repeat business of visitors. It is therefore important that customers are treated well and do not have a bad experience that would terminate their business.

### Studio Entertainment

This product does not fall in to any of the categories and should be placed at the center of the matrix. Disney's studios are as good as their competitors, but there are many competitors in the film industry. Whether or not Disney films generate large revenue depends on the number of people who attend, which varies by film. The hope in motion picture production is that a movie will be a blockbuster and make a profit once it is released in theaters and in turn generate large amount of revenue with the sales of the merchandise that goes along with the movie. If moviegoers do not like a film then the production company will lose money as a result.

### Media Networks

Disney has control of several television networks: ABC, ABC Family, A&E, The Disney Channel and ESPN. Of these, the large networks are ABC and ESPN and therefore the ones that we will focus on. Since ABC is one of Disney's largest assets, and is currently doing poorly, it is beneficial determine how Porter's Five Forces affect it.

### **Porter's Five Forces: ABC**

#### Barriers to Entry

The expense of capital is the first barrier to entry for a national broadcast network. The capital investment needed, such as infrastructure and broadcasting technology, to start a network is

substantial. The network must have content to broadcast. If a television network works alone (i.e., does not have an affiliated production company) costs are even higher because they must purchase the rights to all of their programs. These programs must be produced by a production company or have been already produced by another network and production company affiliate. The costs that surround production are large. Small independent producers, for example, often cannot afford to engage in the "deficit financing" required by the networks. Deficit financing involves receiving a below-cost payment from the networks during the first-run of a program. A large production organization is much more financially able than smaller companies to cope with the necessary short-term losses in revenue, hoping to strike it rich in syndication. If a program is on the air for four seasons the network is able to sell the rights for its re-runs to another network.

The vertical integration (control of production, distribution and exhibition) of networks is prominent due to the high costs of production and broadcasting. It is financially difficult to operate comfortably as a network without any affiliation to a production company. Vertical integration takes advantage of the potential economies of scope and reduces the amount of risk for the production company. In 1970, The Federal Communications Commission (FCC) implemented the Financial Interest and Syndication Rules (Fin-Syn Rules) attempting to limit the market control of the three main broadcast television networks, but these rules were essentially eliminated in 1995. Since the almost complete deregulation of television, networks have taken to typically owning a stake in about 73% of their programs.<sup>iii</sup> Vertical integration acts as a second barrier to entry because smaller networks cannot compete.

### Bargaining Power of Buyers

ABC purchases time to broadcast their programs from their affiliate channels that are located in almost every major cities or metropolitan area of the United States.<sup>iv</sup> Network affiliates buy content from ABC Network, Cable companies and DirecTV satellite companies. These affiliate networks are trying to make money by selling their advertising slots. Advertisers pay more for TV slots that are during hit television shows, especially ones that are popular with the 18-49 year old age group. Ratings affect ABC Network indirectly by determining the price advertisers are willing to pay for TV slots. Some is purchased from the network, some from the local affiliate. As ABC's programs become less popular they must sell their programs for less money. However, because ABC affiliates are connected to ABC network, ABC does have some bargaining power.

### Bargaining Power of Suppliers

ABC network is supplied from multiple sources. They can produce a show themselves, someone else can make a show and sell the rights to them, or someone else can have an idea for the show and sell ABC some but not all of the rights. Typically networks have a combination of each one of these agreements.

ABC is an example of a vertically integrated network because it is owned by Disney, which has a production company. This means that when someone approaches ABC with the idea for a show, there is a possibility that ABC will be able to produce it on its own. Once ABC has seen the pilot and decided to put a show into production, the contract will be an agreement between ABC and Disney. In this case the supplier is restricted by the affiliation of the person with the idea. Often writers sign contracts with networks saying that they will only give their ideas for shows to that network.

If ABC, or an ABC affiliate (such as ABC Los Angeles), were to buy the rights of a show, then ABC would be restricted by the decision of the network that owns the show. A network can sell another network their rights to produce a series and all the associated residual rights. A network can also sell another network the syndication rights for a show that has been on the air for at least four seasons. Syndication rights for a series are often expensive because only 1/6 of television shows stay on the air for four or more seasons. In this type of agreement the network who is selling the rights to the program has the bargaining power.

#### The Availability of Substitute Products

There are four large public television networks with many shows available for viewers. In addition to these stations there are smaller public television networks, but more importantly there is cable and digital television. Cable, and especially satellite, television greatly increases the number of options open to the consumer. There are thousands of channels that viewers can watch and many of these have programs that are similar to ABC's content. The availability of substitutes for ABC programs is high.

#### The Nature of the Rivalry among other firms

Although ABC is one of the top networks, among these networks its market share is not very large. Market share is determined by the television network's rating, which is directly correlated to the number of viewers that tune in to the network. Among the prime time networks ABC is currently ranked fourth in terms of the number of viewers. CBS has approximately 12 million viewers, followed by NBC, which has 11.1 million and Fox which has 9.3; ABC comes in forth with 7.5 million viewers. Most importantly ABC is in the fourth place among viewers aged 18-49, which is the advertiser-friendly demographic that all of the prime time networks chase.<sup>v</sup>

Only two of ABC programs -- "Primetime Thursday" and "The Bachelor" – are among the week's 40 most-watched prime-time programs according to Nielsen Media Research.<sup>vi</sup> Having only two shows is not enough to make ABC one of the top three networks. In comparison, ESPN is the top sports network, holding a large number of viewers. Television is a market where there is low growth. Almost every household in America owns at least one television set and watches several hours every day. With low growth and low market share, ABC falls in to the dog category; with low growth and high market share, ESPN is a cash cow.

#### E-commerce

The Internet is considered to be a market where there is high growth. There are many companies entering the industry. Disney does not have a large market share with the companies that it holds, and therefore falls into the “question mark” category. Since the Internet business is growing at a fast rate it could be possible for Disney's company's to gain market share and become a “star” asset. There is also risk involved, which is exemplified by the demise of GO.com.

#### Consumer Products

Disney consumer products are complements to the rest of Disney's assets. The clothing, toy, and other accessories accompany Disney's movies and theme parks. If a movie is a blockbuster it

will have high sales in merchandise. Although they are in a market that has a low growth rate and do not have a high market share, they serve a purpose. The Walt Disney Company's consumer products are not a "dog" product because they complement Disney's other assets.

### **Financial Report for Disney**

The Walt Disney Company has been facing a decrease in returns to stockholders. On February 9<sup>th</sup> 2003 Walt Disney Company stock closed at \$16.35, compared to just one year earlier when it stood at \$23.00. Looking back further to April 20<sup>th</sup>, 2000 when the stock traded at \$42.44, a negative, long-term trend becomes evident. Reasons for the decrease in stock price can partially be attributed to the recession that has been affecting the United States since the September 11<sup>th</sup> attacks. As a result of the tragedies there has been a decrease in airlines travel that has directly correlated to attendance at Disney's theme parks. Investors know that this is currently the case, and that it is most likely not going to change in the near future. The decrease can be explained further by the difficulties that Disney is having with some of its media networks, namely ABC, and the failure of its investment in GO.com.

The 2002 fiscal year represented a positive turning point for Disney operations, marking both the end of a five-year period of aggressive capital investment in theme parks, and positive returns on the improvements that Disney has been making in both the studio entertainment and consumer products sectors. Overall, since the acquisition of Capital Cities/ABC in 1996, operating cash flow has increased at a compound annual growth rate of 16 percent and free cash flow has grown from roughly negative \$800 million in 1996 to positive \$1.2 billion in 2002, almost doubling 2001's revenue. The 2002 fiscal year marked an increase in earnings and cash flow despite the year's challenging environment.

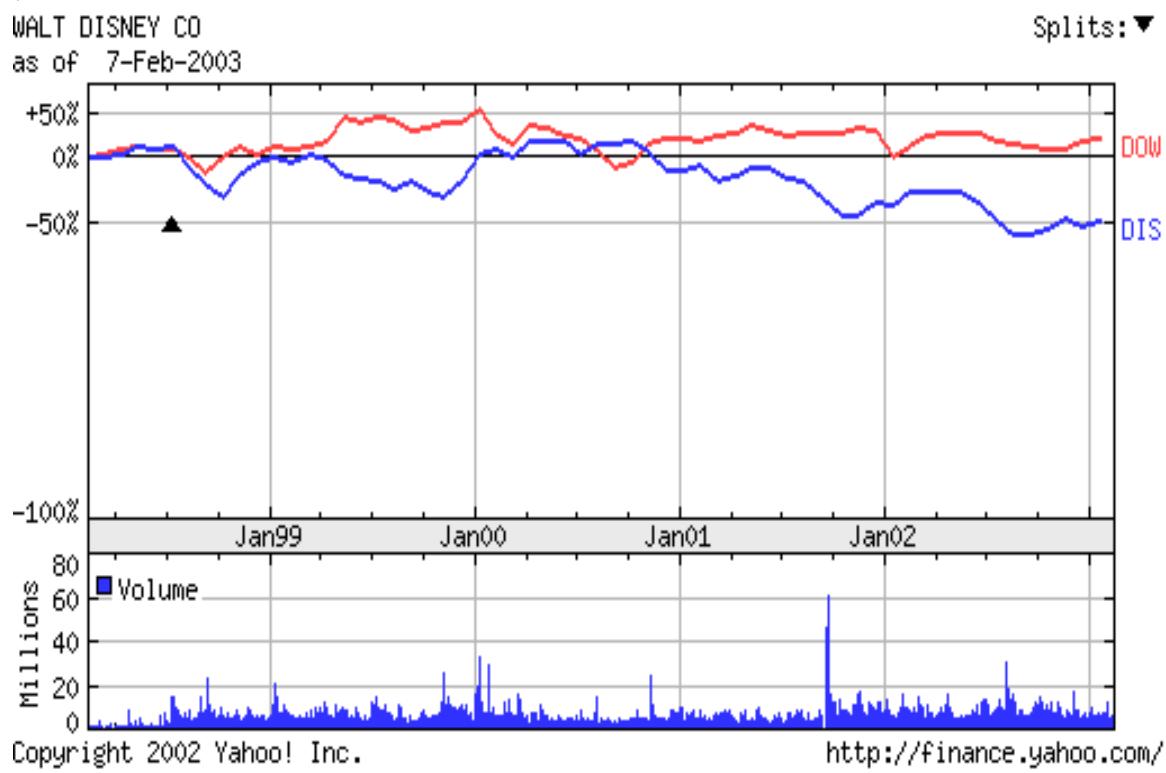
Most recently Walt Disney Company reported a fiscal third-quarter profit of 17 cents per share, which was in line with estimates. This is less than what it earned in the same period a year earlier. For the current quarter, the company warned that per-share results would be lower than the 13 cents earned in the year-earlier period, also below current estimates. On April 2<sup>nd</sup> Disney was hit by a slew of brokerage downgrades and word from Standard & Poor's that it may cut its debt rating, all of which combined to push the stock to an 8-year low.<sup>vii</sup>

Chart 1 shows the value of Disney Company stock over the last 6 years illustrating the overall decrease the Disney's stock has experienced. Chart 2 shows the value of Disney Stock versus the Dow Jones over the last 5 years. A \$1,000 investment in Standard & Poor's 500 in 1984 would yield \$8,500 today compared to \$10,900 that it would have made if invested in Disney. From 1984, when Michael Eisner took office as chairman and CEO of Disney, to 2001, there has been a 15 percent compound annual return (including reinvestments of dividends).

Chart 1:



Chart 2:



Since 1996, the company has invested significant capital to fortify the leading market position of its key Disney and ESPN businesses. This capital investment has created a large-scale infrastructure to support both Disney and ESPN operations. Having largely completed its cycle of capital investment in theme parks, the company's overall capital spending for 2002 declined to approximately \$1.1 billion from \$1.8 billion in 2001. In theme parks alone, capital spending decreased by more than \$600 million.<sup>viii</sup>

In 1999 Disney developed the Strategic Sourcing and Procurement group (in-house consulting) to increase efficiency and they were able to pass the target of \$300 million in annualized savings in 2002, more than a year ahead of schedule. In 2001 there was a reduction of roughly 4,000 employees. This also helped Disney's cost containment into 2002, resulting in approximately \$350 million in annual savings as a result of this reduction in workforce. At Parks and Resorts, several hundred cost-containment programs were put into place at Walt Disney World and at Disneyland, yielding a reduction in operating expenses of almost a quarter of a billion dollars in 2002. Across the board Disney is becoming a more efficient company, which in turn is cutting costs and thereby increasing profits.

Throughout the recent economic downturn, Disney has maintained a strong balance sheet and liquidity, allowing the company to borrow at attractive rates and creating value for shareholders by reducing the company's cost of capital. At the end of fiscal year 2002, Disney maintained net borrowings of \$12.9 billion.

## Strategic Outlook

### Summary

Disney became a household name when it began producing its famous animations. With the addition of the Disney theme parks it has also become a popular family vacation destination. These productions and services operate as the core of The Walt Disney Company. Slowly, Disney has acquired additional investments that complement Disney's original assets. It has expanded into e-commerce, consumer products, media networks, and international theme parks. Among all of Disney's acquisitions there are strong synergies. Disney's television and radio acquisitions act to complement its production company and its consumer products, cruise line, and e-commerce support its theme parks, and of course there is a large amount of overlap. Each company complements the original core of Disney, with the goal of making all of them stronger.

Disney has asked Blaisdell Consulting to advise it on the prospects for ABC television network. Disney purchased ABC in 1995 to package programming from Disney's production company. However it has failed to reach the potential that Disney was hoping for and is currently a huge financial drain on resources. We look at the reasons ABC has not improved and the options available to Disney with this asset.

### Strategic Analysis

As a result of Disney's many acquisitions it has become the nation's second largest leading conglomerate, coming in behind only AOL Time Warner. The Walt Disney Company has become much more than simply a production company with a theme park. With the addition of a cruise line, radio stations, and television stations it has grown in to an extremely large corporation. With this in mind, Disney has asked Blaisdell Consulting to analyze its many companies focusing on ABC television network. Blaisdell Consulting will make recommendations, with focus on a solution that will satisfy all of Disney's goals.

### Preliminary Analysis

When Walt Disney passed away Michael Eisner replaced him in 1984. As the new CEO for The Walt Disney Company his vision was to expand the company across the board. He did so by acquiring companies that possess synergies with the existing Disney companies, propelling both original companies and the new ones forward. As a result of the acquisitions operating cash flow has increased at a compound annual growth rate of 16 percent every year from 1996 to 2002. The result of Eisner's work was obvious in the large returns to shareholders, exemplified by the 2000 high stock price of \$46. Unfortunately this trend has not been sustained and stock prices have continued to decline reaching a low around \$17. Like most other stocks, this decrease is partially a result of the tragedies that occurred on September 11<sup>th</sup> 2001. The recession in the United States has reduced air travel, reducing attendance at Disney's theme parks, and sales of consumer products. But there is more.

One of the moves that Eisner made was the purchase of ABC broadband network. Since the acquisition ABC has been doing poorly, represented by the large decrease in revenue

between 2001 and 2002, the decrease in ratings, and the lack of hit television shows. During the last few years ABC has dropped from the top three networks and has not been able to recover. Large amounts of investments have been made in hopes of improving ABC's ratings but any direct results have yet to be seen. Looking forward into the future of television Blaisdell Consulting predicts that the market share of broadband television will decline. Blaisdell Consulting therefore considers the possible benefits of divesting in the ABC network.

### Media Networks

National television stations no longer hold a dominant part of the market. There are four large public television networks with many shows available for viewers. In addition to these stations there are smaller public television networks, but more importantly there is cable and digital television. Cable, and especially satellite, television greatly increases the number of options open to the consumer. This has not always been the case. The availability of other television networks has increased greatly over the last fifty years. In the 1950s, most American television set owners had access to only three channels.<sup>ix</sup> Through the 1970s viewers could choose to watch programs on one of the three major networks: CBS, NBC, or ABC. Up until the early 1980s the national networks had well over 90 percent of the market share. The only substitutes for programs on ABC were the programs on the other two channels. Then throughout the 1980s and 1990s the number of cable networks exploded because of the improved cable technology and direct-broadcast satellite television. This technology multiplied the channels available to viewers, thereby greatly increasing the number of options. The number of broadcast networks increased also, with the success of the Fox network and then the arrival of the UPN and WB networks. By 1997 the market share of the broadcast networks had decreased to under 50 percent.<sup>x</sup>

ABC is currently one of Disney's most prominent problems. In 2000 the network received acclaims for its hit show, *Who Wants to be a Millionaire*. Since then it has not had a show that has attracted the same quantity of viewers and its ratings have fallen. As a direct consequence, the price at which ABC sells its advertising slots has decreased. Without high ratings ABC makes less money from its time slots and is overall less profitable. This is reflected in the large decrease in revenue that ABC experienced from 2001 to 2002 of almost 400 million dollars. ABC television network is a large drain on resources for The Walt Disney Company. It is expensive to operate, run, and produce. Without hit television programs and high ratings it is a questionable asset.

ABC network is a large piece of capital that has three potential benefits for Disney. ABC provides Disney with an accessible place to air its own shows, TV movies, advertisements for its other products, and other media networks. Acting as a synergy with Disney's other assets it has the capability of increasing their worth and strengthening them individually. It was also once one of the top three large broadcast networks in the United States. It has the possibility of being profitable, namely if it were to return to its position in the top three networks by possessing popular programs. The third incentive for Disney is that ABC and Disney's production companies can work together to produce programs. Evidence shows that television production

companies cannot be profitable if they sell all of their rights to a network. By being vertically integrated with Disney there is the possibility for increased returns on production.

Unfortunately these possible benefits have not been realized. ABC's ratings have not been high enough to bump it back into one of the top three coveted positions. It is not far behind Fox in its ratings but it would need to produce new shows that would appeal to a large number of people in order bypass them. This is not an easy feat and it costs a great deal of money. Currently ideal choices are reality TV shows, similar to "American Idol" or "Survivor", which have low production costs and high appeal. That being said, it needs to be recognized that the reality show is likely to be a short lived fad. TV has been dominated by variety shows, by Westerns, by sitcoms, by quiz shows, and now reality shows. Ratings are already beginning to wane in the second tier reality television shows and viewers will probably continue to lose interest. Part of this decrease in ratings can be attributed to the war in Iraq. Newcomers to the genre are being deemed too mean-spirited or cheesy, like "All American Girl" on ABC and "Married by America" on Fox, and are less appealing than before the war.<sup>xi</sup> There are many mainstream marketers like DaimlerChrysler, General Motors, Mars, McDonald's, PepsiCo, Pfizer and Visa who have started buying significant commercial time on reality TV shows.<sup>xii</sup> However, as viewers lose interest so will advertisers.

The other benefits of owning ABC do not seem to be appreciated by Disney. The loss of viewers appears to be mainly from consumer unhappiness with programming. One of the reasons Disney obtained ABC initially was to air their programs on a national network. It should be noted that this objective could be satisfied by the use of Disney's other media networks. Disney's animated films from the Buena Vista Motion Picture Company can be shown in The Disney Channel and Touchstone and Miramax's more adult oriented movies can be put on A&E. These channels do not have the same numbers of viewers as ABC but the audiences that Disney's films target are specific to these channels.

Aside from Disney's corporate difficulties with ABC there are also problems that need to be addressed regarding the industry. The television industry is changing and national television stations no longer hold the majority of the market. There are four large public television networks with many shows available for viewers. In addition to these stations there are smaller public television networks, but more importantly there is cable and digital television. Cable, and especially satellite, television greatly increases the number of options open to the consumer. In the 1950s, most American television set owners had access to only three channels.<sup>xiii</sup> Through the 1970s viewers could choose to watch programs on one of the three major networks: CBS, NBC, or ABC. Up until the early 1980s the national networks had well over 90 percent of the market share. The only substitutes for programs on ABC were the programs on the other two channels. Then throughout the 1980s and 1990s the number of cable networks exploded because of the improved cable technology and direct-broadcast satellite television. This technology multiplied the channels available to viewers, thereby greatly increasing the number of options. The number of broadcast networks increased also, with the success of the Fox network and then the arrival of the UPN and WB networks. By 1997 the market share of the broadcast networks had decreased to under 50 percent.<sup>xiv</sup>

This redistribution of market power must be acknowledged when considering ABC. With so many channels available to the viewer there is less opportunity for one channel to have a large portion of the market share. Without this availability it needs to be considered if the

broadcast television network is an industry worth staying in. There is less of an opportunity for high returns and currently ABC is facing high costs to restructuring. In turn, there is less of a possibility for profits to be made. Luckily Disney has other networks to air its shows and movies and create synergies for its other products. Blaisdell Consulting suggests that Disney abandon ABC and exit the declining market that television is becoming. Taking this action Disney will be able to stop pouring resources into ABC and reallocate them in to one of its core competencies.

Disney's second largest network is ESPN, a cable sports channel. ESPN is the top rated network in its category and has proven to be a sound investment for Disney. Aside from ESPN, Disney controls the Disney Channel, ABC family, and A&E. These are small channels that do not cause a drain on resources while simultaneously increasing diversity in Disney's portfolio.

### Parks & Resorts

Recently Disney invested money to update the parks to ensure that the quality of the parks remains high. Disney's theme parks rely on up to 70% return visitors, so it is essential that they maintain a high quality. The theme parks have a large market share with in the industry, which is one of the reasons for the high rates of attendance.

The war in Iraq and issues surrounding the war have had mixed results on attendance rates for Disney's parks and resorts. Many Americans seem to be vacationing close to home, boosting state tourism and consequently attendance rates at some of Disney's parks. In March it was reported that there has been a recent decrease in the quantity of guests attending Walt Disney World resort in Florida, a big international destination, but this can be attributed to the decline in air travel resulting from the September 11<sup>th</sup> tragedies and the current war in Iraq. Attendance has held constant at Disneyland in Anaheim and it's running ahead of last year's pace at Disney's California Adventure Park. Disneyland drew about 50,000 people each day of recent weekends, and California Adventure has had increased attendance rates of about 15,000 on weekends.<sup>xv</sup> Although it cannot be determined when air travel will return to previous rates, it does not appear to be affecting attendance rates too negatively.

It is recommended that Disney take advantage of the increase in domestic tourism. Investing in an advertising campaign to inform public opinion about the current benefits of vacationing in the U.S., and specifically at the Disney parks and resorts, should be beneficial. If attendance increased, public opinion of the Walt Disney Company might also increase and spark an increase in Disney's stock price. Right now investors are looking for stocks that will not be affected by the war abroad. If Disney were to increase attendance rates then it would encourage investors.

## Film Production

Disney's production companies are comparable to other relative production companies in size and stature. In 1999 Eisner mandated that the annual investment in movies be reduced. No doubt this decision was based on the box office failures that Disney had suffered from in previous years. Analyst Logdon explains why this tactic is helpful, "Disney has a much higher probability of generating profits in its film portfolio... because the films cost less, you start generating positive cash-flow earnings much faster than with the average studio film".<sup>xvi</sup> Richard Cook, Disney Studio's Chairman, institutes Disney's plan by ensuring that Disney has a slate of movies that are diverse in their costs, subject matter, and appeal.

Eisner's plan, combined with the intensive research of which films Disney decides to produce, has proven to be a successful combination, as evidenced by the overwhelming number of nominations that Miramax and Buena Vista Motion Pictures Group received from the Academy of Motion Picture Arts and Sciences. Miramax was applauded for Chicago, Gangs of New York, The Hours (which it co-produced with Paramount Pictures), and Frida with a total of thirty-three nominations. Combined with the nominations for the animated films, Lilo & Stitch, Spirited Away, and Treasure Planet the Walt Disney Company received an industry-leading 44 Oscar nominations. Michael Eisner commented on Disney's success:

"Today's nominations are a tribute to the talented creators who have developed such compelling content to audiences worldwide during the past year for The Walt Disney Company, As evidenced by the nominations, this content has been delivered with the high quality for which Disney is known."<sup>xvii</sup>

Disney's film production companies are efficient and successful. They have succeeded in producing movies that are hits and affordable to create. One improvement that Disney could make would be to decrease the cost of distribution by digitalizing their new releases. This technological investment would save millions of dollars but is something that should be saved for the future when it becomes more widely used by movie theaters.

## Conclusions

Disney's products are present in almost every type of market and have different levels of influence. With the emphasis placed on divesting in ABC with the hopes of exiting a failing venture and industry. The money that will become available from the sale of ABC Disney will have the possibility of investing the money back in to one of its secure assets or investing in a new venture that is in accordance with its core competences. Disney's theme parks can increase attendance, due to the increased interest in domestic travel. Together these changes will not only increase revenue but also give investors confidence and hopefully stock prices with increase.

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- <sup>i</sup> From the website [disney.go.com/StudioOperations>Welcome/history.html](http://disney.go.com/StudioOperations>Welcome/history.html)
- <sup>ii</sup> From the website [disney.go.com/StudioOperations>Welcome/history.html](http://disney.go.com/StudioOperations>Welcome/history.html)
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