

AEM 2601: Home Work 04 – Best Answers

1. Pick one example from the Disney case and describe in a few sentences how it illustrates a concept we discussed this semester (e.g. vertical integration, diversification, five forces analysis, resources/capabilities, organizational structure, incentives, globalization).

- Disney has done a good job diversifying its company. What started out as a small animation studio has transformed into a multinational corporation with arms reaching into many industries. Besides the studio environment, which relates to movie entities such as Walt Disney Pictures and Touchstone Pictures, Disney is home to three other main sectors: media networks (television and radio), resorts (Disney World, Disney Land, Disney Cruise), and consumer products (character merchandising). The reason the diversification Disney has implemented makes sense for the company and why it has been successful for them is that they all relate to each other and build off each other. The consumer products and resorts sectors revolve around the studio and media environments. For example, there are products and attractions at the resorts that relate to characters in Disney TV shows or movies. Disney's diversification passes Porter's 3 Essential Tests. All the industries Disney is involved in are attractive. The cost of entry to each industry is low relative to the amount of capital Disney has under its control. Finally, Disney is better off diversifying into these industries, rather than a third party, because Disney owns all of the rights to its characters and creation.
- Disney's major vertical integration initiatives involved TV and the Internet. Being able to lead on the Internet, a growing major distribution channel where home entertainment soon consolidated was key for the company. Additionally, acquiring ABC allowed Disney to own a programming distribution channel that allowed it to get its movies out to right away to audiences once they left the Disney production studio.
- Disney's expansion into new businesses, regions, and audiences illustrates diversification. For example, Disney expanded into retail stores, books, theme parks, hotels and resorts, and Broadway. Although Disney was expanding into substantially different businesses, their target market remained heavily focused on kids. The books, retail stores, and theme parks all focused around Disney characters and whimsical styles children grew to love. Disney was able to use its brand and its animated

characters to achieve economies of scope when expanding into its other businesses. The market power, technology, distribution channel, intellectual property, and brand were all things its different businesses could take advantage of. Additionally, the industries Disney was entering into at the time were attractive and Disney brought an innovative and differentiated spin into the industries. This allowed Disney to differentiate itself from existing competitors. Lastly, the different products in Disney's multiple lines of business complemented one another instead of cannibalizing one another, allowing Disney to earn greater revenues and profits than it would have if it had not diversified.

- Disney has pursued globalization by building Disneyland in Tokyo and France. Disney gained the advantage of globalization: serving global markets and learning in multiple markets. The CAGE framework indicates that Disney needs to overcome cultural distance, administrative and political distance, geographical distance, and economic differences to fully utilize the benefits of globalization. It was mentioned in the case that Disney overcome the cultural distance when it entered France. Disney enlisted a former professor of French literature to be Euro Disney president and oversee the park's development according to both Disney's specifications and French sensitivities, therefore mitigating the cultural distance.
- Horizontal integration is the process of a company increasing production of goods or services at the same part of the supply chain. Disney chose to horizontally integrate its business functions by entering new types of entertainment opportunities. Disney began to develop new regional venues within the United States to make Disney accessible through other platforms such as ESPN Zones, such as sports restaurants. In addition, Disney developed 'Disney Quests' which are facilities with a range of interactive activities for kids and adults. Disney also designed cruises and the Disney Institute to focus on entertainment. This is a clear example of horizontal integration as Disney expanded its products and services it offered in the same supply chain.