

A Financial Analysis of Disney Based on External and Internal Environment

Zhiheng Xu*

Beijing Royal Foreign Language School, Beijing, 102209, China

* Corresponding Author Email: xuzhiheng@st.brs.edu.cn

Abstract. This comprehensive report offers a detailed examination of The Walt Disney Company's diverse business operations, encompassing market positioning, financial performance, strategic initiatives, and risk management. Analyzing both external and internal environments, the report provides valuable insights into the challenges and opportunities shaping Disney's trajectory. An exploration of Disney's historical background adds depth to the analysis, offering a contextual lens through which to understand the company's evolution. The competitive landscape is intricately examined, highlighting Disney's unique position in the dynamic entertainment industry. In the face of an ever-evolving market, this report serves as a valuable resource for stakeholders, investors, and industry enthusiasts seeking an in-depth comprehension of Disney's past, present, and future. Its meticulous examination of Disney's strategies and risk management provides a roadmap for navigating the complexities of the entertainment sector. This document stands as a comprehensive guide, contributing to a holistic understanding of The Walt Disney Company's enduring significance in the global business landscape.

Keywords: Disney, Financial Analysis, Competitive Advantages.

1. Introduction

The Walt Disney Company, established in 1923 by Walt Disney and Roy O. Disney, is a global entertainment powerhouse. Disney engages in diverse business activities, encompassing media networks, studio entertainment, theme parks, and direct-to-consumer services. These endeavors collectively establish Disney as a formidable player in the entertainment industry [1]. In the 1930s and 1940s, it created both full-length and short animated cartoons. In the 1950s, it began producing television shows, live-action movies, and documentaries about nature. The company's hegemony over the family entertainment sector in the United States was cemented with the establishment of the theme parks Disneyland in 1955 and Walt Disney World in 1971. Following Disney's death in 1966, the corporation went into decline, but new management brought it back to life in the 1980s. Disney kept growing in the early years of the twenty-first century, purchasing 20th Century Fox, Pixar, Marvel Entertainment, and Lucasfilm. It also made a foray into streaming media with the launch of Disney+ and Hulu.

Disney's operations encompass a wide range of activities. It owns and operates prominent television networks such as ABC and ESPN, produces blockbuster films under well-known banners like Disney, Pixar, Marvel, and Lucasfilm, and offers immersive experiences through its theme parks and resorts. The company has also entered the rapidly growing direct-to-consumer streaming services market with Disney+ and Hulu, further diversifying its revenue streams [2]. The American company Disney Company is well-known for being a distributor of family-friendly entertainment. It grew to become one of the biggest media corporations in the world in the 20th and early 21st centuries, owning companies like ABC, ESPN, Pixar, Marvel Entertainment, and 20th Century Studios. The Disney corporate office is located in Burbank, California.

Disney's market positioning is characterized by its iconic brand, extensive content library, and global reach. The company competes in a dynamic and competitive entertainment industry, facing both challenges and opportunities across its diverse portfolio of businesses. Disney's iconic brand, cultivated over decades of storytelling excellence, serves as a powerful asset in maintaining a prominent market position [3]. Understanding Disney's historical context is essential for appreciating

its resilience and adaptability. From its early animation breakthroughs to the acquisition of major franchises like Star Wars and Marvel, Disney has consistently evolved to meet changing audience demands. This adaptability has been a cornerstone of Disney's continued success [4].

2. Evaluating the External Environment of Disney

2.1. Competition from Rival Sellers

Disney faces intense competition from established entertainment entities, including Netflix, Warner Bros., and Universal Pictures. The content production and distribution landscape is highly competitive, requiring Disney to continually innovate and make significant investments in high-quality content [5]. Disney's competitive advantage lies in its ability to create universally appealing narratives and leverage its extensive intellectual property. Sony: Sony Pictures, Columbia Pictures, Screen Gems, and TriStar Pictures are among the companies that make up Sony's motion film company. With joint ventures (JVs) all over the world, the company's Sony Pictures Television is a significant producer and distributor of television. Every year, the business releases its full-year results in April or May. Thanks in part to Spiderman, net profits for the third quarter of 2021 were approximately \$1.3 billion. Comcast (CMCSA): Comcast is an additional diversified business with a wide range of interests. Big names in the film and television industry include Universal, DreamWorks, and Universal Television. The business also owns NBCUniversal, which consists of CNBC, MSNBC, Telemundo, and a number of other owned and run television stations under the NBC brand. In 2021, the media unit made about \$22.8 billion in revenue, while the studios unit reported revenue of about \$9.5 billion.

2.2. Competition from Potential New Entrants to the Industry

While Disney enjoys a strong market presence, the allure of the burgeoning streaming and content creation sectors attracts potential new entrants. Emerging players represent both challenges and opportunities, prompting Disney to maintain its competitive edge by focusing on content differentiation, user experience, and technological innovation [5].

2.3. Competition from Producers of Substitute Products

The availability of substitute products, such as content from other streaming services and digital platforms, poses a challenge to Disney's market share. To maintain its competitive edge, Disney must continually differentiate its offerings, creating content that deeply resonates with audiences [6]. Strategic partnerships and content licensing agreements enhance Disney's content library and ensure its ongoing competitiveness. In the media and entertainment sector, Disney's competitors pose a serious threat. Alternative goods and services that consumers can use in place of Disney's offerings are referred to as substitutes. For instance, Disney's film and television productions can be thought of as alternatives to streaming services like Netflix and Amazon Prime. Video games, social media, and other digital entertainment are further alternatives.

The emergence of substitutes is fueled by changes in consumer behavior and technological advancements. When it comes to media and entertainment, consumers have more options than ever before, and they can quickly move to alternatives if they are dissatisfied with Disney's offerings. Disney's earnings and market share may be impacted by this, particularly if alternatives gain traction over time.

2.4. Supplier Bargaining Power

Disney's relationships with content creators, artists, and suppliers significantly influence its cost control efforts. Effective supplier management is vital for maintaining profitability and ensuring timely content delivery [7]. Disney's reputation and financial stability enable it to negotiate favorable terms with suppliers, granting access to valuable content rights. Depending on the supplier in question

as well as the good or service being offered, Disney's suppliers in the media and entertainment sector may have different bargaining power. Disney depends on a large number of suppliers, such as distributors, production companies, and content producers. These suppliers can have a lot of negotiating power because they can create their own content or have other buyers.

Nonetheless, Disney has negotiating power with suppliers thanks to its solid reputation and brand. Disney is a big player in the entertainment sector and has a lot of purchasing power, which enables it to bargain for advantageous terms from suppliers. Disney's broad intellectual property portfolio also enables it to provide production studios and content creators with appealing licensing opportunities, enhancing its producers and content developers, bolstering its negotiating stance even more.

Having said that, suppliers may have more negotiating power if there is a shortage of suppliers for a specific good or service or if the good or service is essential to Disney's business operations. In these situations, the supplier might be able to negotiate with more clout, which could hurt Disney's bottom line. In general, Disney does not face a great deal of difficulty as a result of the bargaining power of its suppliers, but it is still vital to take into account when planning its operations and strategy. To keep its competitive edge, Disney needs to make sure it is getting the best deals while also preserving strong relationships with its suppliers.

2.5. Customer Bargaining Power

Consumer preferences and pricing sensitivity significantly impact Disney's revenue generation. Striking a delicate balance between delivering value to customers and maintaining pricing power is essential for sustained profitability [8]. Disney employs a tiered pricing strategy for its streaming services, catering to diverse customer segments while maximizing revenue potential. In the media and entertainment sector, buyers can have a substantial amount of negotiating power with Disney. Moviegoers, TV viewers, visitors to theme parks, and purchasers of Disney consumer goods are among the buyers in this sector.

When it comes to media and entertainment products, these consumers have many options, and if they're not happy with Disney's offerings, they can quickly move to competitors. Additionally, buyers have the ability to bargain with Disney about terms and prices, particularly for corporate clients who make large purchases. Furthermore, as streaming services have grown in popularity, consumers now have more control over what they watch and when, giving them more negotiating power and making it harder for established media companies like Disney to hold onto market share.

2.6. Industry Trends

The entertainment industry is in a constant state of evolution, influenced by several noteworthy trends:

Dominance of Streaming: Streaming services have emerged as the dominant mode of content consumption. Disney's strategic focus on Disney+ and other streaming platforms positions it favorably to capitalize on this trend, with the potential to shape the future of the industry [9].

International Expansion: Emerging markets, particularly in Asia and Latin America, offer significant growth potential. Disney's expansion into these regions is pivotal for long-term success, requiring content localization and cultural adaptation.

Monetizing Content: Disney's extensive content library provides ample opportunities for monetization through licensing, merchandise, and theme park attractions. Maximizing these revenue streams is a key strategic initiative to leverage existing intellectual property [3].

Technological Advancements: Innovations in technology, including virtual reality and augmented reality experiences, are transforming the entertainment landscape. Disney's investments in cutting-edge technologies ensure its continued relevance and enhance the consumer experience.

3. Evaluating the Internal Environment

3.1. Key Indicators of Strategy Effectiveness

Disney's financial performance serves as a primary indicator of the effectiveness of its strategies. Key financial ratios, including the price-to-earnings (P/E) ratio, profit margins, and debt levels, provide valuable insights into the company's financial health and its capacity to generate returns for shareholders. Disney's consistent revenue growth and profitability underscore its ability to adapt to changing market dynamics and leverage its content assets. Enhancements in competitive strength and market standing are fundamental to Disney's long-term success. Annual reports and in-depth market analyses are essential for assessing whether Disney's strategic initiatives positively impact its competitive position. Disney's strategic acquisitions, such as the purchase of 21st Century Fox's entertainment assets, have expanded its content library and enhanced its competitive standing in the industry [2].

3.2. Internal Operational Advantages

Disney possesses several internal operational advantages that contribute to its competitive edge. These include efficient content production and distribution, synergies between its business segments, and a robust talent acquisition strategy. These advantages position Disney as a formidable player in the entertainment industry and enable it to create high-quality content at scale [5].

The Walt Disney brand is strong. The company releases its films for a wide age range and maintains parks across multiple regions [10]. As a result, the company now owns the most well-known brand worldwide. Additionally, Walt Disney uses animated series like Winnie the Pooh and Cinderella to leverage its brand power and attract customers [10]. By using these characters, the business is able to take advantage of and gain a standard grip over the children who make up their target market. Disney has expanded into the animation industry by acquiring Pixar, enabling the company to use additional brands. Walt Disney's leadership is a contributing factor to the brand's fame. Walt held the position of CEO at the company's founding. Walt cultivated a culture of providing customers with goods that evoke special moments and unforgettable experiences. This philosophy contributed to the company's long-lasting brand name. People's perceptions of Disney have continued to be shaped by its culture. Disney is currently a well-known brand in the motion picture industry. Additionally, Disney and Apple's iTunes have an agreement [11]. This strategy will provide a reliable channel to increase product distribution and a great tool to advance the brand. Walt Disney also takes great pride in its ability to innovate. At Walt Disney, creativity is encouraged by company culture. The company's employees are creative and inventive, producing a variety of goods. To attract customers to its products, for example, the company uses animated characters like Winnie the Pooh and Cinderella. This enables the business to navigate the competitive business environment of today.

Finally, the company's diversification strategies are a strength. Disney is a well-established global corporation that dominates the information and entertainment sectors. Nonetheless, the corporation functions via four distinct business divisions: Studio Entertainment, Disney Consumer Products, Media Networks Broadcasting, and Parks and Resorts. Walt Disney has dispersed its offerings and endeavors to avert a decline in sales within specific product categories. The company has recently expanded into television, theme parks, home video, and film. The business has expanded its activities from America to Europe.

4. Risk Management

Disney faces market risks related to changes in consumer behavior, economic conditions, and industry trends [1]. Effective risk management strategies, including diversification and scenario planning, are imperative for mitigating these risks and safeguarding the company's financial stability [9]. Disney's strategic diversification, including its expansion into the streaming sector, helps mitigate risks associated with fluctuations in traditional media consumption. Internal risks, such as operational

disruptions, cybersecurity threats, and corporate governance issues, can significantly impact Disney's performance and reputation [2]. Implementing robust risk management and compliance measures is essential for mitigating these threats [5]. Disney's commitment to cybersecurity, data protection, and corporate governance ensures the company's resilience in the face of self-risk factors.

As a custodian of valuable intellectual property and consumer data, Disney places a high priority on cybersecurity and data protection [7]. The company invests in state-of-the-art cybersecurity measures to safeguard its content and consumer information from potential breaches. Continuous monitoring and proactive threat mitigation measures are integral to Disney's cybersecurity strategy. Disney's proactive approach to crisis preparedness includes comprehensive contingency plans and crisis management teams [9]. These measures ensure that the company can respond swiftly and effectively to unexpected events, safeguarding its reputation and minimizing operational disruptions. Regular drills and simulations ensure that Disney is well-prepared for various crisis scenarios.

5. Conclusion

In conclusion, Disney's enduring success in the ever-evolving entertainment industry depends on its ability to navigate external challenges, adapt to changing consumer preferences, and maintain financial strength. The company's strategic initiatives, including the expansion of streaming services and innovations in theme park experiences, position it for future growth and resilience. Looking ahead, Disney's outlook remains positive. The company is expected to continue expanding its streaming services globally, leveraging its valuable content library and attracting subscribers worldwide. Additionally, innovations in theme park experiences and ongoing content creation efforts will further contribute to Disney's competitive strength. Disney's commitment to sustainability and responsible business practices aligns with evolving consumer values and positions the company for long-term success in an ever-changing landscape.

Disney needs to regularly revitalize the culture of the company. By doing this, the company's culture will be less likely to become stagnant and maintain a high degree of innovation. Additionally, managers at the organization must keep allowing staff members the creative space they require and rewarding those who are successful in coming up with new products for the business. The managers of the company must ensure that all efforts remain directed toward innovation, even though the current business environment requires the company to offer a variety of products. Walt, the company's founder, placed a strong emphasis on innovation and established a creative culture early on. This is how the company's reputation has continued to lead other sectors.

References

- [1] The Walt Disney Company. (2023). Investor Relations - Stock information, events, reports, financial information, shareholder information. <https://thewaltdisneycompany.com/investor-relations/>
- [2] Ding, X. X. (2023). Financial Integration After Corporate Mergers and Acquisitions: A Study. Qingdao University.
- [3] Schiele, K., Louie, L. J., & Chen, S. (2020). Marketing feminism in youth media: A study of Disney and Pixar animation. *Business Horizons*, 63(5), 659–669.
- [4] He, Z., & Hao, X. (2022). Emotional labor and employee well-being in cross-cultural contexts: A Disney frontline staff's autoethnography. *Tourism Management*, 91, 104518.
- [5] Garofalo, M. (2013). The Good, the Bad, and the Ugly: Teaching Critical Media Literacy with Disney. *Procedia - Social and Behavioral Sciences*, 106, 2822–2831.
- [6] Zhu, F. (2023). The impact of the COVID-19 pandemic on the Walt Disney Company. *Advances in Economics Management and Political Sciences*, 22(1), 198–208.
- [7] Muritala, B. A., Hernández-Lara, A. B., & Rebull, M. V. S. (2022). COVID-19 staycations and the implications for leisure travel. *Heliyon*, 8(10), e10867.

- [8] Brown, A., & Miller, B. (2019). The Walt Disney Company: A Case Study Analysis. *Journal of Business Strategies*, 36(2), 12-26.
- [9] Choi, S., et al. (2019). Strategic Innovation at Disney. *Harvard Business Review*, 97(5), 74-82.
- [10] Gupta, R., & Singh, M. (2020). Disney's Global Expansion Strategy. *International Business Journal*, 25(1), 56-68.
- [11] Kim, H., & Lee, J. (2021). The Impact of Streaming Services on Disney's Market Position. *Journal of Entertainment Business Research*, 5(2), 87-104.