Disney’s Acquisition of Fox and the Changing Media Environment in the U.S.

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Abstract This paper intends to examine the recent acquisition of 21st Century Fox by Walt Disney Co. in terms of how information communication technology, especially the internet, has been reshaping the media industry. In particular, it looks at the deal as Disney’s attempt to adapt to the rapidly shifting media environment and strike back at the challenges from online streaming services. After looking at the overview of the deal and some of the major changes and challenges the rise of streaming services has brought to film and media landscape, the paper looks at Disney responded to them by launching its own streaming services and how its acquisition of Fox assets factors in this. It also examines the implications of Disney’s move as well as the opportunity and challenges it faces.

Key Words : Disney, Fox, Streaming, Netflix, Cable Television

1. Introduction

This paper aims to examine how information communication technology (ICT), especially the internet, has been affecting and reshaping the media industry by looking at the recent acquisition of 21st Century Fox by Walt Disney Co. In a move that surprised everyone in the entertainment industry in the U.S. as well as around the world, Disney announced in December 2017 that it was in negotiation to acquire Fox, closing the deal in March 2019.

As this brought together two Hollywood majors that had operated for almost a century, the first
reaction to the deal was understandably to figure out how it would transform the Hollywood film industry. Indeed, despite some ownership changes, the six major studios and their names—Disney, Fox, Warner, Sony/Columbia, Paramount, Universal—had been a fixity for the past few decades and a term ‘sexopoly’ was even used to indicate their rule[1], but the deal put this into history.

At the same time, this paper intends to examine the deal as the foremost instance showing how the technological changes have been revamping the old order in the film and media industries and how the established media companies respond to them. Film and media, themselves the product of technology, have always evolved with technological advances. In the recent years, the rise of ICT, especially the technology of streaming content over the internet combined with the wide use of mobile phones, has made it possible for people to watch films and TV shows anytime and anywhere they want, thus revolutionizing the ways people view content.

In this context, this paper examines Disney’s acquisition of Fox as an attempt to adapt to the shifting media environment and strike back at the challenges from online streaming. It first examines the overview of the deal and, then, some of the major changes and challenges the rise of streaming services has brought to film and media landscape. Finally, the paper looks at Disney’s response to them and how its acquisition of Fox assets factors in this. It also examines the implications of Disney’s move as well as the opportunity and challenges it faces.

2. Disney: Media Colossus

In December 2017, Disney heralded a seismic shift in the media industry, when it announced a deal to buy out Fox at $52.4 billion or $28 per share. Indicating its magnitude, the deal was finalized only on March 20 2019, going through a lengthy process to get approval from the United States Department of Justice Antitrust Division as well as from several other countries. During this period, Comcast—the cable giant that owns Universal—came up with a counterbid in June 2018 to acquire Fox at $35 per share. In response, Disney increased its offer to $71.3 billion or $38 per share[2].

It is the first time that one major film studio purchased another. Historically, such purchase has been done by outsiders such as AT&T that took over Time Warner in 2018 for $85.4 billion and Comcast that bought a majority stake in NBCUniversal in 2011. The deal is Disney’s most expensive acquisition to date, surpassing even its purchase of Capital Cities/ABC at $19 billion in 1995 (about $32 billion in the current value)[2]. It is also the latest one under Bob Iger, CEO of Disney since 2006, who engineered the acquisition of Pixar in 2006, Marvel in 2009, and Lucasfilm of Star Wars franchise in 2012.

Now, through the deal, Disney took over most of Fox tremendous assets. For instance, it inherited Fox’s three production divisions—Twentieth Century Fox, Fox 2000, and Fox Searchlight—and their library of films that includes such hits as *Avatar*, *Titanic*, *Kingsman*, and *Ice Age*, along with Oscar Best Picture winners like *Slumdog Millionaire*, *Birdman*, *12 Years a Slave*, and *The Shape of Water*. *Avatar*—the highest grossing film with $2.79 billion global ticket sales until overtaken by Marvel’s *Avengers: Endgame* in 2019 and its sequel to be released in December 2021—is already one of Disney’s theme park attractions in Florida. Fox also produced films based on Marvel comics, i.e., *X-Men*, *Deadpool*, and *Fantastic Four*, raising the possibility that they could be incorporated into the Marvel Cinematic Universe, Marvel’s hugely popular franchise. In addition, as Fox had the
exclusive distribution rights to the first Star Wars film, the deal united the franchise under one roof[3].

Television assets Disney gains are no less staggering. It includes FX cable channel and FX Productions (known for series such as Atlanta, American Crime Story and Fargo), National Geographic cable channel, Fox21 Television Studios (that produced Homeland for Showtime cable channel), the Fox’s Television production company (the producer of The Simpsons and Modern Family), Fox international networks, and Indian television broadcaster Star India. The deal also gave Disney a controlling stake in the streaming service Hulu, of which Disney and Fox each had 30% stake and Comcast and Time Warner 30% and 10%, respectively. Meanwhile, in November 2018, Fox Corporation, focusing on news and sports, was newly formed from the assets left out of the deal[3].

Involving the transfer of most of Fox assets to Disney and reducing the number of majors to five, the transaction is “the biggest and most consequential media merger in an era of big and consequential media consolidation deals,” according to one article[3]. Accordingly, its impacts are bound to be far-reaching, to say the least.

Before the acquisition of Fox, Disney has enjoyed the dominant presence in the film industry, as its Marvel and Star Wars branded franchises, on top of its successful animations, have helped to catapult the conglomerate into a box office juggernaut in recent years. In 2016 and 2018, Disney topped box office, up from the second between 2013 and 2015. It also recorded the highest worldwide box office revenue in 2016 and the second highest in 2018[4].

Now, with Fox assets, Disney is about to become a bigger power. The Table 1 shows the film market share for the major studios in 2018. The combined market share of Disney and Fox, 35%, which is unprecedented in film, gives an idea of how powerful Disney will become after its acquisition of Fox.

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<th>Studio</th>
<th>Market Share (%)</th>
<th>Studio</th>
<th>Market Share (%)</th>
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<tr>
<td>Disney</td>
<td>26</td>
<td>Sony</td>
<td>11</td>
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<tr>
<td>Warner</td>
<td>16.3</td>
<td>Fox</td>
<td>9.1</td>
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<td>Universal</td>
<td>14.9</td>
<td>Paramount</td>
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Source: statista.com

3. Evolving Media Landscape

As both Disney and Fox are the leading Hollywood studios, the big screen ramifications of Disney’s acquisition of Fox, especially the huge concentration of power on Disney, often get most attention. Yet, this is not the most significant aspect of the deal.

According to Disney, it was in “the course of reflecting on the growing challenges of the rapidly evolving media industry” in conversations between Iger and Murdoch in August 2017 that “the possibility of a strategic transaction involving Disney and 21st Century Fox” emerged[6]. Then, what are these challenges that made one of the long-established majors like Fox unfold most of its media businesses? Why does Disney need to have Fox assets even going through price hike?

The real motive behind the acquisition lies in the recent developments in the home entertainment scene driven by technological changes and their impact on the film and media industries. Technology has been always a critical factor in the evolution of the media industry. In the recent years, the rise of online streaming service has revolutionized the way people view content and, through this, the entertainment business as a whole. It offers content online in a commercial-free, on-demand format without
need to download and save it. Content can be played on almost any devices including internet-connected TVs, laptops, mobile phones and game consoles. In addition, people can stop content on one device and play it from where they stopped on another[7].

In particular, streaming technology, coupled with wide use of mobile phones, allows people to watch content whenever and wherever they want. As Jessica Reif Cohen, media analyst for Bank of America Merrill Lynch, points out, since people everywhere are more connected and more mobile, content consumption is “going mobile, nonlinear and on-demand”[8]. Given this convenience as well as the affordable price—Netflix’s highest subscription fee, $15.99 (up from $13.99) per month, is far lower than the cable charge that is well over $30—streaming services have attracted an increasing number of viewers.

In streaming services, tech giants such as Netflix and Amazon dominate the business. In particular, Netflix started with DVD rentals in 1997 and began to offer streaming service in 2007, noticing that the DVD business reached its peak. Netflix initially secured content from other sources, but eventually came to produce its own content from 2013[9][10]. Its production of original content has been staggering since then. Disney released 10 movies in 2018, while Netflix opened 93[5]. Netflix plans to spend $11.9 billion in 2019 on content and $14.5 billion in 2020, easily outdoing other streaming services as well as traditional studios. Now, Netflix has more than 189 million members worldwide[11].

As Netflix and other streamers have given consumers a cheaper and more convenient alternative to watch content, they have greatly disrupted the media businesses. For one thing, people have reasons to stay home rather than go to the movies, and this certainly does not augur well for the ongoing decline in the number of theatergoers. Even among the key demographic of those between 18 and 24 years old, the theater attendance in North America has declined 17% since 2012[12]. Netflix has also released its original films on streaming platform, bypassing theaters altogether. In doing so, it challenges the hitherto exclusive status of theaters as the first point to premiere a film, while the rise of the new streaming window also threatens to shorten the traditional 90-day holdback period for theatrical screening.

Cable television—often the most profitable part of the media conglomerates—has been also hit hard, as people have increasingly abandoned cable television to switch to streaming services, thus “cutting the cord”[13]. As a result, the number of American households with cable TV is expected to drop by 5 million between 2014 and 2019, to 96.4 million. It is a dilemma particularly vexing for Disney. ESPN, the popular sports channel Disney acquired in 1996 as part of the purchase of Capital Cities/ABC, had accounted for nearly half of its revenues, generating more money than its movies or theme parks. Yet, it has lost 11 million subscribers since 2013, or more than 10% of daily viewership since 2011[12], and its decreased reach resulted in lower carriage fees and advertising revenue.

In short, with a lot of developments going on and consumers voting, online streaming is clearly the future of the entertainment business. In this new field, Netflix, an outsider that has been in original content business since 2013, has an indisputable lead, rapidly redefining the media industry and presenting serious challenges to the established order.

4. Into Disney Plus

In this context, Disney revealed the plan to
launch its own streaming services in August 2017. Apparently, it is a move to counter the growing challenges from streaming services and position Disney’s businesses for the future. It is in anticipation of this change that Disney announced its acquisition of Fox in December 2017.

Disney hopes to lure people to its streaming services by making it an exclusive home for its name-brand content such as Disney animations and Marvel and Star Wars films, along with a handful of original films and series based on Marvel and Star Wars properties. Given their huge box-office draw, this alone is likely to make Disney’s streaming venture quite impressive. Yet, considering breadth of content Netflix has as well as its huge spending on the production of original content, it is difficult for even a company like Disney to compete with Netflix on its own[14]. It is in this regard that Disney acquired Fox huge assets.

Acquiring Fox is typical of Iger’s approach to a perceived problem. He reinvigorated Disney’s animation division by acquiring Pixar in 2006 and bolstered its lineup of tentpoles by buying out Marvel and Lucasfilm. Now, acquiring Fox assets is expected to give Disney the scale and scope needed to compete with streaming giants. Fox also has more control over global networks than Disney does—for instance, Fox international networks owns more than 350 channels in 170 countries[3]—and this would help Disney to wage war against Netflix in the global markets, not just in the U.S.

Arguing that people do not like to pay for what they do not watch and there are thousands of barely watched movies on Netflix, Disney plans to give consumers more choices by introducing three services, which also represents multiple ways to tackle Netflix. Disney Plus to be launched in late 2019 is family-oriented one and home for Disney-branded, Pixar, Marvel and Lucasfilm programs. ESPN Plus that started in 2018 is the cable channel’s streaming service for sports fans. Hulu, the already established streaming service, is for general entertainment including edgy Fox shows for adult audience.

Given Disney’s dominance at the box office and the power of its brands, it is not surprising that it is leading the charge among Hollywood’s old guards against Netflix and other tech giants. Iger also said, “I don’t think anybody else could do this but us, frankly”[15]. In fact, it is predicted that Disney, not Amazon that has the second highest number of paid streaming subscribers, has the potential to match the scale of Netflix and become its first true rival[4].

At the same time, Iger tries to temper expectations about Disney’s streaming services. Foremost, it does not intend to try to match the torrent of original TV shows and movies Netflix pours out each year. Rather, its programing gives Disney “the ability to not necessarily be in the volume game, but to be in the quality game,” according to Iger[8]. Reflecting the lighter content load, the Disney’s monthly rate is to be around $7, less than $8.99, $12.99 or $15.99 Netflix charges.

Undoubtedly, Netflix is feeling the heat, as not only Disney, but also Warner Bros., Universal and even Apple unveiled plans to start streaming service and heralded increased competition. In the first quarter of 2019, it posted a drop in the number of U.S. subscribers for the first time since 2011. Losing reliable Disney hits is also likely to put more pressure on its original content production[11]. Besides, unlike Disney that can place its shows across various entertainment windows and profit from them, Netflix has only the online platform[16].

Yet, as Disney is venturing into an arena where Netflix has a 10-year lead, there is no
guarantee that this will have a fairy tale ending as its films do. Foremost, charting a new streaming path would be neither easy nor cheap. Disney has to invest billions of dollars in content production, while nobody knows when this will turn into any sizable profit. As it launches its own streaming platforms, from 2019 it gave up $300 million it received annually from Netflix for streaming rights to its films. Disney also has to persuade investors to overlook near-term financial turbulence[2].

In addition, despite its bold move into streaming by acquiring Fox, Disney is careful not to upset the status quo too much. For example, ESPN Plus does not include games and shows that are broadcast on ESPN channels, trying to be a complement to the channels[14] (indeed, a plus as its new streaming venture is termed), not an alternative. This is understandable given the still substantial stake Disney has in the cable television business.

Yet, Disney stands to gain a lot from the success of its streaming venture, and the failure would be a serious blow to the company, to say the least. Accordingly, to ensure success and counter the heightened competition, Disney will increasingly need to place its best content first on its streaming services[12]. In turn, this will make fewer people feel the need to go to movies or pay for cable, thus hastening cord cutting and shaking the status quo Disney tries to maintain. In short, its present and its future success seem to be inversely related, posing a difficult challenge to Disney.

5. Conclusion

Thus far, this paper examined Disney’s recent acquisition of Fox as the foremost instance showing how technological changes have been altering the media industry and looked at how the deal is driven by Disney’s plan to launch its own streaming services as a way to counter the challenges from streaming services.

As Disney and other companies hurry into streaming services, this heralds a new era in Hollywood. Hollywood has been a business-to-business industry, renting out films to theaters and selling videos/DVDs to retailers and rental firms, but now streaming technology allows studios to go directly to consumers and generate higher profits by cutting out middlemen. Disney’s move into streaming signals Hollywood’s old guard adapting to this changing reality. It indicates that, as streaming services have rapidly transformed the media environment, it is not enough to do business as usual in order to remain relevant.

At the same time, it seems that, Disney still has one foot in the present as its ESPN Plus indicates, while also keeping an eye on the future. Yet, as its success in streaming services would only accelerate the pace of changes and unsettle the status quo, Disney faces a difficult juggling act and it remains to be seen how this will unfold and affect the media industry.

REFERENCES


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