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NOOREIN INAMDAR
FRANK T. ROTHAERMEL

The Walt Disney Company

It's kind of fun to do the impossible.

– Walt Disney

As the world's largest diversified mass media and entertainment conglomerate, The Walt Disney Company appears to have achieved the impossible by delighting and enchanting people for almost a century. For the past 12 years, under Robert Iger's reign as CEO, Disney has achieved phenomenal success as evidenced by Disney's stock price and financials in **Exhibit 1** and **Exhibit 2**. Iger comments on Disney's continued success:

> We're very pleased with our performance for the year, delivering the highest revenue, net income and earnings per share in Disney's history. Fiscal 2016 was our sixth consecutive year of record results" where revenues for the year increased 6% to a record \$55.6 billion, net income for the year increased 12% to a record \$9.4 billion and EPS for the year increased 17% to a record \$5.73.[1]

As fantastic as the past six years have been, the future may prove to be more daunting as the company faces unprecedented challenges. Technology has disrupted Disney's media networks business segment as consumers are switching from watching TV to watching content online via YouTube, Netflix, Hulu, and other streaming services. ESPN, Disney's one-time crown jewel has been floundering due to declining viewership as consumers become less interested in pricey pay-tv bundles.[2] ESPN has lost 10,000 subscribers from its peak of 100,000,000 in 2010, which has in turn significantly reduced Disney's operating income in its media networks segment. This segment is responsible for about half of the company's operating income.[3]

Next, Disney's international expansion effort is facing increasing demand to adapt content to local tastes and preferences. For example, in China, Disney has caused tension among the Chinese with campaigns by both politicians and business owners to restrict its "westernizing influence" resulting in a block placed on DisneyLife, Disney's on demand content subscription app after only five months of operations.[4]

Another area of concern is investing in creative content through acquisitions of novel media companies such as Pixar, Marvel, and Lucasfilm. These acquisitions are part of Iger's strategy to build billion-dollar franchises. This strategy may lead to a shrinking pipeline as there are fewer high caliber companies to acquire. And focusing on large franchises can curtail Disney's originality where consumers can write off Disney's content as predictable and lackluster.

Perhaps the most important question for the future of Disney is appointing Robert Iger's successor. Slated to retire in 2015, the board of directors extended Iger's tenure whose contract now ends on July 2, 2019. As the search continues, two strong internal candidates have left the company. Three external candidates Disney approached were not interested in taking the position. After numerous contract extensions, Iger has commented, "I am serious this time around" about retiring when the contract expires.[5]

Strategic Leadership

The phenomenal success of Disney is partly attributed to the leadership of three distinguished individuals: Walt Disney, Michael Eisner, and Robert Iger. The saga of all three leaders is akin to Disney's epic movies featuring unsurmountable challenges, adventure, and fleeting victories. Each leader is recognized for providing a strong vision and strategic direction that enabled the company to adapt to unprecedented changes in the media and entertainment industry and grow into the colossus company it is today.

Leadership of Walt Disney

Walt Disney is viewed by many as the "icon of American ingenuity" [6] who had the corporate vision, values, and perseverance that led to the company's success as the world's largest media and entertainment provider. He started his first company, Kansas City Film, at the age of eighteen. The company created silent cartoon comedies called "laugh-o-grams" and sold them to Newman Theater. However, young Walt "seemed less interested in making money than in having fun,"[7] and the company went bankrupt in less than a year. In 1923, Walt moved to Los Angeles to work as a film director and was unable to find a job. He reasoned, "If there is no work, I have to do something on my own!"[8] He joined forces with his brother Roy and founded the company, Disney Brothers Cartoon Studios. The company produced *Alice in Wonderland* and series of Alice Comedies that lost popularity by 1927. Walt invited his old friend, Ubbe Iwerks to join the company who created a new character Oswald Rabbit which became a hit. However, Universal Pictures who owned the copyright and distributed the Oswald Rabbit series double-crossed Walt, leaving him with nothing and having to start over.

Unperturbed, Walt worked with Iwerks to create a new character Mortimer Mouse, later renamed Mickey Mouse, which revolutionized the cartoon industry. In 1928, Mickey made his screen debut in *Steamboat Willie*. It was the world's first character to have a personality and a voice with synchronized sound and "Walt Disney gave it a soul being Mickey's voice until 1947."[9] Walt further improved the art of animation by replacing black and white with Technicolor camera and applied this to the Mickey cartoons. In 1932, he re-released the black and white *Flowers and Trees* in Technicolor for which he received his first Academy Award (Oscar) for Best Short Subject: Cartoons. He also released

Silly Symphony series in color featuring Mickey's new friends: Minnie Mouse, Donald Duck, Goofy, and Pluto. In 1934, Disney released *The Three Little Pigs* and it received an Academy Award for Best Animated Short Film.

In 1937, a major turning point for the Disney Company came with the release of the world's first full-length animated cartoon in Technicolor called *Snow White and the Seven Dwarfs*. This film made $8 million and won eight Oscars. Over the course of Walt's life, the company continued to produce successful full-length animated films such as: *Pinocchio* (1940), *Fantasia* (1940), *Dumbo* (1941), *Bambi* (1942), *Cinderella* (1950), *Alice in Wonderland* (1951), *Peter Pan* (1953), *Sleeping Beauty* (1959), *101 Dalmatians* (1961), and *Mary Poppins* (1964).

As the head of the company, Walt was an influential leader with a strong work ethic and lofty values. He ran the company as a flat, nonhierarchical meritocracy. He held employees to high professional standards emphasizing creativity, quality, teamwork, communication, and cooperation. Even when facing financial pressure, Walt refused to compromise on quality and worked to constantly reinvent his company.[10]

One such reinvention was his idea of building an entertainment theme park, a testament to his commitment to having fun, and what appeared to his investors and his brother Roy as a cockamamie "project that would not bring in revenue."[11] Walt forged ahead and purchased 160 acres of land in Anaheim, California and $17 million dollars later, opened Disneyland on Sunday July 17, 1955. Walt designed and built Disneyland under WED enterprises independent from Disney Productions, to allow his "imagineer" employees to design the park free from the demands of a publicly traded company. Disneyland was built according to Walt's exacting standards with technically advanced attractions for the entire family. Disneyland was well received by the public and quickly became an American landmark. More importantly, Disneyland's success resulted in financial stability for the company.[12]

By 1957, the company was diversified and "Walt Disney himself produced the strategic vision that enables Disney to sustain its competitive advantage and growth up to this day."[13] His vision is embodied in **Exhibit 3** demonstrating how each of the different businesses were leveraged to create synergies. The map shows how Disney's different business lines, TV, music, studio, merchandise licensing, publications, comic strips, magazines, art corner shops, and Disneyland are collaborating to create synergies and leverage IP across complementary business segments. The map provided "a conceptual filter that can be repeatedly used to select, and assemble complementary bundles of assets, activities and resources to navigate the surrounding terrain over an extended period."[14] The image appears to be a prelude to the "franchise model" for which the company attributes its success and long-term viability.

In 1965, Walt purchased over 27,000 acres of land in Orlando, Florida to create another Disney park that would be "an experimental prototype community of tomorrow, or EPCOT, planned as a living showcase for the creativity of American industry."[15] However, in 1966, Walt Disney died of lung cancer and was succeed by his brother Roy as the CEO of the company. Roy realized his brother's dream, and opened Disney World in Orlando in 1971. Disney World became the top selling park in the world, with 11 million visitors and revenues of $139 million in its first year of operation. Disney continued to expand parks and resorts by opening EPCOT in 1982 and Tokyo Disneyland in 1983. Tokyo Disneyland was designed by WED imagineers to look like the U.S. Disneyland. It is owned by a Japanese business partner, The Oriental Land Company. Disney receives 10% of the gate receipts, 5% of other sales, and ongoing consulting fees.

Disney entered the cable business in 1983 by launching The Disney Channel. In the same period, Disney was again facing dire financial circumstances attributed to the high cost of EPCOT, slowdown in the film industry, and mixed performance of the TV business. The company faced hostile takeover attempts by corporate raiders who felt the company shares were undervalued and planned to break up the diversified company and sell each business separately. Sid Bass, an American billionaire investor and philanthropist rescued the company with an investment of $365 million and protected it from future hostile takeover attempts.

Leadership of Michael Eisner

In October of 1984, Michael Eisner became the CEO of Disney at the request of founder Walt Disney's nephew, Roy Disney.[16] He had an impressive career in the media and entertainment industry. He started his career in 1964 working for NBC as a Federal Communications Commission logging clerk and moved to CBS where he placed commercials during shows. Looking for better opportunities, he took a position with ABC in 1966. Eisner stayed with ABC and fast-tracked to an executive position developing prime-time shows that played a role in advancing ABC from its third-place ratings to the first-place position. In 1976, a struggling Paramount Pictures hired Eisner as president and CEO. Again, Eisner took the film studio from last place to the top and developed "a reputation as a creative genius, an idea man."[17]

In his initial years as Disney's CEO, "Eisner proved that he could balance creativity with sound business sense."[18] He continued the legacy of Walt Disney with a strategic focus that emphasized creativity, branding, and exploiting synergies across the company.[19] He believed creativity was the result of conflict and common sense and felt that the best ideas were generated out of an environment of supportive conflict. Eisner determinedly built the Disney brand by strengthening the synergies among the different business units. In 1987, he established a corporate marketing function to oversee corporate-wide marketing and branding activities. Eisner summarized this strategy as follows:

> Synergy happens at Disney because it should. Our products scream out for synergy. If we have a new attraction, park or a movie – we feature it in our magazines, on the Disney channels, in a trailer in front of Disney movies, in the windows of our retail stores, on consumer products, and Disney Records promotes the music. There is not a single part of Disney where the left hand can't wash the right.[20]

Eisner's strategy of emphasizing creativity, branding, and synergies achieved incredible results for Disney during his tenure as CEO. From 1984 to 2005, he raised the flagging Disney revenues from less than $2.0 billion to more than $25 billion,[21] and its market value from $1.8 billion to a high of $80 billion.[22] He accomplished this turnaround and growth by taking bold action across the different Disney businesses.

He started by revitalizing Disney's television programming and animated films. In TV, Disney produced popular new shows and movies for the Disney channel, for ABC such as *The Disney Sunday Movie*, for NBC such as hit sitcom *Golden Girls*, and created syndication operations to sell Disney programming to independent TV stations from the past 30 years.[23]

In the film studio business, Eisner raised Disney's share at the Box Office from 4% in 1984 to 19% by 1988, with the release of many new profitable movies, making Disney the Hollywood market leader.[24] At this time, he hired more staff and invested $30 million in computer animated production systems (CAPS) technology that digitized the animation process reducing the time for producing animated films. Soon thereafter, Disney released successful movies such as *Roger Rabbit* (1988), *The Little Mermaid* (1989), *Beauty and the Beast* (1991), and *Aladdin* (1992).

In parks and resorts, Eisner expanded and improved Disney theme parks to increase profitability, growth, and synergies with other business lines. He opened new attractions such as Captain EO (1986) and Disney MGM Film Studio (1989). Aggressive marketing was utilized to increase attendance in parks with national TV ads, special events, retail tie-ins, and media broadcasts. In 1992, Disney also opened a new theme park Euro Disney outside Paris, France. Disney had 49% ownership stake and received 10% from ticket sales and 5% from merchandise sales. In 1999, Disney formed a partnership with Hong Kong's government to build a theme park that was opened in 2005. Disney held a 43% ownership stake and the Hong Kong government the remaining 57%, which could later be increased to 73% by converting subordinate shares.[25]

In consumer products, Eisner's strategy "retail as entertainment" doubled the average rate of retail sales per square foot in 1992. A myriad of businesses comprised this area such as: Disney stores, publishing with Disney Press and Hyperion Books, pop music with Hollywood Records, and catalog marketing. Disney also entered the home video industry by establishing Buena Vista Home Video where *Aladdin,* in 1993, became the best-selling video of all time with over 30 million copies sold.[26]

In July 1995, Disney spent $19 billion to acquire CapCities ABC making it the second biggest acquisition in U.S. history. ABC Included TV networks and stations, radio networks and stations, cable including sports channel ESPN, in addition to newspapers and other periodicals. The deal made Disney the biggest media entertainment company in the United States and provided world-wide distribution outlets.[27]

Starting in the late 1990s, Disney financials deteriorated and was partly attributed to Eisner's heavy-handed management style and strategic imperatives of creativity, branding, and synergy that were once highly regarded during his initial years at the company. In the process of managing creativity, Eisner's approach was to pit managers against each other to get the best ideas. One insider remarked, "What Michael likes is to put six pit bulls together and see which five die."[28] The increasingly combative culture led to a number of high-level executives leaving the company. The intense focus on branding caused displeasure among Disney fans who felt "Branding is something you do to cows. Branding is what you do when there's nothing original about your product."[29] And Eisner's push for synergies through cross-selling appeared excessive. Many investors who owned Disney stock felt "aggressive selling strategies robbed the company of much of its magic."[30] As a result, disgruntled employees, angered fans and shareholders wanted to remove Eisner as CEO, and an Internet-based "Save Disney" petition campaign was lodged against him.[31] In effect, Eisner appeared to have switched roles from hero to villain, and it had gone viral.

In 2004, Eisner faced a number of situations that led to his departure from the company. First, a shareholder revolt dedicated to remove Eisner led by none other than Roy Disney, the same person who requested Eisner to join the company twenty years ago. Second, a valuable movie studio partner, Pixar led by Steve Jobs, announced it was ending its talks with Disney and looking for a new partner. Pixar's decision to walk away was attributed to conflicts between Eisner and Jobs.[32] Third, Comcast made a surprise $66 billion hostile bid (stock for $54 billion and debt of $11.9 billion) to take over Disney.[33] Eisner agreed to step down as CEO in 2005. Now more than ever, Disney was in need of strong strategic leadership and stability.

Leadership of Robert Iger

The Disney board promised investors it would find a worthy successor. After an extensive search process, the board named insider Robert Iger as the company's next CEO. Iger was Disney's president and chief operating officer, who was not the "odds-on-favorite"[34] candidate. There was concern that Iger was "untested as the leader of such a broad-ranging company as Disney with limited experience in the most crucial areas such as animated films and theme parks."[35]

However, Iger campaigned hard and convinced the board he was the right steward for the job. After a "full and vigorous" debate, the board unanimously named Iger as the next CEO of Disney. The Chairman of the board, Mr. Mitchell commented, "Mr. Iger represents the right blend of continuity, successful performance...and a recognition of needed change."[36]

On October 1, 2005, Robert Iger started his tenure as the CEO of Disney. Iger is described as a "clean-cut executive with a calm and low-key persona...known for being a good political tactician."[37] In 1974, Iger began his career at ABC as a studio supervisor where he learned much about TV network production. 1n 1979, he switched to ABC Sports and rose up in rank to become vice president of programming and development in 1985. He developed a strong reputation of being able to work well with others and for getting things done. In 1989, he was named president of ABC Entertainment responsible for prime-time television programming.

In 1993, ABC was bought by Capital Cities Broadcasting, and Iger became chief operating office of the combined company in 1994. At this time, ABC expanded its operation into cable television and invested in ESPN (sports), Lifetime (for women) and A&E (arts channel), all of which were successful.

In 1999, Disney purchased Capital Cities/ABC for $19 billion and Iger became the chairman of Disney/ABC Group and the president of Walt Disney International. He was now responsible for managing Disney activities outside the United States. In 2000, Eisner promoted him to president and chief operating office of The Walt Disney Company. Eisner felt Iger "had a strong background in finance, dispute mediation and labor relations that could free him to focus on broad company issues."[38] And from this platform a new white knight arises to save Disney.

As the new CEO, Iger established a vision and strategic direction for the company at the outset. In his own words:

> I felt I had a great opportunity to get the company believing in itself again and, in doing so have others believe in us. I articulated that I wanted Disney to be one of the most admired companies in the world – admired by our customers, by our shareholders and by our employees.[39]

Iger also articulated three pillars of strategy that he felt were aligned with Walt Disney's original intent: invest in creative content, technology innovation, and international expansion.[40]

In order to implement his strategic pillars, Iger proceeded to make some major changes in the company. The first order of business as a CEO was to reconcile with board members who had led the shareholder revolt and to end other conflicts. He commented:

> Warfare is extremely destructive and distracting for companies. It's very difficult to run a company when you're embattled – you're fighting wars instead of being productive. I worked hard at ending the wars. I portrayed myself as a peacemaker. And that's exactly what I did. I put the battles behind us.[41]

The second item of importance was changing the perception Disney had of new and innovative technologies, he states:

> We had been viewing changes in technology as more a threat than opportunity. I reversed that because I really believed the company should look at technology as a friend. It had been part of the company originally: Walt Disney was a big believer in technology.[42]

Third, based on how large and diverse Disney had become, Iger took the decision-making power away from central strategic planning and decentralized it to the individual businesses.[43] Instead of micromanaging, he took a hands off approach, "he wanted to know what is going on but did not need to be directly involved with the entire decision-making process."[44] This change restored the eroded trust among upper management and made each business unit accountable to be as creative as possible and drive optimal results. Trust and accountability were cascaded through all levels of management and frontline workers. He also realized that to run such a large decentralized company, he could not appear as all knowing, and he needed to stay open to other opinions.

The fourth major change was to focus on creating long-term growth and not be dissuaded by short-term stock market expectation and Wall Street analysts quarterly reporting. He states:

> All too often we're measured on near-term results. I have this challenge with my people, too. I'd like them to invest in our long-term...growing the company is something I'm highly motivated to do...The so-called analyst consensus on what a company's quarter is going to be should be irrelevant.[45]

With regard to growth, Iger was concerned about Disney being heavily weighted in Media Networks. Therefore, he articulated a billion-dollar "franchise" strategy of growing high quality IP with target acquisitions, leveraging success across businesses and growing other business segments to reduce the reliance on Media Networks.

Iger's major changes, three pillars of strategy, and billion-dollar franchise model has paid off in the past 12 years. Disney delivered a total shareholder return of 341%, compared to 104% for the S&P 500, and the company's shares value rose from $24 to about $98.[46] As of 2016, Disney reported record financial results for the sixth year in a row with over $55.6 billion in revenues and over $9.4 billion in net income. Disney's current 12.3% ROIC is higher than any of the other large media conglomerates, including Fox, Comcast, Viacom, and Time Warner.[47]

Business Segments

The Walt Disney Company is a diversified worldwide entertainment company with operations in four business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products & Interactive as shown in **Exhibit 4. Exhibit 5** shows the revenue share of each segment for 2016. Recently, the company combined former Consumer Products and Interactive into a single segment and started reporting the combined financial results in fiscal 2016. Across all its business segments, the company engages in a variety of corporate strategy arrangements including full ownership, joint ventures, alliances, and long-term contracts. The following is a brief description of each business segment.

Media Networks: This segment includes cable networks, broadcasting, radio businesses, original programming, and equity investments in other entities that operate programming, distribution, and content management services. Revenues in this segment are from cable, satellite, and telecom service providers (Multi-channel Video Programming Distributors "MVPD"), broadband service providers (digital MVPDs) and affiliate fees from other TV stations delivering Disney programs, advertisements sales, and program sales for the right to use Disney programming. The cable network includes ESPN, the Disney Channels and Freeform, which produce their own programs, and derive revenues from affiliate fees and ad sales (ESPN and Freeform). Broadcast businesses include the ABC TV Network, eight owned television stations, television production and distribution. The majority of the revenues come from ad sales and some from affiliate fees. Radio businesses consist of the ESPN Radio Network, which includes four ESPN radio stations and the Radio Disney network. Disney produces and distributes live action and animated television programming which may be sold in network, first-run syndication and other television markets, to subscription services and formats such as DVD, Blu-Ray, and iTunes. Disney has equity investments in external media businesses including A&E Television Network LLC, BAMTech LLC, CTV Specialty Television Inc., and Hulu LLC. To a smaller extent, Disney operates branded Internet sites and apps. Media Networks generated $23,679 million in revenues in 2016 accounting for 43% of the company's revenues and growth of 2% in 2016.[48]

Parks and Resorts: This is Disney's next largest business segment with $16,974 million comprising 31% of Disney's revenues and 5% of growth in 2016. The company owns and operates Disneyland in California, Disney World in Florida, Aulani Disney Resort & Spa in Hawaii, Disney Cruise Line, Adventures by Disney, and the Disney Vacation Club. Internationally, the company owns 47% of Hong Kong Disneyland Resort and 43% of the Shanghai Disney which opened in June 2016. In 2015, the company also completed a $1 billion recapitalization of Disneyland Paris, increasing its shares from 51% to 81%. The company charges royalties, licensing, and consulting fees to Disneyland Tokyo. The Walt Disney Imagineering business designs and develops resort properties and theme park attractions. Revenues are generated from a variety of sources including admissions to theme parks, food, merchandise, hotel room nights, cruise and vacation packages, rentals of vacation properties, and royalties.[49]

Studios Entertainment: The oldest business segment in The Walt Disney Company, this segment produces and acquires live-action and animated movies, in addition to musical recordings, and live stage plays. The company distributes films under the Walt Disney Pictures, Pixar, Marvel, Lucasfilm, and Touchstone banners. In 2016, Disney ended the 2009 agreement with DreamWorks to distribute its live action motion pictures, and acquired all rights titles and interests to thirteen DreamWorks films. The studio entertainment distributes its creations in the theatrical market in the U.S and internationally, it also serves the home entertainment market by selling DVDs online, and it distributes to the television market. The Disney Music Group, which includes Walt Disney Records, Hollywood Records, Disney Music Publishing, and Buena Vista Concerts, develops and distributes recorded music in the U.S and manages the licensing of the Disney song catalogue. It also produces live musical concerts through the Buena Vista Concerts. The Disney Theatrical Group develops and licenses live entertainment events in Broadway and around the world. Revenues are primarily derived from distribution of films to theatre, home entertainment and television markets, as well as stage play tickets, distribution of music, and licensing of intellectual property. This segment generated $9,441 million, accounting for 17% of the company's revenues and growth of 28% in 2016.[50]

Disney Consumer Products & Interactive Media: This business segment with $5,528 million accounts for 10% of the revenues and growth of -3% in 2016. This segment generates revenues through licensing Disney's characters to third parties for use in consumer merchandises, published materials, and in multi-platform games. Revenues are also obtained from selling merchandise, games, children's books, English language learning centres in China, and advertising. The segment operations include retail, online and wholesale distribution through the Disney Store, DisneyStore.com and MarvelStore.com, and direct to retailers. This division also licenses its trade name, characters, and properties to manufacturers, game developers, publishers, and retailers throughout the world.[51]

Competition

As a diversified conglomerate, The Walt Disney Company faces different competitors across its four business segments. The primary rivals include Comcast, Time Warner, Twenty-First Century Fox, CBS, and Viacom Inc.[52] As seen in **Exhibit 6** the corporate strategies of these companies varies across two competitive dimensions, the extent of vertical integration and the extent of product diversity and reach.[53] Relative to its competitors, Disney has the largest market capitalization of $160 billion and the second to largest number and reach of products. Disney is second to Comcast in vertical integration due to Comcast Cable, the largest provider of cable television and Internet services in the U.S.

There is considerable disruption in the media and entertainment industry as companies are engaging in more corporate strategies of vertical integration and expansion of scope through product diversification. The primary reason for vertical integration is the ability to lower costs, improve quality, facilitate planning, invest in specialized assets, and secure critical resources like supplies and distribution channels.[54] Similarly, related product diversification allows companies to leverage core competencies to create synergies as Disney does across its four business segments.

Disney's Media Network segment competes for viewers, sale of advertising time, and acquisitions of sports and other programming. Its primary competitors for audience will be other television and cable networks, TV stations, DVD and Blu-ray formats, and the Internet. For advertisers, competition is from TV networks, radio and TV stations, MVPDs, advertising media such as newspapers, magazines, billboards, and the Internet. Competition for acquisition of sports and other programming is very intense, especially for Disney's ESPN which faces increasing competition from the sports channels of Twenty-First Century Fox, CBS, and Comcast's NBC Universal segment.[55]

The Parks and Resorts segment competes for consumers' leisure time. Primary competitors include other forms of entertainment, lodging, tourism, and recreational activities. Specific competitors for theme parks and resorts include Six Flags Entertainment, Comcast, Cedar Fair, SeaWorld Entertainment, and Universal Studios.[56]

The Studios Entertainment segment competes with all forms of entertainment including companies who provide films, home entertainment products, pay TV, music, and live theatre. There is also competition for performing talent, advertisers, and broadcast rights. Primary competitors in this area include Time Warner, Sony, Twenty-First Century Fox, and Viacom.[57]

The Consumer Products & Interactive Media businesses compete with other licensors, retailers and publishers of character, brand, and celebrity names. Competition also arises from licensors, publishers and developers of game software, online video content, and websites.[58] The success of this segment is highly correlated to the Studio business and Disney's ability to protect and increase the popularity of its characters and brands.

Increasing disruption and convergence in the media and entertainment industry is producing a whole new set of competitors for Disney from downstream companies such as Amazon, Netflix, and Hulu. These companies are developing their own original programming to act as an advertisement for their streaming services to obtain subscriptions. "These new streaming services are competing to create the best shows possible so that people will be willing to pay money to watch them."[59] Shows such as Netflix's *House of Cards*, Amazon's *Transparent*, and Hulu's *Difficult People* have gained considerable popularity. "By luring viewers in with quality content, these streaming companies get new customers (maybe for life)."[60] This disruption may be the tip of the iceberg, as more media companies engage in diversification strategies in the quest to obtain a larger share of consumers' leisure time.

Iger's Strategic Vision

After going public in 1940, Disney has grown over time to become a conglomerate by pursuing a corporate strategy of related-linked diversification. This is because a number of Disney's business activities share common resources, capabilities, and competencies including marketing, branding, and franchise building. Iger's strategic vision was to make this diversification strategy profitable by creating theme-based billion dollar franchises, which generally begin with a big movie hit followed by derivative TV shows, theme park rides, video games, toys, clothing, among many other possible spin-offs.

Iger also wanted to continue Walt's legacy to create entertaining new content with innovative technologies and to spread this novel content throughout the world. As a result, Iger focused Disney on his three pillars of strategy: (1) generate the best creative content possible, (2) foster innovation and utilize the latest technologies, and (3) expand into new markets around the globe.[61]

Creative Content Pillar

When Iger took the helm in 2005, Disney was experiencing abysmal performance with its own releases attributed to lackluster creative content and earlier cost-cutting efforts. At this time, Disney was in a strategic alliance with Pixar, a computer animation film studio led by Steve Jobs. Disney's distribution network and stellar reputation in animated movies were critical complementary assets that Pixar needed to commercialize its newly created computer-animated movies. In turn, Disney was able to rejuvenate its floundering product lineup, retaining the rights to the newly created Pixar characters and sequels. Pixar became successful beyond imagination as it rolled out one blockbuster after another. *Toy Story (1, 2, and 3), A Bug's Life, Monsters, Inc., Finding Nemo, The Incredibles,* and *Cars,* grossing several billion dollars. In 2004, renegotiations of the Pixar-Disney alliance broke down attributed to conflicts between Steve Jobs and then-Disney Chairman and CEO Eisner.

In 2005, Iger reinitiated negotiations with Pixar and developed a long-standing friendship with Steve Jobs. In 2006, Disney acquired Pixar for $7.4 billion and gained access to blockbuster hits and turned some into billion dollars franchises such as *Toy Story* (over $2 billion), *Monsters Inc.* (close to $2 billion), *Cars* (over $1 billion), and *Frozen* ($1.5 Billion). *Frozen* is the most successful animated movie ever and has a sequel scheduled for release in late 2019. During this acquisition process, the late Steve Jobs also became a member of Disney's board of directors.

In 2009, Disney acquired Marvel Entertainment for $4 billion and added Spider-Man, IronMan, The Incredible Hulk, and Capital America to its lineup of characters. Marvel superheroes movies grossed a cumulative $15 billion at the box office, with *The Avengers* bringing in some $2 billion.

In 2012, Disney acquired Lucasfilm for more than $4 billion and added Star Wars characters Darth Vader, Obi Wan Kenobi, Princess Leia, and Luke Skywalker to its fold. The Star Wars franchise has become the crown jewel in Disney's line-up of billion-dollar franchises. The 2015 *Star Wars* sequel, *The Force Awakens,* grossed over $2 billion at the box office on a budget of $260 million, making it the third best-selling movie after *Avatar* and *Titanic*. More importantly, the *Star Wars* franchise with add-on revenues from such areas as streaming, merchandise, books, gaming, and TV shows is estimated to be worth $10 billion.[62]

In 2014, Disney acquired Maker Studios, a YouTube-based multichannel network, for $675 million. Under Disney, Maker Studios no longer provides some 60,000 YouTube creators with support by promoting their channels and selling ads. Instead, Maker focuses on no more than the top 250 YouTube content creators with a large following in order to build billion dollar franchises in the new on-demand TV space. One Maker Studios' early success story was YouTube megastar PewDiePie, who at one point had the most successful YouTube channel and for many years was one of the highest profile stars on YouTube. In 2017, however, Disney cut ties with PewDiePie following his publication of videos in which he made inflammatory remarks that were not in line with Disney's values.

Thus far, Robert Iger has invested heavily in creative content and grown these franchises primarily through well-timed high caliber acquisitions. Since 2006, Disney has utilized these brands to make 26 movies, for an average global box office of over $760 million per movie. These box-office hits were then leveraged across the company as franchises to create new TV shows, theme park attractions, and consumer products. This ability to create synergies and leverage IP across different business segments is a key factor behind the success of The Walt Disney Company.

Technology Pillar

Soon after Iger took office, he firmly believed that media companies like Disney needed to start thinking as technology companies, and he as the CEO needed to start thinking like a chief technology officer (CTO). He made a deliberate decision not to have a corporate level CTO and assigned this position to himself, "in fact, he's the closest thing the company has to a central head of technology."[63] After decentralizing decision-making, he understood the importance of having technology expertise housed in each business, and appointed a CTO for each of the four segments. These CTO's formed a council that meets every few months to discuss challenges and share information. The CTO council has engaged in a number of meaningful activities such as launching a "hackathon" in which 50 new innovations are on display for the company to view during a "Best of Disney" annual symposium, creating a single user ID that customers can use with various digital products and strategizing ways to incorporate drones into Disney's businesses. Based on these and other technology initiatives, "eighty-four percent of Disney's active patents were filed during Iger's tenure as CEO."[64]

Iger noted the trend of people becoming more connected and mobile with technology, and demanding more get-it-now services. As a result, he invested in new technologies that allowed Disney to provide instant access to services and content such as putting episodes from the television hits *Lost* and

Desperate Housewives on iTunes and offering free full-length TV shows online. He has also invested in MagicBands, a RFID-enabled technology that are used by guests in Disney Parks. The MagicBand serves as an admission ticket, credit card, room key, fast pass, and as a way for park attractions to interact with guests. Disney has found that guests who use the bands are spending more on average than guests who do not.[65]

In addition to setting up the CTO council and investing and patenting new technologies, another important change Iger made was to include more technology expertise on Disney's board of directors. He invited Twitter and Square co-founder Jack Dorsey, BlackBerry CEO John Chen, Facebook COO Sheryl Sandberg, and the late Steve Jobs among others. During the Pixar renegotiations and eventual acquisition, Iger also became good friends with Steve Jobs and viewed him as a valuable technology partner and trusted advisor.

In 2016, Iger made another bold technology move by acquiring 33% interest for $1.1 billion in BanTech LLC. This purchase is viewed as a legacy-defining move and a major strategic shift for Disney's content distribution strategy. BanTech LLC is a content management and distribution business with a streaming platform that allows for direct-to-consumer programming. Iger's plan is to leverage BanTech to respond to the "global trends in app-based media consumption over direct-to-consumer service…and to leverage the technology to capitalize on its strong corporate brand."[66]

More specifically, Iger said the purchase of BanTech was motivated by the direct-to-consumer technology disruption that has been reducing ESPN revenues for the past few years. Disney's plan is to use the new technology to launch an ESPN-branded streaming service in 2018. The new service will give users the ability to choose from specific sports leagues and games and offer 10,000 events not available on ESPN linear channels.[67] Disney also plans to use the streaming technology to launch movie and pay TV services that will be available in 2019 which will end the pay TV deal with Netflix. These launches will allow Disney to gain greater independence from its traditional MVPD and streaming partners. To further cement commitment to using this technology, in early August 2017, Disney agreed to invest $1.58 billion for an additional 42% share in BamTech bringing its stake up to 75 percent.[68] True to Iger's strategic vision, instead of fighting the disruption, Disney is joining it.

International Expansion Pillar

Disney's global presence in the form of products, services, and brand recognition is a priority for Iger. He understands to continue to fuel Disney's growth, international expansion is not an option, but rather a strategic imperative for a number of reasons.

> To expand to international markets is beneficial because it will enhance market share for Disney, enhance brand reputation for Disney, increase revenue, and generate growth for the business, tap into bigger market (in the international context), and to diversify the businesses geographically…Besides, it is also reasonable to believe that Disney wishes to expand to the international market to duplicate its success in the foreign countries.[69]

Walt Disney International is responsible for Disney's businesses outside the United States. Disney International has over 13,500 employees with operations in 45 countries throughout the world. The company has a substantial global footprint across six regions (Asia, Australia and New Zealand, EMEA [Europe, Middle East, Africa], India, Latin America, and Russia). **Exhibit 7** shows Walt Disney Company's revenue by geographic region. The company uses a variety of corporate strategies to enter new markets such as licensing, alliances, joint venture, and full ownership.

During Iger's reign, Walt Disney International has implemented integrated structures in foreign markets that have "greatly accelerated revenue in China, produced growth across Japan and Europe and provided unparalleled access to emerging markets throughout Latin America and South East Asia."[70] More specifically, Iger has expended herculean effort in the past ten years to establish Shanghai Disney Resort in China. Iger's relates the importance of China for Disney's international expansion efforts

> Well, the negotiations and the process to put a shovel in the ground of Shanghai Disneyland was more than a decade long. It redefines the word "patience" in many respects. But the reason we were so patient, or tenacious, or intent on getting something done, is that we believe this is a fantastic opportunity – perhaps the company's biggest in the long term.[71]

Similar to Pixar, Iger had to reconcile with China over past "mistakes" before engaging in a possible collaboration. In February 2008, Iger met with the city's new Communist Party boss, Yu Zhengsheng, and took a much more "conciliatory approach, setting the tone for the next phase of talks."[72] In time, a deal was made to build a $5.5 billion Shanghai Disney Resort. As of 2016, The Disney Company owns a 43% interest in Shanghai Disney Resort, which opened in June 2016. Shanghai Shendi (Group) Co., Ltd. (Shendi) owns a 57% interest.[73]

In the process of building Shanghai Disney, Iger stressed how important it was to adjust to local culture tastes and preferences, "pride in local culture, particularly in a place like China, has never been greater...that needs to be reflected at Shanghai Disneyland."[74] As a result, the Park was built with unique rides and features that incorporated Chinese elements such as the "Tron" lightcycle roller coaster, vast central garden for older visitors, and the Wandering Moon Teahouse.

Shanghai Park opened on June 16, 2016 and Iger expects that Shanghai Disneyland will create an ecosystem of demand in China for movies, merchandise, apps, and video games. In its first year of operations, as of June 2017, Shanghai Disneyland had over 11 million visitors, exceeding the company's most optimistic expectations. Iger was pleased with the results, yet he commented, "We're pleased that we're off to such a great start but we've got more to do here first before we really talk about or think about doing more elsewhere in China but I think over time there's an inevitability to that."[75]

Strategic Challenges

As Iger continues to implement the franchise model based on the three strategic pillars and navigate an increasingly volatile and uncertain global environment, Disney is encountering four significant challenges ahead.

First, in the quest for creative content, Disney's acquisition strategy may lead to a dwindling pipeline for growth since there are not many media companies of the same caliber as Pixar, Marvel, and Lucasfilm. There is added concern that focusing on million dollar franchises will fetter Disney's originality by becoming humdrum and predictable. And this strategy may back-fire if Disney's content is perceived to be too commercial as was the case with Eisner's synergy and branding strategies.

Second, **streaming technology** has created significant problems on the TV side. Roughly half of Disney profits come from its TV networks ESPN, ABC, and others. As the industry is being disrupted with streaming capabilities, consumers now spend more time watching content via YouTube, Netflix, Hulu, and other streaming services, and watching less TV. This has resulted in significant decline of TV viewers and cable subscribers, especially for Disney's crown jewel ESPN. In 2017, after obtaining an equity stake in BamTech, Iger responded by announcing the launch of two streaming services similar to Netflix. One service would focus on ESPN's audience and start in 2018, the other on Disney's huge catalog of original content and start in 2019.

While the ESPN service will focus on ESPN's audience, it will not cannibalize the existing ESPN stations. The ESPN streaming service will carry new sports content that extends the ESPN cable content—if you already subscribe to ESPN on cable, you would also be able to watch the cable events over the streaming service.

This decision may reflect the importance that cable companies place on the ESPN sports channels as their single biggest draw overall, their "must-have" component of the cable offering. But the cable companies were increasingly frustrated by rising costs, especially as the costs impacted viewers. ESPN, often the most expensive part of the cable bundle, accounts for over $8 per month of cable charges *even when bundled across all subscribers*, by some estimates.

Cable companies wanted Disney to rein in fees because subscribers were growing more restive and some had already jumped ship. ESPN at its peak had 100 million subscribers, but has lost close to 12 million subscribers in the past five years. And cable companies feared such a loss was just the beginning of a subscriber revolt, with subscribers demanding that ESPN would be removed from cable packages because it was the most expensive channel in the line-up

While the proposed ESPN streaming service may not adversely impact ESPN channels, the decision to create a streaming service for many of Disney's blue chip franchises has a much greater potential to gain subscribers, with special impact on Netflix.

Iger announced that Disney will be pulling most of its movies from Netflix by 2020. Some analysts see this move as reducing the value of Netflix to subscribers. However, others see the content being pulled as relatively minor. First, Disney has not yet decided if it will pull its Marvel or Star Wars movies from Netflix, and none of the Marvel series (Marvel Defenders, Jessica Jones, and Luke Cage) will be removed because they are co-productions with Netflix. Similarly, there is concern over retaliation by other traditional MVPD and streaming partners as ESPN and other Disney TV services face the next round of negotiations.

However, the biggest concern appears to be Disney's track record with digital acquisitions such as BamTech.[76] In the past, Disney has lost money with underperforming acquisitions of technology companies. Examples include online video producer Maker Studios (2014) and social gaming company Playdom Inc. (2010). The jury is out on whether Disney can make them successful.

The third challenge is international expansion, **where a lack of understanding of local culture**, **customs**, **and foreign government policies** can adversely impact profits and damage Disney's reputation and global brand. This was evidenced by Disneyland Paris, where socio-cultural differences created barriers and limited profitability since its opening on April 1992. The dismal performance was partly attributed to resistance by the French to what they considered "American cultural imperialism" and stated publicly they hoped the Disney Park would be a failure.[77]

In 2017, Disney is attempting to take Euro Disney (the French parent company) wholly private. It now holds 86% of Euro Disney and is offering to buy out remaining investors. Disneyland Paris for the most part has continued to be unprofitable, visitor numbers have decreased one to two million from a decade ago to 13 million, and hotel occupancy rates have slipped from 90% a decade ago to below 80%. CIAM, a French activist fund feels the shares are undervalued and is resisting Disney's effort to take it private.[78]

Another example is Hong Kong Disneyland. Although effort was made to adjust to the local culture, the park faced several public relations issues. One was during the Chinese lunar new year holiday which resulted in major overcrowding due to the sale of discounted tickets during the holiday season. Fengtan Peiling, the commissioner of Hong Kong Consumer Council, attributed the incident to Disney's failure to learn about the cultural traditions and consumption habits of the Chinese people.[79]

Again, despite extraordinary efforts to adjust to local culture, customs and government regulations, Disney is encountering barriers to entry in China. Shanghai Disneyland is again facing the accusation of "American cultural imperialism" by political leaders who want to limit Disney's expansion and growth. One such sentiment is the following:

> I suggest that we shouldn't allow too many Disneyland theme parks to be built in China, said Li Xiusong, the deputy head of culture in the eastern Anhui Province. If Children follow Western culture when they are little, they will end up liking Western culture when they grow up and be uninterested in Chinese culture.[80]

Also, due to government regulations, implementing the franchise strategy may face challenges in the Chinese market. China still has a quota for imported movies, in 2015 it allowed 34 non-Chinese films into the booming movie market. Star Wars released in the US in December 2015 and had to wait one month before entering the Chinese market.

Another challenge in the increasing competition for the Chinese market is that Comcast's Universal Studios is building a theme park in Beijing, and Dreamworks animation is opening a film studio and entertainment complex in Shanghai. In addition, there are local competitors such as Songcheng Park in Hangzhou and Chimelong Ocean Kingdom in Hengqin, ranking among the most attended in the world according to consulting firm Aecom. The number of Chinese amusement parks is expected to reach 850 this year, up 40% from 2006.[81]

A new role to cast...Who will be the next Disney hero?

The fourth most significant challenge is the question, who will succeed Robert Iger? At this time, there is no clear heir to take over the mantle as CEO. Succession planning is becoming mission critical, since in early October 2017, Iger said he will be stepping down as CEO in mid- 2019 and further commented, "This time I mean it. It's time."[82]

Earlier this year, Disney's board extended Iger's contract for the fourth time after an internal candidate for the job, former COO Tom Skaggs, left the company.

The 55-year old Mr. Staggs had seemed Mr. Iger's most likely successor since he was named the Chief Operating Officer in early 2015, beating out his main internal rival, former Chief Financial Officer Jay Rasulo, for the company's No. 2 post.[83]

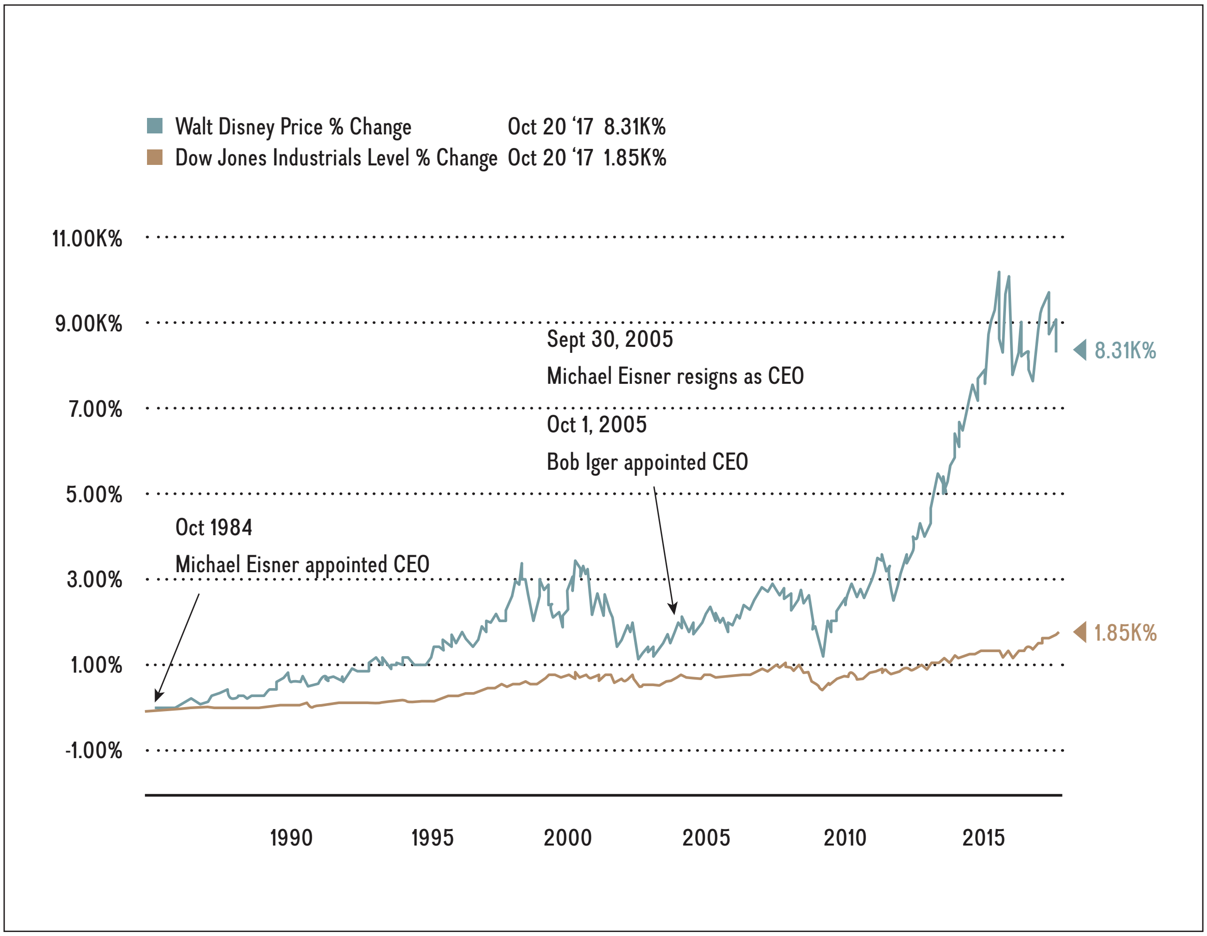
The primary reason for the departure is that after a performance review of Staggs as a COO, it was unlikely the board would give him the CEO job. It appears that Iger and the board had lost confidence in him.

The Disney board has expanded the search process to include both internal and external candidates. At this time, there appears to be no promising Disney executives to take the CEO position since many of them were hired within the past two years, including head of Disney Media Networks, Parks and Resorts, Consumer Products, as well as the company CFO.[84]

Three outside candidates that were identified, former News Corp. executive Peter Chernin, Steve Burke CEO of Comcast Corp's NBC Universal, and Facebook Inc.'s COO Sheryl Sandberg, if offered the position may not take it.[85]

It is now uncertain if Disney's next CEO will be from the "Silicon Valley to guide the company's digital transition, an expert in global brand management or someone already in the creative hub in Hollywood"[86] – what is certain is this CEO role will be hard to cast. In late 2017, moreover, Disney made a bid to acquire 21st Century Fox for about $40 billion. If this deal should go through, Bob Iger announced that he will stay on as CEO beyond 2019.[87]

EXHIBIT 1 Disney's (DIS) Normalized (% Change) Stock Appreciation during CEOs Eisner (1984–2005) and Iger (2005–2017)



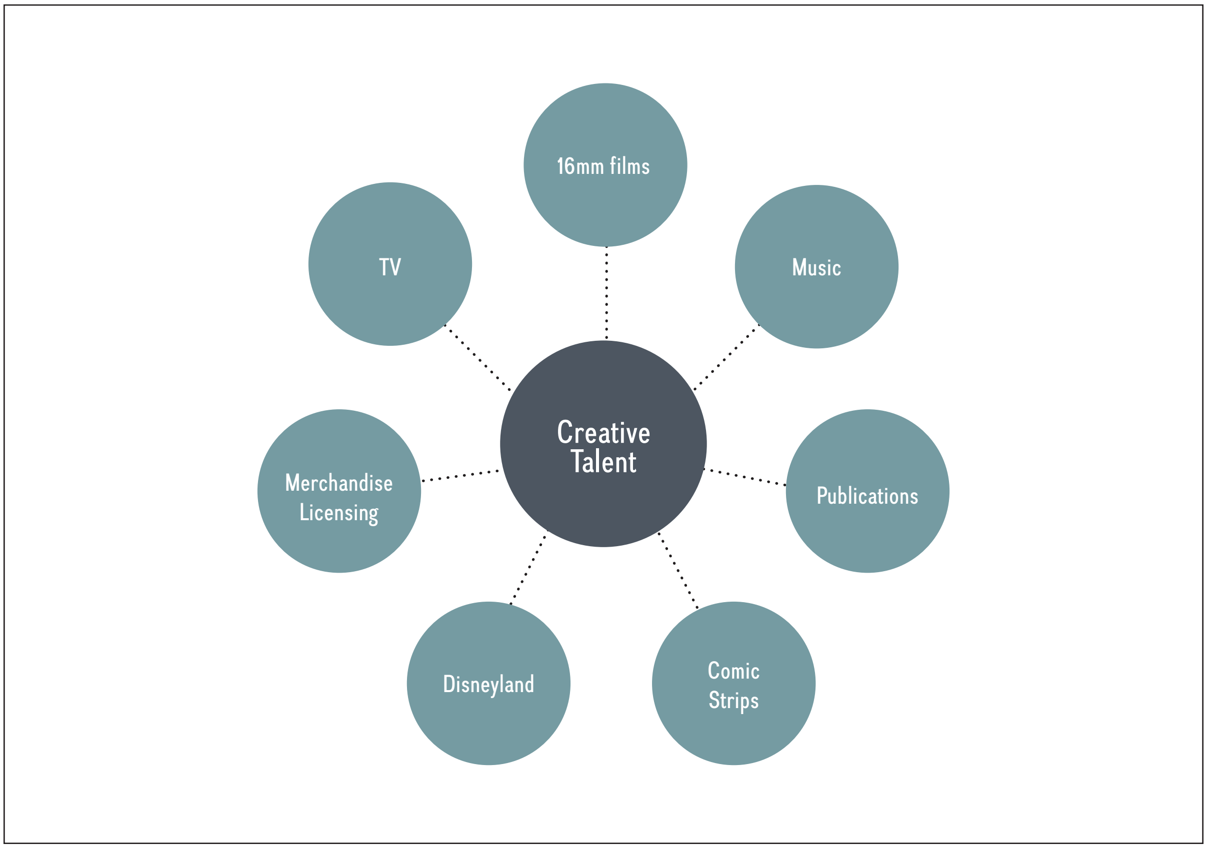
Source: Depiction of publicly available data.

EXHIBIT 2 Disney Financial Data (in $ millions, except earnings per share (EPS) data), 2012–2016

Excerpts from Balance Sheet (in millions)					
Fiscal Year	**2012**	**2013**	**2014**	**2015**	**2016**
Cash and short-term investments	3,387	3,931	3,421	4,269	4,610
Receivables-total	6,540	6,967	7,822	8,019	9,065
Inventories-total	2,213	2,121	2,635	2,741	2,598
Property, plant, and equipment-total (net)	21,512	22,380	23,332	25,179	27,349
Depreciation, depletion, and amortization (accumulated)	20,687	22,459	23,722	24,844	26,849
Assets-total	74,898	81,241	84,186	88,182	92,033
Accounts payable	4,619	4,899	5,371	5,504	6,860
Long-term debt	10,981	13,050	12,905	12,968	16,657
Liabilities-total	32,940	33,091	36,008	39,527	44,710
Stockholders' equity-total	39,759	45,429	44,958	44,525	43,265
Revenue (net)	42,278	45,041	48,813	52,465	55,632
Cost of goods sold	31,428	33,399	26,420	28,364	29,864
Selling, general, and administrative expense	-	-	8,565	8,523	8,754
Income taxes	3,087	2,984	4,242	5,016	5,078
Income before extraordinary items	5,682	6,136	7,501	8,382	9,391
Net income (loss)	5,682	6,136	7,501	8,382	9,391
Earnings per share (basic) excluding extraordinary items	3.17	3.42	4.31	4.95	5.76
Earnings per share (diluted) excluding extraordinary items	3.13	3.38	4.26	4.90	5.73

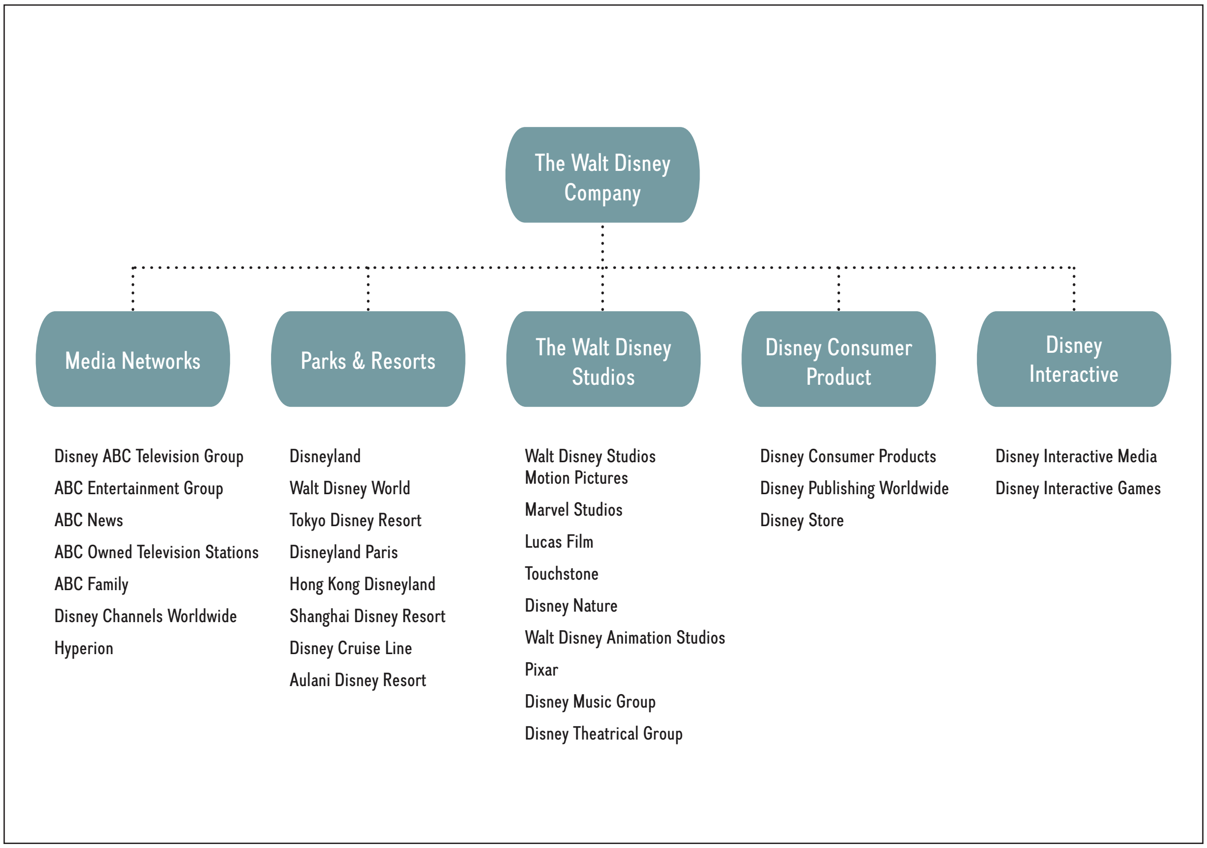
Source: Tabulation of publicly available data.

EXHIBIT 3 Creating Synergies across Disney's Business Lines



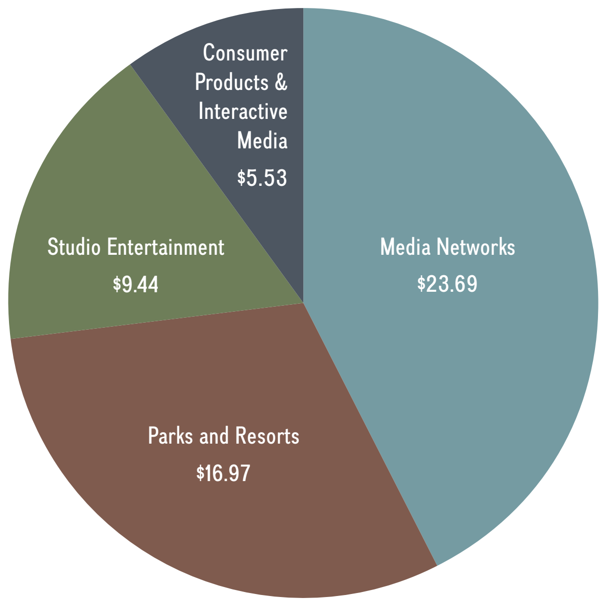
Source: Based on Core Competency "Creative Talent" as envisioned by Walt Disney in 1957 (simplified depiction).

EXHIBIT 4 Disney's Business Segments



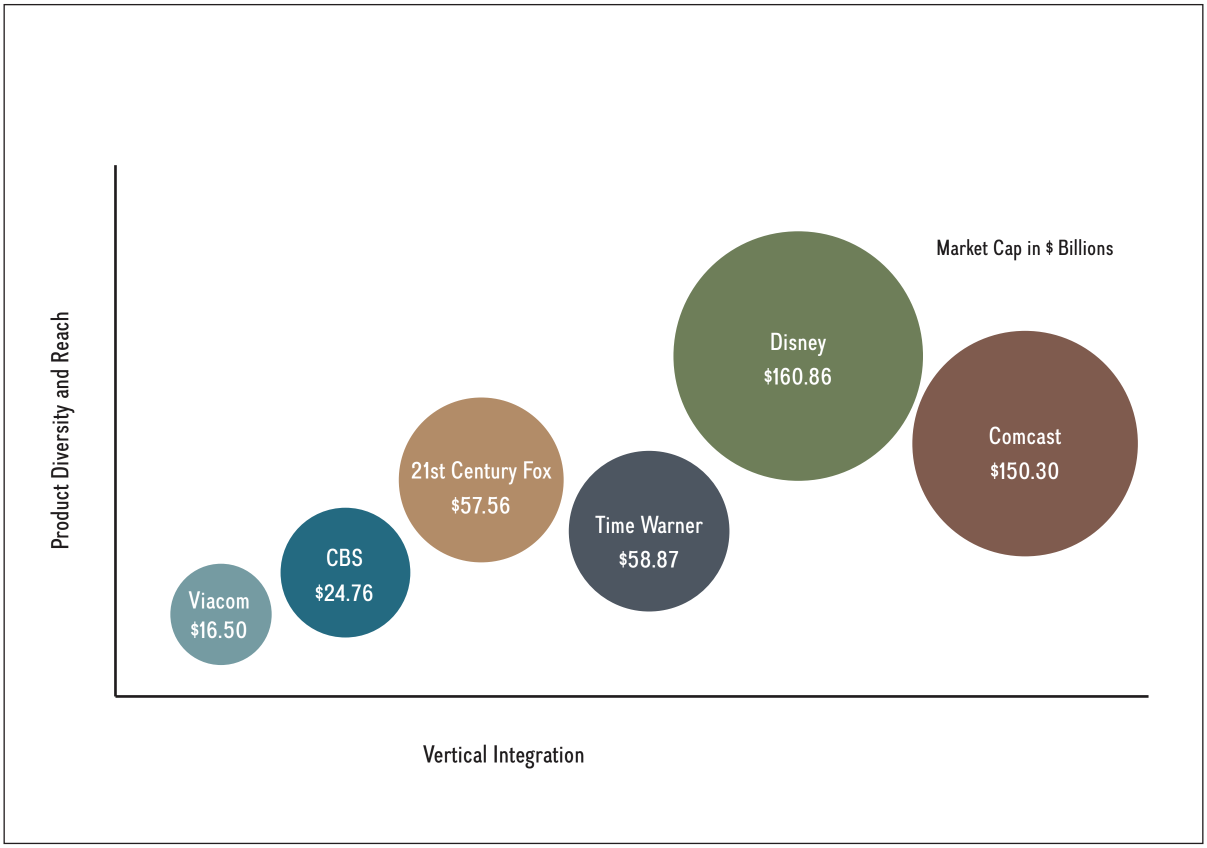
Source: Depiction of publicly available information.

EXHIBIT 5 The Walt Disney Company Revenue by Business Segment, 2016 (in $ billion)



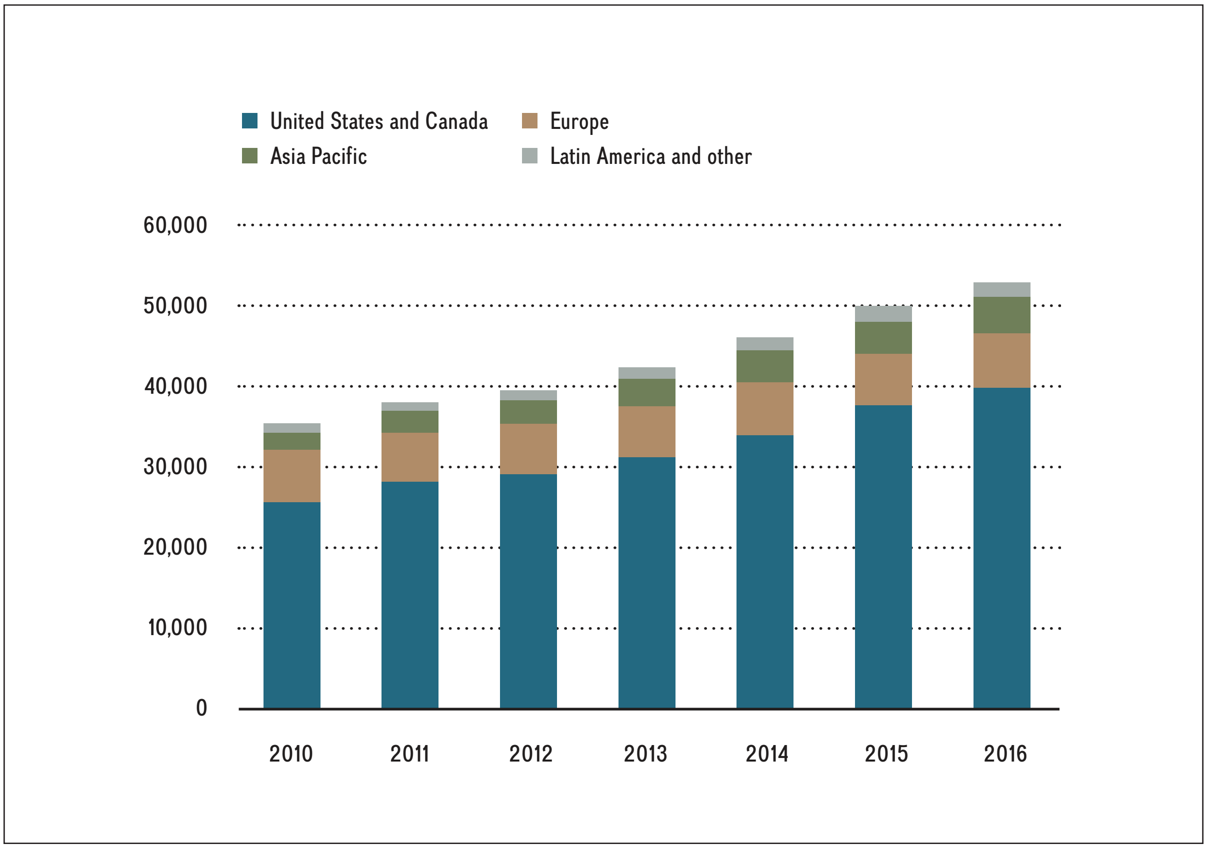
Source: Depiction of publicly available data.

EXHIBIT 6 Media Conglomerate Corporate Strategies Map, 2016



Source: Depiction of publicly available information.

EXHIBIT 7 The Walt Disney Company Revenues by Region, 2010–2016 (in $ million)



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