The Analysis of Financial Ratio and Firm Strategy Evidence from Disney

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Abstract: This paper takes Disney's business strategy as an example and analyzes Disney's financial status in recent years based on related reports of Disney. Before the completion of this paper, we sincerely thank Michael Willis, the director of the Master of Accounting program at Cambridge University, for his professional knowledge guidance.

1. Introduction

1.1. Background

This paper uses business analysis models to analyze Disney's business strategy and common size method to analyze Disney's financial status, which is based on Disney's business status in the past five years. This will provide Disney and investors important reference for the following operation.

1.2. Literature Review

The following literature have been discussed and referenced when completing this paper:

- The Creation and Operation Strategy of Disney's Mulan: Cultural Appropriation and Cultural Discount. *Sustainability*, 2021, RePEc. Rui Chen; Zhiyi Chen; Yongzhong Yang
- DISNEY (WALT) CO. (THE). *Mergent's Handbook of Common Stocks* (Wiley), Fall2005, Business Source Complete.
- The Mergers of Disney and Capital Cities/ABC. *Black Book - Those Murderous Mergers of Media*, 2002, Business Source Complete

1.3. Research Motivation

In order to better understand how the Disney operates and its business model,the strategy and ratio analysis based on the common size statements are used to discuss the current financial condition and the development of non-financial fields.

1.4. Contributions

This will provide reliable and convinced evidence to help stakeholders to get the information from Disney and better analyse to make decisions about investment.

1.5. Remaining Structure

The rest of the essay structure will include the company's corresponding market strategy, specific analysis throughout the entire operation process, and judgment and prediction of future development.

2. Development strategy

2.1. Disney overall strategy

The overall development strategy of the company features as localization and globalization of the products and the strategic layout of streaming media is aimed at all-age groups. Up to the second quarter of 2020, the three main ways that is tailor-made by Disney including “Acquisition + original + self-created” has attracted more than 54million users and this is a challenge to mainstream media “Netflix”. Also, the Walt Disney has planned to cooperate with communication operators “Verizon” to penetrate the potential users, and the overseas markets will be opened by the help of media network, including ESPN radio broadcast, Disney ’s ABC television group. Online media network is now Disney ’s largest source of revenue, and Disney has integrated the entire ecological industrial chain of “IP + content + theme park + media + technology” [7] for its sustainable development and makes, and the most downstream needs to cooperate with the outside corresponding to the strategy mentioned before to capture the most added value.

2.2. Industry chain analysis

By giving comparisons of what the background of other rivals, and the Disney is distinguished by its special globalization and localization of products, and giving examples of specific products to prove that it has formed a industry chain around the world.

The industry chain of the Walt Disney is to form a unique ecological closed loop and has a rich resource of IP, so the Disney has an integrated vertical industrial chain of all channels, all productions, and all IP. The Disney takes advantage of the exclusive park ticket consumption, and this enhances the derivatives and other featured services continue to create second consumption by visitors. At the same time, with the help of patent technology virtual game materialization, and create online and offline double game immersive interaction. When it comes to the theme park market, it is mainly collectivized, research has shown that the Disney has eight of the top 10 most popular theme parks in the world,[8]so the industry penetration is relatively high, and it can be seen that the oligopoly market has basically formed.

3. Strategy

3.1. Cost Strategy

Pricing tactics, price points, and price ranges tailored to Disney's various industries and consumers are part of the marketing mix. Pricing strategies vary by industry, including media/entertainment, parks and resorts, consumer products, and retail. Movies, for example, are priced in accordance with market norms. The company's parks and resorts use value-based pricing for souvenirs such as signed photographs and signature books. Value-based pricing is determined by the target audience's sense of value. This marketing mix may significantly increase profit margins when competitors' goods are lacking, as long as the global company maintains a strong brand image and practical marketing efforts [1].

3.2. Differentiation Strategy

Porter's five distinct strategies necessitate distinct goods. Customers must hold Disney products in high regard. Some goals necessitate the development of a distinct brand identity. In addition to theme parks: Walt Disney has experienced double-digit horizontal and vertical product growth. Disney also caters to a specific market. Disneyland, for example, emphasizes children's emotional connections [2]. As a result, Disney may charge a higher price for better services. Create a business plan centered on the niche. Disney Parks caters to young families as well.

In contrast to the "big kids" version of Universal Studios, Disney does not sell alcohol. Finally, Walt Disney has a worldwide strategy. 'Disney is a family-friendly company.' personalized services distinguish the company [3] [4].

3.3. Poter’s Five analysis

3.3.1. Threat of new entrants

Large-scale theme parks usually require a large amount of capital and technology investment. The investment is large and the construction period is long. Once completed, it is difficult to change the use, exit barriers and barriers to entry. In recent years, various theme parks have emerged in the world, but the rate of return is worrying. Most theme parks have low profitability and long return periods.

3.3.2. Threat of substitutes

The service products of Walt Disney theme parks do not have obvious substitutes because of their distinctive themes and special cultural environment and atmosphere. There are far more theme parks than Universal Pictures. Disney, as one of the most powerful multimedia giants in the world, basically has a monopoly in the animation industry. Its unique animation image and diversified business model are basically irreplaceable.

3.3.3. Bargaining power of suppliers

With the design of amusement facilities and the development of the manufacturing industry, the number of suppliers of theme parks has gradually increased, and the supply capacity has increased, which is conducive to Disney's choice. In addition to meeting the high safety of amusement facilities, amusement facilities have no fixed requirements for the supplied brands. At the same time, with the rise of theme amusement parks worldwide, there is a large demand for amusement facilities and an increase in consumers. The supplier does not rely on fixed customers, but the demand for each customer is very large.

3.3.4. Bargaining power of customers

Disney's tourists can be divided into individual customers, organizational buyers, middlemen, and other important buying groups. Individual customers are the most important market. Individual customers have a higher consumption frequency, strong customer mobility, and lower customer switching costs. Organize buyers to buy less frequently, but on a large scale, with small demand elasticity, and low price sensitivity. In addition, most of Disney’s consumers come here especially, there are not many opportunities to play, and they don’t really care about the price.

3.3.5. Industry Rivalry

Disney’s rival company are Universal Studios and Six Flags [9] but the price difference between the two is not big, and the park themes have their own advantages.

3.4. SWOT analysis

3.4.1. Strengths

Disney’s recognition is high, and it takes root in the hearts of the people through its cartoon images, which is a symbol of "childlike innocence" in most people's hearts. Besides, the brand has a strong cultural heritage, and the service concept is to give people happiness. Focus on innovation and progress, comply with the different needs of consumers in different markets while maintaining the core spirit, and perfectly combine globalization and localization. Furthermore, Peripheral industries (toys, books, movies, hotels, etc.) are well developed, comprehensive, and diversified operations are conducive to the overall development of the company.

3.4.2. Weaknesses

Due to geographical distribution and quantity restrictions, Disney theme parks cannot meet some consumer needs. However, Disney cartoon images are relatively few, mostly relying on early cartoon images, these images are less attractive. The movie market share of Disney's pillar industry is not high [10].

3.4.3. Opportunities

The development and progress of science and technology is beneficial to the development of Disney film and television technology. The expansion of the global market will benefit Disney's development of theme parks and hotels in more countries or regions.

3.4.4. Threats

The support and protection of various countries for their own industries will hinder the development of Disney's global business, and the development of film companies such as DreamWorks and Columbia, as well as the development of other companies' products and non-theme parks, will threaten Disney's current market position. Due to cultural differences, consumer resistance will arise when entering foreign markets.

4. Common Size Statement

Table.1. The company's ratio table from 2017 to 2020 Data resource: https://finance.yahoo.com/quote/DIS/financials/

year	2020	2019	2018	2017
Solvency analysis				
Asset-liability ratio	0.56	0.52	0.46	0.53
Current ratio	1.32	0.90	0.94	0.81
Quick ratio	1.26	0.84	0.86	0.74
profitability				
Net operating interest rate	-0.04	0.16	0.21	0.16
ROE	-0.03	0.16	0.28	0.21
Gross profit margin on sales	0.33	0.40	0.45	0.45
Operation ability				
Accounts receivable turnover	4.64	5.61	6.62	6.23
Current asset turnover	1.85	2.47	3.53	3.47
Asset turnover	0.32	0.36	0.60	0.58

The first is the company's recent ability to pay its debts, demonstrating its viability. The graph shows an increasing debt capacity but a constant asset-to-liability ratio. This implies that its total assets and liabilities will be greater than in 2019, indicating that it has grown even more in the previous two years. The ratios of the other two variables have recently increased. Accounts payable and short-term loans will be reduced by 2020, while monetary reserves will increase.

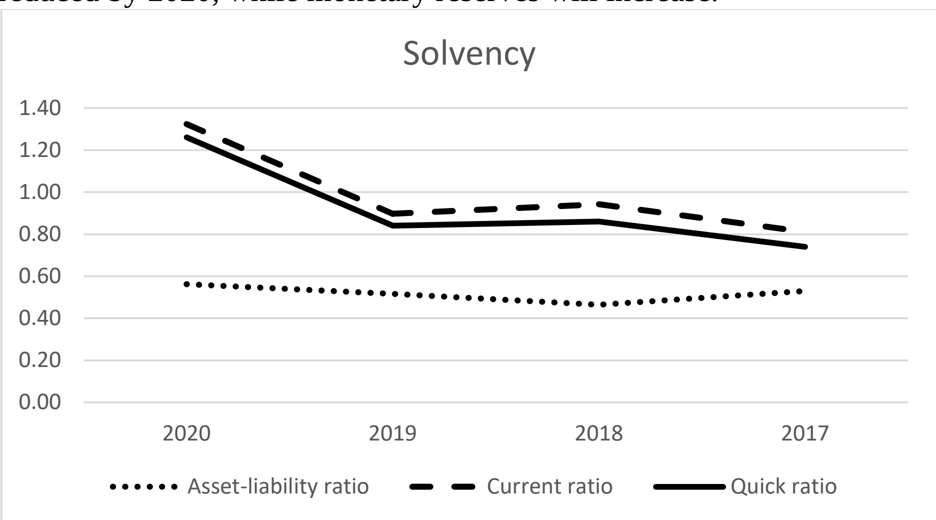

Figure 1. The company's solvency line chart from 2017 to 2020 Data resource: https://finance.yahoo.com/quote/DIS/financials/

After losing last year, the company is expected to lose again in 2020. Profitability has recently declined. Finances show a minor increase in operating income but significant increases in expenditures. Profitability has increased as a result of increased advertising and other sales expenditures. Because of rising costs and expensive advertising, consumption entertainment companies earn more money than stated. The company appears to be profitable by lowering its advertising costs. The Covid epidemic has harmed the entertainment industry worldwide. Disney's earnings have steadily increased over the years [5, 6]. ROE and other metrics improved in the first quarter of 2021. Better financial metrics as a result of lower operational and sales costs.

Table.2. The company's income statement for 2021 Data resource: https://finance.yahoo.com/quote/DIS/financials/

	2021**Q9**	2021**Q6**	2021**Q1**
ROE	0.0216	0.0109	0.0002
Net operating interest rate	0.0461	0.0354	0.0011
Gross profit margin on sales	0.3292	0.3234	0.2753

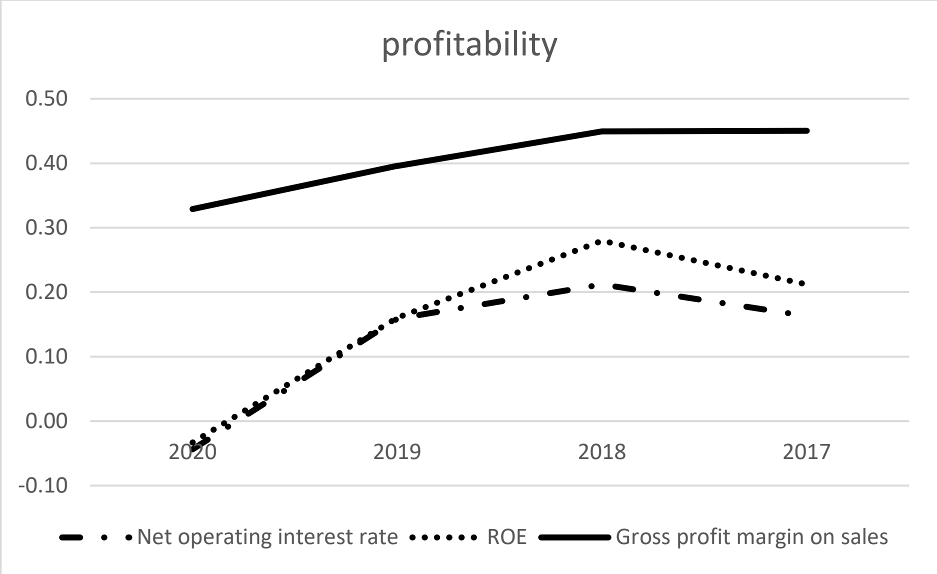

Figure 2. A line chart of the company's profitability from 2017 to 2020 Data resource: https://finance.yahoo.com/quote/DIS/financials/

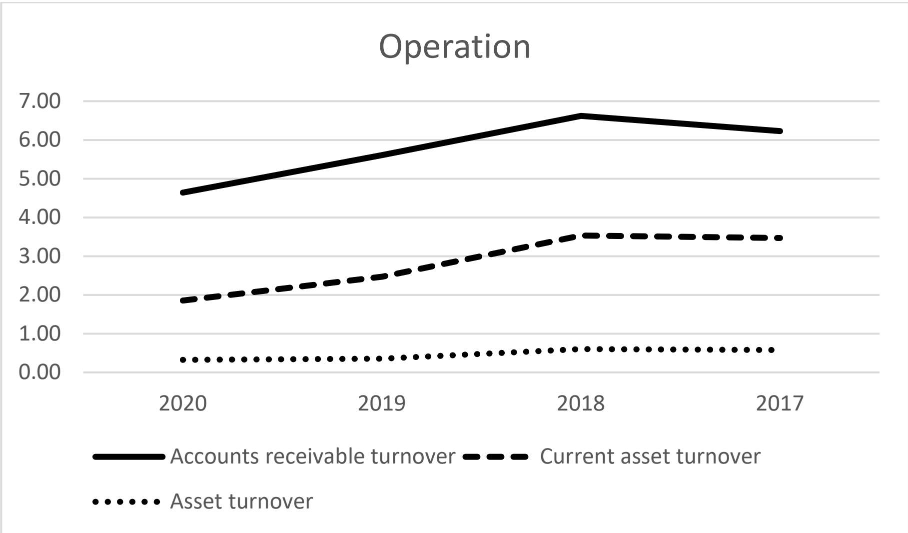

Figure 3. A line chart of the company's operation from 2017 to 2020 Data resource: https://finance.yahoo.com/quote/DIS/financials/

5. Ratio Analysis

5.1. Financial performance of profitability

As measured by the return on capital employed, Disney' s overall profitability does not compare well with industry, underperforming profitability showing 11.6%. The component parts of overall profitability are asset turnover and profit margins and both of these, Disney considerably under performs which is worse for profit margins than for asset utilization and indeed it is the gross margin which is the main cause of the unfavorable comparison. This may be due to a deliberate policy of overpricing or epidemic situation. When it comes to the net asset turnover, Disney is generating approximately 11% less revenue from its assets, which also contributed to the overall profitability. There would be some reasons for the lower asset utilization. Firstly, Disney expanded its property, whereas it is not known if its additional depreciation is used, and the policy of revaluation is not sure. Some of Disney' s project has not been fully acquired and may not up to a full earning capacity, meaning the current year's revenue does not contain sales for a whole year.

Table.3. The company's working capital for 2021 and trend analysis Data resource: www.google.com.hk/finance

Income	17.2billion	↑44.51%
Net income	918m	↑119.45%
Diluted EPS	0.5	↑119.16%
net profit margin	5.39%	↑113.45%
operating income	1.3billion	↑2350.00%
net cash change	183m	↓97.91%
cash in stock	16.7billion	↓30.48%
cost of revenue	11.23billion	↑42.26%

5.2. Liquidity analysis

The current ratio shows that the liquidity of Disney is within expected norms. I think there would be an argument to whether to exclude finance costs liability from the current ratio which would then put it at 1.3:1,which is perhaps a little higher than expected situation.

Table.4. The company's liquidity ratio from 2020 S2 to 2021 S4 Data resource: http://www.eastmoney.com

Liquidity						
Receivable turnover times	5.17	1.39	3.75	1.32	2.52	1.17
Inventory turnover times	46.27	13.86	33.40	12.38	21.32	10.82
Asset turnover times	0.33	0.09	0.24	0.08	0.16	0.08
Receivable control days	69.62	64.88	71.98	68.44	71.30	76.62
Inventory control days	7.78	6.49	8.08	7.27	8.44	8.32
Asset control days	1081.74	985.34	1115.07	1063.99	1134.95	1159.05

6. Conclusion

The epidemic's impact on Disney is also an important consideration. Nevertheless, again, this is what we talked about as a group. Preventing the spread of an epidemic costs much money for the park segment. Sailing and guided tours, for example, were either halted or reduced in capacity for much of the year. Additionally, the epidemic has had an impact on licensing agreements. However, there is a problem with the company's ability to generate content. It has been nearly two months since stage play performances were halted because the studio decided to cut or cancel shows and theatrical releases. Each of these industries has its own unique set of challenges to overcome. Disney grew the network media market during the epidemic. A subscription option for the online version of the column also drew much attention. During these years, Disney has much room for growth, and they are going to do everything they can to take advantage of it. Additionally, Disney was likely to deal with redundancies, a standard method of cutting costs. Consequently, Disney was able to save money on personnel costs and avoid certain financial risks.

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