THE COHESION CASE

The Walt Disney Company – 2011

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DIS

www.disney.com

Headquartered in Burbank, California, Walt Disney in April 2011 held a groundbreaking ceremony for its new theme park in Shanghai, China—after years of red tape and negotiations with the Chinese government. The new 963-acre park and resort will be 1/26th the size of the 40-square-mile Walt Disney World in Orlando, Florida. But it will be 50 percent larger than Disney Hong Kong, which lost $92.3 million in 2010. Disney will own 43 percent of the new Shanghai Park, a $1.9 billon investment for the company.

For eight decades, Walt Disney has entertained millions of people around the world with theme parks, resorts, cruises, movies, TV shows, radio programming, and memorabilia. With characters such as Mickey Mouse, Donald Duck, and Goofy, Walt Disney is an American icon noted for wholesome family entertainment, especially through huge theme parks in Orlando, Anaheim, Paris and Hong Kong.

Disney is the world's largest media conglomerate, owning the ABC television network and 10 broadcast stations, as well as cable networks such as ABC Family, Disney Channel, and ESPN (80%-owned). Walt Disney Studios produces films through the imprints Walt Disney Pictures, Disney Animation, and Pixar, and its Marvel Entertainment is a top comic book publisher and film producer. The company faces very intense competition, especially from NBC Universal and Paramount Pictures. In July 2011, Disney's ESPN acquired television rights to the Wimbledon tennis tournament for 12 years, replacing NBC which previously carried the annual event.

History

Mr. Walt Disney and his brother Roy arrived in California in the summer of 1923 to sell a cartoon called *Alice's Wonderland*. A distributor named M. J. Winkler contracted to distribute the *Alice Comedies* on October 16, 1923, and the Disney Brothers Cartoon Studio was founded. Over the years, the company produced many cartoons, from *Oswald the Lucky Rabbit* (1927) to *Silly Symphonies* (1932), *Snow White and the Seven Dwarfs* (1937), and *Pinocchio* and *Fantasia* (1940). The company name was changed to Walt Disney Studio in 1925. Mickey Mouse emerged in 1928 in the first cartoon with sound. In 1950, Disney completed its first live action film, *Treasure Island*, and in 1954, the company began television with the Disneyland anthology series. In 1955, Disney's most successful series, *The Mickey Mouse Club*, began. Also in 1955, the new Disneyland Park in Anaheim, California opened.

Disney created a series of releases from the 1950s through the 1970s, including *The Shaggy Dog*, *Zorro*, *Mary Poppins*, and *The Love Bug*. Mr. Walt Disney died in 1966. In 1969, Disney started its educational films and materials. Another important time in Disney's history was opening Walt Disney World in Orlando, Florida, in 1971. In 1982, the Epcot Center opened as part of Walt Disney World. The following year, Tokyo Disneyland opened.

After leaving network television in 1983, Disney introduced its cable network, The Disney Channel. In 1985, Disney's Touchstone division began the successful *Golden Girls* and *Disney Sunday Movie*. In 1988, Disney opened Grand Floridian Beach and Caribbean Beach Resorts at Walt Disney World along with three new gated attractions: the Disney/MGM Studios Theme Park, Pleasure Island, and Typhoon Lagoon. Filmmaking soon hit new heights as Disney for the first time led Hollywood studios in box-office gross. Some of the successful films were *Who Framed Roger Rabbit*, *Good Morning Vietnam*, *Three Men and a Baby*, and, later, *Honey, I Shrunk the Kids*, *Dick Tracy*, *Pretty Woman*, and *Sister Act*. Disney moved into new areas by starting Hollywood Pictures and acquiring the Wrather Corp. (owner of the Disneyland Hotel) and television station KHJ (Los Angeles), which was renamed KCAL. In merchandising, Disney purchased Childcraft and opened numerous highly successful and profitable Disney Stores.

By 1992, Disney's animation reached new heights with *The Little Mermaid*, *Beauty and the Beast*, and *Aladdin*. Hollywood Records was formed to offer a wide selection of recordings ranging from rap to movie soundtracks. New television shows, such as *Live With Regis and Kathy Lee*, *Empty Nest*, *Dinosaurs*, and *Home Improvement*, expanded Disney's television base. For the first time, Disney moved into publishing, forming Hyperion Books, Hyperion Books for Children, and Disney Press, which released books on Disney and non-Disney subjects. In 1991, Disney purchased *Discover* magazine, the leading consumer science monthly. As a totally new venture, Disney was awarded, in 1993, the franchise for a National Hockey League team, the Mighty Ducks of Anaheim.

In 1992, Disneyland Paris opened in France. During the 1990s, Disney introduced Broadway shows, opened 725 Disney Stores, acquired the California Angels baseball team to add to its hockey team, opened Disney's Wide World of Sports in Walt Disney World, and acquired Capital Cities/ABC.

From 2000 to 2007, Disney created new attractions in its theme parks, produced many successful films, opened new hotels, and built Hong Kong Disneyland. More current Disney initiatives include working with Apple on a joint venture to promote the iPad 2 and iTunes, acquiring Marvel for $4.3 billion, and building the new Shanghai Park.

Internal Issues

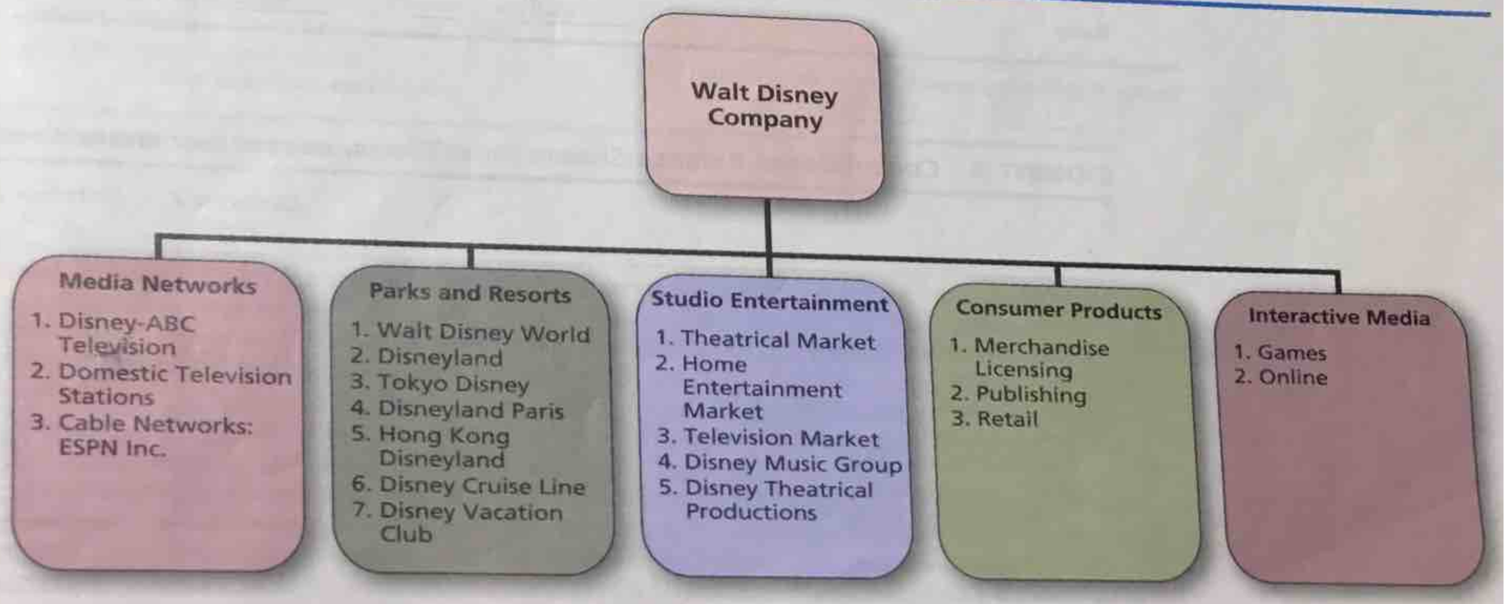
Organizational Structure

As indicated in Exhibit 1, Walt Disney operates using a strategic business unit (SBU) organizational structure that consists of five diverse, but all family-entertainment, segments: 1) Media Networks, 2) Parks and Resorts, 3) Studio Entertainment, 4) Consumer Products, and 5) Interactive Media. The President, CEO, and director of Walt Disney is Robert Iger.

Six of the 10 highest paid CEOs in the world in 2010 came from the media or entertainment industries, inclnding Leslie Moonves of CBS, $56.9 million; David Zaslav of Discovery Communications, $42.6 million; Brian Roberts of Comcast, $31.1 million; Robert Iger of Walt Disney, $28 million; and Jeff Bewkes of Time Warner, $26.1 million.

The highest-paid CEO in the world in 2010 was Philippe Dauman of Viacom, the entertainment company that owns MTV, Nickelodeon, and Paramount Pictures. He received a pay package valued at $84.5 million, two and a half times what he made the year before. He signed a contract in April 2010 that included stock and options valued by the company at $54.2 million when they were granted.

EXHIBIT 1 Disney's Corporate Structure



Mission/Vision

Disney does not have a mission statement or vision statement.

Finance

Disney's recent income statements and balance sheets are provided in Exhibits 2 and 3 respectively. Note the 20 percent increase in net income in 2010 and the $24 billion in goodwill. For the six months ended April 2, 2011, Disney's revenues increased 8 percent to $19.793 billion, while the company's net income increased 25 percent to $2.244 billion.

EXHIBIT 2 **Consolidated Income Statement (in millions, except per share data)**

	2010	2009	2008	% Change Better (Worse) 2010 vs. 2009	% Change Better (Worse) 2009 vs. 2008
Revenues	$ 38,063	$ 36,149	$ 37,843	5 %	(4)%
Costs and expense	(31,337)	(30,452)	(30,400)	(3)%	—%
Restructuring and impairment charges	(270)	(492)	(39)	45 %	—%
Other income (expense)	140	342	(59)	(59)%	—%
Net interest expense	(409)	(466)	(524)	12 %	11 %
Equity in the income of investees	440	577	581	(24)%	(1)%
Income before income taxes	6,627	5,658	7,402	17 %	(24)%
Income taxes	(2,314)	(2,049)	(2,673)	(13)%	23 %
Net income	4,313	3,609	4,729	20 %	(24)%
Less: Net income attributable to noncontrolling interest	(350)	(302)	(302)	(16)%	—%
Net income attributable to The Walt Disney Company (Disney)	$ 3,963	$ 3,307	$ 4,427	20 %	(25)%
Earnings per share attributable to Disney					
Diluted	$ 2.03	$ 1.76	$ 2.28	15 %	(23)%
Basic	$ 2.07	$ 1.78	$ 2.34	16 %	(24)%
Weighted average number of common equivalent shares outstanding:					
Diluted	1,948	1,875	1,948		
Basic	1,915	1,856	1,890		

Source: Walt Disney Company, *Annual Report* (2010).

EXHIBIT 3 **Consolidated Balance Sheets (in millions, except per share data)**

	October 2, 2010	October 3, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,722	$ 3,417
Receivables	5,784	4,854
Inventories	1,442	1,271
Television costs	678	631
Deferred income taxes	1,018	1,140
Other current assets	581	576
Total current assets	12,225	11,889
Film and television costs	4,773	5,125
Investments	2,513	2,554
Parks resorts mid other property, at cost		

EXHIBIT 3 (Continued)

	October 2, 2010	October 3, 2009
Attractions, buildings and equipment	32,875	32,475
Accumulated depreciation	(18,373)	(17,395)
	14,502	15,080
Projects in progress	2,180	1,350
Land	1,124	1,167
	17,806	17,597
Intangible assets, net	5,081	2,247
Goodwill	24,100	21,683
Other assets	2,708	2,022
Total assets	$ 69,206	$ 63,117
LIABILITIES		
Current liabilities		
Accounts payable and other accrued liabilities	$ 6,109	$ 5,616
Current portion of borrowings	2,350	1,206
Unearned royalties and other advances	2,541	2,112
Total current liabilities	11,000	8,934
Borrowings	10,130	11,495
Deferred income taxes	2,630	1,819
Other long-term liabilities	6,104	5,444
Commitments and contingencies	1,823	1,692
Total liabilities	31,687	29,383
EQUITY		
Preferred stock $.01 par value		
Authorized—100 million shares, Issued—none	—	—
Common stock $.01 par value		
Authorized—4.6 billion shares at October 2, 2010 and 3.6 billion shares at October 3, 2009		
Issued—2.7 billion shares at October 2, 2010 and 2.6 billion shares at October 3 2009	28,736	27,038
Retained earnings	34,327	31,033
Accumulated other comprehensive loss	(1,881)	(1,644)
	61,182	56,427
Treasury stock, at cost, 803.1 million shares at October 2, 2010 and 781.7 million shares at October 3, 2009	(23,663)	(22,693)
Total Shareholders' equity	37,519	33,734
Total liabilities and equity	$ 69,206	$ 63,117

Source: Walt Disney Company, *Annual Report* (2010).

By-Segment Financials

Exhibit 4 reveals Disney's revenue and operating income by business segment. Note that Disney's Media Networks segment brings in the most revenues and operating income, followed by the Parks & Resorts segment. For the six months ended April 2, 2011, Disney's Studio Entertainment revenues declined 6 percent to $3.272 billion, while that segment's operating income declined 3 percent to $452 million. Also for that six month period, Disney's Interactive Media operating income declined 97 percent to a loss of $128 million. There are obviously some problems in these segments that need to be addressed.

As indicated in Exhibit 5, Disney derives 74 percent of its revenue and 72 percent of its operating income from business in the USA/Canada. All geographic segments had increased revenue and profits in 2010, with Europe being second behind the USA/Canada.

Disney revenues in 2010 were derived from Media Networks (45 percent), Parks & Resorts (28 percent), Studio Entertainment (18 percent), Consumer Products (7 percent), and Interactive Media

EXHIBIT 4 Revenue and Operating Income by Segment

(in millions)	2010	2009	2008	% of change 2010 vs. 2009	% of change 2009 vs. 2008
Revenues					
Media Networks	$17,162	$16,209	15,857	6%	2%
Parks & Resorts	10,761	10,667	11,504	1%	(7)%
Studio Entertainment	6,701	6,136	7,348	9%	(16)%
Consumer Products	2,678	2,425	2,415	10%	—
Interactive Media	761	712	719	7%	(1)%
Total Consolidated Revenues	$38,063	$36,149	$37,843	5%	(4)%
Segment operating income					
Media Networks	$5,132	$4,765	$4,981	8%	(4)%
Parks & Resorts	1,318	1,418	1,897	(7)%	(25)%
Studio Entertainment	693	175	1,086	296%	(84)%
Consumer Products	677	609	778	11%	(22)%
Interactive Media	(234)	(295)	(258)	21%	(14)%
Total segment operating income	$7,586	$6,672	$8,484	14%	(21)%

Source: Walt Disney Company, *Annual Report* (2010).

EXHIBIT 5 Revenue and Operating Income by Region

(in millions)	2010	2009	2008
Revenues			
USA/Canada	$28,279	$27,508	$28,506
Europe	6,550	6,012	6,805
Asia Pacific	2,320	1,860	1,811
Latin America and Other	914	769	721
	$38,063	$36,149	$37,843
Segment operating income			
USA/Canada	$ 5,474	$ 4,923	$ 6,500
Europe	1,275	1,158	1,423
Asia Pacific	620	430	386
Latin America and Other	217	161	175
	$ 7,586	$ 6,672	$ 8,484

Source: Walt Disney Company, *Annual Report* (2010).

(2 percent). Operating income was derived from Media Networks (68 percent), Parks & Resorts (17 percent), Studio Entertainment (9 percent), Consumer Products (9 percent), and Interactive Media (a loss). These percentages reveal weakness in Studio Entertainment, since this segment creates 18 percent of revenues but only 9 percent of operating income. The Interactive Media segment is also a weak part of the company since that division is losing money.

Media Networks

Disney's Media Networks segment includes domestic broadcast television, television production and distribution operations, domestic television stations, international and domestic cable networks, domestic broadcast radio networks and stations, and publishing and digital operations. Disney owns and operates the ABC Television Network, which reaches 99 percent of all U.S. television households.

The Disney-ABC Television Group (Disney-ABC TV) comprises Disney's global entertainment and news television properties, owned television stations group, and radio and publishing businesses. The group's portfolio includes ABC Television Network, ABC Owned Television Stations Group, ABC Studios, Disney Channels Worldwide, ABC Family, SOAPnet, Disney

ABC Domestic Television, Disney Media Distribution, Hyperion, and Radio Disney network. The ABC Television Network operates more than 220 affiliated stations across the United States. ABC Owned Television Stations Group owns 10 television stations in the U.S. that include WABC-TV, KABC-TV, WLS-TV, WPVI-TV, and others. ABC Studios develops, produces, and distributes entertainment content across broadcast and cable television and digital platforms.

Disney Channels Worldwide comprises 94 kid and family entertainment channels available in 169 countries and 33 languages. ABC Family is a mixture of series and movies. SOAPnet owns character-driven soapy drama, from daytime and primetime soaps to reality shows and movies. Disney ABC Domestic Television provides motion pictures and TV programming to U.S.-based media platforms. Disney Media Distribution is an international distributor of branded and nonbranded content to all platforms. Hyperion publishes fiction and nonfiction titles for adults. Radio Disney is available in more than 40 U.S. markets and on satellite radio, mobile apps, and the web. Additionally, Disney-ABC TV holds equity interest in A&E Television Networks.

Within Media Networks, Disney also produces and distributes live action and animated television programming under the ABC Studios, ABC Media Productions, and ABC Family Productions labels. Some of their prime time programming includes the dramas *Army Wives, Brothers & Sisters, Castle, Criminal Minds, Desperate Housewives, Grey's Anatomy,* and *Private Practice;* the returning half-hour comedy *Cougar Town;* new prime-time series that premiered in the fall of 2010, including the one-hour dramas *Body of Proof, Detroit 187, No Ordinary Family, Ugly Betty,* and *Brothers & Sisters*; and *Jimmy Kimmel Live* for late night and a variety of primetime specials for network television and live-action syndicated programming. Syndicated programming includes *Live! with Regis and Kelly,* a daily talk show, and *Who Wants to Be a Millionaire,* a game show.

As listed in Exhibit 6, Disney owns 10 television stations. Note that six are located in the top-10 television markets in the United States.

Disney's cable networks group provides national programming networks and licenses television programming both domestically and internationally. This business derives a majority of its revenue from fees charged to cable, satellite, and telecommunication service providers. Typically, cable networks operate under multi-year agreements. This helps Disney sell time for commercial announcements. Certain programming developed by cable networks is also distributed in (1) DVD format by the home entertainment division in the Studio Entertainment segment, (2) online via Disney's Internet sites such as ESPN.com, and (3) on third party services such as iTunes.

Radio Disney, a 24/7 radio network for kids, teens, and families, also operates under this segment. Radio Disney is available on 37 radio stations, 31 of which the company owns, and on RadioDisney.com, Sirius and XM satellite radio, iTunes Radio Tuner, XM/DIRECTV, and mobile phones. Radio Disney programming can be downloaded via the iTunes Music Store. Radio Disney is also available throughout most of South America via a separate Spanish language terrestrial broadcast.

EXHIBIT 6 Disney-Owned Television Stations

Market	TV Station	Television Market Ranking
New York, NY	WABC-TV	1
Los Angeles, CA	KABC-TV	2
Chicago, IL	WLS-TV	3
Philadelphia, PA	WPVI-TV	4
San Francisco, CA	KGO-TV	6
Houston, TX	KTRK-TV	10
Raleigh-Durham, NC	WTVD-TV	26
Fresno, CA	KFSN-TV	55
Flint, MI	WJRT-TV	68
Toledo, OH	WTVG-TV	73

EXHIBIT 7 Media Networks Segment: Revenue and Operating Income

(in millions)	2010	2009	2008	Change 2010 vs. 2009	Change 2009 vs. 2008
Revenues					
Cable Networks	$ 11,475	$ 10,555	$ 10,041	9%	10%
Broadcasting	5,687	5,654	6,075	1%	2%
	$ 17,162	$ 16,209	$ 16,116	6%	7%
Segment operating income					
Cable Networks	$ 4,473	$ 4,260	$ 4,100	5%	15%
Broadcasting	659	505	655	30%	(6)%
	$ 5,132	$ 4,765	$ 4,755	8%	11%

Source: Walt Disney Company, *Annual Report* (2010).

As indicated in Exhibit 7, Disney's Cable Networks reported a 9 percent increase in revenues in 2010, and the Broadcasting business reported a 30 percent increase in operating income. For the six months ended April 2, 2011, revenues from Cable Networks were $5.894 billion, up 16 percent, while Broadcasting revenues were up 4 percent to $13.073 billion. Note in Exhibit 8 that Disney has 109 million subscribers to its Disney Channel outside the United States versus 100 million domestic subscribers.

Disney's ESPN recently signed a 20-year agreement with The University of Texas (UT) and IMG College to develop and operate a year-round, 24-hour network dedicated to UT. The network will offer a variety of content ranging from sports to academic events. For the first time ever, ESPN offered the NBA finals in 2011 in 3-D.

EXHIBIT 8 Disney's International Cable Satellite Networks and Broadcast Operations

Property	Estimated Domestic Subscribers (in millions)(1)	Estimated International Subscribers (in millions)(2)	Ownership %
ESPN			
ESPN	98	–	80.0
ESPN2	97	–	80.0
ESPN Classic	41	–	80.0
ESPNEWS	74	–	80.0
ESPN Deportes	5	–	80.0
ESPNU	74	–	80.0
Disney Channels Worldwide			
Disney Channel	100	109	100.0
Playhouse Disney	–	45	100.0
Disney XD	78	84	100.0
Disney Cinemagic	–	10	73.3
Hungama	–	7	100.0
ABC Family	99	–	100.0
SOAPnet	76	–	100.0
A&E / Lifetime			
A&E	100	–	42.1
Lifetime Television	100	–	42.1
The History Channel	99	–	42.1
Lifetime Movie Network	79	–	42.1
The Biography Channel	62		42.1
History International	61	–	42.1
Lifetime Real Women(2)	16	–	42.1

(1) Estimated U.S. subscriber counts according to Nielsen Media Research as of September 2010.
(2) Subscriber counts are not rated by Nielsen and are based on internal management reports. ESPN and A&E programming are distributed internationally.

Source: Walt Disney Company, *Form 10K* (2010).

EXHIBIT 9 Disney versus News Corp. and Time Warner

	Disney	News Corp.	Time Warner	Industry
$Market Cap:	81.83B	48.88B	39.01B	1.41M
#Employees:	149,000	51,000	31,000	N/A
$Revenue:	39.04B	33.08B	26.89B	79.67M
Gross Margin:	18.58%	36.13%	44.42%	40.88%
$EBITDA:	8.99B	5.76B	6.46B	–7.17M
Operating Margin:	18.58%	13.97%	20.52%	–308.64%
$Net Income:	4.42B	3.13B	2.56B	N/A
EPS:	2.27	1.20	2.25	–5.62
P/E:	19.02	15.53	15.87	N/A

Industry = Entertainment - Diversified

Source: Based on information at finance.yahoo.com (March, 2011)

Competitors in Media Networks

CBS, News Corp., and Time Warner are direct competitors in Disney's Media Networks segment, as indicated in Exhibit 9.

Time Warner is composed of five divisions: AOL, Cable, Filmed Entertainment, Networks, and Publishing. Time Warner owns Time Inc., AOL, Warner Brothers, TBS Networks, and HBO. Time Warner is a media and entertainment company organized in three primary segments: Networks, Filmed Entertainment, and Publishing.

- The Networks segment provides domestic and international networks and premium pay television programming services, which consist of the multichannel HBO and Cinemax pay television programming services.
- The Filmed Entertainment segment produces and distributes theatrical motion pictures, television shows, animation, and other programming; distributes home video products; and licenses rights to its feature films, television programming, and characters. These also compete with Disney.
- The Publishing segment publishes magazines, operates various websites, and is also involved in direct-marketing businesses. It publishes magazines on celebrities; sports; lifestyle, beauty, and fashion; life, home, body, and soul; news and events; economic and business developments.

Exhibit 10 provides Time Warner's 2010 revenue by segment.

News Corp. is a huge, diversified international media and entertainment company with $33 billion in annual revenue, operating in eight industry segments: Filmed Entertainment, Television, Cable Network Programming, Direct Broadcast Satellite Television, Magazines and Inserts, Newspapers, Book Publishing, and Other. The company has been moving aggressively toward digital technologies such as broadband, mobility, storage, and wireless. News Corp. owns MySpace.com, the Internet's popular social networking site, and IGN.com (a gaming and entertainment site).

EXHIBIT 10 Time Warner's Revenue (in millions) by Segment in 2010

Segment	Revenue	Operating Income
Network	$12,480	$4,224
Film Entertainment	11,622	1,107
Publishing	3,675	515

Source: Time Warner Inc., *Form 10K* (2010).

News Corp. owns Fox TV, which has an average audience of 6.7 million every night, followed by CBS with 7.6 million viewers during that prime time, Walt Disney's ABC with 5.4 million viewers per night, and finally NBC (owed by General Electric) with 4.8 million viewers during each prime time period. News Corp. owns Dow Jones & Co. and the *Wall Street Journal*. News Corp. owns Liberty Media Corp. and a 41 percent interest in the DIRECTV Group, Inc.

Several uncertainties exist in this industry, including splitting up the royalties of DVD distribution fees with screenwriters and competing with lower cable advertising rates and Digital Video Recorder (DVR) devices. In addition, Apple, Inc. is aggressive in forming partnerships with specific media networks. Time Warner Cable Inc. has started a dispute with several large media companies regarding their ability to beam live TV channels to Apple Inc. iPads. This has created tension among major TV-industry players as they each want to offer their own programming over the Internet through hardware companies such as Apple.

Advertising dollars are a major source of income for Walt Disney, which competes with other advertising media such as newspapers, magazines, billboards, and the Internet. This media industry is becoming digitized in almost all areas, and delivery of media is now expanded from traditional TV and radio to handheld devices. The media industry also is benefiting by the introduction of digital television platforms that make it more appealing for companies to develop exclusive programming packages. This should help the companies to sell more advertising time based on the unique customer base.

Parks and Resorts

Disney owns and operates Walt Disney World Resort in Florida, the Disneyland Resort in California, the Disney Vacation Club, the Disney Cruise Line, Tokyo Disney Resort, and Adventures by Disney. Disney has 51 percent ownership in Disneyland Resort Paris and 47 percent ownership in Hong Kong Disneyland. Disney's newest theme park will be in the Pudong district of Shanghai.

The new 4,000-passenger ship *Disney Dream* was christened at Port Canaveral in 2011 and was designed especially for families. *Disney Dream* joins *Disney Magic* and *Disney Wonder*, with another new ship, *Disney Fantasy*, scheduled to join the Disney fleet in 2012. *Disney Dream* will sail to Disney's private island, Castaway Cay. Exhibit 11 summarizes Disney's key park and resort holdings.

Revenue in this segment is generated from the sale of admissions tickets to the theme parks; hotel room charges per night; sales from merchandise, food, and beverages; rentals and sales from vacation club properties; and sales of cruise vacations. Most costs and expenses in this segment are driven from labor; depreciation of assets; costs of merchandise, food, and beverages; marketing and advertising; repairs and maintenance; and entertainment.

Disney revenues from its Parks and Resorts division increased only 1 percent in 2010, or $94 million, to $10.761 billion, due to a decrease of $38 million at domestic resorts and an increase

EXHIBIT 11 Disney's Offerings Under Parks & Resorts

1. Walt Disney World Resorts:	Epcot	Disney-MGM Studios	Magic Kingdom	Disney's Animal Kingdom	Resort & Facilities
2. Disneyland Resort:	Disneyland	Disneyland's California Adventure	Resort & Facilities		
3. Disneyland Resort Paris:	Disneyland Park	Walt Disney Studios Park	Resort & Facilities		
4. Hong Kong Disneyland Resort:	Hong Kong Disneyland	Hotels			
5. Tokyo Disney Resort:	Tokyo Disneyland	Tokyo DisneySea	Hotels & Resort Facilities		
6. Disney Vacation Club:					
7. Disney Cruise Line:					
8. Adventures by Disney:					
9. Walt Disney Imagineering:					

Source: Walt Disney Company, *Form 10K* (2010).

of $132 million at Disney's international resorts. Domestic Parks and Resorts revenues declined due to one fewer week of operations, volume decrease in lower vacation club ownership sales, lower hotel occupancy, and lower passenger cruise ship days. These decreases were partially offset by higher guest spending due to higher average daily hotel room rate and higher average ticket prices. In contrast, the revenue increase in international operations was due to higher guest spending and real estate property sales. Although the impact was nominal, higher attendance and hotel occupancy also helped revenue sales in the international market. Segment operating income decreased by 7 percent, or by $100 million, from 2009 to 2010, mostly due to improvements at international operations.

For the quarter ending April 2, 2011, Parks and Resorts revenues increased 7 percent to $2.6 billion but operating income decreased 3 percent to $145 million. Exhibit 12 provides attendance information for Disney's Parks and Resorts segment.

The Parks and Resorts segment of Disney is growing, having recently added 481 units to its resort in Aulani (an oceanfront resort in Hawaii); two new ships, the *Disney Dream* and *Disney Fantasy;* new personal guide tours; new services and attractions; preferred seating and front-of-line access to rides; as well as new package deals for major corporations and schools.

Disney has plans to offer more stand-alone theme parks and resorts in cities and beach resorts, as well as Disney branded retail and dining districts, and smaller and more sophisticated parks. Disney wants to utilize its brand name to expand in other areas of the travel business. The company has built time-share vacation homes in popular places in the United States. Some of the challenges in this marketing strategy have been tailoring the niche attractions to local markets while keeping the Disney brand reputation. There is also a challenge of avoiding the cannibalization of existing parks and attractions. Food costs increased dramatically in 2010/2011 and negatively impacted Disney's earnings. The United Nations reported that global food costs jumped 25 percent in 2010.

Some additional data for the Disney Parks and Resorts segment is given in Exhibit 13.

Competitors in Parks and Resorts

Disney's theme parks and cruise lines compete worldwide with all other forms of lodging, tourism, and recreational activities. Many uncontrollable factors may influence the profitability of the leisure-time industry such as business cycle and exchange rate fluctuations, travel industry trends, amount of available leisure time, oil and transportation prices, and weather patterns. Seasonality is another concern for this segment as all Disney theme parks and the associated resort facilities are operated on a year-round basis. Peak theme park attendance and resort occupancy generally occur during the summer when school vacations take place and during early-winter and spring-holiday periods.

EXHIBIT 12 Disney Parks and Resorts Data

	Domestic		International[2]		Total	
	2010	2009	2010	2009	2010	2009
Parks						
Increase in Attendance	(1)%	2%	1%	1%	(1)%	2%
Increase in Per Capita Guest	3%	(6)%	3%	(12)%	3%	(7)%
Spending Hotels[1]						
Occupancy	82%	87%	85%	85%	82%	86%
Available Room Nights (in thousands)	9,629	9,549	2,466	2,473	12,095	12,022
Per Room Guest Spending	$ 224	$ 214	$ 273	$ 261	$ 234	$ 223

Source: Walt Disney Company, *Annual Report* (2010).

(1) Per room guest spending consists of the average daily hotel room rate as well as guest spending on food, beverages, and merchandise at the hotels. Hotel statistics include rentals of Disney Vacation Club units.

(2) Per capita guest spending and per room guest spending include the impact of foreign currency translation. Guest spending statistics for Disneyland Paris were converted from euros into U.S. dollars at weighted average exchange rates of 1.36 and 1.35 for fiscal 2010 and 2009, respectively.

EXHIBIT 13 Parks and Resorts: Revenue and Operating Income

(in millions)	2010	2009	% Change
Revenues			
Domestic	$ 8,404	$ 8,442	–
International	2,357	2,225	6%
	$10,761	$10,667	1%
Segment operating income	$ 1,318	$ 1,418	(7)%

Source: Walt Disney Company, *Annual Report* (2010).

According to Datamonitor, the global leisure facilities industry generated a total revenue of $130.7 billion in 2009. Theme parks contributed 18.8 percent or $24.7 billion of that total. Walt Disney is the leader in theme parks with an 8.4 percent share of the market, and Six Flags has 0.8 percent.

Six Flags is based in Oklahoma City, Oklahoma, and owns 20 parks across the United States, Mexico, Canada, and soon in Dubai and Qatar, with more than $1 billion in revenue. Six Flags recently acquired Dick Clark productions, producing television hits such as the *American Music Awards, The Golden Globe Awards, the Academy of Country Music Awards, Dick Clark's New Year's Rockin' Eve* and *So You Think You Can Dance*.

Established in 1977, Ocean Park in Hong Kong aggressively competes with Disney. Ocean Park is a theme park that covers over 870,000 square meters and receives more than five million tourists each year. Ocean Park has two new sightseeing locations in Shanghai aimed at attracting tourists from regions such as the Yangtze River Delta. Ocean Park is increasing the number of travel attractions to 70 from the current 35 and will complete the construction of four themed travel attractions between 2010 and 2013. Residents in Hong Kong are not very impressed with the small park Disney built there, since many have visited Disneyland in Tokyo or Anaheim.

NBC Universal is perhaps the largest threat to Disney in this segment. NBC Universal owns Universal Studios Hollywood and a 50 percent interest in the Universal Orlando Resort. Comcast Corp. owns a controlling 51 percent interest in NBC Universal, with General Electric holding a 49 percent stake. NBC Universal has license agreements with Universal Studios Japan and Universal Studios Singapore. Each year, millions of guests visit Universal's theme parks in Florida, California, and Japan rather than going to Disney parks.

Universal Studios Singapore has over 15 new attractions, and in late 2011 debuted "Transformers," a mega-attraction based on the blockbuster hit movies of the same name. A Universal Studios theme park has been licensed for Dubai, and a Universal Studios theme park in Korea has also been announced. Universal Studios Hollywood is "The Entertainment Capital of L.A." and the only movie and television-based theme park to offer guests the authenticity of a working movie studio. Within its gates, the rich heritage of movies past and the excitement of today's Hollywood come alive. The theme park features the world's largest, most intense 3-D experience: "King Kong 360 3-D Created by Peter Jackson." Other groundbreaking attractions include "Revenge of the Mummy—The Ride," "Shrek 4-D," "Jurassic Park—The Ride," and "The Simpsons Ride," as well as the world-renowned Studio Tour, which takes guests behind the scenes of such landmark TV and movie locations as Steven Spielberg's *War of the Worlds*.

In Orlando, Florida, there are Universal Studios and Islands of Adventure—as well as Universal CityWalk, a 30-acre restaurant, shopping, and nighttime entertainment complex, and three magnificently themed on-site hotels: the Loews Portofino Bay Hotel, Hard Rock Hotel, and the Loews Royal Pacific Resort. Flagship experiences featured in the theme parks include "The Simpsons Ride," "Revenge of the Mummy—The Ride," "The Incredible Hulk Coaster," and "The Amazing Adventures of Spider-Man." On June 18, 2010, Universal Orlando revealed "The Wizarding World of Harry Potter" at Islands of Adventure—an entire land that brings one of the most popular stories of our time to life.

Carnival Corp. is the world's largest cruise operator, owning a dozen cruise lines and about 100 ships with a total passenger capacity of more than 190,000. The company operates in North America primarily through its Princess Cruise Line, Holland America, and Seabourn luxury cruise brands, as well as its flagship Carnival Cruise Lines unit. Brands such as AIDA, P&O Cruises, and Costa Cruises offer services to passengers in Europe, and the Cunard Line runs luxury trans-Atlantic liners. Carnival operates as a dual-listed company with UK-based Carnival plc forming a single enterprise under a unified executive team. Royal Caribbean is another cruise company that competes with Disney's cruise ships.

Studio Entertainment

Disney produces live-action and animated motion pictures, direct-to-video programming, musical recordings, and livestage plays. Disney motion pictures are distributed under the names Theatrical Market, Home Entertainment Market, Television Market, Disney Music Group, and Disney Theatrical Productions. Disney has also licensed the rights to produce and distribute feature films such as *Spider-Man*, *The Fantastic Four*, and *X-Men* to third party studios. Disney earns a licensing fee on these films, whereas the third-party studio incurs the cost to produce and distribute the films.

In July 2010, Disney sold the majority of the assets of their Miramax Film Corp. for $663 million. Disney distributes live-action motion pictures produced by DreamWorks under the Touchstone Pictures banner. Disney released in 2011 the award winning albums 1) *TRON: Legacy*, 2) *TRON: The Original Classic Special Edition*, and 3) *TRON: Legacy Reconfigured* to Blu-ray 3-D and other platforms. The albums peaked at No. 4 on the Billboard 200. Two weeks after becoming the highest-grossing animated film of all time, *Toy Story 3* exceeded the $1 billion mark at the global box office, joining *Alice in Wonderland* as the second $1 billion film in 2010, and made Disney the first company ever to have two $1 billion films released in one year.

In 2010, Disney's Studio Entertainment segment revenue contributed $6.7 billion to the company's sales, approximately 17.6 percent. While this segment contributed only 9 percent to the total operating income, its percentage change from 2009 to 2010 was an increase of 296 percent, as indicated in Exhibit 14. However, for the quarter that ended April 2, 2011, studio entertainment revenues decreased 13 percent to $1.3 billion while operating income decreased 65 percent to $77 million.

Competitors in Studio Entertainment

The Studio Entertainment segment of Disney competes primarily with 1) NBC Universal (which is owned by General Electric) and 2) Paramount Pictures.

NBC Universal is one of the world's leading media companies in the development, production, and marketing of entertainment, news, and information to a global audience. The new company's assets include some of the most recognized and valuable brands in the industry, such as television networks NBC, Telemundo, USA Network, Sci-Fi Channel, Bravo, Trio, CNBC, and MSNBC (jointly owned with Microsoft); film studio Universal Pictures; television production studios Universal Television and NBC Studios; a stations group comprising 29 NBC and Telemundo television stations; and interests in five theme parks including Universal Studios Hollywood and Universal Orlando. International assets include excellent positions in the sale and distribution of video and DVD titles, television programming, and feature films in more than 200 countries; and distinctive television channels across Europe, Asia, and Latin America.

Universal offers an all-audience family film business with Illumination Entertainment. Its first production, the 3-D CGI blockbuster *Despicable Me*, was one of the highest-grossing and most profitable films of 2010. In addition to filmed entertainment, Universal produces live stage productions, including the cultural phenomenon *Wicked* and the 10-time Tony Award-winning *Billy Elliot the Musical*.

EXHIBIT 14 Studio Entertainment: Revenue and Operating Income

(in millions)	2010	2009	% Change
Revenues			
Theatrical Distribution	$ 2,050	$ 1,325	55%
Home Entertainment	2,666	2,762	(3)%
Television Distribution and Other	1,985	2,049	(3)%
Total Revenues	$ 6,701	$ 6,136	9%
Segment operating income	$ 693	$ 175	296%

Source: Walt Disney Company, *Annual Report* (2010).

Paramount Pictures Corp., a division of Viacom, is a global producer and distributor of filmed entertainment, with robust and multifaceted divisions across all areas including digital, home entertainment, network and cable television distribution, studio operations, and consumer products and recreation. Paramount has many respected brands, including MTV Networks and BET Networks. Paramount consists of several film labels, including the legendary Paramount Pictures; the leading youth brand, MTV Films; the preeminent family entertainment label, Nickelodeon Movies; and specialty film labels Paramount Vantage and Paramount Classics.

Paramount has established distribution deals with iconic comic book creator Marvel Entertainment and renowned animated film producer DreamWorks Animation. The company's global business operations include Paramount Digital Entertainment, Paramount Famous Productions, Paramount Home Entertainment, Paramount Pictures International, Paramount Licensing Inc., Paramount Studio Group, and Worldwide Television Distribution.

As the only major motion picture studio based in Hollywood, Paramount is located on an expansive 64-acre state-of-the-art production and business center. During its nearly 100-year history, the studio's backlot has served as the production site for thousands of notable feature films, television shows, and commercials. Paramount's facilities include 30 sound stages, a newly constructed "Chicago Street," as well as the historic and popular "New York Street," which features 10 distinct city neighborhood backdrops.

Paramount has some of the most respected and talented filmmakers and producers in the business, including J.J. Abrams, Brad Pitt, and Martin Scorsese. Paramount has distributed a host of critically acclaimed and box office hits over the last several years, including *Cloverfield, Transformers, Indiana Jones & The Kingdom of the Crystal Skull, Norbit, Blades of Glory*, and *Disturbia*.

Paramount's library consists of more than 1,000 motion picture titles, some television programming, and varying rights for approximately 2,500 additional motion picture titles. Paramount has numerous Oscar® winning films including 2007's *No Country For Old Men* (co-produced with Miramax Films); 2006's groundbreaking documentary featuring Vice President Al Gore, *An Inconvenient Truth*; the moving historical drama *Braveheart* directed by Mel Gibson in 1995; the worldwide sensation starring Tom Hanks, *Forrest Gump* (1994); and the highest-grossing motion picture of all time, *Titanic* (1997)—as well as enduring classics such as *Breakfast at Tiffany's* (1961), *The Ten Commandments* (1956), and *Sunset Boulevard* (1950), among others.

Consumer Products

Disney's Consumer Products segment includes partners with licenses, manufacturers, publishers, and retailers worldwide who design, promote, and sell a wide variety of products based on new and existing Disney characters. Product offerings are: 1) Character Merchandise and Publications Licensing, 2) Books and Magazines, and 3) the Disney Store. Disney released in mid-2011 a new toy line that captured the fantasy, action, and adventure of *Pirates of the Caribbean: On Stranger Tides*. Disney is perhaps the largest worldwide licensor of character-based merchandise and producer/distributor of children's film-related products based on retail sales.

In 2010, Disney revenues from this segment increased 9 percent to $1.7 billion. Sales growth at the Disney Stores benefited from the acquisition of Marvel and the strong performance of *Toy Story* merchandise. Operating income of this segment increased 11 percent to $677 million, as indicated in Exhibit 15. Disney is on schedule to add more than 25 new and remodeled Disney Store locations in 2011 and plans to transform all of the more than 350 Disney Store locations around the world.

EXHIBIT 15 Consumer Products: Revenue and Operating Income

(in millions)	2010	2009	% Change
Revenues			
Licensing and Publishing	$ 1,725	$ 1,584	9%
Retail and Other	953	841	13%
Total Revenues	$ 2,678	$ 2,425	10%
Segment operating income	$ 677	$ 609	11%

Source: Walt Disney Company, *Annual Report* (2010).

Disney offers licensing of toys, apparel, home décor and furnishings, stationery, accessories, health and beauty products, food, footwear, and consumer electronics. Some of the major brand names licensed and for which royalties are earned include: *Mickey Mouse, Disney Princess, Toy Story, Winnie the Pooh, Cars, Disney Fairies, Hannah Montana*, and the Marvel properties, including *Spider-Man* and *Iron Man*.

Disney Publishing Worldwide (DPW) publishes children's books and magazines in multiple countries and languages. Most titles are related to Disney's cartoon characters such as *Mickey Mouse, Disney Princess, Winnie the Pooh, Cars, Disney Fairies*, and *Toy Story*. For the quarter that ended April 2, 2011, Disney's Consumer Products revenues increased 5 percent to $626 million despite decreases in DPW revenues.

Disney owns and operates many retail stores, both brick and mortar and through Internet sites, under the name of the Disney brand. Actual stores are typically located in large shopping malls and retail complexes and offer a wide range of Disney merchandise. Disney owns 211 stores in North America, 104 stores in Europe, and 48 stores in Japan. Competitors to Disney in this segment are Warner Brothers, Fox, Sony, Marvel, and Nickelodeon.

Interactive Media

Disney's Interactive Media segment creates and delivers Disney-branded entertainment across interactive media platforms, especially in games and online. As indicated in Exhibit 16, games and subscriptions revenue was somewhat flat during 2010; however, advertising dollars received through online enterairment increased 35 percent from the prior year.

Disney's Games business creates, develops, and distributes console, handheld, online, and mobile games worldwide based on properties created by Disney, which includes 2010 titles such as *Toy Story 3, Alice in Wonderland*, and *The Princess and the Frog*, as well as new game properties such as *Split Seconds*. This business also produces online games along with interactive games for social networking websites and games for Smartphone platforms. Disney recently acquired Playdom, Inc., a company that develops and publishes online games for social networking websites.

Disney's Online business develops, publishes, and distributes content of Disney-branded online services intended for family entertainment. The focus here is to create Disney websites such as Disney.com and Disney Family Network. Disney.com promotes the Disney Channel, Disney Parks and Resorts, Walt Disney Pictures, and Disney Consumer Products.

For the quarter that ended April 2, 2011, Disney's Interactive Media revenues increased 3 percent to $159 million, but this segment's operating income decreased by $60 million to a loss of $115 million.

Conclusion

The unifying theme for all of Disney's business segments is family entertainment. In addition to economic conditions, value of the dollar, inflation rates, interest rates, unemployment rates, and GDP variation across countries, Disney's future success depends on the ability to consistently create and distribute movies, films, programs, theme park attractions, resort services, and consumer products. Heavy investment is required to gain and sustain consumer acceptance and attention as preferences change and differ across continents.

EXHIBIT 16 Interactive Media: Revenue and Operating Income

(in millions)	2010	2009	% Change
Revenues			
Games Sales and Subscriptions	$ 563	$ 565	–
Advertising and Other	198	147	35%
Total Revenues	$ 761	$ 712	7%
Segment operating income	$ (234)	$ (295)	21%

Source: Walt Disney Company, *Annual Report* (2010).

Travel and tourism factors impact Disney's business, such as adverse weather conditions, natural disasters, terrorist attacks, health concerns, international concerns, political or military developments, and war. Technological challenges face Disney as consumers are shifting to more on-demand movies and shows.

James Mitchell, a Goldman Sachs media analyst, estimates that 80 percent of Disney's park attendance is from the United States, and that 60 percent of domestic visitors fly to the parks versus 40 percent who drive. Crude oil futures have climbed 19 percent this year in New York. Mitchell has a "buy" rating on Disney and a 12-month share-price forecast of $48. High oil prices are bad for Disney; oil prices dropped 3 percent on May 5, 2011. That was a good day for Disney.

In June 2011, Disney announced plans to layoff 5 percent of the employees or more than 200 people at its film division to reduce costs at the Studio Entertainment segment. Layoffs had been expected as global DVD sales have plunged due to a shift in consumer behavior to on-demand TV services and other digital mediums at home for watching movies. Disney's Studio Entertainment division is also struggling due to sluggish performance of the worldwide home entertainment and theatrical distribution business. Disney's Studio Entertainment revenues came in at $1.34 billion in the second quarter of 2011, a decline of 13 percent versus the year-ago quarter. Operating income plunged 65 percent to $77 million in this segment.

On a positive note for Disney, the state of Florida is moving forward with a $1.3 billion commuter rail system for the Orlando area. Disney had urged the state to build the line, saying it would bring jobs and economic gains to the region where they have operations.

Ultimately, Disney must continue to maintain the image and brand name that Mr. Walt Disney developed while assuring investors and stakeholders that the company will have healthy growth in upcoming years. New competitors like Netflix, Dish Network, and Amazon.com have their eye on taking Disney customers. Prepare a three-year strategic plan for Disney's CEO, Robert Iger.

ASSURANCE OF LEARNING EXERCISES