International Journal of Advanced Culture Technology Vol.11 No.2 291-297 (2023)
DOI https://doi.org/10.17703/IJACT.2023.11.2.291

IJACT 23-6-33

Disney's Entry into Streaming Services and the Shifting Media Terrain in the U.S.

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Abstract

This paper intends to shed light on how the advent of streaming services pioneered by Netflix has been affecting the media landscape in the U.S. by looking at Disney's entry into streaming services and what effects this might have had. The paper first looks at the rise of Netflix, the disruptive impact it had on cable and film businesses, and the challenges this has posed to traditional media conglomerates like Disney. In this context, the paper examines Disney's decision to enter into streaming services as a move to counter both these challenges and Netflix's growing power. Finally, the paper notes the changes Disney's entry is likely to bring about, notably the continued disruption of film and television as streaming business expands, as well as the potential of Disney's streaming services to challenge Netflix and further strengthen its media empire.

Keywords: *Streaming Service, Netflix, Disney, Disney+, Cable Television*

1. INTRODUCTION

This paper aims to shed light on how the advent of streaming services pioneered by Netflix has been affecting and reshaping the media landscape in the U.S. by looking at Disney's entry into streaming services and what it has meant. Technology has always been a crucial factor in the development of the media industry in the U.S., itself a product of technology. Lately, the pace of change has only accelerated, especially since improved broadband internet connections has allowed the digital transmission of movies and TV shows.

Nothing better embodies changing technology and its power to shape the media industry than the meteoric rise of Netflix. It has not only offered shows to consumers via the Internet, but has come to produce its own content to help populate its streaming platform. In doing so, the Silicon Valley-based IT company has revolutionized the media industry by transforming from nobody to one of the most potent players almost overnight, while also unleashing changes that threatened established media conglomerates like Disney.

Arguably, the most telling example of the magnitude of changes Netflix has brought about is Disney's decision to launch its streaming service in late 2019. As the first among the media giants, its action reveals that both the changes wrought by Netflix and the threats the company poses to Disney's operations were so grave as to require a dramatic action. It is also representative of the established order trying to adapt to these changes. At the same time, selling content directly to consumers without intermediaries for the first time, Disney is also an agent of sweeping change, which reinforces the shift Netflix has ushered in.

Manuscript received: March 15, 2023 / revised: May 10, 2023 / accepted: May 20, 2023
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Given this, Disney's entry into the streaming service business is the foremost case showcasing the changing media landscape. As such, this paper aims to examine Disney's foray into the streaming services and document the changes Netflix and its contenders have effected. It examines Disney and the media industry in the U.S. as the most advanced instance of how streaming services are reshaping media. By examining this, the paper also attempts to think through the future of the media industry and the viability of Disney's new venture.

In what follows, the paper first looks at the rise of Netflix and some of the major challenges it has posed to the media industry. It then explores Disney's decision to launch its own streaming services, the huge risks this has meant for the company, and what this tells about its action. It also looks into the major aspects of its services. Finally, the paper looks at some of the changes its entry would further bring about to the media industry as well as the potential and limits Disney's streaming service has in their competition with Netflix.

2. NETFLIX AND THE MEDIA INDUSTRY

Netflix started out in 1997 as an online DVD lender, mailing out DVDs ordered via its website. A decade later, it launched its streaming service, as improved broadband internet connections made delivering content via online far more cost-effective than mailing DVDs. In addition, streaming, not requiring saving, was more convenient than downloading. Netflix made sure its service was accessible on myriads of devices including internet-connected TV, laptops, mobile phones and game consoles, enhancing its convenience and its reach.

At first, Netflix had only about one thousand titles to stream. It had difficulty getting content. This was because pay cable channels such as HBO and Showtime had the cable and Internet distribution rights to many of Hollywood films and shows, which could last for as long as eight years, denied Netflix access to these shows. In October 2008, Netflix partially solved this problem by signing up a deal with Starz, another pay cable channel, which allowed it to stream over 2,500 films and shows that Starz held the rights to. This deal paid Starz $30 million per year for three years [1].

Netflix came to renew the deal three years later, this time for $300 million per year since the price for streaming rights went up with the expansion of the streaming market. Yet, Starz refused it, realizing that it had nurtured a competitor by offering a cheaper way to view its programs [1]. Indeed, thanks to the cost-effectiveness of online delivery, Netflix boasted subscription fees (the highest being $13.99 per month) far cheaper than that of cable and by then surpassed Comcast, the largest cable operator in the U.S., in the number of paid subscribers [2].

As the Starz deal unraveled, pointing to the ultimate futility of relying on others' content, Netflix started to produce original content exclusive for its platform. *House of Cards*, the first of its original series, debuted in early 2013 with a great success. Netflix since then has become a huge spender on original content, as it was found that original content helped attract new subscribers [3]. Accordingly, as the Table 1 shows, the number of Netflix's subscribers increased rapidly both at home and abroad [4].

Table 1. Netflix's subscribers at the end of the respective year (in million)

Year	Total Subscribers	USA	International
2013	41.4	-	-
2015	70.8	43.4	27.4
2016	89.1	47.9	41.2
2017	110.6	52.8	57.8
2018	139.3	58.5	80.8
2019	167.1	61.0	106.1

As Netflix rapidly with the innovative distribution strategy and engaging content, this caused great disruptions in the status quo of the media industry. First, as Netflix offered services similar to—but a lot more affordable and convenient than—those of cable television, this resulted in the so-called cord-cutting, i.e., the cancellation of cable television subscription to switch to streaming services. As a result, the number of cable subscription in the U.S. dropped from over 100 million in 2013 to around 86 million in 2019 [5].

For traditional media conglomerates like Disney, this is a grave threat, as cable television is often the most profitable part of their media empire. For instance, Disney, although best-known for its movies and characters, earned nearly half of its operating income from cable channels including ESPN, which, as the most popular cable channel, collected approximately $8 per subscriber a month when no other basic cable channel made more than $2. Yet, even ESPN saw the fall in the number of viewers from 99 million in 2013 to 92 million in 2015 [6].

Netflix has proved to be no less disruptive of the Hollywood film industry. Beginning with *Beasts of No Nation* in 2015, it entered into the production and/or acquisition of original films. It has released a torrent of films since then, distributing 93 films in 2018 as opposed to 10 by Disney [7]. In particular, it has ignored the practice of premiering films at theaters for 90 days exclusively, instead placing most of its movies on its platform. In doing so, Netflix has threatened not only theaters, but an age-old practice that has been part of the Hollywood film industry.

In short, Netflix, pioneering direct-to-consumer streaming service, initially served others' films and shows. It was thus largely seen as an additional source of licensing revenue. However, as it came to produce content on its own, the newcomer with less than a decade of experience in the original content business not only has become one of top players in the media industry, but has come to unsettle traditional businesses profoundly. More alarming may be the fact that the challenges and changes Netflix unleashed show no sign of letting up.

3. DISNEY WOKE UP

In this context, Disney, along with other traditional media conglomerates, having seen how quickly Netflix had grown and how this posed a grave threat to their existing media businesses, responded by making a ground-shaking move, i.e., to start its own streaming service named Disney+. Foremost, it was a move to adapt to the seismic shifts in the media environment and consumer choice that could render them insignificant. It was also intended to disrupt the disruptor and strike back at its challenges by entering into the very field Netflix dominated.

It is not surprising that Disney led the charge—announcing the plan for Disney+ in November 2017 and launching it two years later. As the largest of the traditional media conglomerates, it had more to lose from the erosion of the status quo. Disney was soon followed by others not wanting to be left out of the significant shift in the media industry, which included WarnerMedia (now owned by AT&T), NBCUniversal (owned by Comcast), and even Apple, each unveiling the plan for their respective streaming entity, HBO Max, Peacock, and Apple TV+.

Disney also surprised everyone in the media industry by announcing that it was in talks to acquire most of the assets owned by Fox, another media conglomerate. Eventually, the deal, Disney's most expensive and boldest one, was completed in early 2019. The acquisition was largely intended to bolster Disney's content in preparation for the launch of Disney+, since its collection of movies and shows, although impressive, was seen as not enough to compete with Netflix on its own, given the latter's broad array of content backed by its huge spending [8].

In addition, the deal gave Disney a 60% majority stake in Hulu, an existing streaming company, as Disney and Fox each already held 30% of its stake (Universal had another 30% and Warner 10%). Fox's vast international networks—more than 350 channels in over 170 countries—could help Disney compete with Netflix in the global markets. Given the undeniable benefits of the deal, it was not surprising that Comcast tried in vain to horn in on the deal with a $66 billion offer, which drove up Disney's acquisition price from $52.4 billion to $71.3 billion [9].

In view of the huge popularity of Disney's movies and shows, now fortified by the acquisition of Fox, Disney was most often seen as having the potential to challenge Netflix [3]. Yet, Disney was also seen to have waited too long to enter the field, staying on the sidelines as Netflix caused disruptions [8]. Indeed, in 2015, even as its cable channels were losing viewers, Disney struck a deal with Netflix to license its movies for $300 million a year, looking at it as "more friend than foe," according to Robert Iger, then CEO of the Walt Disney Co. [10].

It is not difficult to see why Disney was slow to act. First, starting streaming services would further disrupt its television business, while placing its films and shows on Disney+ would dry up the steady stream of licensing revenue. Building streaming platforms and content comparable to those of Netflix is costly, and it would take several years before Disney+ generated any sizable profit. Clearly, this was a huge risk to take with significant short-term losses. Given this, when Disney finally acted, it probably did so because the risk of not doing outweighed the risk of doing.

Yet, as Disney entered relatively late, this gave Netflix more time to grow its services, which means more catch-up to do for Disney. All the while, the streaming market became more crowded with new entrants. As a result, some analysts pointed out that Disney had to "go all in" to make its streaming services comparable to Netflix and as profitable as its TV business had been for the company [8]. In fact, Iger said in April 2019 that Disney was all in on streaming [5], while also emphasizing it as the company's highest priority [11].

As a latecomer, Disney set itself apart from Netflix by introducing three separate services, ESPN+, Disney+, and Hulu. ESPN+ was launched in 2018 for sports fans. Disney+, intended for families, is home to films from Disney, Pixar, Marvel, and Lucasfilm as well as original shows based on these properties. As the bearer of the company name, it is clearly the main concern. Hulu, which Disney came to fully control by buying the stake from Warner and Universal, complements Disney+ by offering general entertainment that does not fit for Disney+ including edgy Fox shows for adults.

In this way, Disney could claim consumers do not have to pay for the shows that they do not watch, an implicit critique of bundled services such as Netflix and HBO Max that do not give them such option. Having three services also represents multiple ways to tackle Netflix and others. At the same time, Disney really responded to them by combining Disney+ and Hulu, marketing the two services for $12.99 per month (and giving ESPN+ for free), comparable to Netflix's most popular price point. Disney+ alone was initially $6.99 given its lighter content.

4. CHANGES AND PROSPECT

Disney, along with other media conglomerates, had been in business-to-business industry thus far. Yet, as it entered into direct-to-consumer business for the first time with its streaming services, this would generate more changes. First, a lot depended on the successful take-off of Disney+, not least because it showcases Disney's adaptability and power to the investors. Besides, streaming services promise the highest margin of profit by eliminating middlemen (so much so that Disney even gave up $300 million from licensing out its shows to Netflix).

Given this, Disney, at the very least, would place more of its best and original content on its streaming services like the latest chapter in the *High School Musical* series made for Disney+ (which was previously made for its cable network) and *Mrs. America*, an original series FX (a cable network acquired from the Fox deal) developed and made for Hulu [12]. Undoubtedly, this kind of effort would draw even more people to streaming, and now Disney itself, not just Netflix, would hasten the decline of its own television business.

It was not that Disney was giving up traditional television. In light of the still significant revenue from the latter ($1.3 billion in late 2019), Disney vowed to support it, although it may not invest in expensive originals as much as before [13]. Also, despite the talk of going all-in on streaming, it made ESPN's main programs available through cable subscription to protect the channel [7]. Nonetheless, streaming services came to claim a larger share of TV viewing time in the U.S. than either broadcast or cable networks [14].

Likewise, the shifting priority of Disney and others made the changes in the traditional 90-day theatrical release inevitable. They still release their big-budget films theatrically, as they earn over hundreds of millions of dollars at the box office. Yet, seeking to play their films on the self-owned streaming platforms as early as possible, they drastically cut the 90-day release to 45, 30 or even 17 days [15], while also placing movies—other than potential blockbusters—online without (or simultaneously with) the theatrical release.

Meanwhile, as Disney announced its plan to start its streaming services, the first question raised is whether it can counter Netflix. Netflix, with the years of head start and a huge number of users at home and abroad, has a distant lead over others. Moreover, on the back of COVID-19, the number of its subscribers, now reaching 221 million globally, grew much faster than pre-pandemic projections [16], while the recent success of its original shows like *Squid Game* across the globe further reinforced its position as the undisputable leader in streaming services.

Yet, Disney+, helped by its low subscription fee, has been rapidly closing the gap with Netflix in the number of subscribers. Despite its rather limited content, Disney+ passed 100 million in the number of subscribers in March 2021, thus less than a year and a half after its launch, overtaking Netflix in terms of the rate of subscriber increase [17]. In other words, Disney+ claimed the larger share of the market growth than Netflix, while entering into the market timely enough to benefit from its expansion fueled by the pandemic.

According to its earning call in May 2022, Disney+ gained 7.9 million new subscribers in the first quarter, well over the projection of 5 million. It has 137 million subscribers across the globe. When Hulu and ESPN+ are included, Disney's streaming services have 205.6 million. In contrast, Netflix lost 200,000 subscribers, its first loss since starting services in 2007, and expects to lose another two million in the second quarter, leading to the fall in its share price and raising the concerns over the potential size of the streaming market [16].

Disney+ is not without problems. Despite the subscriber gains, it posted $887 million loss in the first quarter, more than triple from 2021, due to "higher programming and production, marketing and technology costs." Its subscriber growth in the second half is also not expected to be as large as anticipated earlier, while its loss only widened [18]. Besides, if people have to choose only one service as the economy slowed down in mid-2022, Netflix, having vast and diverse content with something for everyone, is seen as a likely choice.

Yet, Disney+ has a unique advantage, i.e., Disney's varied media businesses which not only provide a rich trove of intellectual property and popular franchises that Disney+ can tap into, but offer diverse sources of revenues that can absorb its losses. For instance, while Disney+ posted losses in the first quarter of 2022, Disney's theme park segment posted $6.6 billion in revenues, which more than doubled from a year ago as the pandemic subsided [18]. Having this diversified conglomerate behind also enables Disney+ to take bigger financial risks.

At the same time, Disney's streaming services can help strengthen its media empire. Having been in the business-to-business industry, Disney had difficulty in getting detailed data on its customers. However, streaming services can offer plenty of information on customers, which can be used to customize and market the offerings from its other divisions. Besides, developing Disney+ content from Disney's properties—such as *The Mandalonian* based on the *Star Wars* series and *WandaVision* and *Loki* from Marvel Comics—can be a nonstop advertisement for Disney itself.

5. CONCLUSION

As seen thus far, Netflix, a company with roots well outside the mainstream media industry, has been rapidly redefining the way people consume visual media and presenting serious challenges to the Disney and other traditional media conglomerates. Indicating that the changes Netflix has ushered in were irreversible, Disney and others jumped on the bandwagon, launching streaming services of their own. Disney even acquired Fox to build up Disney+ quickly, which reveals the significance and urgency Disney felt about venturing into the streaming field.

By entering into direct-to-customer streaming services, Disney made a huge shift for itself and the media industry as well. For one, the expansion of streaming services would further destabilize its still profitable television business. Also, the theater is an optional, no longer essential, way to show films, while the latter, increasingly made for streaming services, may become no different from other 'content.' All these do not mean the end of the traditional media businesses, but they could be reshaped and possibly diminished in importance.

At the same time, despite these troubling implications for television and film businesses, streaming service is not striking a blow to Disney's empire. Rather, Disney's streaming platforms not only add subscribers rapidly, but can help Disney's other businesses by providing valuable information about its customers, which they can use to pull them deeper into Disney's empire. Unlike Netflix that spends heavily to provide for one platform, Disney can utilize its intellectual property—and spread out the costs—across its diverse divisions.

In this light, the value of streaming service for Disney lies not just in the revenue it receives from its subscribers or in its competitiveness vis-à-vis Netflix, although its success will be ultimately judged by them. Rather, it also lies in the unique opportunity it offers to grow Disney's businesses further by fostering symbiosis among them. Accordingly, through streaming services, Disney can challenge Netflix's domination and even become a bigger power. It just remains to be seen whether the company can successfully nurture its streaming venture.

5. ACKNOWLEDGEMENT

This work was supported by the Jungwon University Research Grant (2021-005).

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