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**Is the management of copyrighted contents the real magic of
The Walt Disney Company?**

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Introduction

The universe of Disney is truly fascinating. For nearly a century now, the company has pursued one of the most ambitious and noble dreams: create a magical world in which all dreams can come true, a kingdom delivering aspiration by means of entertainment. Some of us were lucky enough to be touched by the great magic of Disney since our earliest childhood and, for those of us who were, the emotion resurfaces each time we hear a famous Disney song or see the beautiful castle appear at the beginning of a film. This fact demonstrates that magic is very deeply anchored into the universe of Disney.

But where does this magic come from? And, more importantly, what is the real magic of The Walt Disney Company? This question has gained more and more interest in the business world because of the extremely positive developments that the company has known recently. Indeed, despite the economic downturn following the financial crisis of September 2008, Disney has experienced a tremendous growth by increasing its revenues by nearly 165 percent over the last decade. This has put the firm in second position of the entertainment industry, behind Comcast, and fifty-third in the Fortune 500 list of 2015 (Fortune, 2016). On top of that, Disney has also been awarded the second place in the *World's most reputable companies* ranking of 2016 (Strauss, 2016).

For these reasons, many people have attempted to crack the case of Disney's magic. Among them, Bill Capodagli and Lynn Jackson seem to have provided a first answer of significance in their book called *The Disney Way*. According to them, the real magic of The Walt Disney Company resides in the philosophy of its founder: "*I dream, I test my dreams against my beliefs, I dare to take risks, and I execute my vision to make those dreams come true: Dream, Believe, Dare, Do.*" (Capodagli & Jackson, 2006, p. IX).

However, inside each and every Disney's experience, there are fictional characters and stories that support its magic. As it will be explained later in this thesis, these fictional characters and stories, for which the intrinsic value is sometimes gigantic, are often protected by copyrights. These copyrights secure somehow the value of the underlying creations to its owners. Given the rising importance that these intellectual property assets have recently experienced and Disney's incontestable reliance on copyrighted works, it seems legitimate to look in this direction to discover the real magic of Disney. Would the real magic of Disney reside in its management of copyrighted contents?

Therefore, the present thesis aims to provide an answer to the following question: *Is the management of copyrighted contents the real magic of The Walt Disney Company?* In order to answer this question, the thesis is structured around three distinctive parts.

The first part consists of a literature review aiming to present the necessary background information and knowledge that are used in the analytical parts. This literature review contains two different chapters. The first chapter focuses on The Walt Disney Company and aims to present the necessary information to understand its background as well as its current business and strategic situation. The other chapter focuses on copyrights and aims to provide the necessary knowledge to understand and analyse the management of copyrighted contents of the company during the second and third part of this thesis.

Based on this literature review, the second part presents the methodology framework that is used to assess Disney's competency with regards to the proper management of its copyrighted contents. This methodology is divided into three different chapters. Each chapter presents the procedure to evaluate one of the necessary capabilities that a company needs to demonstrate in order to be considered efficient in the management of its copyrighted contents. In this respect, the first chapter focuses on the capability to create an adequate portfolio of copyrighted contents. The second chapter focuses on the capability to exploit the full potential from its portfolio of copyrighted contents. Finally, the third chapter focuses on the capability to obtain higher performance than others would have from the exploitation of its portfolio of copyrighted contents.

The third and last part of this thesis presents the results from applying the methodology framework to the case of The Walt Disney Company in order to answer the final question of interest: *Is the management of copyrighted contents the real magic of The Walt Disney Company?* In this respect, this last part contains three different chapters and follows precisely the same structure as the one from the second part. In practical terms, these three chapters apply the respective procedures to evaluate each of the three necessary capabilities that Disney needs to demonstrate in order to be considered efficient in the management of its copyrighted contents. Each chapter concludes by providing an answer to whether or not Disney is actually exerting the related necessary capability. Based on these answers, the final answer with regards to the main question of the present thesis is formulated by either acknowledging or, on the contrary case, discarding the management of copyrighted contents as being the real magic of Disney.

Part 1: Literature review

Chapter 1: The Walt Disney Company

This chapter aims to present the necessary information to understand the background as well as the current business and strategic situation of *The Walt Disney Company*. The chapter is divided into three different sections. The first section describes the history of the company by taking the perspective of its most influential managers. The second section presents a current picture of the company by reviewing some of the key characteristics of its business. Finally, the third section focuses on drawing some hypotheses and early conclusions about the strategic orientations of the company.

Section 1: History of The Walt Disney Company

1. *The Walter Elias “Walt” Disney era: 1923-1966*

The Walt era was, first and foremost, a period made of dreams and audacity. Walt illustrated this statement by revealing his philosophy for success: “*I dream, I test my dreams against my beliefs, I dare to take risks, and I execute my vision to make those dreams come true: Dream, Believe, Dare, Do.*” (Capodagli & Jackson, 2006, p. IX).

The great story of The Walt Disney Company started in 1923 after the bankruptcy of Walt’s first cartoon business founded in Kansas City the year before. Following this failure, Walt came back to California and convinced his brother, Roy, to found together the *Disney Brothers Cartoon Studio*, known today as *The Walt Disney Company*.

His first contract with M.J. Winkler Productions was successful thanks to the *Alice Comedies* series and the 26 cartoons starring Walt’s first hit character *Oswald, the Lucky Rabbit*. Despite this success, the collaboration ended in February 1927 when the distributor decided to terminate the contract, taking away from Walt most of his animators. In addition, Walt lost the *Oswald* character because the distributor owned the copyright. Through this incident, Walt learnt a lesson about the importance of copyright ownership and probably decided that he would own all of his future creations.

Winter 1928 was probably one of the most important moments in the development of The Walt Disney Company (Van Gilder Cooke, 2010). Indeed, it is the period in which Walt created the *Mickey Mouse* character and released *Steamboat Willie*, an

animated film. *Steamboat Willie* was an important release as well as an instant hit for at least two different reasons. On the one hand, it was the first animated film released featuring synchronized sound, which highlighted Walt's willingness to take risks and to innovate. On the other hand, it was also the first time that the *Mickey Mouse* character was shown to the public. Over time, the *Mickey Mouse* character became the official mascot of The Walt Disney Company as well as one of its most valuable assets. In 2008, analysts estimated its brand value to be around \$3 billion (Menn, 2008).

Between 1928 and 1937, Walt continued to release short animated films and introduced colours in his cartoons. However, the business of cartoon shorts did not prove to be lucrative enough at the time and, therefore, Walt started to look for other options. The result was *Snow White and the Seven Dwarfs*, the first full-length and full-colour animated film of all time (Loftus, 2014). The film was a risky bet but turned out to be highly profitable. *Snow White* still holds the world record of "*Highest box office film gross for an animation – inflation adjusted*" (Guinness World Records, 2016). Walt used the film's profits to hire more employees and build a larger studio in Burbank, California. The Walt Disney Company is still headquartered in this studio at present.

Snow White's success incentivized Walt to produce more of these long feature animated films. However, because these projects were quite expensive to finance, the company could not afford to do it on its own. In April 1940, Walt consequently sold some of his shares on the over-the-counter market. Right after the sale of his shares, the studio produced and released *Pinocchio*, *Fantasia*, *Dumbo* and *Bambi* in less than three years.

The period of World War II was financially challenging for the studio and this is why, in 1944, it decided to release *Snow White and the Seven Dwarfs* once again. This new release helped the company to stay afloat by generating a significant part of its income that year (Smith & Clark, 1999). In addition, this success is likely to have driven the company's later strategy to re-release its old classics to the next generations of kids.

The 1950s were the period in which the company actively engaged in the diversification of its activities. In 1950, the company entered the business of all-live action films for the first time with the release of *Treasure Island*. Other all-live action films followed and, in 1953, the company created *Buena Vista Distribution* in order to distribute them on its own. During the early 1950s, the company also created its first television show *One hour in Wonderland* and distributed it through the NBC television network.

In 1952, Walt embarked into the *Disneyland* project, arguably the biggest bet of his entire career. Walt's vision for his first amusement park was: "*It will be a place for parents and children to share pleasant times in one another's company. [...] Here the older generation can recapture the nostalgia of days gone by, and the younger generation can savour the challenge of the future.*" (Barrier, 2007, p. 243). To finance this expensive dream, Walt founded WED Enterprises in 1952 by putting his own money. In addition, Walt partnered with ABC who financed part of the project in exchange of a seven-year contract for his Disney TV show (Barrier, 2007, p. 244). It was signed in March 1954 and the TV show was used to promote the park, an early example of the company's ability to create synergies between its different businesses.

In July 1955, Disneyland opened its doors and Walt's huge bet eventually turned out to be an important success for the company. Indeed, Disneyland hosted its millionth visitor only seven weeks after the opening, which was not expected to happen before the tenth week (Barrier, 2007, p. 257). From that moment on, the theme park accounted for a significant part of the company's revenues. In 1965, Disneyland's success incentivized Walt to create another park, *Disney World*. The park eventually opened in 1971, five years after Walt's death, under the name of *Walt Disney World*.

Walt died in 1966. He left behind him an empire in the entertainment industry and a philosophy that has significantly influenced the future of The Walt Disney Company.

2. *The after Walt Disney era: 1966-1983*

The period following the death of Walt was mostly made of doubts and inertia. The period started with his brother, Roy Disney, taking over the management of the company. Under his supervision, the company mainly focused on finalizing Walt's open and unfinished projects. These projects included the creation of the *Walt Disney World* in Orlando and the *EPCOT* theme park in *Walt Disney World*. A few months after the completion and opening of *Walt Disney World* in October 1971, Roy Disney died and left the management in the hands of Donn Tatum, taking over as CEO.

Walt Disney World turned out to be a success while featuring new activities for the company such as managing hotels and the creation of an in-house travel company to increase traffic in the parks. A decade later, after the opening of *Tokyo Disneyland* in April 1983, the company's amusement parks activities were contributing to around

70% of its total revenues (Funding Universe, 2003). That same year, Ron Miller became CEO and created a brand for Disney's motion pictures, *Touchstone Films*.

Besides the amusement parks and the creation of *Disney Channel* in 1983, the 1970s and early 1980s were a rather dark period for the company. This can be partly explained by the economic downturns experienced at the time in the US regarding the oil crises of 1973 and 1979. Nevertheless, the main reason remains the lack of creativity of the management. As a reporter of The Wall Street Journal described: "*The company clung fervently to his vision, preserving his office exactly as he left it and adding few animated features. That left the company creatively dormant.*" (Silverman, 2016).

As a result, the company was experiencing poor stock performance and became financially vulnerable, which led to an attempted hostile takeover by Reliance Group Holdings in 1984. The attempt was eventually pushed back by Disney, which was then rescued by the Bass brothers with an investment of around \$500 million (Pallant, 2011, p. 80). The Bass brothers' investment represented a 25% stake in the firm, which was enough to take control and appoint the new CEO, Michael Eisner (Pallant, 2011, p. 80).

3. *The Michael Eisner era: 1984-2005*

The Eisner era was rather eventful, including the revival and tremendous expansion of the company followed by another period of uncertainty. Before joining Disney, Eisner had served as Vice President at ABC as well as President and CEO of the studio at Paramount Pictures, a competitor of Disney. At the time when he joined Disney, his plan was: "*To build the Disney brand while preserving the corporate values of quality, creativity, entrepreneurship, and teamwork.*" (Rukstad & Collis, 2009, p. 4).

One of its first acts to execute this plan was the broadcasting of *The Disney Sunday Movie* on ABC in February 1986. In his words: "*The Disney Sunday Movie helped to demonstrate that Disney could be inventive and contemporary and fun. It put us back on the map.*" (Eisner & Schwartz, 1998, p.152). Only four days after the premiere of the show, the *Walt Disney Productions* was renamed *The Walt Disney Company*.

Regarding the Disney Studios' film division, Eisner partnered with *Silver Screen Partners* to finance Disney's films. The partnership resulted in a funding of \$193 million in 1985 and \$300 million in 1987 (Los Angeles Times, 1987). This allowed Eisner to significantly increase the number of releases and quadruple Disney' share of

US box office in only four years (Rukstad & Collis, 2009, p. 5). Regarding the animation division, Eisner invested heavily in a new computer animated production system, which reduced production times and increased the number of releases per year.

Disney's amusement parks were already working well when Eisner arrived at Disney. Eisner's major project in his early reign was the creation of *Euro Disney* in Paris. The cost of the park had been mostly financed by the French government as well as through the release of 51% of the shares in European Stock Exchanges (Rukstad & Collis, 2009, p. 7). The park opened in 1992 and, hence, Disney enjoyed a third park in its portfolio.

Regarding the consumer products division, Eisner decided to boost revenues through the opening of *Disney Stores*. Disney Stores were built on the concept of "retail-as-entertainment", a shopping place where people were immersed in the magic world of Disney (Rukstad & Collis, 2009, p. 6). The first Disney Store opened in 1987 and, by the end of 1997, Disney was running 749 Disney Stores worldwide (Holson, 2004).

In 1994, only ten years after the appointment of Eisner, Disney had regained momentum and was financially strong again. Eisner's next big move was to expand Disney's position in Media Networks. Therefore, after a failed attempt to acquire NBC in 1994, Eisner announced the acquisition of *Capital Cities/ABC* along with *ESPN* cable networks, which were in financial difficulties at the time, in order to have its own programming distribution channel. The deal was concluded in July 1995 at the price of \$19 billion. It was therefore the second largest acquisition in all US history, increasing Disney's debt ratio to 34 percent (Rukstad & Collis, 2009, p. 9).

At that time, the risk of integrating ABC into Disney's own operations was more related to the size of the acquisition rather than to the broadening of Disney's scope of activities. Indeed, as Barry Diller explained: "*The only negative [was] size. It's a big enterprise, and big enterprises are troublesome.*" (Rukstad & Collis, 2009, p. 9). However, as Eisner explained during an interview, the acquisition was important for Disney's future survival as it enabled the firm to compete with international media conglomerates (Pasternack, 2006). Despite these opinions, one may have doubts about ABC being a good strategic fit for Disney. Indeed, while it offers a new stream of revenues as well as a large reach to the US population, ABC networks appear quite different from the Disney's magic kingdom. Consequently, this acquisition could weaken the consistency of Disney's image rather than strengthen its overall operations.

The years following the acquisition of ABC, Disney's financial results started to regress. Among other factors, there was the decline of Disney's home video division, which was one of the major elements contributing to Disney's growth during the 1990s (Rukstad & Collis, 2009, p. 10). However, Disney could remain confident that the introduction of *Digital Video Discs* (DVD) would restore growth on the market.

These financial troubles led Eisner to actively consider major cost-cutting efforts before the turn of the millennium. As a reporter of The Wall Street Journal described: "*Disney may now slow or curtail the future expansion of old and new business ventures that can't demonstrate a healthy return on investment*" (Orwall, 1999, p. B1). The result was reduced budgets on marketing, films and TV production while selling "non-strategic" assets such as *Fairchild Publications* (Rukstad & Collis, 2009, p. 11).

In the early 2000s, Disney's Media Networks started to recover and Eisner decided to reinvest in the amusement parks. Along with Hong Kong's partnership announced in 1999 for the creation of a \$3.6 billion theme park, the major results of this decision were the creations of *California Adventure* theme park at Disneyland, *DisneySea* at Tokyo Disneyland and *Disney Studios* at Disneyland Paris (Rukstad & Collis, 2009, p. 10).

The beginning of the second millennium was also marked by a sudden battle at Disney's top management. Indeed, tensions between Eisner and two board members, Roy Disney and Stanley Gold, aroused following Disney's poor financial performance in the late 1990s. At the time, the two board members put increasing pressure on Eisner to improve the company's performance. Then, in 2003, Roy Disney was asked to leave the Board following a new rule stating that directors should retire at the age of 72 (Orwall, 2003). Roy resigned from the board while asking Eisner to do the same. On-going pressures on the board and Eisner eventually led to the CEO's resignation letter in September 2005, leaving the place open for Robert Alan "Bob" Iger, who had become Chief Operating Officer of Disney in 2000.

4. The Bob Iger era: 2005-today

The Iger era is, first and foremost, a period made of significant acquisitions and synergies. Since Iger has taken over as CEO of The Walt Disney Company in 2005, his vision has been divided into three different parts: "*Generating the best creative content possible; fostering innovation and utilizing the latest technology; and expanding into new markets around the world.*" (The Walt Disney Company, n.a.d).

His first big move to execute this vision was the acquisition of Pixar in January 2006 for a price approaching \$7.4 billion (Holson, 2006). The relationship between the two firms had previously deteriorated following several disagreements between Eisner and Pixar's CEO Steve Jobs in the early 2000s. Aware of the importance of the Pixar franchise, Iger convinced Jobs to make the deal happen. With the acquisition of Pixar, Iger hoped that Pixar's spirit of creativity and its portfolio of characters would restore the tradition of greatness within Disney's animation division (Paik, 2007, p. 287).

Three years after the acquisition and integration of Pixar into Disney's activities, Iger decided that it was time to undertake its next bold move. In August 2009, Disney closed a deal to acquire Marvel Entertainment for around \$4 billion, which was 29 percent above Marvel's market value at the time of the acquisition (Smith & Schuker, 2009). With this purchase, Iger significantly increased Disney's portfolio of fictional characters value by integrating some of today's most appreciated superheroes. Indeed, despite general concerns that were raised regarding Marvel's price or strategic fit for Disney, the acquisition turned out to be a tremendous success (Ingram, 2015).

In April 2011, Iger announced that the *Shanghai Disneyland* project had finally begun. Disney had started to discuss the project with the Chinese government in 2001, when Eisner was looking to expand Disney's representation in Asia. *Shanghai Disney Resort*, expected to open on June 16 of this year, has cost around \$5.5 billion and will become the biggest park that the firm has ever opened on opening day (Kell, 2016).

In October 2012, Iger struck another important shot in the history of The Walt Disney Company by announcing the purchase of Lucasfilm for around \$4 billion (Leonard D., 2013). During a press conference in 2011, Iger stated that he was looking to: "*Buy either new characters or businesses that are capable of creating great characters and great stories.*" (Bhasin, 2011). The rationale behind this strategy was that, with the acquisition of Pixar and Marvel, Disney had demonstrated a great ability to extract the full potential from its franchises (The Walt Disney Company, 2012). Therefore, Iger decided that he would exploit this ability even more. This strategy eventually materialized into the purchase of George Lucas' Star Wars Empire, with the hope of bringing the value of its portfolio of characters and related stories to new heights.

As of today, after having led the empire of entertainment for more than a decade, Iger is expected to retire in 2018. Under his supervision, between 2006 and 2015, Disney's

stock overall return has outperformed the S&P 500 as well as the ones of its five main competitors (Appendix 1). In addition, Iger has been able to transform analysts' perceptions about the company. According to Michael Nathanson: *"Some on Wall Street no longer see Disney as a media company and see it more as a consumer-products company like Nike."* (Fritz, 2015). Finally, Iger's departure has raised some concerns because the person who was perceived as being the best candidate to replace him, his COO Thomas Staggs, has recently and unexpectedly left the company (Richwine, 2016). Finding Disney's next CEO will certainly not be an easy task for the company's board of directors. On the one hand, the new CEO will have to keep up with the speed of quality content expansion that has been set by Iger over the last decade. On the other hand, he will also certainly need to be able to make the transition, from traditional TV channels to online streaming, happen in order to respond to the new trend that is threatening Disney in its Media Networks segment.

Section 2: Current overview of The Walt Disney Company

For the purpose of this thesis, this section, presenting the current overview of The Walt Disney Company, is based on information and data until the end of the year 2015.

1. Main operations

"The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in five business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive." (The Walt Disney Company, 2016, p. 1). The description of the activities that it performs as well some other key information are presented hereafter for each of its segments:

Media Networks: *"The Media Networks segment includes cable and broadcast television networks, television production operations, television distribution, domestic television stations and radio networks and stations."* (The Walt Disney Company, 2016, p. 1). The Walt Disney Company generates revenues in this segment through fees charged to cable, satellite and telecommunications service providers as well as through affiliate fees, ad sales and program sales regarding the television stations affiliated with its domestic broadcast television network (The Walt Disney Company, 2016, p. 1). In 2015, this segment represented approximately 44.34% of the company's total revenues as well as around 53.08% of its total operating income (Appendix 2).

Parks and Resorts: The Parks and Resorts segment includes ownership, management and/or licensing activities of The Walt Disney Company's amusement parks and other assets: Walt Disney World Resort (Florida), Disneyland Resort (California), Hong Kong Disneyland Resort, Disneyland Paris, Shanghai Disney Resort, Tokyo Disney Resort, Aulani Disney Resort & Spa (Hawaii), Disney Vacation Club, Disney Cruise Line and Adventures by Disney (The Walt Disney Company, 2016, p. 7). The company generates revenues in this segment through admission fees to theme parks, sales of food, beverage, merchandise, cruise and other vacation packages as well as through rentals of room nights at hotels and vacation club properties (The Walt Disney Company, 2016, p. 7). In 2015, this segment represented approximately 30.81% of the company's total revenues as well as 20.65% of its total operating income (Appendix 2).

Studio Entertainment: *"The Studio Entertainment segment produces and acquires live-action and animated motion pictures, direct-to-video content, musical recordings and live-stage plays."* (The Walt Disney Company, 2016, p. 11). The Walt Disney Company generates revenues in this segment mainly through the distribution of films and recorded music, the sales of stage play tickets and through licensing fees from live entertainment events (The Walt Disney Company, 2016, p. 11). In 2015, this segment represented 14.04% and 13.44% of its revenues and operating income (Appendix 2).

Consumer Products: *"The Consumer Products segment engage with licensees, publishers and retailers throughout the world to design, develop, publish, promote and sell a wide variety of products based on the Company's intellectual property through its Merchandise Licensing, Publishing and Retail businesses."* (The Walt Disney Company, 2016, p. 14). The company generates revenues in this segment mainly through licensing characters from its films, televisions and other properties for use on consumer merchandise, publishing children's books, magazines and comic books as well as by selling merchandise through its retail stores, internet shopping sites and wholesale business (The Walt Disney Company, 2016, p. 14). In 2015, this segment represented 8.58% and 11.93% of its revenues and operating income (Appendix 2).

Interactive: *"The Interactive segment creates and delivers branded entertainment and lifestyle content across interactive media platforms. Interactive's primary operations include the production and global distribution of multi-platform games, the licensing of content for games and mobile devices, website management and design for other*

Company businesses and the development of branded online services.” (The Walt Disney Company, 2016, p. 15). The company generates revenues in this segment through the sale of multi-platform games to distributors and retailers, the fees related to in-game transactions and subscriptions, licensing fees for content to third-party game publishers as well as through online advertising and sponsorships (The Walt Disney Company, 2016, p. 15). In 2015, this segment represented around 2.24% of the company’s total revenues as well as 0.90% of its total operating income (Appendix 2).

2. Financial performance

The financial performance of The Walt Disney Company has been great since the arrival of Bob Iger as CEO. This is noted in regards to several aspects of its accounts.

Over the last ten years, The Walt Disney Company return on stock has proven to outperform both the one of the S&P500 index and the one of its main competitors (Appendix 1). During that period, the stock value appreciated from \$21.23 to \$97.34, which represents an increase of more than 350% in 10 years, or an annual growth rate of around 16.45% (Appendix 1). These impressive results on the stock market are mostly the consequences of the high growth that the company has had regarding both revenues and operating income. As it is demonstrated in Appendix 2, overall revenues increased by 64.24% since 2005 while operating income grew at an annual growth rate of 11.07%, reaching \$52.465 billion and \$14.681 billion in 2015, respectively.

Appendix 4, Appendix 5 and Appendix 6 present the details of Disney’s balance sheet, income statement and cash flow statement from 2005 to 2015, respectively.

3. International presence

The Walt Disney Company has operations in dozens of countries around the world. Its international presence is commonly divided into four geographic regions: the United States and Canada, Europe, Asia Pacific, and Latin America and Other (Statista, n.a.). Appendix 3 presents the revenues and operating income per region from 2006 to 2015.

In 2015, the United States and Canada region accounted for the biggest part of the company’s activities, representing respectively 76.85% and 73.7% of its total revenues and operating income. In addition, since 2005, the company has still been looking for additional growth in this region, as shown by both increases in revenues and operating income. The Europe region accounts for around 12.40% and 13.38% of its revenues

and operating income, respectively. The company's overall operations in Europe have remained stable since the year 2010, with a decrease in total revenues of 0.66% during that period. However, operating income went from \$1.275 billion to \$1.964 billion in the same period, which corresponds to an increase of 54.04%. The Asia Pacific as well as Latin America and Other regions account respectively for 8.05% and 3.30% of Disney's overall revenues. These regions represented the highest growth of operating income in relative value since the year 2010, with increases of respectively 120.16% and 145.16%. In absolute value, however, the highest growth of operating income is attributable to the United States and Canada region, with an increase of \$5.346 billion.

4. Industry overview

The Walt Disney Company is recognized as one of the leaders of the entertainment industry. Nevertheless, because of the great diversity of its activities within its five different segments, it becomes difficult to classify Disney into one industry in particular. Overall, it is commonly assumed that Disney belongs to the *diversified entertainment* industry, which suggests that it would need to be analysed with regards to the five different industries in which the company has its main operations: Cable Network, Amusement Park, Movie and Video Production, Consumer Product, and Video Game industries. However, because the last two ones represent only 11% of its overall revenues (Appendix 2) and because Disney remains relatively small in these industries, its position is usually analysed with regards to the first three industries: Cable Network, Amusement Park and Movie and Video Production. Disney's major competitors in these industries are: Comcast Corporation, Time Warner Incorporated, Twenty-First Century Fox Incorporated, CBS Corporation and Viacom Incorporated.

Appendix 7 and Appendix 8 present Disney as well as its major competitors' revenues and market shares in the US, from 2005 to 2014, for these three industries. From these two tables, it is possible to draw some conclusions about Disney's competitive position in these industries. Regarding the Media Network industry, Disney was the second biggest player in terms of market shares behind Comcast Corporation. Concerning the Amusement Park industry, Disney was by far the biggest player as the firm accounted for 77.71% of all theme park attendance in the US market. Regarding the Movie and Video Production industry, Disney was third in filmed entertainment and second in home entertainment with respectively 6.74% and 20.44% market shares.

Table 1.1 hereafter presents some key comparable metrics about The Walt Disney Company as well as about its five major competitors. From this table, it is possible to draw at least two conclusions about Disney's overall performance compared to its major competitors. On the one hand, Disney is the second best player in terms of sales growth and EBITDA (earnings before interest, taxes, depreciation and amortization) margin behind Comcast Corporation. This indicates that its business activities are growing faster than most of its competitors while remaining comparably efficient. On the other hand, although Disney has the highest WACC (weighted average cost of capital), its ROIC (return on invested capital) is also higher than the ones of its main competitors. As a result, even with a higher WACC, Disney remains capable of creating relatively high value on invested capital compared to its major competitors.

Comparable financial metrics between Disney and its major competitors					
Name	Sales growth year on year	EBITDA* margin	Sales 5 year CAGR**	ROIC***	WACC****
The Walt Disney Company	7,48%	29,59%	6,63%	13,20%	8,59%
Comcast Corporation	8,34%	33,91%	14,45%	10,29%	7,94%
Time Warner Inc	2,77%	26,84%	0,90%	10,96%	5,99%
Twenty-First Century Fox Inc	-9,04%	23,19%	-2,43%	11,14%	7,71%
CBS Corporation	0,58%	19,31%	-0,25%	11,60%	7,75%
Viacom Inc	-3,74%	25,13%	--	16,48%	7,43%
* Earnings before interest, taxes, depreciation and amortization; ** Compound annual growth rate; *** Return on invested capital; **** Weighted average cost of capital					

Table 1.1 – Comparable metrics for Disney and its competitors (Bloomberg, n.a.)

Section 3: Strategic overview

Based on the information and insights collected from the history and current overview of The Walt Disney Company, this last section aims to draw some early conclusions or reasonable hypotheses about the overall strategy that is making Disney so successful today and the key resources that are allowing the company to implement such strategy.

Referring to Bowman's strategy clock (Appendix 9), the strategy of The Walt Disney Company is somewhere between *differentiation* and *focused differentiation* strategies. According to Bowman, differentiation strategy is one in which the company intends to differentiate itself from its competitors by offering a higher perceived value to the consumer (Tutor2u, 2015). In addition, a focused differentiation strategy uses this higher perceived value to significantly increase prices and obtain higher margins than its competitors (Tutor2u, 2015). To a certain extent, it seems reasonable to assume

that this is the strategy followed by The Walt Disney Company because the prices for its products appear systematically higher than its competitors' average (Lai, Ma, Nguyen, & Yap, 2014, p. 8). Disney successfully implemented its differentiation strategy because the company has been able to build a strong and differentiated brand as well as an extensive presence at every corner of the entertainment industry.

Figure 1.1 suggests an overview of the process allowing Disney to put in place its differentiation strategy by building a strong and differentiated entertainment brand.

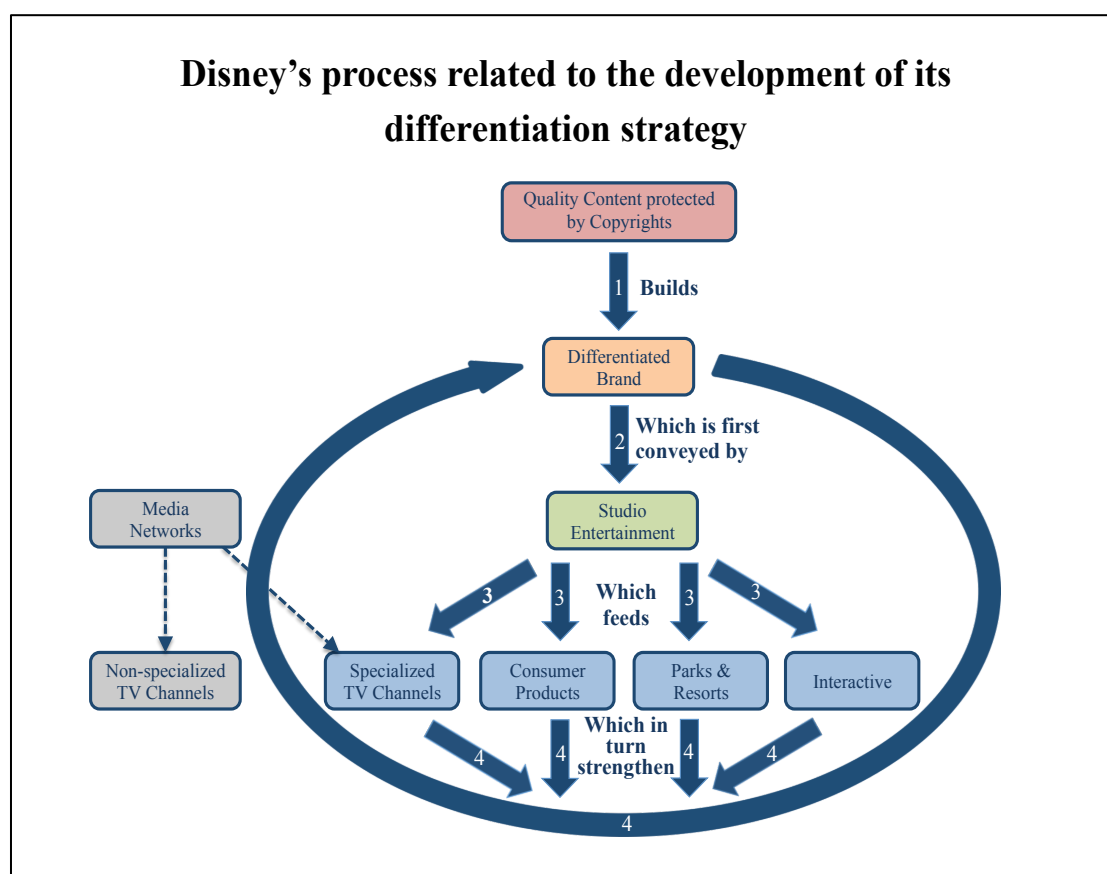


Figure 1.1 – Disney's process related to the development of its differentiation strategy

"The driving force behind Disney's success is its much loved, iconic characters and animated films." (Lai, Ma, Nguyen, & Yap, 2014, p. 7). Indeed, the fictional characters and stories have built and represented Disney's brand positioning since its earliest days. Before entering into any kind of diversification of its business activities, Disney was, first and foremost, a company focused on creating and releasing animated films featuring creative stories and fictional characters. In addition, these quality contents are copyrighted materials, which have prevented others from using them and, therefore, have allowed Disney to differentiate itself from its competitors.

Creative stories and characters, which have built and are still building Disney's differentiated brand, are first conveyed by the Studio Entertainment segment of the company. In other words and as it is illustrated in Figure 1.1, Disney's Studio Entertainment segment seems to be the spearhead of all of its other activities. Indeed, this segment aims first to successfully deliver Disney's quality content to the customers. Then, once the stories and characters have gained the public interest, they are used to nurture the other segments of the company as it is shown in Figure 1.1.

The third phase of this process highlights two important features of Disney's strategy and current business. On the one hand, Disney's diversification, through the creation of its specialized TV channels (e.g. Disney Channel), Consumer Products, Parks and Resorts, and Interactive segments, has been developed to support the use of the content conveyed by the Studio Entertainment segment. Indeed, these additional segments allow Disney to use its quality content to the highest extent by delivering it in different formats and on different markets of the entertainment industry. On the other hand, this rationale raises the previous question of the non-specialized TV channels branch relevance to Disney's activities. This part of Disney's business, which comes from the acquisition of ABC, was previously mentioned as potentially falling out of the scope of its business and now appears to be outside of Disney's differentiation process.

Disney's diversified activities finally contribute to strengthen its differentiated brand even more. This is made possible by the fact that this is the same content (stories and characters) that is presented in each of its business segments. Indeed, while the level of exposure for its content has substantially increased through the activities of each business segment, the coherence and consistency of the value proposition remain intact. As a result, these additional segments strengthen Disney's differentiated brand.

To conclude, it should never be forgotten that *"Disney is in the business of marketing, promoting and commoditizing characters and stories."* (Bryer, Lebson, & Asbell, 2011, p. 51). Disney has a differentiation strategy that is effectively put in place through the process described in this section. However, it is its copyrighted characters and stories that ensure the synergies between the different business segments as well as the consistency and protection of Disney's brand positioning. Thus, when searching for the real magic of the Walt Disney Company, the management of these copyrighted contents appear as a fair candidate and, therefore, reinforces the relevance of this thesis.

Chapter 2: Copyright

This chapter aims to present the necessary knowledge to understand and analyse the management of copyright at Disney, which is going to be tackled in the second and third part of thesis. Because of the disparities between countries in terms of intellectual property law and because Disney is listed in the US, the concepts and laws presented in this chapter mostly refer to the ones that are applied in the US. The chapter is divided into six different sections. On the one hand, the first three sections provide an overview of intellectual property rights as well as of the main legal aspects related to copyright. On the other hand, the following three sections present the three key strategic considerations to develop an adequate copyright strategy: acquire, exploit and value.

Section 1: Intellectual property overview

“Intellectual property is the tangible but legally recognized right to property in the products of one’s intellect.” (Schwabach, 2007, p.1). Basically, intellectual property rights are the rights conferred to the author of certain ideas, inventions, and expressions to exclude others from using them without his consent (Schwabach, 2007, p.1). This section presents the reason for the existence of such intellectual property rights as well as the traditional types of intellectual property rights covered by current law.

1. Purpose of intellectual property rights

“The main objective of intellectual property law is to promote innovation and aesthetic creation.” (Belleflamme, 2006, p. 271). The rationale behind this statement is that society benefits from intellectual productions such as industrial inventions, innovations or even artistic works. The creations of knowledge and expressions of ideas have a positive impact on the public welfare if, and only if, society can freely make use of them. Consequently, it follows that a necessary condition to maximize the public welfare is to make intellectual productions available to everybody and at no cost.

However, the production of knowledge or aesthetic creations generates certain costs for the innovator or artist. These costs may include time, monetary investments as well as the risk of not achieving the production of the work or benefiting from it. Because innovators and artists are rationale economic agents, they need to have sufficient incentives to produce their work. Sufficient incentives here refer to an

expected monetary compensation or other types of public recognition that would at least exceed the cost of producing such knowledge or artistic work. Consequently, it follows that a necessary condition for the innovator or artist to produce its intellectual creation is to enable him to receive a sufficient monetary benefit or recognition for it.

Looking at the perspectives of both society and the innovator or artist, it becomes clear that their respective interests are at odds when it comes to the production and use of intellectual works. On the one hand, allowing unconditional use of the intellectual works would create an underproduction problem, meaning that such works would not be produced in sufficient quantity to maximize the public welfare. On the other hand, granting perfect excludability to the innovator or artist would create an underutilization problem, meaning that the public welfare would not increase because society is not allowed to make use of these works (Belleflamme, 2006, p. 271).

In this context, intellectual property law has created intellectual property rights with the aim of finding a solution to balance these conflicting interests. Intellectual property rights allow the legislator to solve the underproduction and underutilization problems sequentially by granting to the innovator or artist the exclusive right on its creations for a limited period of time (Belleflamme, 2006, p. 271). Indeed, the period of exclusivity first solves the underproduction problem by allowing the innovator to benefit and to be compensated for his inventions. Then, the limited aspect of the exclusive right solves the underutilization problem because, once the period ends, the intellectual creations fall into the public domain and can be freely used by the society.

2. Types of intellectual property rights

The intellectual property law recognizes different types of intellectual property rights. These different types of intellectual property rights are classified according to the nature of the work they protect and according to the kind of protection the owner seeks to be granted. Overall, there are three traditional forms of intellectual property rights: patent, copyright and trademark (Schwabach, 2007, p. 1). The main business and legal characteristics of these types of intellectual property rights are presented hereafter:

Patent: *“A patent is a limited duration property right relating to an invention, [...] in exchange for public disclosure of the invention.”* (United States Patent and Trademark Office, 2016). A patent confers the right to the owner to exclude others from: using, selling, offering to sell or importing the patented invention (Ryder & Madhavan, 2014,

p. 9). Patent registration and disclosure of the invention are required to be legally enforceable. The duration of protection depends on the type of patent granted. In this respect, design patents are protected for 15 years from the day they have been issued while utility patents are protected for 20 years from the day they have been filed.

Copyright: *“A copyright protects original works of authorship including literary, dramatic, musical, and artistic works, such as poetry, novels, movies, songs, computer software, and architecture.”* (United States Patent and Trademark Office, 2016). Typically, a copyright confers the right to the owner to prevent others from: reproducing or redistributing copies, preparing derivative works, and performing or displaying the work publicly (Ryder & Madhavan, 2014, p. 27). Copyright registration is not mandatory but advised to be legally enforceable. The duration of protection depends mostly on the circumstances under which the work was created. Indeed, works created by individuals offer protection for the life of the author plus 70 years while works created under hire offer protection for 95 years from the day they have been published or 120 years from the day they have been created, whichever is shorter.

Trademark: *“A trademark is a word, phrase, symbol and/or design that identifies and distinguishes the source of the goods of one party from those of others.”* (United States Patent and Trademark Office, 2016). Typically, a trademark confers the right to the owner to exclude others from using the mark to cause a likelihood of confusion to the consumer (Ryder & Madhavan, 2014, p. 34). Trademark registration is not mandatory but advised in order to be legally enforceable. The duration of the trademark protection is theoretically unlimited since it depends solely on the owner continuing to use the brand name in business to indicate the source of the goods.

The different types of intellectual property rights, such as the ones presented in this section, are not mutually exclusive. In other words, it is very well possible that the same work is under the protection of different types of intellectual property rights. For instance, the *Mickey Mouse* of Disney is protected both by copyright and trademark.

Section 2: History of American copyright

This section aims to provide deeper knowledge of the US copyright law by presenting its establishment as well as the main modifications that it has undergone since then.

1. Copyright Act of 1790

In 1787, the US Constitution was created and specifically gave the Congress the power to: “ [...] *promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.*” (U.S. Const. art. I, sec. 8, cl. 8). Three years later, the 1790 Copyright Act was designed and put into force. Under this Act, the author of any map, chart, book or books was given the exclusive right to print, reprint, publish or vend its creation. This right was granted for a period of 14 years with an option to renew it one time for a second period of 14 years. The author was required to formally register its copyright to enforce the right, but was not required to publish the creation.

2. Copyright Act of 1909

President Theodore Roosevelt's request to adjust the copyright law in order to make it appropriate to modern conditions led to another Copyright Act, which was passed and put into force in 1909. The Act presented three major modifications compared to the Act of 1790 (Joyce, Leaffer, Jaszi, & Ochoa, 2003, p. 21). First, the subject matter of the copyright was broadened to include all works of authorship. Secondly, the right was granted for a period of 28 years with an option to renew it one time for a period of 28 years. Finally, the author was required to formally register its copyright and to publish it in order to enforce the right. The protection began only after the publication.

3. Copyright Act of 1976

In 1976, a revision of the 1909 Copyright Act was approved. The redesign of the law was considered to cope with the impact of technological advancements regarding copyright law and to anticipate the US adherence to the Berne Convention (Association of Research Libraries, 2015). Among the modifications presented in this Act, three of them are worth mentioning. First, the Act removed the notion of indivisibility of rights under copyright, which allowed the author to grant some of his rights to others instead of all of them. (Joyce, Leaffer, Jaszi, & Ochoa, 2003, p. 23). Secondly, the rights were granted for the life of the author plus 50 years if the work was made by an individual while works created under hire were protected for 75 years from the day of their publication or 100 years from the day of their creation, whichever is shorter. Finally, the publication is no longer the event that qualifies the work for protection but rather the fixation of the work in a tangible form (Joyce, Leaffer, Jaszi, & Ochoa, 2003, p. 23).

4. *Copyright Acts of 1998*

The 1998 Copyright Act is the most recent Act regulating copyright in the US and is composed of modifications spread between two underlying Acts: Digital Millennium Copyright Act (DMCA) and Sonny Bono Copyright Term Extension Act (CTEA). The main objects of the DMCA are to implement the World Intellectual Property Organization (WIPO) treaties into the US legislation as well as adapting the previous Act to the development of the Internet and the rise of the digital market place (United States Copyright Office, 1998, p. 1). Regarding the CTEA, its purpose was solely to extend the length of protection for copyrighted works. Under the CTEA, the rights related to copyright were granted for the life of the author plus 70 years if the work was made by an individual while works created under hire were protected for 95 years from the day they have been published or 120 years from the day they have been created, whichever is shorter. The CTEA has received much attention and is sometimes called the “*Mickey Mouse Protection Act*” because of the aggressive lobbying made by Disney to prevent its *Mickey Mouse* from falling into the public domain (Green, 2004).

Section 3: International considerations

Each national state is autonomous with regards to the copyright law and international copyright law does not exist as such. Therefore, the rights that are granted in one country may not be enforceable in another. Nevertheless, several international treaties have been created with the objective of achieving a certain level of convergence about the protection of copyrighted works between different countries. In this respect, this section presents two of the most relevant treaties that have been ratified by the US.

1. *Berne Convention: 1886*

The Berne Convention for the Protection of Literary and Artistic Works is an international agreement governing copyright law. The convention, which has been ratified by more than 170 countries, is based on three fundamental principles and also provides a threshold of minimum protection to be granted by each Contracting States (World Intellectual Property Organization, n.a.). The first principle states that the rights granted by a Contracting State for a work originating from this Contracting State should be the same in all other Contracting States. The second principle asserts that the protection is automatic and does not require formal registration of any kind.

The last principle states that the minimal duration of the protection should be independent of the protection that exists in the Contracting State of origin of the work.

2. TRIPS agreement: 1995

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement concerning intellectual property law established by the World Trade Organization (WTO). The agreement, which has been signed by more than 160 countries, includes three major components (World Trade Organization, n.a.). First, the agreement establishes the minimum standards of protection that should be provided by each Member State. In this respect and for the matter of copyright law, the agreement requires each Member State to comply with the obligations declared in the Berne Convention as well as with additional requirements specified by the TRIPS agreement. Secondly, the agreement provides procedures and remedies with regards to the enforcement of intellectual property rights. Finally, the agreement provides dispute settlement procedures with regards to any conflict that shall arise on the respect of the TRIPS obligations between members of the WTO.

Section 4: Acquiring copyright

There exist different ways to obtain the rights related to the copyright on a particular work. This section presents the three most common ways to acquire these rights.

1. Work creation

The first and most obvious way for a company or an individual to get ownership over the rights related to the copyright on a specific work is to create the work on its own. In general, the author (which can be a writer, a musician or even a photographer) of an original work takes full ownership with regards to the rights related to the copyright.

Nevertheless, there are two main exceptions for which the author of the work does not own the copyright on his work (Gilbert, 2009, pp. 36-37). On the one hand, if the author has created the work in the normal course of employment or, in some instances, if a client has commissioned the work, the owner of the copyright is the company or the client employing the author. On the other hand, if the author has sold the copyright protecting his work, the rights related to the copyrighted work belong to the acquirer.

As previously mentioned in section 1, the author of the work, whether an individual or a company, does not have to legally register the copyright in order to own the rights related to it. As a result and in the specific case of a company, increasing the number of copyrights through the creation of copyrighted works mainly depends upon the company's ability to foster innovation and creativity in its daily business activities.

2. *Copyright assignment*

The second way for an individual or a company to take ownership over the rights related to copyright on a work is to acquire them. The acquisition is achieved by means of a full transfer of ownership over the rights from the owner to the acquirer, meaning that the former can no longer exercise these rights. In legal terms, this transfer of ownership is referred to as an “assignment” (Bainbridge & Howell, 2014, p. 9).

It is worth mentioning that, in the case of a copyrighted work, the acquisition of the work does not confer any rights on the copyright (Bainbridge & Howell, 2014, p. 9). For instance, an individual acquiring a painting of the *Mickey Mouse* character, owned by The Walt Disney Company, is only allowed to enjoy the work for private use. Other uses of this work such as public display are infringements of the owner's copyright.

An assignment of the rights on a copyright may be partial and/or limited (Bainbridge & Howell, 2014, p. 9). On the one hand, the assignment may cover only some of the rights held by the owner such as the right of publication. On the other hand, the assignment may be limited in terms of duration or territory. For instance, the acquirer may own the rights on the copyrighted work only for two years on the Belgian territory.

3. *Copyright licensing*

The last way for an individual or a company to enjoy the rights related to a copyrighted work is to obtain a license for them. As opposed to an assignment, the acquisition of the rights is not achieved by means of a full transfer of ownership from the owner to the acquirer, but rather through a licensing agreement between the two. Therefore, the owner retains all proprietary rights on the work (Bainbridge & Howell, 2014, p. 8). In a typical licensing agreement, the licensor grants the licensee the right to use some of his rights on the copyrighted work (World Intellectual Property Organization, 2005, p. 18). In exchange of these rights, the licensor receives monetary compensations from the licensee, which can be in the form of a fixed fee or a percentage of his profit.

There exist many types of licensing agreements because: “*Copyrights are infinitely divisible.*” (Gilbert, 2009, p. 39). The licensor may limit the scope of the rights granted to the licensee in terms of time, territory, market, use, etc. In addition, an exclusive license is one which grants the rights to one single licensee whereas a non exclusive license may grant the same rights to several licensees. Because of the many licensing options, licensing agreements become highly complex and require the support from lawyers specialized in the field of copyright (Bainbridge & Howell, 2014, p . 161).

Section 5: Exploiting copyright

Once the rights on a copyrighted work have been obtained, there exist different ways to exploit them. This section describes the three most common ways to exploit these rights. It is worth mentioning that these three ways to exploit copyright ownership are not all mutually exclusive. There are indeed very commonly used in combination.

1. Exploiting internally

The first and most obvious way for a company to exploit its copyright on a work is to use it for its own activities. In this respect, the activities for which the copyright can be used depend on the copyrighted work as well as on the rights that the company owns.

2. Protecting from others

The second way for a company to exploit its rights on a copyrighted work is to actively protect them from infringements by others. As a reminder from section 1, the main feature of a copyright is that it confers the right to the owner to prevent others from using its related rights. However, owning a copyright on a work is not sufficient to prevent others from infringing its related rights and, therefore, the owner has the responsibility to ensure that these rights are respected (Smith & Hansen, 2002, p. 370).

The first important action that a company can take in order to protect its copyrights is to formally register them in the U.S. Copyright Office database and use the copyright notice for all releases of the copyrighted works. Indeed, even though a copyright is enforceable right after the work has been fixed in a tangible form, registering and notifying the copyrighted work provides at least two benefits to the author. On the one hand, it eases significantly the litigation process if the author decides to take legal actions against the infringer because the proof of ownership and validity on the

copyright is more straightforward. On the other hand, it prevents the infringer from claiming that he was not aware that the work was under copyright protection (Gilbert, 2009, p. 38). As a result, the author is likely to recover much more monetary damages as the infringement is then considered to have been deliberate (Gilbert, 2009, p. 38).

Secondly, the company needs to be able to identify infringement cases in order to properly protect its copyrights. In this respect, the first step consists in establishing the list of all the copyrights and related rights that the company owns in its portfolio as well as putting in place a procedure to update this list (Bainbridge & Howell, 2014, pp. 158-159). The second step consists in actively investigating infringements on these copyrights by, for instance, establishing a specialised team dedicated to this activity.

Finally, depending on the infringement cases that the company finds, it needs to decide which ones require taking legal actions. The company owning the copyright benefits from suing infringers in at least two different ways. Indeed, while it can earn some money from damages, it is also a good way to show that it has a strict policy regarding infringements of its copyrights, which may decrease the willingness of potential infringers to actually infringe. Nevertheless, it is not always wise to take legal actions because some infringements may be protected by “fair use”. In this case, the infringements are considered legitimate and the company is better off if it does not sue.

3. Licensing to others

The last but certainly not the least most common way for a company to exploit its rights related to a copyrighted work is to license them to other companies. Basically, licensing activities allow the company to generate another stream of revenues from its copyrights without losing its ownership on them (World Intellectual Property Organization, 2005, p. 19). Licensing its rights related to a copyrighted work is particularly suitable when the company does not want or is unable to perform the necessary activities for the commercialization of the work or when it is unable to reach other markets by itself (World Intellectual Property Organization, 2005, p. 19).

As it has been mentioned in the previous section, there exist many variables that the company has to specify when designing the licensing agreement. These variables refer to the scope of rights that the license grants, the duration of the license, the territory on which the license applies, the exclusivity aspect of the license, the compensation method, etc. Generally speaking, the company should define the

licensing agreement in a way that maximizes its expected revenues while minimizing the risks of negative impact that licensing may have on its own business activities.

In this respect, the licensor should consider two main risks related to its licensing activities. On the one hand, the licensor's sales may be cannibalized by the licensee's sales if both companies are allowed to operate on the same territory or market (World Intellectual Property Organization, 2005, p. 20). On the other hand, the licensee may use the copyrighted work in a way that could harm the integrity or image of the licensor's brand. In any case, the licensor needs to be aware of these risks and should define the terms of the licensing agreement carefully in order to minimize them.

Section 6: Valuing copyright

A company may possess a portfolio composed of the rights related to different copyrighted works. In some instances as well as for legal purposes, it may be interesting or required to assess the value of these rights. This section presents some valuation methodologies and general accounting rules that are applied to copyright.

1. Cost approach method

The *cost approach method* considers the value of the rights related to a copyrighted work to be the cost of acquiring these rights. According to Gilbert: “*The cost approach is based on the economic principle of substitution. This principle suggests that an investor will typically pay no more for a fungible intellectual property asset than the cost to purchase or construct a substitute asset.*” (Gilbert, 2009, p. 39).

The cost to obtain the rights related to a copyrighted work may be difficult to compute because of the many different sources that it encompasses. On the one hand, the cost is mostly composed of labour and technology, and these two categories include the cost of expertise, research and development, patent fees, and others. All these different costs can sometimes be difficult to retrieve or need to be estimated. On the other hand, if the work has been created in the past, the cost should be actualized using the right interest rate and economic as well as functional obsolescence need to be assessed and subtracted from the estimated value (Smith & Yossifov, 2013, p. 45).

The cost approach method is usually less appropriate for the valuation of the rights related to a copyrighted work as it does not consider that these rights grant a monopoly

over the underlying work to the owner (Gilbert, 2009, p. 39). This monopolistic position cannot be replaced by a substitute work because it would, in most instances, infringe the copyright related to the first work. As a result, the cost approach method is usually used to assess the lower bound of the copyright's value (Gilbert, 2009, p. 40).

2. Market approach method

The *market approach method* considers the value of the rights related to a copyrighted work to be equal to the price that a willing buyer and a willing seller would agree upon in the marketplace. In most instances, however, this price is not available for the copyright that is being assessed. As a result, this method consists in identifying a transaction on a similar asset that has recently taken place on the market and use it as a benchmark to assess the copyright under valuation (Smith & Yossifov, 2013, p. 47).

Although the market approach method proves to be a strong indicator of value, the circumstances under which this method can be properly applied are difficult to encounter in the case of copyright. This is especially true with regards to two of these circumstances. On the one hand, this method requires to find transactions involving assets that are sufficiently similar to the one being valued. However, because copyrights are only granted for works that have unique and novel characteristics, comparable assets are often difficult to find (Smith & Yossifov, 2013, p. 48). On the other hand, this method necessitates accurate information about the transaction terms related to the transfer of the comparable assets. Nevertheless, this transaction often includes other assets than the one that is taken as reference and, thus, cannot properly reflect the value of the copyright under valuation (Smith & Yossifov, 2013, p. 48).

3. Income approach method

The *income approach method* considers the value of the rights related to a copyrighted work to be equal to the income producing capability of these rights. According to Smith and Yossifov: "*The underlying theory of the income method is that the value of the property can be measured by the present value of the net economic benefit (cash receipts less cash outlays) to be received over its life.*" (Smith & Yossifov, 2013, p. 48). In practical terms, this valuation method basically computes the net present value (NPV) of the future profits generated through the use of the rights related to the copyrighted work over its remaining useful life (RUL):

$$\text{Copyright value} = \frac{\text{Income}_1}{(1 + R_1)^1} + \frac{\text{Income}_2}{(1 + R_2)^2} + \dots + \frac{\text{Income}_t}{(1 + R_t)^t}$$

This formula highlights the data that need to be retrieved or, otherwise, estimated in order to value the copyright using the income approach method. These data are the incomes related to each period (*Income*), the discount rates applied at each period (*R*) and the remaining useful life of the copyright (*t*). The incomes are the revenues, which mainly include sales related to products using the copyrighted work or licensing activities of the copyright, minus the costs, which have been previously discussed in the section presenting the cost approach method. The discount rates include the opportunity cost as well as the risk related to the actual realization of the predicted incomes. Contrary to general beliefs, the discount rates are not equal to the weighted average cost of capital (WACC) of the parent company and are, in most instances, higher because the parent company enjoys some degree of diversification in its business activities (Pellegrino, 2005, p. 9). Finally, the remaining useful life is usually shorter than the legal life of the copyrighted work because it depends on the popular and economic acceptance of the work, which may disappear over time (Gilbert, 2009, p. 40).

4. General accounting rules

Under the US Generally Accepted Accounting Principles (GAAP), copyrights are registered as intangible assets, separated from the goodwill, under the subtopic 350-30 referring to “*General Intangibles other than Goodwill*” (Bragg, 2010, pp. xii & 40). Under the circumstances of an acquisition, these copyrights are registered in the financial statements according to the amount disbursed to acquire the related rights. Finally, because copyrights have a limited lifetime, their value should be amortized according to their respective remaining economic useful life (Bragg, 2010, p. 509).

Part 2: Methodology

To recall, the purpose of the present thesis is to answer the following question: *Is the management of copyrighted contents the real magic of The Walt Disney Company?* In the case of Disney, these so-called copyrighted contents solely refer to the fictional characters and stories that the firm uses to support its activities. The importance of these copyrighted contents in the company's overall strategy has been highlighted by the strategic analysis within the first part of this thesis. Indeed, these copyrighted contents not only serve as the fuel for all of Disney's business segments, but they are also the source of its brand positioning and the cornerstone of its differentiation strategy.

However, acknowledging the importance of the copyrighted contents in Disney's overall strategy was only the first necessary condition to determine whether they may truly be considered as the real source of its magic. In this respect, the second necessary condition, which is the one that is the object of the following analyses, is that Disney is actually competent regarding its management of copyrighted contents.

The assessment of Disney's competency with regards to the proper management of its copyrighted contents is based on the methodology presented in this second part. This methodology is structured around three different chapters. Each of these chapters presents the procedure to evaluate one of the necessary capabilities that a company needs to demonstrate in order to be considered efficient regarding the management of its copyrighted contents. In this respect, the first chapter focuses on the capability to create an adequate portfolio of copyrighted contents. The second chapter focuses on the capability to exploit the full potential of its portfolio of copyrighted contents. Finally, the last chapter focuses on the capability to obtain a higher performance or results than others would achieve from the exploitation of its portfolio of copyrighted contents. In this context, the management of copyrighted contents may be considered as the real magic of Disney only if all three capabilities are positively acknowledged.

Figure 2.1 hereafter presents an overview of the complete framework that is used in this second part to assess Disney's competency in managing its copyrighted contents. The framework will be completed in the third part of this thesis by applying it to the case of Disney and will serve as the sole basis to answer the question of interest.

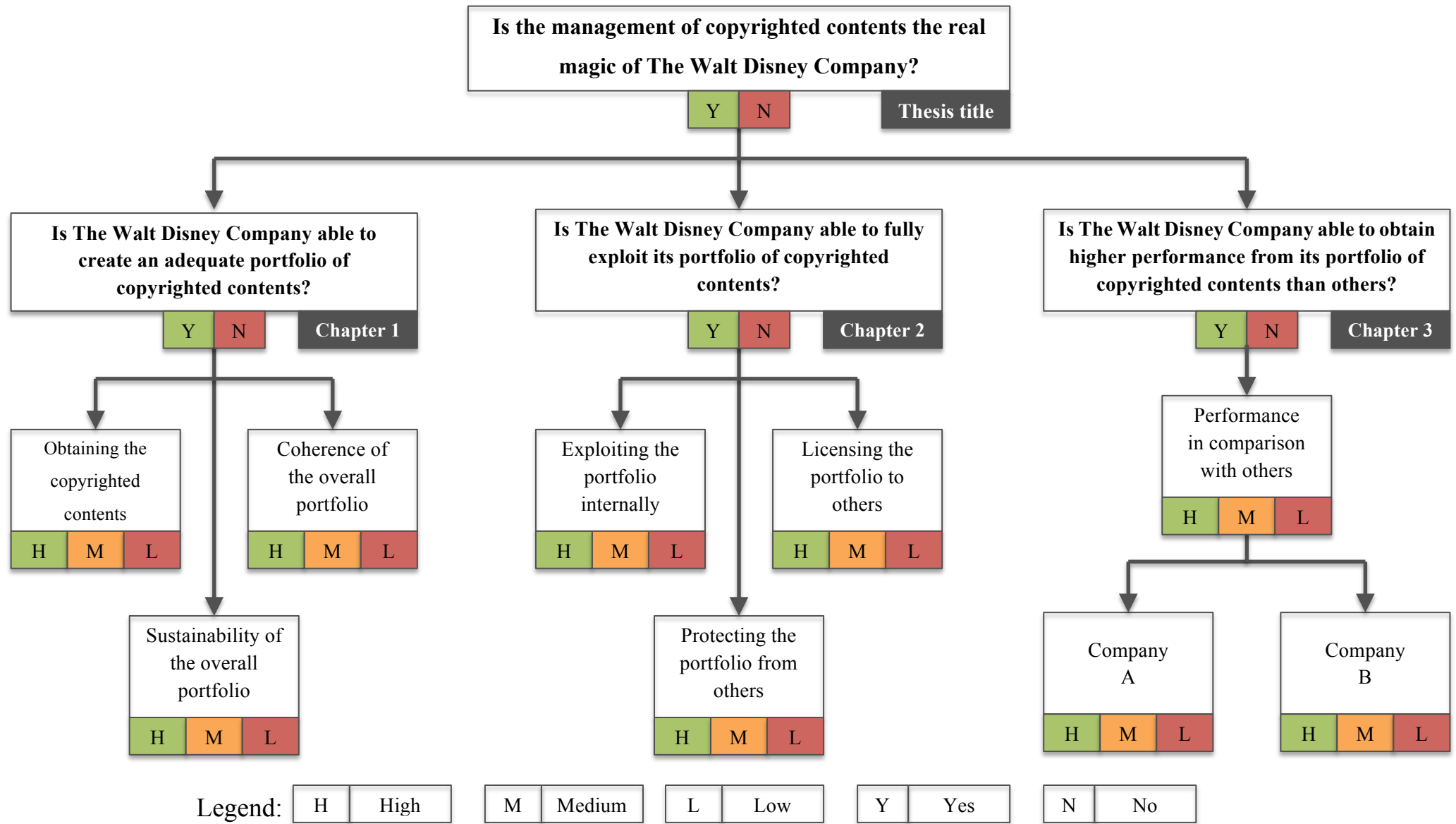


Figure 2.1 – Methodology framework overview

Chapter 1: Creating an adequate portfolio of copyrighted contents

This first chapter presents the methodology followed to answer the question: *Is The Walt Disney Company able to create an adequate portfolio of copyrighted contents?* In order to answer this question, it is necessary to evaluate both the company's ability to obtain the rights related to copyrighted contents and the adequacy of the portfolio created on the basis of these rights. In this case, the adequacy refers to the sustainability as well as the coherence of the portfolio of copyrighted contents. As a result, this first chapter contains three different sections. On the one hand, the first section focuses on the ability to create the portfolio of copyrighted contents by obtaining the related rights. On the other hand, the second and third sections focus respectively on the assessment of the sustainability and the coherence of this portfolio. In this context, The Walt Disney Company may be considered as being able to create an adequate portfolio of copyrighted contents only if all three assessments give at least medium outcomes.

Section 1: Obtaining the copyrighted contents

In order to assess Disney's ability to create a portfolio of copyrighted contents by obtaining the related rights, it is necessary to consider both the company's ability to create copyrighted contents internally and its ability to acquire these contents from external sources. In this context, The Walt Disney Company may only be considered as being able to create a portfolio of copyrighted contents if the company is either exerting reasonable results with regards to both abilities or great results in only one of them.

1. Internal creation capabilities

As it has been mentioned in the first part of this thesis, increasing the amount of copyrighted contents by means of internal creation mainly depends upon the company's ability to foster innovation and creativity in its daily business activities. Therefore, it appears adequate to evaluate the internal creation capabilities of Disney by analysing its capacity to innovate. In this case, the evaluation of a firm's capacity to innovate may include both qualitative and quantitative analyses. On the one hand, a qualitative analysis is better suited to assess the theoretical potential of a firm with regards to its capacity to innovate. On the other hand, a quantitative analysis may be used to evaluate the achievements of a firm with regards to innovation more practically. To study the case of Disney, both types of analysis are applied in the following way:

Qualitative analysis

The qualitative analysis is mainly derived from a study about the innovative capacity of firms conducted by Andy Neely and Jasper Hii. The results of their study indicated that: “[...] *different firms have different capacities to innovate and that a firm’s capacity to innovate is a function of its culture, resources, competencies and networks.*” (Neely & Hii, 1999, p. 1). More precisely, the innovative capacity of a firm depends on the extent to which these four variables are supporting innovation. Table 2.1 defines these variables and gives some examples of features supporting innovation.

Variables	Definition	Examples (innovative)
Culture	The culture is a set of rules or beliefs that influence the way the things are done in the firm	Openness, flexibility and consistent communication
Resources	Resources are a set of skills and assets that may be the source of a competitive advantage	Technology and multi-skilled workforce
Competencies	Competencies are skills and knowledge enabling the firm to exploit its innovative ideas	Idea generation capability and market knowledge
Networks	Networks are systems enabling different users to interact and exchange information	Customers, competitors and suppliers interface

Figure 2.1 – Variables affecting innovative capacity (Neely & Hii, 1999, pp. 6-7 & 32)

Therefore, the qualitative analysis with regards to the innovative capacity of Disney is done by collecting information and insights for each of these four variables and by evaluating the extent to which they are actually supporting innovation within the firm. These information and insights are collected from The Walt Disney Company website and other reports or academic sources that specify these variables for the company.

Quantitative analysis

The quantitative analysis may be done in many different ways because of the numerous different indicators that can be applied to measure a firm’s performance with regards to innovation. According to Benoît Gailly, these indicators can be divided into the following three sets or categories: inputs, processes, and outputs (Appendix 10).

In this respect, it is usually less appropriate to measure performance with regards to innovation by using indicators related to inputs. Indeed, because these indicators only assume that a higher level of investment is a proof of increased performance, they suggest that innovation is considered as an objective itself rather than a means to achieve the objectives of the firm. Contrariwise, measuring performance with regards to innovation by using indicators related to outputs is usually the most appropriate

because they are perfectly in line with the objectives of the company. In the case of Disney, however, using this type of indicators would require information, such as about revenues from new products or services, rather difficult to retrieve from public sources.

Therefore, the quantitative analysis with regards to the innovative capacity of Disney is done by using indicators related to processes. More precisely, the approach consists in retrieving and comparing the number of copyrighted contents that have been registered by The Walt Disney Company and its main competitors between 2011 and 2015. This information is collected from the online US Copyright Office database.

In addition, despite the interesting insights that this analysis may provide with regards to Disney's innovative capacity, it is worth mentioning the two main limits related to this approach. On the one hand, this method does not take into account the value of each copyrighted work and, hence, puts insignificant creative works at the same level of importance than highly creative and valuable works. On the other hand, because this method only takes into account works that have been registered, it may underestimate the innovative performance of companies that have not registered their creations.

2. External acquisition capabilities

The firm's capability to obtain copyrighted contents by means of acquisition from external sources may be assessed by analysing both its ability to identify available copyrighted contents as well as its ability to finance their purchases. However, analysing these two components as such may turn out to be quite a challenge. On the one hand, assessing the ability to identify available copyrighted contents requires information, such as the company's specific teams or internal processes, rather difficult to retrieve from public sources. On the other hand, assessing the ability to finance the acquisition of copyrighted contents requires a complete financial analysis of the firm.

A good alternative could be to analyse first the acquisitions of copyrighted contents that Disney has been able to make recently. Such analysis can provide interesting insights and benchmarking opportunities with regards to both abilities. Indeed, if this analysis reveals that Disney has been able to make acquisitions of significance, it would imply that it had both the ability to identify available copyrighted contents as well as the ability to finance their acquisitions. Moreover, if it is demonstrated that Disney recently had the ability to identify available copyrighted contents, it appears reasonable to assume that it still enjoys this ability currently. In addition, if it is

demonstrated that Disney previously had the ability to finance such acquisitions, assessing its current ability can easily be done by comparing its current financial position with the one that it had before these acquisitions. Therefore, the analysis of Disney's external acquisition capability is performed in the following way:

Analysis of past acquisitions

For the purpose of this analysis, the method consists in retrieving the main acquisitions of copyrighted contents that Disney made between 2006 and 2015 and to analyse their significance. The significance of these acquisitions is determined on the basis of metrics, such as the price paid to acquire the copyrighted contents, the number and quality of copyrighted works, and analysts' opinion. These information and insights are collected from analysts' reports and other relevant public sources.

Analysis of the current financial capacity

For the purpose of this analysis, the method consists in comparing Disney's financial position before the acquisitions previously described with the one that it has reported in its latest annual report. The comparison is performed on the basis of amounts and financial ratios describing the company's size, liquidity and solvency. The amounts and data used to compute these financial ratios are collected from Disney's annual reports. The rationale behind this approach is that a similar size, liquidity and solvency of the firm should provide roughly the same ability to finance acquisitions.

First, Disney's size is determined by taking the total assets from its balance sheet. Then, Disney's liquidity is determined by taking the current assets from its balance sheet as well as by computing its *current* ratio. Finally, Disney's solvency is determined by taking the noncurrent debts from its balance sheet as well as by computing its *debt to equity* ratio. The current ratio and debt to equity ratio are computed by applying the following formulas (Drake & Fabozzi, 2010, pp. 251 & 259):

$$\text{Current} = \frac{\text{Current assets}}{\text{Current liabilities}} \quad \text{Debt to equity} = \frac{\text{Total liabilities}}{\text{Shareholders' equity}}$$

In addition, this analysis is completed by comparing Disney's current weighted average cost of capital (WACC) to its return on assets (ROA). This comparison provides an additional insight into the firm's ability to finance acquisitions. Indeed, if the firm's ROA is higher than its WACC, it means that the firm is actually creating value for its shareholders and, hence, it has a higher ability to finance new projects (Jaquier, 2015).

Section 2: Sustainability of the overall portfolio

The concept of sustainability may refer to human, social, economic and environmental sustainability (Goodland, 2002, p. 1). There are thus four different types. However, for the purpose of this analysis, sustainability here refers to its economic type, which is the protection of capital (Goodland, 2002, p. 2). In this case, the methodology applied to assess the sustainability of Disney's portfolio of copyrighted contents includes two steps. The first step consists in identifying which of its copyrighted contents will soon fall into the public domain. The second step involves evaluating the impact that the loss of these copyrighted contents will have on Disney's revenues. In this context, Disney's portfolio may only be considered sustainable if its copyrighted contents that will soon fall into the public domain have an insignificant impact on its stream of revenues.

1. Copyrighted contents at risk

The Walt Disney Company owns thousands of copyrighted contents of many kinds. Therefore, in order to perform the identification of Disney's copyrighted contents that are at risk of falling into the public domain, it is first necessary to make some simplifying assumptions. First of all, the copyrighted contents here refer only to fictional characters and to their associated stories. Secondly, the analysis only takes into account the characters and associated stories that prove to be significant for Disney's current activities. Finally, a remaining period of protection of twenty years, which is the one granted for utility patents, is presumed to give a sustainable stream of revenues.

Considering these simplifying assumptions, the method applied with regards to this first step of the analysis includes the following three tasks. The first task is to create a list of all the fictional characters that are significant for Disney's current activities. In order to ensure their significance, this first list is taken from the one presented on the "characters" page of the *Disney Store* website. Then, the second task is to retrieve and add to this list the year of publication of each character. This search is performed by using the US Copyright Office database and, for the cases in which the records do not exist, by using other reliable online sources. Finally, the last task consists in selecting the characters that will fall into the public domain before the end of the year 2036 from this list. In this case, considering the length of copyright protection for works made under hire, which is 95 years from the day of publication, the selected characters are the ones that were published for the first time before the end of the year 1941.

2. Impact on Disney's revenues

In order to assess the impact that the loss of these selected characters will have on its revenues, a good option is to estimate the percentage of all Disney's revenue that is generated from them. However, this approach would require retrieving the total revenues that each of these characters currently generates, which is nearly impossible to estimate given the many different products and applications that they encompass.

As a result, a simplifying assumption is to consider that the percentage of revenue generated by these characters within Disney's Studio Entertainment segment applies to all of its other business segments. This assumption is based on the previously mentioned fact that the Studio Entertainment segment feeds the content of all the other business segments (Figure 1.1). However, such an assumption cannot be applied to the Media Networks neither to the Parks and Resorts segments. Indeed, while the Studio Entertainment segment does not feed the non-specialized TV channels part of the Media Network segment, it also appears unreasonable to believe that the Parks and Resorts segment is affected to the same extent as the one of the Studio Entertainment.

Considering this assumption as well as its limitations, the method applied with regards to the second step of the analysis includes the following three tasks. The first task is to retrieve the box office revenues for all movies that Disney has released since 2006. Then, the second task is to compute the percentage of revenue generated by all the movies featuring one of the selected characters. Finally, the last task consists in multiplying this percentage by a factor of 50 percent in order to find the percentage of Disney's revenue impacted by the loss of the characters. This factor of 50 percent is a rounded ratio found by summing the percentage of Disney's revenues generated in 2015 by its Studio Entertainment, Consumer Products and Interactive segments (24.85%) with one third of the ones generated by the two other segments (25.05%).

Section 3: Coherence of the overall portfolio

It has been previously determined that, because the same content is used between its different business segments, it is its copyrighted characters and stories that ensure the consistency and protection of Disney's brand positioning. Therefore, the methodology applied to assess the coherence of Disney's portfolio of contents includes two steps. The first step is to analyze the positioning of Disney's brand in order to understand

what type of content it is expected to deliver. The second step consists in determining if the copyrighted contents that it owns in its portfolio are well suited with regards to its brand positioning. In this context, Disney's portfolio may only be considered coherent, if most of its copyrighted contents actually fit with the positioning of its brand.

1. Analysis of the brand positioning

The brand positioning is decided in a way to ensure both the coherence with regards to its customers' expectations and the differentiation from its competitors (Lambin & de Moerloose, 2012, p. 422). As a result, the positioning of a brand is based on an in-depth analysis of the market, the customers and the competition, which may be summarized by four different questions (Lambin & de Moerloose, 2012, p. 422):

- (1) *A brand for what?* This refers to the brand's commitment and customers' gain.
- (2) *A brand for whom?* This refers to the customers that are targeted by the brand.
- (3) *A brand for when?* This refers to the expected situation of brand's consumption.
- (4) *A brand against whom?* This refers to the direct competitors of the brand.

Therefore, in order to analyse the positioning of Disney's brand, the method consists in answering these four questions. The answers to these questions are based on information and insights collected from Disney's website and other relevant reports.

2. Adequacy of the copyrighted contents

Assessing the adequacy of Disney's copyrighted contents requires comparing them with the contents that they are expected to deliver given the positioning of its brand. Therefore, the method applied in this second step of the analysis includes two tasks.

As it has been mentioned in the previous section, Disney owns thousands of copyrighted contents of many kinds. Because of that, the first task is to create a list of the characters and stories that are significant and, thus, representative of its business. In this respect, this list is the one based on the "characters" page from the *Disney Store* website already created in the previous section. The second task is to identify the type of content of these characters and their related stories and to compare it to the one derived from the brand positioning. In this case, the type of content is determined by taking the Motion Picture Association of America (MPAA) ratings that are assigned to the movies featuring these characters. Appendix 11 presents the MPAA film rating system by identifying all the possible ratings together with their description.

Chapter 2: Exploiting the full potential of the portfolio

This second chapter presents the methodology followed to answer the question: *Is The Walt Disney Company able to fully exploit its portfolio of copyrighted contents?* In order to answer this question, it is necessary to evaluate the company's ability to exploit its portfolio of copyrighted contents with regards to the three most common ways to exploit copyrights, which have already been presented in the first part. As a result, this second chapter contains three sections. The first section focuses on Disney's ability to exploit its portfolio of copyrighted contents to support its internal activities. The second section focuses on Disney's ability to exploit its portfolio of copyrighted contents by protecting them from potential infringers. Finally, the last section focuses on the ability to exploit its portfolio of copyrighted contents through licensing activities. In this context, The Walt Disney Company may only be considered able to fully exploit its portfolio of copyrighted contents, if the company has either achieved medium results with regards to all of these three abilities or high results in only two of them.

Section 1: Exploiting the portfolio internally

In order to assess Disney's ability to exploit its portfolio of copyrighted contents to support its internal activities, it is necessary to consider both the existence of such exploitation and its significance regarding the profitability of Disney. In addition and as it has been mentioned in the first part of this thesis, Disney operates its activities through five different business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive. As a result, the methodology presented in this section will be applied respectively to all of these business segments.

The methodology to assess Disney's ability to exploit its portfolio of copyrighted contents to support internal activities includes two steps. The first step is to identify how Disney internally exploits its portfolio of copyrighted contents for each of its business segments. The second step is to determine the extent to which this exploitation contributes to its profitability in each of these business segments. In this context, Disney may only be considered able to exploit its portfolio of copyrighted contents internally, if the company actually exploits it in order to support its internal activities and if this exploitation proves to be significant regarding the profitability of its business segments.

1. Existence of the exploitation

Given that the present analysis will be applied to each of Disney's business segments separately, the first step consists in identifying which activities are actually supported by the use of its portfolio of copyrighted contents in each of these business segments.

More practically, the method applied in the first step of this analysis consists in retrieving and describing the activities that are supported by the use of copyrighted contents. The information and insights used in this step are mainly collected from the company's annual report as well as from other relevant reports and academic sources.

2. Significance of the exploitation

From these selected internal activities, the second step consists in assessing the significance of the exploitation of copyrighted contents with regards to the profitability of Disney's business segments. In order to perform this assessment, a good option is to evaluate both the percentage of revenues generated by these activities within each business segment as well as the percentage of the revenues generated from the exploitation of these copyrighted contents in each of these activities.

However, while the former is already highly difficult to approximate due to the substantial number of activities that each of the company's business segments encompasses, the latter requires data, such as the division of the revenues generated from each activity per exploited asset, that cannot be retrieved from public sources.

The analysis about the strategic orientation of Disney, which has been performed in the first part of this thesis, has already highlighted the importance of its portfolio of copyrighted contents to support all of its business segments. As a result, it appears appropriate and also sufficient to perform a qualitative analysis to study the significance of the exploitation of Disney's copyrighted contents in each of its business segments.

Therefore, the method applied with regards to the second step of this analysis consists in discussing qualitatively the importance of exploiting Disney's portfolio of copyrighted contents to ensure the profitability of each of its business segments. The information and insights that are used in this step are mainly collected from the company's annual report as well as from other relevant reports and academic sources.

Section 2: Protecting the portfolio from others

As it has been mentioned in the first part of this thesis, a company may undertake many different types of action in order to protect its copyrighted contents. Therefore, the methodology to assess Disney's ability to protect its portfolio of copyrighted contents from others contains three different elements. The first element refers to Disney's proper establishment of preventive measures related to the protection of its copyrighted contents. The second element refers to Disney's ability to enforce its rights by taking legal actions against infringers of its copyrighted contents. The last element refers to all other exploitation of the legal environment that Disney has undertaken to protect its copyrighted contents. In this context, Disney may only be considered able to properly protect its portfolio of copyrighted contents from others, if the firm achieves at least medium results with regards to each of these three elements.

1. Establishment of preventive measures

As it has been mentioned in the first part of this thesis, the preventive measures that a company can take to protect its copyrighted contents include the registration of these contents in the U.S. Copyright Office Database as well as the use of the copyright notice for all commercial releases of these contents. However, assessing the extent to which Disney is using copyright notices for the commercial releases of its copyrighted contents is rather difficult because no consolidated data can be retrieved on this matter. Therefore, a good alternative is to analyse instead other preventive measures that the firm has previously undertaken to protect its copyrighted contents.

In this context, the method applied to assess Disney's ability to establish preventive measures in order to protect its portfolio of copyrighted contents includes the following two tasks. The first task is to retrieve the number of copyrighted contents that have been registered by Disney since the beginning of the year 2006. Indeed, while this measure has already been used to assess Disney's innovative capacity, it is also relevant to use it to evaluate the company's ability to protect its copyrighted contents by establishing proper preventive measures. The second task is to retrieve other preventive measures that Disney uses to protect its portfolio of copyrighted contents. This information is taken from Disney's *terms of use* or *antipiracy policy*.

2. Enforcement of rights

As it has been mentioned in the first part of this thesis, a company's ability to enforce the rights related to its copyrighted contents mainly depends on its ability to identify infringers of these rights as well as its willingness or propensity to take legal actions against them. Therefore, assessing Disney's ability to enforce its rights related to its copyrighted contents will be performed in the following two steps. The first step is to assess Disney's ability to identify infringers of these rights. Then, the second step is to evaluate the company's willingness or propensity to take legal actions against them.

Identification of infringers

Assessing Disney's ability to identify infringers of the rights related to its copyrighted contents quantitatively would require information, such as the total number of infringers as well as the number of infringers identified by the company, that cannot be retrieved from public sources. Consequently, an alternative could be to assess Disney's potential ability to identify infringers of its copyrights from a qualitative point of view by analysing the resources that it has previously established in this respect.

Therefore, the method applied to assess Disney's ability to identify infringers of the rights related to its copyrighted contents solely consists in retrieving information and insights about the amount and quality of the resources that it has established to perform this activity. These information and insights are mainly collected from Disney's website, analysts' opinions as well as from other relevant public sources.

Willingness to take legal actions

In order to perform this analysis, a good option would be to compute the percentage of infringement cases for which Disney initiates legal actions. However, computing this ratio would require retrieving the number of infringement cases that Disney has identified as well as the total number of cases for which it has initiated a lawsuit. Unfortunately, as it has already been mentioned that the former cannot be retrieved from public sources, the latter is not available from free online databases either. Therefore, a good alternative is to perform a comparative analysis in terms of number of cases for which legal actions has been initiated between Disney and its main competitors from a free and limited online database. In addition, this analysis is combined with qualitative insights and opinions from analysts about Disney's willingness or propensity to initiate legal actions.

In this case, the method applied to assess Disney's willingness to take legal actions against infringers of its copyrighted contents includes two tasks. The first task is to retrieve and compare the number of copyright infringement cases for which Disney and its main competitors have taken legal actions since January 2006 from the free and limited online database provided by *Justia* website. The second task is to complete this analysis by collecting qualitative insights and opinions from analysts about Disney's willingness to initiate legal actions against the infringers of its copyrighted contents.

3. Other exploitations of the legal environment

Until now, the methodology presented in this section has only considered what Disney has done to protect its portfolio of copyrighted contents by complying directly with the law. However, according to Bird and Orozco: *"Some companies move beyond viewing the law just in terms of compliance and instead use their legal environment to secure a competitive advantage."* (Bird & Orozco, 2014, p. 81). Therefore, it also appears relevant to assess Disney's ability to exploit or influence its legal environment to strengthen the protection of its portfolio of copyrighted contents.

In this context, the method applied to assess Disney's ability to exploit or influence its legal environment to strengthen the protection of its portfolio of copyrighted contents includes two tasks. The first task is to retrieve what actions Disney has undertaken to exploit or influence the law with regards to the protection of its copyrighted contents. The information about these actions is collected from analysts' reports and other public sources. The second task is to assess the significance of these actions for Disney by discussing their consequences on the protection of its portfolio of copyrighted contents.

Section 3: Licensing the portfolio to others

In order to assess Disney's ability to license its portfolio of copyrighted contents to other companies, it is necessary to consider both the existence of such licensing activity as well as its significance regarding the profitability of Disney. In addition and as it has been mentioned previously, The Walt Disney Company operates its activities through five different business segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive. As a result, the methodology that is described in this section will be applied respectively to all of these business segments.

The methodology to assess Disney's ability to license its portfolio of copyrighted contents to other companies includes two steps. The first step is to identify how Disney licenses its portfolio of copyrighted contents in each of its business segments. The second step is to determine the extent to which this licensing activity contributes to the profitability of Disney in each of these business segments. In this context, Disney may only be considered able to license its portfolio of copyrighted contents properly, if the company is actually licensing it to other companies and if this licensing activity can prove to be significant with regards to the profitability of its business segments.

1. Existence of the licensing activities

Given that the present analysis will be applied to each of Disney's business segments separately, the first step consists in identifying what licensing activities Disney has currently put in place in each of these business segments. The information and insights that are used to perform this first step are mainly collected from the company's annual report as well as from other relevant reports and academic sources.

2. Significance of the licensing activities

From these selected licensing activities, the second step consists in assessing their significance with regards to the profitability of Disney's business segments. In order to perform this assessment, the method is to evaluate both the percentage of revenue generated by these licensing activities within each business segment as well as the additional benefits that these activities provide to the overall profitability of Disney.

More practically, the method applied with regards to this second step of the analysis includes the following two tasks. The first task is to assess the percentage of revenue generated from licensing Disney's portfolio of copyrighted contents in each of the company's business segments. The second task is to analyse and discuss the additional benefits that these licensing activities provide to Disney's overall performance. The information and insights that are used to perform this second step are mainly collected from the company's annual report as well as from other relevant public sources.

Chapter 3: Obtaining higher performance from the portfolio

This last chapter presents the methodology followed to answer the question: *Is The Walt Disney Company able to obtain higher performance from its portfolio of copyrighted contents than others?* In order to answer this question, a good option is to compare the performance that Disney has obtained from specific portfolios of copyrighted contents with the performance that other companies had obtained from these same portfolios. The situation in which this type of comparative analysis can be best performed is when Disney has acquired portfolios of copyrighted contents from other firms. In this situation, the analysis consists in comparing the performance that Disney has obtained from these portfolios of copyrighted contents since the company has acquired them with the one that their previous owners had obtained before selling them. Fortunately and as it has been mentioned in the first part of this thesis, Disney has recently acquired companies, which owned significant portfolios of copyrighted contents, that may prove to be suitable regarding this comparative analysis.

Therefore, this last chapter contains two different sections. The first section focuses on selecting the two most appropriate companies and related portfolios of copyrighted contents to carry out the performance comparison. The second section focuses on performing the comparative analysis for the two selected companies and their related portfolios. In this context, The Walt Disney Company may be considered able to obtain a higher performance than others from its portfolio of copyrighted contents only if it proves to achieve high performance with regards to at least one of these two portfolios and medium performance with regards to the other compared to the performance that the previous owners had achieved before the transfer of ownership.

Section 1: Selection of the companies

The methodology to select the two most appropriate companies and their related portfolios of copyrighted contents to perform the comparative analysis includes two steps. The first step is to identify and list all the companies owning a portfolio of copyrighted contents that Disney has recently acquired. The second step is to select the two most appropriate acquisitions to perform the comparative analysis. The selection of the two companies and their portfolios of copyrighted contents is based on an assessment of their adequacy regarding the realization of this comparative analysis.

1. Identification of the companies acquired by Disney

This first step is performed by retrieving and creating a list of all the acquisitions of companies owning a portfolio of copyrighted contents that Disney has made since the beginning of the year 2000. The information that is used to perform this first step is taken from Disney's annual report and website as well as from other relevant sources.

2. Selection of the two most appropriate companies

The second step is performed by assessing the adequacy of the acquisitions identified in the first step with regards to the proper realization of the performance comparison. The adequacy assessment of each acquisition is done with respect to four different criteria:

(1) High acquisition price: The first selection criterion is that the acquisition price was high enough. The assumption here is that the more money Disney paid to acquire the company, the more likely it is that it has prioritized the exploitation of its business. In this respect, a price higher than \$1 billion is considered to meet this requirement.

(2) Publicly traded company: The second selection criterion is that the acquired company was publicly traded in the US. The assumption is that publicly traded companies in the US are required to publish results as well as to provide data that may prove to be indispensable for the proper realization of the performance comparison.

(3) Acquisition old enough: The third criterion is that Disney has taken ownership over the company for a sufficiently long period. The assumption is that Disney is not able to have an impact on the performance of a firm that it has acquired too recently. In this respect, an acquisition older than five years is considered to meet this requirement.

(4) Acquisition young enough: The last criterion is that the acquisition of the company is sufficiently recent. The assumption is that its related portfolio of contents may have considerably changed for an acquisition that was made a long time ago. In this respect, an acquisition younger than ten years is considered to meet this requirement.

Each acquisition is submitted to a rating system attributing a score with regards to each of these four criteria. In this respect, this rating system respectively attributes, for each criterion, a "+" or "-" score to an acquisition that proves to meet the associated requirement or not. Finally, the two most appropriate acquisitions are the ones that have obtained the highest number of positive scores on all criteria.

Section 2: Performance comparison

The methodology to compare the performance that Disney has obtained from the portfolios of copyrighted contents, which were owned by the two selected companies that it has acquired, with the performance that these companies had obtained from the same portfolios before being bought is rather difficult to develop. Indeed, the best option would be to isolate the revenues and other indicators of performance that Disney and these two companies have obtained specifically from the exploitation of these two portfolios. However and especially in the case of Disney, this isolation is very difficult to achieve because the performance indicators are consolidated by business segment and because each business segment encompasses other portfolios of contents. In this case, an alternative could have been to compare the value of the portfolios at the time of their respective acquisition with the one that they have under Disney today by using the valuation methodologies presented in the first part of this thesis. Once again, however, this evaluation is difficult to perform because it requires data, such as the detailed incomes and costs from these portfolios, which cannot be retrieved from public sources.

As a result and in order to obtain reasonably reliable results from this comparative analysis despite its intrinsic limitations, the methodology consists in comparing the performance of Disney with the ones of these two other companies with regards to these portfolio of contents in three different ways. The first way is to compare quantitatively the stock performance of Disney with the ones of these two companies when they were exploiting these portfolios. The second way is to compare quantitatively the performance of Disney with the ones of these two companies with regards to the activity, which is supported by the exploitation of these portfolios, and which is contributing the most to the profitability of their respective business. The third way is to analyse qualitatively the performance of Disney with regards to these portfolios of contents by examining analysts' opinions about the outcomes of these two acquisitions.

1. Stock performance comparison

In order to perform the stock performance comparison between Disney and the two companies when they were exploiting the related portfolios of contents, it is necessary to specify the data and the financial computations that are used to perform this analysis. The choice of these data and financial computations is presented and discussed below.

First of all, the data that are used to perform this analysis are the daily stock prices of Disney and of the two companies over a five-year period. These daily stock prices are collected from the *Bloomberg* database. In addition, the five-year period for which the stock prices are retrieved is determined for each company specifically. This is because the purpose of this analysis is to compare the stock performance that Disney has obtained after the acquisition of these companies and their related portfolios of contents with the ones that these companies had obtained before being acquired. Therefore, the daily stock prices of Disney are retrieved for the five-year period following the day of the acquisition of each of these two companies while the daily stock prices of these two companies are retrieved for the five-year period before the day of their acquisition.

From these daily stock prices, the stock performance is assessed for each company by computing the evolution of the stock returns on a daily basis. The stock prices can be transformed into returns by using the following formula (Van der Wijst, 2013, p. 52):

$$R_t = 100 \times \frac{P_t - P_{t-1}}{P_{t-1}} \quad \text{or} \quad R_t = 100 \times \left[\frac{P_t}{P_{t-1}} - 1 \right]$$

In this formula, P_t and P_{t-1} are the stock prices at times t and $t-1$ respectively while R_t is the return of the stock price during the period from times $t-1$ to t . Therefore, the evolution of the stock returns on a daily basis is computed for each company as follows:

$$R_x = 100 \times \left[\frac{P_x}{P_t} - 1 \right] \quad \text{with } x \in [t + 1 \text{ day}; t + 5 \text{ years}]$$

In this formula, t represents the day of the first stock price considered for each company specifically while x is any day of the five-year period following day t . In this way, it is possible to compute and represent the evolution of the stock returns for each company.

However, the method presented here still has one major issue, which is the fact that the stock performance of Disney and the two companies are compared over different periods. Hence, the comparison is very likely to be biased because of the differences with regards to interest rates or the economic conjecture. In order to palliate to this issue, the stock performance of each firm has been standardized with the performance of the S&P500 index over the same period. This standardization is achieved by computing the returns of the S&P500 index with the same formula as for the companies and by subtracting these returns to the ones of the companies for the corresponding period. The result of this subtraction is the *excess return* of each company over the S&P500

index. This final measure is supposed to be adequate to perform the comparison because it removes the performance factors related to interest rates or the economic conjecture.

2. Comparison of the main activity's performance

In order to compare the performance of Disney with the ones of these two companies regarding the activity supported by the exploitation of the portfolios of contents that contributed the most to the profitability of their respective business, it is first necessary to identify this activity for each company. This identification is achieved by retrieving the revenues of the two companies broken down by major activities from their respective annual report. The selected activity for each of the two companies is the one that represented the biggest part of their respective revenues or operating incomes.

Once the main activity is identified for each of the two companies, the objective is to compare the performance that Disney has achieved in this activity through the exploitation of the related portfolios of contents since their acquisitions. In this case, the exact methodology of the comparative analysis depends on the activity that is identified for each of the two companies, which also depends on the companies that are selected for this analysis and, therefore, cannot be detailed further in this section.

3. Outcome of the acquisitions

Assessing the performance of Disney with regards to the portfolios of contents related to the companies that it has acquired can also be achieved qualitatively by analysing whether these acquisitions have turned out to be a success or rather a failure for the firm. Indeed, one way to look at a successful merger or acquisition involving two companies is that the value of the two companies combined is greater than the sum of their individual value (McClure, n.a.). This suggests that, in case of a successful acquisition, the acquirer extracts more value from the firm that he has acquired than this firm has generated alone. Therefore, it becomes likely that, if the two acquisitions are judged successful, Disney generates more value from their portfolios of contents.

As a result, the method applied to analyse qualitatively the outcome of these two acquisitions solely consists in retrieving analysts' opinions and insights in this respect. These opinions and insights are taken from analysts' reports and other relevant sources.

Part 3: Results

To recall, the third and last part of this thesis consists in applying the methodology, which has been presented in the second part, to the case of The Walt Disney Company in order to answer the final question of interest: *Is the management of copyrighted contents the real magic of The Walt Disney Company?* Therefore, this last part contains three different chapters and follows precisely the same structure as the one in the second part. In practical terms, these three chapters apply the respective procedures to evaluate each of the three necessary capabilities that Disney shall demonstrate in order to be considered efficient in the management of its copyrighted contents.

Chapter 1: Creating an adequate portfolio of copyrighted contents

This first chapter tackles the first necessary capability that Disney shall demonstrate in order to be considered efficient in the management of its copyrighted contents by answering the question: *Is the Walt Disney Company able to create an adequate portfolio of copyrighted contents?* Therefore, this chapter contains four different sections. The first three sections apply the methods to evaluate respectively Disney's ability to create a portfolio of copyrighted contents by obtaining the related rights as well as the sustainability and the coherence of the resulting portfolio. Based on the outcomes of these three assessments, the last section is meant to discuss the final answer with regards to this chapter's question. To recall, this final answer may be positive only if all of the three assessments give at least medium outcomes.

Section 1: Obtaining the copyrighted contents

This first section applies the procedure to assess Disney's ability to create a portfolio of copyrighted contents by obtaining the related rights. Therefore, this section first applies the methods to evaluate both Disney's ability to create these copyrighted contents internally as well as its ability to acquire these contents from external sources. Finally, based on the outcomes of these two evaluations, the last part of this section concludes on Disney's ability to create a portfolio of copyrighted contents by obtaining the related rights. As it is shown in Figure 2.1, the answer is formulated by attributing to Disney a low, medium or high rating with regards to this ability.

1. Internal creation capabilities

As it has been mentioned in the second part of this thesis, the assessment of Disney's capability to create copyrighted contents internally is performed through the evaluation of its capacity to innovate. In addition, the evaluation of Disney's capacity to innovate includes both a qualitative and a quantitative analysis. In this respect, the qualitative analysis assesses Disney's theoretical potential with regards to its capacity to innovate, while the quantitative one assesses practically its achievements in terms of innovation.

Qualitative analysis

Following the methodology that has been defined in the second part of this thesis, this analysis assesses Disney's capacity to innovate by collecting information and insights about its culture, resources, competencies and networks. The purpose is to evaluate the extent to which these four variables are actually supporting innovation within Disney.

Culture: Innovation and creativity are, without any doubts, a significant part of Disney's organizational culture. Indeed, this statement is first illustrated by the vision of its current CEO, Bob Iger: "*Generating the best creative content possible; fostering innovation and utilizing the latest technology; and expanding into new markets around the world.*" (The Walt Disney Company, n.a.d). In addition, innovation comes in first position of the values that the company uses to define its culture: *Innovation, quality, community, storytelling, optimism and decency* (The Walt Disney Company, n.a.b).

Resources: Disney appears to enjoy a fair amount of resources to support its innovative projects. Among these resources, two of them are worth mentioning here. First, Disney has defined efficient tools and processes to fuel and manage innovation in its activities. For instance, *Disney's creative strategy* (Appendix 12) has become an important reference in terms of processes leading to creative ideas and to their realization (Elmansy, 2015). The second important resource that Disney possesses lies in the skills of its workforce. Indeed, Disney is able to attract top employees because it is one of the most wanted employers in the US (Zillman, 2016). In addition, Disney is also strong in training its workforce thanks to its *Disney University* (Freifeld, 2013).

Competencies: Disney appears to have competencies that are allowing it to manage innovation efficiently. Among all of these competencies, the one that stands out most is its extensive knowledge of the entertainment industry. In this respect, The Walt Disney Company not only has a presence of nearly a century in the entertainment

industry, but it also has highly diversified businesses, which have allowed the company to gather experience in every corner of this industry.

Networks: Disney has been able to build strong networks, particularly those that relate to its customers. Indeed, because Disney highly values the customer experience, the firm has made sure to put in place the right technology to enhance that experience. This has also been materialized by the famous *My Disney Experience*, a social platform enabling customers to organize their theme park experience. This platform has not only improved the theme park experience for their customers, it has also allowed Disney to collect a lot of data from them to understand their needs much better (Adamson, 2014).

In light of this analysis, Disney appears to perform well in all four variables supporting innovation, which suggests a strong potential with regards to its capacity to innovate.

Quantitative analysis

Following the methodology that has been defined in the second part, this analysis assesses Disney's capacity to innovate by retrieving and comparing the number of copyrighted contents that have been registered by The Walt Disney Company and by its main competitors between 2011 and 2015. This information has been collected from the online US Copyright Office Database (United States Copyright Office, n.a.).

Table 3.1 summarizes the search results for each of the six companies considered:

Number of copyrights registered in the US by The Walt Disney Company and its main competitors						
Company	The Walt Disney Company	CBS Corporation	Viacom Inc	Twenty-First Century Fox Inc	Time Warner Inc	Comcast Corporation
Number of registered works	> 10,000	> 10,000	7342	6532	6245	345

Table 3.1 – Copyrights registered in the US by Disney and its main competitors

These results have been obtained by summing the copyrights registered by these parent companies as well as their main subsidiaries as claimant. In addition, the database is only allowed to display up to ten thousands entries. Therefore, the result is recorded “> 10,000” for the cases in which the search leads to more than ten thousands entries.

From the numbers presented in this table, it appears that The Walt Disney Company and CBS Corporation have registered the highest number of copyrighted works. Therefore, these results support that Disney is effective with regards to innovation.

2. External acquisition capabilities

As it has been mentioned in the second part of this thesis, the assessment of Disney's capability to acquire copyrighted contents from external sources is performed through the evaluation of both its ability to identify available copyrighted contents as well as its ability to finance their purchases. In addition, these evaluations are performed in two steps. The first step consists in analysing the acquisitions of copyrighted contents that Disney has been able to make recently, while the second step consists in comparing its current financial position with the one it had before these acquisitions.

Analysis of past acquisitions

Following the methodology that has been defined in the second part, this analysis retrieves Disney's main acquisitions of copyrighted contents between 2006 and 2015 and assesses their significance. The significance is determined on these aspects: acquisition price, number and quality of copyrighted works and analysts' opinions.

From the history of The Walt Disney Company presented in the first part of this thesis, the company appears to have made three significant acquisitions since the year 2006:

Pixar Animation Studios: In January 2006, Disney acquired Pixar Animation Studios for a price approaching \$7.4 billion (Holson, 2006). This acquisition has given to Disney the ownership over highly valuable stories and their related characters: *Toy Story*, *Finding Nemo*, *Monsters*, and *The Incredibles* (La Monica, 2006).

Marvel Entertainment: In August 2009, Disney acquired Marvel Entertainment for a price approaching \$4 billion (Smith & Schuker, 2009). This acquisition has given to Disney the ownership over around 5,000 characters, including some of the world's most famous superheroes: *Spider-Man*, *Iron Man*, or *X-Men* (Barnes & Cieply, 2009).

Lucasfilm: In October 2012, Disney acquired Lucasfilm Ltd for a price approaching \$4 billion (Leonard, 2013). This acquisition has given to Disney the ownership over more than 17,000 characters, all of them belonging to the great universe of *Star Wars*, together with one of the most famous and appreciated sagas of all time (Leonard, 2013).

According to most analysts, each of these three acquisitions can be considered as significant in terms of price, number and quality of the copyrighted works related to them. Therefore, these acquisitions suggest that Disney had both the ability to identify available copyrighted contents of high value as well as the ability to finance their

acquisitions. The last of these acquisitions having taken place only four years ago, it is reasonable to assume that Disney is still able to identify potential acquisitions of significance. The current ability to finance them, however, ought still to be assessed.

Analysis of the current financial capacity

The previous analysis has demonstrated that Disney had the capacity to finance the three acquisitions. As a result, assessing Disney's current financial capacity is done by comparing its current financial position with the one that it had before these acquisitions. In addition, because the acquisition of Pixar Animation Studios was the first and the most expensive of the three, Disney's financial position in 2005, right before this acquisition, is used as the benchmark to assess its current financial capacity.

Following the methodology that has been defined in the second part of this thesis, the comparison is performed on the basis of amounts and financial ratios describing the company's size, liquidity and solvency. The summary of the results, which are based on the data retrieved from the balance sheet in Appendix 4, is presented in the Table 3.2.

Disney's financial capacity comparison between 2005 and 2015 (in millions USD except ratio amounts and percentage)					
Year / % Change	Total Assets	Current Assets	Current Ratio	Noncurrent debts	Debt to Equity Ratio
2005	\$ 53.158	\$ 8.845	0,96	\$ 16.532	0,94
2015	\$ 88.182	\$ 16.758	1,03	\$ 23.193	0,81
% Change	65,89%	89,46%	6,34%	40,29%	-13,20%

Table 3.2 – Disney's financial capacity comparison between 2005 and 2015

Disney's size, which can be approximated by the size of its balance sheet, has increased significantly by 65.89%. In addition, its liquidity appears higher as it is shown by an increase of 89.46% in current assets and a current ratio 6.34% higher. It means that Disney not only has more liquid assets, but these liquid assets can cover a larger part, in relative value, of its current liabilities. Finally, Disney's solvency appears also higher than it was in the year 2005. Indeed, while the noncurrent debts have increased by 40.29%, this increase is still smaller than the one of the company's size. In addition, its debt to equity ratio has decreased by 13.20%, meaning that Disney is now proportionally less financed by debts than by its shareholders' equity.

Moreover, Disney's current ROA (10,32%) is still higher than its WACC (8,59%), which positively influences its capacity to finance new projects (Bloomberg, n.a.).

Overall, Disney's current financial capacity seems better than it was in the year 2005.

3. Results of section 1

The analysis performed in this section has demonstrated that a *high rating* can be attributed to The Walt Disney Company with regards to its ability to create a portfolio of copyrighted contents by obtaining the related rights. This rating is explained by the fact that the company has proven both a strong ability to create copyrighted contents internally as well as the ability to acquire these contents from external sources.

Section 2: Sustainability of the overall portfolio

This second section applies the procedure to assess the economic sustainability of Disney's portfolio of copyrighted contents. Therefore, this section first applies the methods to evaluate which of its copyrighted contents will soon fall into the public domain and then the impact that the loss of these copyrighted contents will have on Disney's revenues. Finally, based on the outcomes of these two evaluations, the last part of this section concludes on the economic sustainability of Disney's portfolio of copyrighted contents. As it is shown in Figure 2.1, the answer is formulated by attributing to Disney's portfolio a low, medium or high rating in terms of sustainability.

1. Copyrighted contents at risk

Following the methodology that has been defined in the second part of this thesis, this analysis includes three different tasks. The first two tasks consist in retrieving the list of all the fictional characters that are significant for Disney's current activities and to identify their year of first publication. This resulting list is presented in Appendix 13.

The last task is to select the characters that will fall into the public domain before December 2036. Table 3.3 presents the results (United States Copyright Office, n.a.).

Disney's major characters that will fall into the public domain before 2036			
Characters' families	Main Characters	Year of publication	Copyright expiration
Mickey Mouse & his friends	Mickey	1928	2023
	Minnie	1928	2023
	Donald Duck	1934	2029
	Daisy	1940	2035
	Pluto	1930	2025
	Goofy	1932	2027
Disney Princesses	Snow White	1937	2032
Marvel	Captain America	1941	2036

Table 3.3 – Disney's major characters that will fall into the public domain before 2036

2. *Impact on Disney's revenues*

In order to evaluate the impact the loss of these selected characters will potentially have on Disney's revenues, the methodology that has been followed includes three tasks. The first task is to retrieve the box office revenues for all movies that Disney has released since January 2006. The resulting list is presented in Appendix 14. The second task is to retrieve the movies featuring one of the selected characters out of the list and to compute the percentage of all box office revenues generated by these movies between 2006 and 2016. Table 3.4 presents the results of this task (Box Office Mojo, n.a.).

Percentage of Disney's box office revenues generated by movies featuring the selected characters				
Selected movie title	Revenues per selected movie	Total revenues for all selected movies	Total revenues for all movies	Percentage from selected movies
Avengers: Age of Ultron	\$ 459.005.868	\$ 1.122.674.693	\$ 16.549.671.933	6,78%
Captain America: Civil War	\$ 403.902.253			
Captain America: The Winter Soldier	\$ 259.766.572			

Table 3.4 – Disney's box office revenues from movies featuring the selected characters

Finally, the last task is to multiply this percentage by a factor of 50% in order to find out the final portion of all Disney's revenues impacted by the loss of these characters. Therefore, it is finally estimated that around 3.39% of all Disney's revenues will be impacted by the loss of its copyrighted characters and related stories by the end of 2036.

This amount appears relatively insignificant considering that this potential loss would arise only twenty years from now. However, it is worth reminding that this result should be interpreted carefully because the methodology that has been followed is based on significant assumptions. For instance, it would be foolish to believe that the loss of the Mickey Mouse character and his friends will not have any impact on its revenues.

Despite its limitations, the present analysis still provides interesting insights about the sustainability of Disney's portfolio of copyrighted contents. First, it has highlighted that the company has been able to renew its portfolio through acquisitions such as the one of Pixar or Lucasfilm. Secondly, the analysis has also pointed out that Disney may still exploit and obtain important revenues from characters and stories that are already in the public domain. This is the case, for instance, of most of its princesses such as *Belle* or *Cinderella*. Finally, looking at the characters that Disney uses today in its movies, it appears that the great majority of them will still remain under copyright protection for quite a while, suggesting that its portfolio is undeniably sustainable.

3. Results of section 2

The analysis performed in this section has demonstrated that Disney's portfolio of copyrighted contents can be attributed a *high rating* in terms of economic sustainability. This rating is explained by the fact that most of Disney's characters and related stories of great value will remain protected by copyrights for the next twenty years at least.

Section 3: Coherence of the overall portfolio

This third section applies the procedure to assess the coherence of Disney's portfolio of copyrighted contents. Therefore, this section first applies the methods to evaluate the positioning of Disney's brand and then the adequacy of its copyrighted contents with regards to this positioning. Finally, based on the outcomes of these two evaluations, the last part of this section concludes on the coherence of Disney's portfolio of copyrighted contents. As it is shown in Figure 2.1, the answer is formulated by attributing to Disney's portfolio a low, medium or high rating in terms of coherence.

1. Analysis of the brand positioning

Following the methodology that has been defined in the second part of this thesis, Disney's brand positioning is determined by answering these four different questions:

(1) *A brand for what?* The purpose of Disney is summarized in its mission statement: *"The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands [...] we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world."* (The Walt Disney Company, n.a.a).

(2) *A brand for whom?* Disney's main target customers are not only children but rather the whole family. Walt illustrated this statement by saying: *"Your dead if you aim only for kids. Adults are only kids grown up, anyway."* (The Walt Disney Company, 2011).

(3) *A brand for when?* Disney covers a large array of products and services that may be consumed in different situations. Overall, Disney is an entertainment brand whose consumption is mostly expected to happen during leisure times or holidays.

(4) *A brand against whom?* Disney's competitors are those competing with the firm in the industry of entertainment. Table 1.1 identifies all of Disney's major competitors.

Given the positioning of Disney's brand, the firm is expected to deliver entertainment contents mostly directed towards general audiences and contents that are viewed by children under parental guidance. The Motion Picture Association of America's film rating system classifies these contents under the "G" and "PG" ratings (Appendix 11).

2. *Adequacy of the copyrighted contents*

Following the methodology that has been defined in the first part, the adequacy of Disney's copyrighted contents is determined by comparing them with contents that it is expected to deliver given the positioning of its brand, which are "P" or "PG" rated contents. Appendix 15 presents Disney's major characters with their MPAA rating.

Table 3.5 summarizes the number of Disney's major characters per MPAA rating.

Number of Disney's major characters per MPAA rating				
	G rating	PG rating	PG-13 rating	Total
Number of characters	42	29	12	83
Percentage in the portfolio	50,60%	34,94%	14,46%	100,00%

Table 3.5 – Number of Disney's major characters per MPAA rating

From the results presented in this table, it appears that around 85% of all Disney's major characters feature in movies that fit with the positioning of the Disney brand. Although this analysis remains an approximation, it strongly suggests that Disney's portfolio of copyrighted contents is adequate with regards to its brand positioning.

3. *Results of section 3*

The analysis performed in this section has demonstrated that a *high rating* can be attributed to Disney's portfolio of copyrighted contents in terms of coherence. This rating is explained by the fact that most of Disney's major characters are adequate with regards to the contents that it is expected to deliver from the positioning of its brand.

Section 4: Results of chapter 1

The analyses performed in this chapter have demonstrated that Disney is actually able to create an adequate portfolio of copyrighted contents. Indeed, the company has been attributed a *high rating* regarding its ability to create a portfolio of copyrighted contents by obtaining the related rights. In addition, the resulting portfolio has been attributed a *high rating* in terms of sustainability as well as a *high rating* in terms of coherence.

Chapter 2: Exploiting the full potential of the portfolio

This chapter tackles the second necessary capability that Disney shall demonstrate in order to be considered efficient regarding its management of copyrighted contents by answering the question: *Is The Walt Disney Company able to fully exploit its portfolio of copyrighted contents?* Therefore, this chapter contains four different sections. The first three sections apply the methods to evaluate Disney respectively about its ability to exploit its portfolio of copyrighted contents internally, its ability to protect the portfolio from infringement by others, and its ability to license the portfolio to others. Based on the outcomes of these three evaluations, the last section is meant to discuss the final answer with regards to this chapter's question. To recall, this final answer may only be positive, if the company either achieves medium results with regards to all of these three abilities or high results in only two of them.

Section 1: Exploiting the portfolio internally

This first section applies the procedure to assess Disney's ability to exploit its portfolio of copyrighted contents to support internal activities. To recall, this assessment is performed by identifying which activities are supported by the exploitation of its portfolio of copyrighted contents and by assessing the extent to which this exploitation contributes to the profitability of Disney. Finally, based on the results of these analyses, the last part of this section concludes on Disney's ability to exploit its portfolio of copyrighted contents internally. As it is shown in Figure 2.1, the answer is expressed by attributing to Disney a low, medium or high rating with regards to this ability.

1. Existence and significance of the exploitation

In order to ease the structure of the present analyses, the existence and significance of the activities supported by the exploitation of Disney's portfolio of copyrighted contents are discussed simultaneously and for each business segment separately. Following the methodology that has been defined in the second part, these analyses are performed by describing the activities that are supported by the use of copyrighted contents and by discussing qualitatively their significance with regards to Disney's profitability. The information and insights used in these analyses are mainly collected from Disney's annual report as well as from other relevant reports or academic sources. The results of these analyses are presented hereafter for each business segment:

Media Networks

The activities by which Disney generates most of its revenues in its Media Networks segment have been described in the first part. From the analysis of these activities, it seems that the activities supported by the exploitation of Disney's copyrighted contents mainly come from its *Disney Channels*. In 2015, the revenues generated by the Cable Networks related activities represented around 71% of all revenues in this business segment (The Walt Disney Company, 2016, p. 33). In addition, Disney Channels represented around 47.21% of all subscribers from Disney's Cable Networks, which suggests that these channels generated a significant part of these activities (Appendix 17). Hence, the revenues generated from Disney Channels seem to be significant for the profitability of this business segment. Because Disney Channels' activities are solely meant to deliver contents, they can only be performed if these contents exist and are owned by the firm. Therefore, it is safe to say that the exploitation of Disney's copyrighted contents fairly contributes to the profitability of this business segment.

Parks and Resorts

The activities by which Disney generates most of its revenues in its Parks and Resorts segment have been described in the first part. From the analysis of these activities, it appears that no activities of significance are supported directly by the exploitation of Disney's portfolio of copyrighted contents. Indeed, the great majority of the revenues for this business segment come from admission fees to theme parks or charges for room nights at hotels, which may perfectly be performed without exploiting the firm's copyrighted contents. In the case of this business segment, it is possible to approximate the value of these copyrighted contents by retrieving the royalties paid by Disney theme parks that are not directly managed by Disney. In this respect, Euro Disney pays close to 10% of its annual revenues to exploit the rights related to Disney's contents (Vinocur & Sage, 2015). This indicates that the exploitation of copyrighted contents represents around 10% of the value generated by Disney's Parks and Resorts segment. This amount does not seem sufficient to safely state that the exploitation of Disney's copyrighted contents is absolutely necessary to maintain a profitable activity in this segment.

Studio Entertainment

The activities by which The Walt Disney Company generates most of its revenues in its Studio Entertainment segment have been described in the first part of this thesis. From the analysis of these activities, it appears that the great majority of them are

supported by the use of Disney's portfolio of copyrighted contents. Indeed, almost all activities related to the distribution of films and recorded music are supported by the exploitation of the company's copyrighted contents. In addition, the revenues generated from these activities alone are crucial for the profitability of this business segment. This is demonstrated by the fact that *Theatrical Distribution* and *Home Entertainment* activities, both highly supported by the use of copyrighted contents, represented 55.93% of all revenues for this business segment in 2015 (The Walt Disney Company, 2016, p. 35). Finally, because the activities, such as the ones presented in this segment that are solely meant to deliver copyrighted contents, can only be performed if these contents exist and are owned by the firm, it is safe to say that the exploitation of Disney's copyrighted contents is crucial for the profitability of this business segment.

Consumer Products

The activities by which The Walt Disney Company generates most of its revenues in its Consumer Products segment have been described in the first part. From the analysis of these activities, it appears that the majority of them are licensing related activities, which are not considered here because they do not represent internal activities. However, it appears that a large proportion of the remaining activities are supported by the use of Disney's portfolio of copyrighted contents. Indeed, almost all activities related to publishing and retail stores are supported by the exploitation of the firm's copyrighted contents. In addition, the revenues generated from these activities alone are significant for the profitability of this business segment. This is demonstrated by the fact that all *retail stores* related activities, highly supported by the use of copyrighted contents, represented 35.94% of all revenues for this business segment in 2015 (The Walt Disney Company, 2016, p. 36). Finally, because such activities are solely meant to deliver copyrighted contents, they can only be performed if these contents exist and are owned by the firm. Therefore, it is safe to say that the exploitation of Disney's copyrighted contents fairly contributes to the profitability of this business segment.

Interactive

The activities by which The Walt Disney Company generates most of its revenues in its Interactive segment have been described in the first part of this thesis. From the analysis of these activities, it appears that the great majority of them are supported by the use of Disney's portfolio of copyrighted contents. Indeed, almost all activities related to games are supported by the exploitation of the firm's copyrighted contents. In

addition, the revenues generated from these activities alone are crucial for the profitability of this business segment. This is demonstrated by the fact that all *Games* related activities, highly supported by the use of copyrighted contents, represented 82.45% of all revenues for this business segment in 2015 (The Walt Disney Company, 2016, p. 37). Finally, because the activities, such as the ones presented in this segment that are solely meant to deliver copyrighted contents, can only be performed if these contents exist and are owned by the firm, it is safe to say that the exploitation of Disney's copyrighted contents is crucial for the profitability of this business segment.

2. Results of section 1

The analysis performed in this section has demonstrated that a *high rating* can be attributed to Disney with regards to its ability to exploit its portfolio of copyrighted contents to support internal activities. This rating is explained by the company's extensive exploitation of its copyrighted contents in all its business segments, which has also proven to be significant in terms of the profitability of four of them.

Section 2: Protecting the portfolio from others

This second section applies the procedure to assess Disney's ability to protect its portfolio of copyrighted contents from others. To recall, this assessment contains three different elements: the ability to establish proper preventive measures to protect the copyrighted contents, the ability to enforce the rights by taking legal actions against infringers, and other exploitations of the legal environment meant to improve the protection of the portfolio of copyrighted contents. Finally, based on the outcomes of these analyses, the last part of this section concludes on Disney's ability to protect its portfolio of copyrighted contents. As it is shown in Figure 2.1, the answer is formulated by attributing to Disney a low, medium or high rating with regards to this ability.

1. Establishment of preventive measures

Following the methodology that has been defined in the second part of this thesis, Disney's ability to establish preventive measures to protect its portfolio of copyrighted contents is first assessed by retrieving the number of copyrighted works that the company has registered in the US Copyright Office database since January 2006. As a reminder, this result is presented in Table 3.1 of the previous chapter.

Given the numbers presented in this table, The Walt Disney Company has registered more than ten thousands works over the last ten years. This number not only appears to be significant compared to the ones achieved by most of its competitors, but it certainly indicates that Disney registers its rights related to its copyrighted contents extensively. Therefore, this first result supports that Disney has the ability to establish proper preventive measures in order to protect its portfolio of copyrighted contents.

In addition, Disney's creation of its *terms of use* as well as its *antipiracy policy* are equally supporting its ability to establish preventive measures to protect its portfolio of copyrighted contents. On the one hand, Disney's *terms of use* provide extensive information about legal uses of the company's services and, therefore, ensure that the rights and obligations related to these services are well understood by the customers (The Walt Disney Company, n.a.e). On the other hand, Disney's antipiracy policy, which can easily be retrieved on the Internet, specifically states that Disney takes the enforcement of the intellectual property rights that it owns very seriously (The Walt Disney Company, n.a.c). This is also a preventive measure to protect its copyrights because it lowers the incentive for potential infringers to actually infringe them.

2. Enforcement of rights

The assessment of Disney's ability to enforce the rights related to its copyrighted contents is performed sequentially through the evaluation of its ability to identify infringers of these rights as well as its willingness to take legal actions against them.

Identification of infringers

Following the methodology that has been defined in the second part of this thesis, this first evaluation consists in retrieving information and insights about the amount and quality of the resources that Disney has established in order to identify infringers of its copyrighted contents. The results of this research are presented and discussed below.

The research on the resources deployed by Disney's legal department with regards to the identification of copyright infringement cases has turned out to be inconclusive due to the lack of information available from public sources. However, the research has pointed out an interesting feature in Disney's copyright infringement identification process. This feature relates to the fact that the company appears to rely quite strongly on its customers to identify cases of copyright infringement. Indeed, this statement is first illustrated by Disney's *antipiracy policy*, which explicitly encourages anybody to

report cases of copyright infringement related to Disney's properties (The Walt Disney Company, n.a.c). In addition, a more concrete example of this feature lies in the Chinese marketing campaign, called *Disney Magical Journey*, that the company had launched in 2006. This campaign not only boosted the sales of Disney's consumer products or diminished counterfeiting, but it also allowed the firm to identify retailers selling pirated products through direct reports from their own customers (Fowler, 2006).

Willingness to take legal actions

This second evaluation first consists in retrieving and comparing the number copyright infringement cases for which Disney and its main competitors have taken legal actions since January 2006. The data used in this analysis are taken from the database provided by *Justia* website (Justia, n.a.). The result of this analysis is presented in Table 3.6.

Number of copyright related lawsuits involving Disney and its main competitors since January 2006						
Companies	Time Warner Inc	The Walt Disney Company	Twenty-First Century Fox Inc	Viacom	CBS Corporation	Comcast Corporation
Total number of lawsuits	1924	257	162	158	80	54
As plaintiff	-	186	96	68	23	13
As defendant	-	71	66	90	57	41
Percentage of cases as plaintiff	-	72,37%	59,26%	43,04%	28,75%	24,07%

Table 3.6 – Copyright related lawsuits involving Disney and its competitors since 2006

These results have been obtained by summing the number of lawsuits registered for these parent firms as well as their main subsidiaries and by identifying the cases in which these firms were defendant or plaintiff. In addition, the identification of the number of cases in which Time Warner Inc. was plaintiff or defendant could not be fully achieved because too many cases would have had to be scrutinized in this respect.

From these results, Disney appears to have quite a high willingness to take legal actions against infringers of its rights related to its copyrighted contents. Indeed, the company is not only the second most involved in copyright infringement related lawsuits, but it has also a much higher ratio of cases in which it is the plaintiff. This suggests that Disney has a higher propensity and, therefore, a higher willingness to take legal actions against infringers of its copyrights than most of its competitors.

In addition, the outcome of this quantitative analysis is coherent with most analysts' opinions stating that Disney has been considered, for quite a long time, as: "*one of the fiercest and most powerful defenders of strict intellectual property control.*" (Leonard, 2014). Nevertheless, it remains important to mention that, despite Disney's famous

propensity to sue infringers of its rights, the firm appears to have recently changed its strategy of enforcing its rights in all cases of infringement. This is illustrated by the case involving the song called *Let it go*, from its motion picture *Frozen*, for which Disney has decided to adopt a permissive attitude towards infringers because it realized that they were actually increasing the success of the song as well as the one of the movie (Leonard, 2014). However, the case of *Let it go* does not provide sufficient evidence that Disney is actually becoming softer regarding the enforcement of its copyrights. Indeed, the case of this song is one of the very few cases in which Disney decided to adopt a permissive attitude and, hence, still represents rather the exception than the rule.

3. Other exploitations of the legal environment

Disney's ability to exploit or influence its legal environment to strengthen the protection of its portfolio of copyrighted contents is assessed by retrieving the actions that the company has taken in this respect and by discussing the significance they have had on the protection of the portfolio. Preliminary researches on this subject have indicated at least two significant exploitations or influences of the legal environment that Disney has performed to enhance the protection of its portfolio of copyrighted contents. Each of these two exploitations or influences is presented and discussed hereafter.

The Sonny Bono Copyright Term Extension Act (CTEA) of 1998

The first action of significance that Disney has undertaken to strengthen the protection of its portfolio of copyrighted contents is related to the CTEA of 1998. As it has already been mentioned in the first part, the sole purpose of the CTEA was to extend the length of protection for copyrighted works by granting an additional twenty years to the protection that had been in application under the Copyright Act of 1976.

Disney's involvement in the CTEA was that the company had undertaken aggressive lobbying in order to support its completion. As it is shown in Appendix 16, Disney has been recognized as a rather strong lobbyist in the US by transferring more than \$72 million to the US government, since the year 1998, in order to influence copyright law (Crockett, 2016). Disney's successful lobbying, resulting in the completion of the CTEA, has been a significant achievement for Disney. Indeed, while it has saved in extremis some of the company's most successful characters, such as "*Winnie the Pooh*" or "*Mickey Mouse*", from entering into the public domain, it has also extended the copyright protection of its entire portfolio of copyrighted contents by twenty years.

Use of trademark protection

The second action of significance that Disney has achieved to strengthen the protection of its portfolio of copyrighted contents is related to the use of trademark protection for several of its characters, names and images. To recall, *“a trademark is a word, phrase, symbol and/or design that identifies and distinguishes the source of the goods of one party from those of others.”* (United States Patent and Trademark Office, 2016). Hence, while trademarks cannot properly apply to fictional stories, they may very well apply to fictional characters. Indeed, trademarks become applicable to fictional characters when these fictional characters have acquired what is called a “secondary meaning”. This secondary meaning is acknowledged when a customer who sees these characters is able to identify systematically and unmistakably their sources (Hoffman, 2003).

Over the years, Disney has proven to become quite a user of these trademarks in order to provide some additional protections to its portfolio of copyrighted contents or, more specifically, to its fictional characters. Indeed, according to Bird and Orozco: *“Faced with the eventual expiration of its media copyrights, Disney executives transferred the value of that intellectual property into thousands of newly registered trademarks for various characters, names and images.”* (Bird & Orozco, 2014, p. 82). Disney’s use of trademarks has significant consequences on the protection of its fictional characters. Indeed, because trademarks provide protection for an unlimited period of time, some of Disney’s most valuable characters, such as *“Mickey Mouse”*, will still remain solely in its hands even after the expiration of their associated copyrights. However, it is still important to mention that this trademark protection only applies to characters that have effectively developed the previously explained secondary meaning. This substantially reduces the number of characters that are effectively eligible for the protection provided by the trademark law (Carlisle, 2014).

4. Results of section 2

The analysis performed in this section has demonstrated that a *high rating* can be attributed to The Walt Disney Company with regards to its ability to protect its portfolio of copyrighted contents from others. This rating is explained by the company’s extensive exploitation of preventive measures and of its legal environment in order to increase the protection of its portfolio of copyrighted contents as well as by a high ability to enforce its rights related to these copyrighted contents.

Section 3: Licensing the portfolio to others

This last section aims at assessing Disney's ability to license its portfolio of copyrighted contents to others. To recall, this assessment is performed by first identifying what licensing activities Disney has put in place in each of its business segments as well as by assessing the extent to which these licensing activities contribute to its overall profitability. Finally, based on the outcomes of these analyses, the last part of this section concludes on Disney's ability to license its portfolio of copyrighted contents to others. As it is shown in Figure 2.1, the answer is formulated by attributing to Disney a low, medium or high rating with regards to this ability.

1. Existence and significance of the licensing activities

In order to ease the structure of the present analysis, the existence and significance of these licensing activities are discussed simultaneously and for each business segment separately. In addition, the analyses performed in the first section of this chapter have revealed that the great majority of Disney's licensing activities related to its copyrighted contents are performed in its Consumer Products segment. Hence, the present analysis focuses solely on this segment and considers the others as insignificant in this respect.

Following the methodology that has been defined in the second part, the analysis is performed by describing these licensing activities and by discussing their significance with regards to Disney's profitability. The significance is discussed quantitatively by assessing the percentage of revenues generated from licensing Disney's portfolio of copyrighted contents in the company's Consumer Products segment and qualitatively by analysing the additional benefits that these licensing activities may provide to its other business segments. The information and insights used for this analysis have been mainly collected from Disney's annual report and other relevant public sources. The results of this analysis are presented hereafter for the Consumer Products segment.

The activities that generate most of The Walt Disney Company's revenues within the Consumer Products segment have been described in the first part of this thesis. From the analysis of these activities, it appears that the majority of them are licensing related activities. Indeed, the revenues generated from Disney's *Licensing and Publishing* activities accounted for around 64% of this entire business segment in 2015 (The Walt Disney Company, 2016, p. 36). In addition, it appears that the great majority of the

revenues generated from these activities solely come from Disney's merchandise licensing business because a 13% increase in revenues for the latter has led to a 14% increase for the entire *Licensing and Publishing* activities (The Walt Disney Company, 2016, p. 36). Finally, because such licensing activities are solely delivering copyrighted contents, they can only be performed if these contents exist and are owned by the firm. Therefore, it is safe to say that Disney's licensing activities related to its copyrighted contents fairly contribute to the profitability of its Consumer Products segment.

However, while Disney's licensing of its copyrighted contents proves to be significant for its Consumer Products segment, it does not prove to be significant for the profitability of its entire business. Indeed, this is because these licensing activities are mostly contributing to the profitability of one business segment. Furthermore, this segment represented only 8.58% of Disney's entire business in 2015 (Appendix 2).

Finally, while the licensing of Disney's portfolio of copyrighted contents still provides an additional stream of revenues for the entire firm, it also helps to strengthen its differentiated brand (as it is shown in Figure 1.1) and furnishes considerable marketing advantages from exposing these contents in different products and in different markets.

2. Results of section 3

The analysis performed in this section has demonstrated that a *medium rating* can be attributed to Disney with regards to its ability to license its portfolio of copyrighted contents to others. This rating is explained by the fact that, while Disney's licensing of copyrighted contents does not prove to be significant with regards to the profitability of Disney, it remains significant for the profitability of one of its business segments and provides additional branding and marketing benefits for all the other segments.

Section 4: Results of chapter 2

The analyses performed in this chapter have demonstrated that Disney is actually able to fully exploit its portfolio of copyrighted contents. Indeed, the company has been attributed a *high rating* with regards to its ability to exploit its portfolio of copyrighted contents to support its internal activities as well as for its ability to protect this portfolio from infringement by others. In addition, Disney has also been attributed a *medium rating* with regards to its ability to license its portfolio of copyrighted contents to others.

Chapter 3: Obtaining higher performance from the portfolio

This chapter tackles the last necessary capability that Disney has to demonstrate in order to be considered efficient in the management of its copyrighted contents by answering the question: *Is The Walt Disney Company able to obtain higher performance from its portfolio of copyrighted contents than others?* To recall, the methodology is to compare the performance that Disney has achieved from two portfolios of copyrighted contents, which it has obtained through the acquisition of the companies owning them, with the one that these companies had obtained before being acquired. Therefore, this chapter contains three different sections. The first section applies the method to select the two most appropriate companies and their related portfolios of copyrighted contents on the basis of which the performance comparison is being carried out. The second section applies the method to perform the comparative analysis between Disney and the two selected companies. Based on the outcomes of this analysis, the last section is meant to discuss the final answer with regards to this chapter's question. To recall, this final answer may be positive only if Disney proves to achieve high performance with regards to at least one of these two portfolios and medium performance with regards to the other compared to the performance that the previous owner had achieved before the transfer of ownership.

Section 1: Selection of the companies

To recall, the selection of the two most appropriate companies and their related portfolio of copyrighted contents is done in two steps. The first step is to identify and list all the companies owning a portfolio of copyrighted contents that Disney has acquired recently. The second step is to select the two most appropriate acquisitions to perform the comparative analysis. The selection of these acquisitions is based on an assessment of their adequacy regarding the realization of this comparative analysis.

1. Identification of the companies acquired by Disney

Preliminary researches have led to the identification of five companies, which owned a significant portfolio of copyrighted contents, acquired by Disney. As a reminder, the identification process only considers companies that Disney has acquired since the beginning of the year 2000. Each of these five companies is presented hereafter:

Fox Family Worldwide: Fox Family Worldwide was founded in 1997 and is: “*a family-oriented entertainment company that develops, acquires, produces, broadcasts, and distributes television programming and motion pictures.*” (Reference for Business, 1998). Its portfolio of copyrighted contents contains characters and stories including *Mighty Morphin Power Rangers*, *Digimon* and *Beetleborgs*. In October 2001, Disney acquired Fox Family for a price approaching \$3 billion (CNN Money, 2001).

Pixar Animation Studios: Pixar was founded in 1986 and is a: “*computer animation studio with the creative, technical and production capabilities to create a new generation of animated feature films, merchandise and related products.*” (Reference for Business, 2000). Its portfolio of contents includes characters and stories from *Toy Story*, *Finding Nemo*, *The Incredibles*, *Cars* and *Monsters Inc.* In January 2006, Disney acquired Pixar Animation Studios for a price approaching \$7.4 billion (Holson, 2006).

Marvel Entertainment: Marvel was founded in 1939 and is: “*one of the world’s leading character-based entertainment companies.*” (Reference for Business, 2005). Its portfolio of copyrighted contents contains around 5,000 characters and related stories including *Spider-Man*, *X-Men*, *Thor* and *Iron Man*. In August 2009, Disney acquired Marvel Entertainment for a price close to \$4 billion (Smith & Schuker, 2009).

Lucasfilm: Lucasfilm was founded in 1971 and is: “*an independent film and television production and distribution company developed by George Lucas.*” (Reference for Business, 2002). Its portfolio of contents includes 17,000 characters and stories, all of them belonging to the great universe of *Star Wars*. In October 2012, Disney acquired Lucasfilm Ltd for a price approaching \$4.05 billion (Block, 2012).

Maker Studios: Maker Studios was founded in 2009 and is: “*the global leader in short-form video and the largest content network on YouTube.*” (Maker Studios, n.a.). Its portfolio of contents includes numerous online shows as well as user-generated contents. In 2014, Disney paid \$500 million to acquire Maker Studios (Barnes, 2014).

Table 3.7 presents the list of these five acquisitions with the main related information:

List of Disney's main acquisitions related to contents since 2000			
Company	Related portfolios of contents	Year	Acquisition price
Fox Family Worldwide	Mighty Morphin Power Rangers, Digimon and Beetleborgs	2001	\$3 billion
Pixar Animation Studios	Toy Story, Finding Nemo, The Incredibles, Cars, Monsters Inc., etc.	2006	\$7.4 billion
Marvel Entertainment	5,000 characters including Spider-Man, X-Men, Thor, Iron Man, etc.	2009	\$4 billion
Lucasfilm	Star Wars	2012	\$4.05 billion
Maker Studios	Online shows and user-generated contents	2014	\$500 million

Table 3.7 – List of Disney’s main acquisitions related to contents since the year 2000

2. *Selection of the two most appropriate companies*

The selection of the two most appropriate companies to perform the comparative analysis with Disney is based on an adequacy assessment containing four criteria: the acquisition price should be high enough, the company should be publicly traded, the acquisition should be old enough and, finally, the acquisition should be recent enough.

Table 3.8 presents the results of this adequacy assessment for the five companies.

Adequacy of Disney's acquisitions to perform the comparative analysis				
Company	High acquisition price (\$1 billion or more)	Publicly traded company (yes)	Acquisition old enough (5 years or more)	Acquisition young enough (10 years or less)
Fox Family Worldwide	+	-	+	-
Pixar Animation Studios	+	+	+	+
Marvel Entertainment	+	+	+	+
Lucasfilm	+	-	-	+
Maker Studios	-	-	-	+

Table 3.8 – Adequacy of Disney's acquisitions to perform the comparative analysis

From these results, it appears that the two most appropriate acquisitions regarding the selection for the comparative analysis are the ones related to Pixar Animation Studios and Marvel Entertainment. Indeed, these two acquisitions are the only ones fulfilling all the criteria and, hence, are those selected for the performance comparison hereafter.

Section 2: Performance comparison

To recall, this comparative analysis is performed by comparing the performance of Disney with the ones of these two companies regarding their portfolios of contents in three ways. The first way is to compare the stock performance of Disney with the ones of these two companies when they were exploiting their portfolio. The second way is to compare the performance of Disney with the ones of these two companies with regards to the activity, which is supported by the exploitation of these portfolios, and which contributed the most to the profitability of their respective business. The last way is to analyse qualitatively the performance of Disney regarding the portfolios of contents by examining analysts' opinions about the outcomes of these two acquisitions.

1. *Stock performance comparison*

Following the methodology that has been defined in the second part of this thesis, the stock performance comparison between Disney and the two selected companies, Pixar Animation Studios and Marvel Entertainment, that it has acquired, is achieved through computing the daily excess returns of these three firms over the daily returns of the

S&P500 index within their respective 5-year period. These five-year periods are determined according to the date on which the acquisition took place. Table 3.9 presents the five-year period for each of these three companies and the S&P500 index:

Pixar stock performance comparison			Marvel stock performance comparison		
Company	Starting date	Ending date	Company	Starting date	Ending date
Pixar Animation Studios	31/01/01	31/01/06	Marvel Entertainment	31/08/04	28/08/09
The Walt Disney Company	31/01/06	31/01/11	The Walt Disney Company	31/08/09	29/08/14
S&P500 index	31/01/01	31/01/11	S&P500 index	31/08/04	29/08/14

Table 3.9 – Five-year periods considered for each company and the S&P500 index

For these periods, the daily excess returns of these three companies are computed by applying the method described in the second part. A portion of these results is presented in Appendix 18 for Disney, Marvel Entertainment as well as Pixar Animation Studios.

From the daily excess returns, it is possible to compare and represent the evolution of Disney's stock performance respectively after the acquisitions of Pixar Animation Studios and Marvel Entertainment with the ones of these two companies before their acquisition. Figure 3.1 presents graphically the evolution of Disney's stock performance against Pixar Animation Studios and Marvel Entertainment respectively.

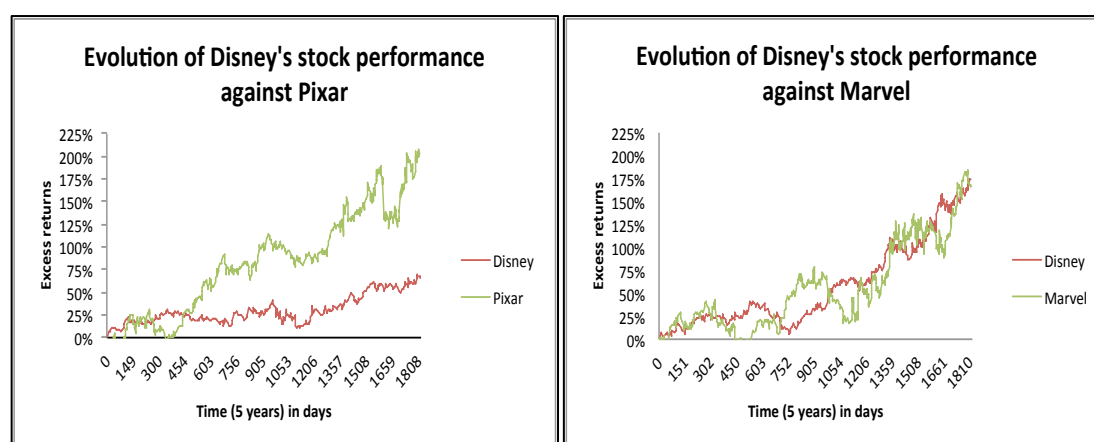


Figure 3.1 – Disney's stock performance against Pixar (left) and Marvel (right)

Before discussing the results of this analysis, it is worth mentioning that these results should be interpreted very carefully. Indeed, the performance of these stocks not only contains more factors than the financial performance of their portfolios of copyrighted contents but also, and especially in the case of Disney, the performance of activities that are not linked to these portfolios. Therefore, Disney's stock performance related to these portfolios of contents is expected to have lesser magnitude than the ones of the two companies because it is partly absorbed by the performance of its other activities.

Pixar Animation Studios: The graph presented on the left-hand side of Figure 3.1 demonstrates that both Disney and Pixar outperformed the S&P500 index over the five-year periods considered. In addition, Pixar's stock performance is much higher than the one of Disney, achieving 202% excess return at the end of its five-year period against only 64% for Disney. Because Pixar's business activities mostly rely on its portfolio of copyrighted contents, this suggests that it was able to achieve a higher performance than Disney from this portfolio. However, Pixar's revenues represented less than one percent of those of Disney in 2004, meaning that the stock performance related to its portfolio was absorbed by an assumed steady performance in Disney's other activities.

Marvel Entertainment: The graph presented on the right-hand side of Figure 3.1 demonstrates that both Disney and Marvel outperformed the S&P500 index over the five-year periods considered. In addition, Disney and Marvel obtained a comparable level of stock performance, achieving respectively 173% and 170% of excess return at the end of the five-year periods. Because Marvel's business activities mostly rely on its portfolio of copyrighted contents, this suggests that Disney was able to achieve the same performance as Marvel from this portfolio. However, Pixar's revenues represented 1.78% of those of Disney in 2008, meaning that the stock performance related to its portfolio was absorbed by an assumed steady performance in Disney's other activities.

The results presented in this section have turned out to be mostly inconclusive with regards to whether or not Disney has been able to achieve a higher performance than Pixar and Marvel from their respective portfolios of contents. Nevertheless, they still show that Disney did not seem to have suffered from these acquisitions as its stock performance continued to outperform the S&P500 index at a steady pace. This suggests that Disney was able to achieve at least a reasonable performance from these portfolios.

2. Comparison of the main activity's performance

The comparison of Disney's performance with the ones of Pixar Animation Studios and Marvel Entertainment regarding the activity that contributed the most to the profitability of their respective business is achieved by identifying this activity for each company and by applying the most appropriate method to compare their respective performance with the one that Disney has had since it has acquired them. In addition, the main activity is selected by taking the one that represented the biggest portion of revenues for each company. This methodology is applied separately to Pixar and Marvel hereafter.

Pixar Animation Studios

Pixar's revenues are divided into two activities: *Film* and *Software*. In 2004, the *Film* activity represented more than 95% of its total revenues (Pixar, 2005, p. 60). Moreover, this activity is fully supported by the use of Pixar's portfolio of contents. Therefore, it is clearly the most appropriate activity to perform the comparative analysis with Disney.

In order to compare Disney and Pixar with regards to the performance that they both obtained from this portfolio of contents on the *Film* activity, a good option is to use the box office revenues from all the movies that they have released during their respective periods of ownership over this portfolio of contents. In this respect, Appendix 19 presents the list of all Pixar's related movies together with their box office revenues.

This list shows that Pixar generated around \$1.457 billion in box office revenues over the ten-year period before the acquisition by Disney, while Disney generated more than \$3.014 billion from this portfolio over the ten-year period following this acquisition. This result strongly suggests that Disney has been able to obtain a higher performance than Pixar from its portfolio of contents as it has more than doubled Pixar's box office revenues, which accounted for 95% of its total revenues, over the same time frame.

Marvel Entertainment

Marvel's revenues are divided into four different activities: *Licensing*, *Film Production*, *Publishing*, and *All Other*. In 2008, these activities accounted for respectively 43.3%, 37.7%, 18.5% and 0.5% of its total revenues (Marvel Entertainment Inc., 2009, p. 24). Although the *Film Production* activity represented an important part of Marvel's total revenues, it was its *Licensing* one that generated the largest portion of it. In addition, this activity is fully supported by the use of Marvel's portfolio of contents. Therefore, it is clearly the most appropriate activity to perform the comparative analysis with Disney.

In order to compare Disney and Marvel with regards to the performance that they both obtained from this portfolio of contents on the *Licensing* activity, a good option is to use the retail sales from all the licensed products that they have generated during their respective periods of ownership. However, because Disney's *Consumer Products* segment has fully integrated the Marvel franchise for its global retail sales in 2013, the data related to Marvel's retail sales could only be retrieved until the year 2012. Therefore, since Disney has acquired Marvel in August 2009, the comparative analysis is performed on the annual retail sales covering the five-year period around this time.

Table 3.10 presents the annual retail sales on Marvel's portfolio from 2007 to 2011.

Marvel's retail sales of licensed products from 2007 to 2011					
Year	2007	2008	2009	2010	2011
Retail sales	\$ 5.5 billion	\$5.7 billion	\$ 4.9 billion	\$ 5.6 billion	\$ 6 billion
Year on year change	-	3.64%	(14.03%)	14.29%	7.14%
Source	License! Global, 2008	License! Global, 2009	License! Global, 2010	License! Global, 2011	License! Global, 2012

Table 3.10 – Annual retail sales related to Marvel's portfolio from 2007 to 2011

This table shows that the two highest growths in Marvel's retail sales occurred after the acquisition by Disney. This result suggests that Disney has been able to obtain a higher performance than Marvel from its portfolio of contents. However, the strongest growth in 2010 occurred right after the substantial decline in 2009. This decline could be due to the uncertainty surrounding the financial crisis of September 2008 or simply to the temporary loss of performance resulting from the integration of Marvel into Disney's business. In both cases, it seems unwise to consider the year 2009 as a benchmark with regards to the performance of Marvel. If the year 2009 is taken out of the analysis, it can be noticed that Disney achieved around the same performance in 2010 as Marvel two years earlier. In addition, the performance that Disney achieved in 2011 was higher than any performance achieved by Marvel before the acquisition by Disney. Therefore, from the results of this analysis, it is safe to say that The Walt Disney Company has been able to achieve at least equivalent or medium performance from its portfolio of contents compared to Marvel Entertainment.

3. Outcome of the acquisitions

Assessing Disney's performance regarding Pixar and Marvel's portfolios of contents can also be achieved qualitatively by analysing if these acquisitions have turned out to be a success or rather a failure for the firm. As a result, the method is to analyse the outcome of these two acquisitions qualitatively by retrieving analysts' opinions and insights in this respect. These opinions and insights are collected from analysts' reports or other relevant sources and are discussed below for Pixar and Marvel respectively.

Pixar Animation Studios

Preliminary researches about the outcome of Disney's acquisition of Pixar Animation Studios have revealed that it has turned out to be tremendously successful. According to an analyst from Bank of America Merrill Lynch: "*The Pixar acquisition saved Disney Animation.*" (Sakoui, 2016). Many other analysts share the same view regarding

the success of the Pixar acquisition. Among them, David A. Price explained that, while acquisitions in the media industry are usually destroying value, the Pixar acquisition is certainly one that is creating value (Barnes, 2008). These positive opinions about the outcome of the acquisition are due to the fact that Pixar has truly revived Disney's animation division, considered for long as the "*crown jewel*" of the firm (Shaw, 2013).

The undeniable success of the Pixar acquisition supports the idea that Disney generates more value and, hence, achieves a higher performance from its portfolio of contents.

Marvel Entertainment

Preliminary researches about the result of Disney's acquisition of Marvel have revealed that it has turned out to be extremely successful. Indeed, despite the fears that many investors shared at the time when the acquisition took place, most analysts agree several years later that the deal is looking "*smarter than ever*" (Ingram, 2015). According to Bryer: "*The acquisition of Marvel allowed Disney to "do what they do best." The acquisition added to Disney's product line of characters, and likely strengthened Disney's position as a leader in this industry.*" (Bryer, Lebson, & Asbell, 2011, p. 51).

The evident success of the Marvel acquisition supports the idea that Disney generates more value and, hence, achieves a higher performance from its portfolio of contents.

Section 3: Results of chapter 3

The analyses performed in this chapter have demonstrated that Disney is actually able to obtain higher performance than others from its portfolio of copyrighted contents. Indeed, the company has proven to achieve *higher performance* and at least *medium performance* from their respective portfolios of copyrighted contents compared to Pixar Animation Studios and to Marvel Entertainment respectively. On the one hand, Disney's higher performance compared to the one achieved by Pixar Animation Studios before being acquired is explained by the fact that it has proven to achieve much higher results from Pixar's main activity and by the fact that most analysts consider the acquisition to be highly successful. On the other hand, Disney's medium performance compared to the one achieved by Marvel Entertainment before being acquired is explained by the fact that it has proven to achieve at least comparable results from Marvel's main activity and by the fact that most analysts consider the acquisition to be extremely successful.

Conclusion

The objective of this thesis was to find an answer to the question: *Is the management of copyrighted contents the real magic of The Walt Disney Company?* In this respect, the analyses performed in this paper have revealed that the management of copyrighted contents can be considered as the real magic of The Walt Disney Company. Indeed, while the importance of these copyrighted contents was already assumed evident based on the simple review of Disney's history and current business activities, the analyses have concluded that the company is also truly competent regarding the management of these copyrighted contents. To recall, Disney's competency assessment with regards to the proper management of copyrighted contents was based on a framework evaluating three necessary capabilities that the firm had to demonstrate in order to be considered as actually competent in this respect. The results of this methodology framework are both presented in Figure 4.1 and discussed for each of the three capabilities hereafter.

The first necessary capability refers to the question: *Is The Walt Disney Company able to create an adequate portfolio of copyrighted contents?* This capability is determined in relation to the firm's ability to obtain copyrighted contents as well as the sustainability and coherence of the resulting portfolio. In this respect, the analyses attributed a *high rating* to Disney regarding its ability to obtain the copyrighted contents and attributed a *high rating* to the resulting portfolio in terms of sustainability and coherence. Therefore, these results indicate that The Walt Disney Company is able to create an adequate portfolio of copyrighted contents since *medium ratings* in all three assessments were the sufficient conditions to positively acknowledge this capability.

The second necessary capability refers to the question: *Is The Walt Disney Company able to fully exploit its portfolio of copyrighted contents?* This capability is determined in relation to the firm's abilities to exploit its portfolio to support internal activities, to protect its portfolio from potential infringers, and to licence its portfolio to other firms. In this respect, the analyses attributed a *high rating* to Disney regarding the abilities to exploit its portfolio to support internal activities as well as to protect its portfolio from potential infringers and a *medium rating* regarding the ability to license its portfolio to others. Therefore, these results indicate that The Walt Disney Company is able to create an adequate portfolio of copyrighted contents since *medium ratings* in all three assessments were the sufficient conditions to positively acknowledge this capability.

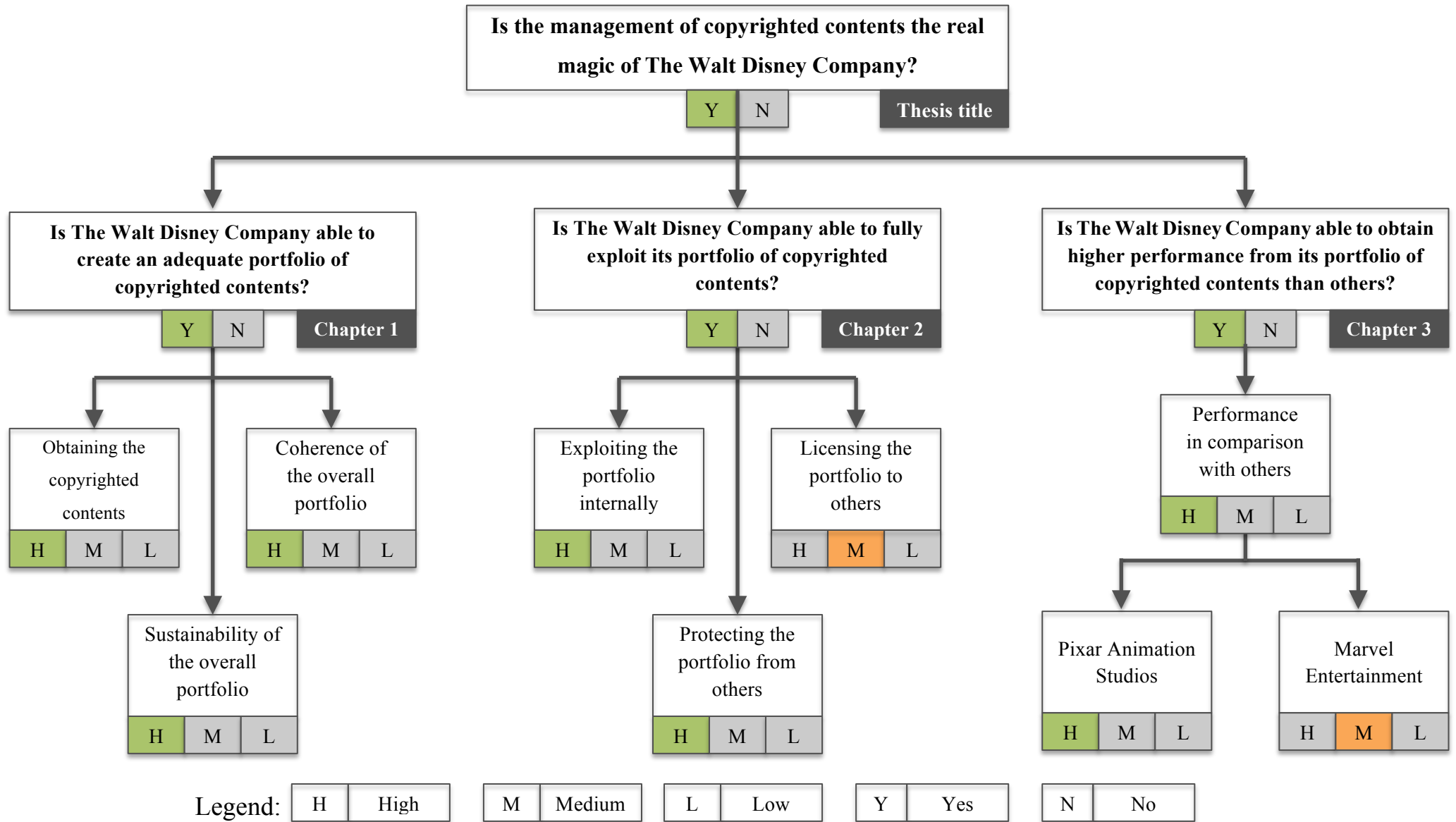


Figure 4.1 – Methodology framework results

The third necessary capability refers to the question: *Is The Walt Disney Company able to obtain higher performance from its portfolio of copyrighted contents than others?* This capability is determined in relation to the company's ability to obtain a higher performance than Pixar and Marvel from their respective portfolio of contents. In this respect, the analyses concluded that Disney has obtained a *high performance* and a *medium performance* from their portfolio of contents compared to Pixar and Marvel respectively. Therefore, these results indicate that The Walt Disney Company is able to obtain higher performance from its portfolio of contents than others since a *high performance* in at least one of these two portfolios and a *medium performance* in the other were the sufficient conditions to positively acknowledge this capability.

The analyses that have been performed in this thesis are subjected to several limitations of significance. Among the limitations, at least two of them are worth discussing here.

The first main limitation refers to the assumption that has been made with regards to the importance of the copyrighted contents in Disney's business activities. Indeed, from the analyses of Disney's history and current business activities, it has been assumed that its fictional characters and stories not only serve as the fuel for all its business segments, but they are also the source of its brand positioning and the cornerstone of its differentiation strategy. However, while this assumption seems to be reasonable given the great number of analysts sharing the same opinion, it appears relevant, if not indispensable, to test it further through the use of a complete and adequate framework.

The second main limitation refers to the method that has been used to assess Disney's capability to obtain higher performance from its portfolio of copyrighted contents than others. Indeed, the method could only give an approximate answer with regards to this chapter's question and has been chosen mainly to ease the analysis. However, the best method would have been to compare the value of the portfolios at the time of their respective acquisition with the one that they have under Disney today by using the valuation methodologies presented in the first part. Consequently, the answer to this chapter's question would have been more accurate and even more reliable.

These two limitations have a significant impact on the completeness of the present analysis and, therefore, on the reliability of the final answer provided to the question of this thesis. Therefore, given the challenging and interesting aspects that solving these limitations encompasses, they could very well be the subjects of other theses.

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