A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

# NETFLIX: THE DISRUPTOR FACES HEADWINDS

# DISNEY+ AND THE HEATED DISPUTE FOR LEADERSHIP IN VIDEO-STREAMING

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01/06/2022

**Abstract | *Netflix: The disruptor faces headwinds***

This paper covers the history of Netflix written as a case study: first, it tackles its transition from in-mail DVDs to turning into a streaming giant; second, it covers international endeavours and market pre-emption; third, acknowledging the increased competition in the SVoD (subscription video-on-demand) industry, multiple possibilities are suggested as a way of Netflix to rethink its strategy and business model. Hence, three different options arise – *Peer-to-peer multisided platform*, *Content Expansion & Vertical integration*, and *Focusing on core strengths*. All are presented with its advantages and shortfalls, promoting an in-class discussion on which could sustain competitive advantage for Netflix.

**Keywords**

Value Creation, Corporate Advantage, Sustainability of Competitive Advantage, Disruption, Business Model Innovation.

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

**Abstract | *Disney+ and the heated dispute for leadership in video-streaming***

*Growth*, whether in an organic or inorganic way, has always been key for The Walt Disney Company [hereafter *Disney*]. With Disney's latest foray into video-streaming through Disney+, this paper tackles its development and positioning in the market space as competition within the industry intensifies. Thus, this paper analyses whether it is possible for Disney to win the video-streaming wars, leveraging the growth of Disney+ through its previous horizontal expansions, answering the initial question with a "yes" – in the long run, Disney is likely to win.

**Keywords:** Horizontal integration, Vertical integration, Competitive advantage, Competitive strategy.

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

## ***Netflix: The disruptor faces headwinds***

### Introduction

Netflix, Inc. is an American subscription streaming service and production company, founded in 1997 by Reed Hastings and Marc Randolph. Initially selling and renting DVDs by mail, the business model rapidly evolved and, in 2007, video streaming on-demand was introduced. Back in 2010, Randolph claimed to already know what the future would hold for Netflix: *"We knew from before day one that, eventually, this was going to be either a streaming service or a download service. The interesting thing is we didn't know which of the two it would be (…) or that it would happen as soon as it happened".*

After licensing content for years, in 2013, Netflix vertically integrated and entered the content production industry – Netflix Originals – debuting its first series *House of Cards* (Kelly and Swann 2020).

According to 2021 data, Netflix Inc. is the most in-demand streaming service for original content, with a market share of 53.4% [Figure 1], having an increasing number of subscribers worldwide [Figure 2] and being listed as one of the largest internet companies, with $239 billion market capitalization [Figure 3].

Nevertheless, the disruptor is facing competition from other video streaming companies, with them fighting over a larger piece of the pie. As the co-CEO Reed Hastings likes to remind, his company is competing "*with these amazing companies – Amazon and Apple, Disney and HBO, so it's a big battle (…)*" (Business Today 2021). Although currently the industry leader, forecasts point towards market share changes by 2026, which could jeopardize Netflix's future [Figure 4]. Indeed, the first quarterly results of 2022 revealed a loss of 200.000 subscribers for the first time in over a decade (Sperling 2022) – should Reed Hastings consider an updated business model for his company? It may be needed to keep up with its peers (Kemerer and Dunn 2017).

## History and context

When Netflix was launched in 1997, the industry of DVD rentals – at the time, a new revolutionary video playback technology – was mainly controlled by one big player: Blockbuster.

Blockbuster was founded in 1985, when most of the businesses involved in video rental were small, independent companies spread across America. Blockbuster quickly expanded throughout the whole country by offering video rental services in brick-and-mortar shops. By 1999, Blockbuster was the largest video rental company, having revenues of approximately $4 billion (Olito 2020) [Figure 5]. It owned more than 6.000 stores, each of them having approximately 4.000 to 5.000 movies – in other words, Blockbuster was the *non-plus-ultra* in this industry and made it difficult for other players to gain substantial market share, creating high entry barriers with its membership-based model in the video rental, this being something new compared to classic shops that were competing with Blockbuster. Indeed, the membership cards could be used all over the country without opening another account or signing up because the person is renting in a different store than usual. A crucial part of Blockbuster's business model was the introduction of "late fees". This consisted of having the customer pay a certain amount as a fee for every day in which the DVD was returned later than initially decided between the customer and the company. Eventually, Blockbuster could not withstand the pressure of its customers and announced in the early 2000's the suppression of late fees, which eventually cost the company approximately $200 million (Teather 2004). Nevertheless, the company kept losing market share to Netflix and its innovative streaming platform [Figure 6] (Olito 2020).

During its initial stage, Netflix took advantage of the invention and fast adoption of DVD players in the US. Hence, the company realized that shipping DVDs to customers as opposed to having brick-and-mortar stores was a win-win strategy: on the one hand, it allowed them to have a leaner business model and cut down costs; on the other hand, customers did not have time-consuming store visits – instead, in exchange of $20 per month, customers could select three movies from a catalogue and get it sent to their home. Additionally, late fees were not part of the strategy in comparison to Blockbuster, and the DVDs ordered online could be kept for as long as the individual wanted to. Returning the DVD in good condition was the only requirement not to be penalized by the company (Rachleff and Coates 2007; Shih et al, 2007). Later, an increasing paying subscriber base provided Netflix with funds to gather licenses and scale its operations, thus building entry barriers against other players. Taking its business model one step further, Netflix introduced the possibility to flag or queue the next films on the customer's profile. Once the previous DVD was sent back, it automatically sent the next DVD from the waiting list to the customer. In addition, setting themselves apart from the competition, Netflix integrated a personalized subscription, using an algorithm capable of classifying and suggesting content to the customers based on their ratings and preferences (Shih et al, 2007).

With increasing popularity, Netflix went public in 2002 with an IPO at 15$ a share. Nonetheless, two years prior, Hastings and Randolph were in a completely different position. They had a meeting with Blockbuster CEO Antioco. The idea of the two founders was to propose Blockbuster buying Netflix and the two being then in charge of the online video rental arm, Blockbuster.com. The meeting did not happen as they would have liked, as Hastings recalls:

"*Antioco listened carefully, nodded his head frequently, and then asked, "How much would Blockbuster need to pay for Netflix?" When he heard our response – $50 million – he flatly declined. Marc and I left, crestfallen"*. (Harris 2020)

In 2002, the situation changed, as Blockbuster realized the difficulties holding up to its market share. The cancellation of late fees did not have the success the company hoped for, causing them to file for bankruptcy years later, missing the opportunity to move into the streaming industry.

In the meantime, Netflix started to have a closer look at the streaming industry and considered the possibility of having both DVD renting per mail and a streaming platform, in which customers could choose what to watch on their PCs and download it. In 2007, streaming was introduced for Netflix clients, as CEO Reed Hastings had previously predicted that the DVD rental industry was near its peak performance, consequently causing the industry to slow down and decline (Dau and Wesley 2012). Nonetheless, the co-CEO Reed Hastings had some doubts regarding the introduction of streaming, as he told during an interview:

*"For the past five years, my greatest fear at Netflix has been that we wouldn't make the leap from success in DVDs to success in streaming. Most companies that are great at something – like AOL dial-up or Borders bookstores – do not become great at new things people want (streaming for us) because they are afraid to hurt their initial business. Eventually, these companies realize their error of not focusing enough on the new thing, and then the company fights desperately and hopelessly to recover. Companies rarely die from moving too fast, and they frequently die from moving too slowly."* (Richardson 2011).

The first streaming offer by Netflix was "Watch now". It consisted of free limited streaming, in which customers paying $18 per month for their rental service could enjoy 18h a month of free streaming. Customers having the cheapest monthly rental contract could enjoy up to 6h a month of free streaming. Through their previous investment in algorithms regarding customer choices in DVD rentals, Netflix had more knowledge regarding the preferences, habits, and demographics of customers over competitors with no algorithm, such as Amazon or iTunes (Chatterjee et al, 2016). In other words, Netflix had a strong differentiation point compared to the competition, leveraging its algorithms. With this move, "Netflix showed how transformational big data can be in a company", (D. Smith and Telang 2018). Netflix's platform was a pioneer in shaping *what* customers watched, using data from ratings on what customers liked and disliked or even for how long they watched a show. In 2005, Reed Hastings even claimed that "The real problem we're trying to solve is, *How do you transform selection so that consumers can find a steady stream of entertainment they love*?" (D. Smith and Telang 2018). Soon after, the company approached consumer electronics companies such as Sony, aiming to offer their streaming services on their game consoles or Smart TV. By establishing key partnerships, Netflix was able to increase its presence in the market and stay one step ahead of competition. It also enabled customers to download film content to their devices (Feinberg and Johnson 2017). After seeing the potential of streaming, Netflix offered unlimited streaming access to all its customers. By the end of 2008, Netflix offered their first ever streaming-only service for $7.99 per month [Figure 7]. In doing so, after having reshaped DVD rentals, Netflix was spearheading the video streaming industry.

**Market shift & Renewed business model**

The shift towards online streaming allowed Netflix to increase its reach and target new customers. However, it brought along new competition: with Blockbuster becoming less threatening, technology and media companies were now part of the serious contenders for market share. Companies such as cable providers were eager to sustain their market share, as they worried about their customers moving from television, towards (on-demand) streamed content. In 2007, when Netflix offered this service for the first time, only iTunes was another platform which had movies for download. However, the offer was smaller, did not have personalized recommendations and ended up being more expensive since prices were charged per movie and not as a subscription, making it less attractive for the consumer (Gans 2017).

Yet, by 2011, new and established players in media learned from Netflix and launched their streaming platforms. Amazon offered its Amazon Prime customers free streaming; Apple offered an update of iTunes movies downloads on live streaming; HBO created a video-on-demand platform for its viewers. Additionally, Hulu, a joint venture between NBC Universal and News Corporation, offered streaming and video on demand (Gans 2017).

That year, Netflix made an audacious move, deciding to split their two business, DVD rental and streaming, into separate companies. The DVD rental was then named Qwickster and the name Netflix was solely used for the streaming and video-on-demand businesses (Dau and Wesley 2012; D. Smith and Telang, 2019). However, Qwickster quickly declined due to weak demand and was eventually shut down in 2011.

**The leap into producing original content**

In addition to splitting the business into rental and streaming, the company committed to allocating resources to the production of originals, starting with *House of Cards* in 2012. Revenues from the decreasing, but still attractive DVD business – $3.46 billion between 2012 and 2015 – were used by Netflix to invest in both original content and licensing of third-party content for the streaming business (Gilchrist and Luca 2017).

Before venturing into originals, Netflix had negotiated streaming rights with content owners, having little power over the price charged by the suppliers. As these were keen on monetizing their properties, detailed agreements were established, mentioning parameters such as the licensing period, territorial rights, and others – “I looked at that and realized we were faced with a supply source that wasn’t reliable,” said Ted Sarandos, chief content officer of Netflix (Gilchrist and Luca 2017).

Both the purchase of exclusive rights for third-party content and the funding of the production of original content constituted large fixed items in Netflix’s cost structure. Having an increasing number of subscribers, Netflix was able to create a virtuous circle in which a low average cost per subscriber was created through its original content. With 100M production costs and 20M subscribers, the cost per customer would then decrease to $5, making it very profitable. This was a major change in industry economics, as it put an end to supplier bargaining power and allowed Netflix to greatly benefit from scale economies when creating content (Helmer 2016 ). Further reinforcing the advantages of producing original content, research from 2018 indicated that offering content from TV channels alone was not sufficient for a streaming service to attract and retain subscribers, and that offering original and differentiated content as a complement was crucial to achieving these goals (Prince and Greenstein 2018). [1]

The leap into original content allowed Netflix to escape the rat-race that seemed to be part of the streaming industry. As Ted Sarandos had correctly identified, solely relying on external content did not give Netflix any power – they had no *cornered resource*, no content they owned and that would keep customers in on a medium-to-long-term basis. Given this, Netflix has spent increasing amounts on original content over the years [Figure 8], greatly surpassing the competitors [Figure 9] (Helmer 2016).

**International Expansion**

Beyond shifting towards producing its original content, Netflix also pursued an aggressive international expansion strategy from 2010 onwards (Oh and Myer 2016).

Netflix faced many challenges while pursuing its international expansion strategy. It had to secure content deals region by region, and sometimes country by country. It faced a varied set

[1] Nevertheless, original content by itself was still not enough: the same research paper indicated that a balance was needed for a firm to capture the most value. On the one hand, original content provided content diversification and set the company apart from competitors; On the other hand, external productions held most viewing hours (Prince and Greenstein 2018). Indeed, 2/3 of the viewing hours are related to licensed content, such as *Friends* or *The Office*. Once these licensed contents are lost, Netflix enters a dilemma, as they do not meet the preferences of a certain number of their customers.

of national regulatory restrictions, such as those that limited the type of content available in local markets. International subscribers, some of whom are not fluent in English, would frequently prefer local-language programming. In face of these challenges, Netflix prioritized entering proximate markets to its US home base – both in terms of geographical distance, and institutional and cultural differences. With that in mind, Canada was the first country to expand as it is culturally close to the United States. This was part of the first out of a three-phase plan to expand the business (Brennan 2018). There, despite the presence of local competition, Netflix's market penetration rate became much higher than in the US.

Having succeeded with the first expansion process, Netflix turned towards more countries for its second phase. Indeed, there was a faster and more-extensive international expansion in which the company extended its footprint to approximately 50 countries, applying the lessons it learned in the first phase to operate in a wider range of markets. The choice of those markets was influenced by their degree of desirability, taking into consideration factors such as shared similarities, the accessibility to broadband internet, and the quantity of affluent consumers (Brennan 2018). Most Latin American countries were targeted in this expansion, having a special focus on the most populated countries Argentina, Brazil and Mexico. This second stage allowed Netflix to partner with local stakeholders, as in the first phase this was not necessary as it only concerned one country – Canada. This enabled Netflix to invest in content geared toward the preferences of those geographies. Thus, Netflix took an approach to "niche programming" well-defined in their so-called "taste clusters" – doing licenses for specific countries or regions, tailoring their content offering to the wants of the population (Oh and Myer 2016). In order to penetrate local markets, the company had to develop country-specific knowledge, covering matters such as politics and culture and appropriately tailoring the content. Even so, countries like Japan and India were more difficult to penetrate and gain a substantial market share, as competitors already covered most of the market, having a significant subscriber base and a diversified offer, aligned with local tastes and cultural habits (Brennan 2018).

Last, after knowing content preferences and the best way to attract new customers from a marketing standpoint, Netflix focused on adding more languages for subtitles and user interface, introducing new features, such as download possibilities which enable customers to watch series without being connected to internet or WiFi. Also, a more customer-friendly user experience, enhancing its personalization algorithms and expanding its support for a range of devices. Diagnosing that in some parts of the world, particularly emerging and developing economies, mobile was the main way to access internet, Netflix began to stress the improvement of its mobile experience, developing relationships with device makers, mobile and TV operators – for instance, when Vodafone launched a TV service for its customers in Ireland, it included a Netflix button on its remote controls (Brennan 2018).

**Competition & Current state of affairs**

In 2021, after embracing the production of original content and being present in over 190 countries, the company aligned both conquests. Aiming to further expand, Netflix persisted in reinvesting its gains to license and create original content [Figure 10], operating with an increased cost of revenue [Figure 11], with forecasts pointing to a continuous rise in original content in the upcoming years [Figure 12]. With productions based in approximately 20 countries, Netflix saw that some locally produced content has been successful worldwide, thus going well beyond the requirements of adaptation to local tastes (Brennan 2018). For instance, the recent series *Squid Game*, originally produced for the Korean market, had an enormous success, becoming the most-watched series on Netflix, ever. Another series that became very popular in all of Europe is the series *The Chestnut Man*, previously produced for the Danish and Scandinavian market. On the other hand, to address the long process of signing content deals with studios on a regional level, it has progressively pursued global licensing deals to provide content to all markets at once (Oh and Myer 2016).

Nevertheless, despite Netflix’s efforts, competition is coming close. For instance, Disney has successfully expanded into video streaming with its platform Disney+. Disney’s vast pre-existing library allowed it to offer a vast portfolio in terms of content diversity, quantity of original content and inherent cost structure. For instance, the show *Grey’s Anatomy* featured in the top 4 most watched shows on Netflix until 2020 (Trainer 2019). However, the show being owned by Disney, is now exclusively aired for Disney customers, which damages Netflix’s reach and potential customer acquisition.

In addition, among Disney, other players like Amazon Prime can take advantage of brand recognition and scale economies, benefiting from the Amazon Prime bundle, being access to their streaming library and benefiting from free delivery. As Prime had saturated the market and was hunting for smaller customers to fuel growth, potential members who could not justify Prime on the grounds of shipping savings concluded “*Netflix costs $108 annually, so I’m already winning by purchasing Prime for streaming video before even considering the additional benefits*.” (D. Smith and Telang 2019). The intensified competition had an impact on Netflix's costs of customer acquisition. Within 7 years, the expenses almost doubled. Back in 2012, Netflix paid $308 on Marketing and other expenses for each new customer. For the year 2019, the acquiring cost for a new subscriber stood at $581 (Trainer 2019).

**The future of Netflix**

In face of additional competition and increasing maturity of video streaming, Hastings is considering multiple avenues for Netflix to continue its success. On the one hand, focusing on the short-term, Netflix could aim to further penetrate some markets that were more challenging due to cultural differences, such as India. However, that may not be enough to guarantee continuous growth, as most markets will eventually achieve a plateau in terms of subscriber growth rate. Therefore, the company must consider alternatives besides market pre-emption for long-term profitable growth:

**a. Peer-to-peer multisided platform**

First, research indicates the company could grow substantially by becoming a peer-to-peer multisided platform. Netflix's big subscriber base (over 200 million worldwide) and content-delivery infrastructure are attractive to many third parties. In addition to video content providers, these third parties could include marketers and developers of gaming or other services, taking into consideration the main interests of Netflix's users [Figure 13]. Becoming a peer-to-peer multisided platform by allowing third parties to sell their products with Netflix's service but outside the subscription would allow the company to tap a different dimension of growth, selling additional items to the same subscribers (Hagiu 2018).

**b. Doubling down on content & vertical integration**

Second, as opposed to relying on third parties to develop and offer new services to the same subscriber base, Netflix could do with that type of content what it has previously done with streaming: vertically integrate and acquire within the content industry. The company would have its own resources with a fixed cost structure and a multiplicity of offerings. Moreover, the process would also include acquiring more companies creating content, with whom Netflix already works, such as the producers of the British series The Crown. Hastings realizes that the option would be tempting, allowing the extension of the company into gaming, podcasts, and other services, in addition to further developing content companies' acquisitions. The most important acquisition to date was Robert Dahl Story and Co. for $700 million. This company owns big hits, such as Charlie and the Chocolate Factory or Matilda which now belong to Netflix (Shaw 2021). However, he also knows that extending into new segments, such as gaming, would lead the company into broad digital entertainment and not just digital streaming as it currently is, bringing along multiple issues, such as increased competition. (Hagiu 2018). In fact, Netflix IR already previously stated "(…) *we compete with all the activities that consumers have at their disposal in their leisure time. This includes watching content on other streaming services, linear TV, DVD or TVOD but also reading a book, surfing YouTube, playing video games, socializing on Facebook, going out to dinner with friends or enjoying a glass of wine with their partner, just to name a few*."

**c. Focusing on core strengths**

To further expand, Netflix could also focus on what they do best, video-streaming, and approach additional content offering in a different way. As opposed to creating more movies or series, the company could go deeper into the content customers already like. Hence, Netflix could make available extra content about hit shows, such as interviews with the cast, the making-of, and so on, easily pleasing Superconsumers, the top tier of consumers that know the most about each category (Hagiu 2018; Yoon et al, 2021). Furthermore, the "content about the content" strategy could go one step further: touching option b), there could be content about the extended offer, such as gaming, as gamers spend hours watching other people playing video games. "Content about the content" would allow Netflix to further fuel the passion of superconsumers and increase time spent on their platform (Yoon et al, 2021).

Yet, Hastings needs to decide on which option to choose, even though they all seem attractive ideas for growth, there are shortfalls and the possibility of brand spill over effects.

With those three options on the table, Reed Hastings lays back in his chair and looks out of his window at the Los Angeles skyline. He knows the decision he will take will significantly influence the future of his company and dictate the strategic path for the coming years.

LTV and low customer churn. Relations can also be mentioned regarding the cost-benefit stick and its influence.

After that, the instructor should point out that another factor which built and kept a competitive advantage for Netflix is not only the fact that Netflix expanded through original content, but the *pace* at which it did. Indeed, students should be able to recognise that through the fast expansion, Netflix was able to often be the first in a specific market, which again lead to the first-mover advantage. In addition, such strategy can make it more difficult for other competitors to grow as the available market share decreases. Consequently, if another company wanted to enter the same sector, through the knowledge that Netflix acquired in the past years while expanding and the already important amount of customers that they gained, the competitor would likely be pushed out of the market, unless their upfront investment were considerable and available in short term. Therefore, students should be able to make the connection between:

1) Netflix's fast pace of expansion, and
2) The creation of high entry barriers for new competitors, this being especially related to potentially high investment costs that are needed to enter the market and be competitive with the incumbent company. In addition, Netflix already filled most market niches and developed switching costs for its customer base, mainly on the original content offer.

Second, the professor must reinforce the importance of original content: besides gaining new customers, entering new markets, and creating high entry-barriers, original content means Netflix (backward) vertically integrated. Thus, it became less dependent on content providers and there are some benefits to it – the instructor must write the below topics on the board:

1) Cornered resource – original content belongs to Netflix, and it is not available on any other video-streaming platform;

   a. On the other hand, licensing agreements were costly and had an expiration date; Netflix only had a given time until the resource was gone.

2) Operational efficiency – by owning the resource, Netflix's investment into original content will become relatively small throughout time and profits will increase, as there is a greater ability to enjoy economies of scale by internalizing production, as opposed to paying royalties for external content in a proportional way to the number of users.

   a. Here, the instructor can make a parallelism with Spotify, another streaming company: Vertical integration prevented Netflix from ending up like Spotify who, despite increasing revenues [Figure 14] and an increasing subscriber base, keeps operating with a very high cost of revenue [Figure 15], resulting on losses year after year [Figure 16]. Realizing that, Spotify has tried to disintermediate the record business and let artists upload their music without using record labels, as the right holders receive most of the profit. However, Spotify abandoned the experiment after about a year, after a heavy backlash from music labels, on which it was very dependent. Thus, maintaining the platform unprofitable.

***Keeping an edge over the competition***

At this point, the discussion with the students explored how Netflix built its competitive advantage for it to be sustainable. Hence, students should be asked, "How does Netflix manage to keep ahead and have this specific edge over the competition?".

The answer to this should include the two classes of isolating mechanisms: *Size* and *Uniqueness*.

1) Size – with the fast and worldwide expansion of Netflix, it is hard to ignore the streaming giant. Thus, bargaining power is in favour of Netflix, as it will have a big influence on the seller's revenue. In this case, smaller production studios produce local films and series. Also, economies of scope are created in the company, as they produce

series and films that can be viewed in several different countries and become global. Expenses are saved by offering the product globally, such as the series Squid Game. Experience curve can also help the company to sustain a competitive advantage. Being in the business for many years compared to competition can serve as an advantage and bring cost savings versus competition. Additionally, indirect network effects are also a powerful tool that helps Netflix to grow their subscriber base. The more movies and TV shows on the platform, the more subscribers value the service – hence, customer churn diminishes and the acquisition growth rate increases.

2) Uniqueness – students should think about how Netflix, as a video-streaming platform, can become more complex and have high barriers to imitation. Through Uniqueness, potential (high) trade-offs would be created for customers because. Similarities can be mentioned with Apple and their product features being unique and having the aim of locking in customers. For example, Netflix's algorithms – more specifically, the technology regarding customer tracking and analysing customer preferences – are powerful and unique tools that keep the company a step ahead of the competition, as Netflix already has two decades of experience in this matter, which the competition do not. This database is very valuable for Netflix and should be emphasized in that way during the class discussion. With it, Netflix can adjust the recommendations and plan what kind of content, be it original or licensed, customers prefer to watch in their geography. Once the students point out this factor of sustainable competitive advantage, the class can be asked whether this resource is sustainable.

After asking the question and listening to students' opinions, the instructor can give some hints, eventually concluding that a five-step test is a good evaluation to know if the resource is indeed sustainable. The five tests, which are Competitive Superiority, Durability, Inimitability, Substitutability and Appropriability can then be briefly discussed. The Resource can then be tested regarding the 5 steps to see if it is sustainable for the company or not:

1) Competitive Superiority – YES. The algorithm is more elaborated, efficient, and precise than the ones by the competition. Also, Netflix has more experience.
2) Durability – YES; The algorithm will always be available and useful. There are very few chances that it would erode.
3) Inimitability – YES; Netflix is years ahead with their algorithm and customer tracking/analysis compared to their competition. With R&D, the lead can be maintained. In addition, market pre-emption can work as another protection from imitation, for example; Netflix is present in strategic niche markets, so that competition has few opportunities to enter the market.
4) Substitutability – YES; These algorithms are the cutting edge of technology, as they are non-substitutable by other innovations. Hence, it is difficult for competitors to replace and outperform it with different resources.
5) Appropriability – YES; The algorithm is imperfectly mobile as it cannot be traded, being embedded in Netflix's organization and content offering. It helps Netflix to capture significant value and insights on customer experience, customer tracking, and customer preferences, which can then be analysed. Thus, it improves the service and customer satisfaction.

**PART III: Long term strategies for enhanced growth**

***In the future, what type of strategies can assure Netflix continues to grow?***

***Can Netflix create potential synergies from diversification?***

## Group part

In the third and last part of the class, the instructor should focus on the future of the video-streaming industry. Hence, he/she can start this section by asking the class "In the future, what type of strategies can assure Netflix continues to grow?".

After briefly listening to ideas the class might suggest, the instructor should lead the discussion towards two main points:

1) Expansion process – expanding and improving offers in other countries is a viable option, especially in the short to medium term. Whilst Netflix has great reach, there are still regions in which its presence is low due to cultural differences, such as India for instance. Thus, develop original content acknowledging local preferences is a viable strategy for growth.
2) Diversification – in a medium to long term perspective, however, Netflix must do more than to expand to different geographies. For instance, Netflix could adopt another strategy, such as:
    a. Peer-to-peer multisided platform – allowing third parties to sell their products with Netflix's service but outside the subscription, thus selling more items to the same subscribers, shifting from being an aggregator of content to a hybrid aggregator platform in which various content providers sell directly to users;
    b. Extend the offer & vertical integration – by extending to gaming, podcasts and other services, Netflix could set itself apart and become known for operating within digital entertainment, not merely within the digital streaming industry. Taking this option one step further, Netflix could do with podcasts and gaming what it previously did with shows and movies, a (backward) vertical integration, consequently having its resources with a fixed cost structure and a multiplicity of offering unlike any other platform;

i. To deepen this discussion, the instructor could suggest that, for instance, Netflix could first rely on external providers for the gaming and podcast services that are already familiar and well-known to the customers, to diminish entry barriers and create a positive WOM from the beginning. Then, after being an established player in this field, Netflix could create its original content. Another solution would be to enter a partnership with third party companies, like Spotify.

c. Focusing on core strengths – Netflix could provide additional video-streaming content to its users, giving them "content about the content" with interviews, behind-the-scenes, etc. Having the algorithm, and knowing the main preferences, could be a *quick-win* to engage users with content that is already familiar to them.

Each of the three options listed above has both benefits and limitations; The instructor must have a debate with the class, asking students which option seems better, as well as asking students for pitfalls in each strategy. During the discussion, several points should be highlighted:

1) **Peer-to-peer multisided platform** – Turning Netflix into a multisided platform would allow other external producers and content providers to add their material and allow users to have access to it, using their algorithms and playing an intermediation role. The company would decrease its costs from content creation, whilst at the same time extending the offering to customers. (Hagiu 2018). However, it could cause damage just as easily with the brand-spillover effect, as Netflix would no longer be in control and that could lead to a decrease in content quality, consequently leading to higher customer churn and less time spent on the platform. Additionally, as the streaming industry is highly competitive with elevated indirect networks effects (the more viewers it has, the

greater the chance to have better content and vice versa), allowing for a step back in terms of content quality could make them lose market share, leading to a sliding snowball effect in terms of quality of the offering.

2) **Extended entertainment offer / Vertical integration** – The instructor could suggest Netflix to first rely on external providers for the gaming and podcast services and,

   a) After gathering insights on the customer use of the platform and the extended offer, Netflix could replicate its take on video-streaming originals and extend its pursuit of vertically integrated content rather than relying on external suppliers. Again, that would give Netflix full control of the supply chain, taking advantage of scale economies and a fixed-cost structure.

   b) As well as adding plans with access to the full offer content-wise, it could consider adding a segment below the current ones [Figure 17], which would include ads, in a similar way to the free Spotify version.

   c) The instructor must also refer the downside of offering diversification: While on the one hand we can say that offering a broader range of content and vertically integrating its production is a way of possibly extending the customer base and increasing revenues, there are downsides to that approach. Even though vertically integrating content worked wonders in terms of video-streaming and originals, it is not a one-size-fits-all and may not work for gaming or podcasts. Video-streaming was new at the time and there were few competitors; however, when it comes to gaming and podcasts, the industry is mature, and some companies have been perfecting their business models and offering for decades now. Furthermore, these competitors may retaliate and cut-off the Netflix app from their platforms – like Xbox or PlayStation.

a. As a subtopic, the instructor may ask the students if gaming is a good strategy for Netflix and listen to their opinions – after, he/she can claim that Netflix is passive entertainment, focused on relaxing people with the well-known “Netflix & Chill” idea. Thus, what makes Netflix great is its ability to offer a variety of stories that customers can “lean back” and watch and often multi-task. Therefore, gaming is an odd fit for Netflix, as gaming is an active versus passive activity (Yoon et al, 2021).

3) **Focusing on core strengths** – developing content about the content can be a “quick-win” for Netflix in terms of increasing time spent on the platform and decreasing customer churn. Being aware of customers’ preferences with the algorithm, it could make available further content related to some series, captivating the customer to keep watching.

In the end, the pros and cons can be summarized in a table, as per the below:

| Future growth strategy | Benefits (Pros) | Downfalls (Cons) |
|---|---|---|
| Peer-to-peer multisided platform | Netflix can grow without having to buy or produce new content – attract third parties to develop the content and take a share of the revenue or a transaction fee. | Brand spillover effect can be dangerous: by relying on external supply for content, Netflix may decrease content quality, increasing customer churn. |
| Doubling down on content & vertical integration | By extending the offer, Netflix could operate within a broader spectrum of digital entertainment. Moreover, if | Netflix would become a direct competitor to companies that are currently complementors within the |

| | | |
|---|---|---|
| | it wore to vertically integrate, the company would have full control of the supply chain, taking advantage of scale economies and a fixed-cost structure. | entertainment sector. In addition, if Netflix were to vertically integrate, it could not work. Streaming was recent, but the industry is mature on extended offers. |
| Focusing on core strengths | Simple to implement, as Netflix already has access to customer data on the favourite shows, using the algorithm. | Easy to copy from other platforms with their own shows; May not be differentiated enough to hold customers long-term. |

**Conclusion**

The instructor should end the class by stating that Netflix operates in a rapidly-transfoming industry. Consequently, it cannot rely on its previous success and first-mover advantage – instead, it is imperative to disregard traditional approaches, business models and strategies. Thus, Netflix should consider its resources and look for uncontested market space, evaluating the best opportunities to bring new offers to the market.

***Disney+ and the heated dispute for leadership in video-streaming***

## Introduction

The Walt Disney Company [hereafter *Disney*] is an American multinational entertainment conglomerate. Founded in 1923, by brothers Walt and Roy Disney, the company established itself as a leader in the American animation industry. Throughout the years, Disney has shown continuous growth, both organic, with new operations and content, and inorganic, through acquisitions to venture more content in different ways (Whitten 2019).

Having its operations across four segments – media networks, parks and resorts, studio entertainment, and consumer products & interactive media [Figure 1] – (Rothaermel et al, 2020), this paper aims to assess whether Disney+ can establish itself as a leader in the video-streaming industry with its portfolio of brands. Thus, the analysis will be divided into three parts: 1) discussing the importance of horizontal and vertical integration as Disney's drivers of performance; 2) assessing the market space and consequent challenges for Disney; 3) uncovering the main steps Disney+ must take to become agile and beat competition.

## 1 | Diversification & The history of Disney

### a. Early endeavours

Before it became a company with a $191.6 billion market cap[1], Disney was associated with its creator – Walt Disney, the "icon of American ingenuity". Yet, even though his vision laid the foundation for the company, the success of Disney can be attributed to a strong strategic direction that enabled the company to adjust to changes in the entertainment industry and grow into what it is today (Collis 2020; Rothaermel et al, 2020).

The company had a challenging start: though Walt Disney valued creativity and refused to compromise on content quality, Disney's financials were unstable for decades. Only in the 1950s, after more than thirty years of existence, did the company see an opportunity to turn

[1] Nasdaq, May 16th 2022

tables around when Disneyland opened. In addition to marking the diversification of Disney's operations, its success led to financial stability for the company, with the theme parks operating as the company's cash cow (Mourad et al, 2020).

In 1957, the company went public with an IPO of $13.88 per share. Nonetheless, despite its quality content and profitable theme parks, the increase in stock price was minimal. Later, in 1984, Michael Eisner became CEO and Disney was transformed into a powerhouse with blockbusters like *Beauty and the Beast*, the first animated film nominated for a Best Picture Academy Award in 1991. During his tenure, Disney would also partner with Pixar Animation Studios and acquire Miramax Pictures, ABC, and ESPN. With those moves, from the 1980s to the 1990s, its market value rose from $1.8 billion to $80 billion, making Disney the largest entertainment company in the world (Roles and Carrick 2018) [Figure 2]. Following Eisner's departure, Robert Iger was appointed CEO, after having served as Chief Operating Officer (Rothaermel et al 2020).

### b. Growing the empire

"Everything the light touches is our kingdom."

*The Lion King*

As CEO, Iger established a new vision and strategic direction for Disney articulating three pillars of strategy: 1) creative content, 2) technology innovation, and 3) international expansion. Hence, "(…) Iger envisioned a Disney that would use advanced technology to produce creative content with global reach (…)" (Collis 2020; Whitten 2019). To implement his strategic pillars, Iger shifted the opinion Disney had of technology, going from a threat to an opportunity – in his first earnings call as CEO, Iger addressed his plans for the company. "We intend to be disciplined in our approach to our current cost structure and investments," he said. "This investment approach extends not only to our internal development, but also to how we approach acquisitions. (…) we do not feel the need to acquire assets just to get bigger (…). We are prepared to move wisely and quickly to respond to rapid changes in the marketplace." Within two months of that call, Iger announced Disney would acquire Pixar Animation Studios for $7.4 billion (Rothaermel et al, 2020).

The acquisition of Pixar was a horizontal integration strategy – the incorporation of a company operating at the same level of the industry supply chain – which provided multiple benefits to Disney. It brought Hollywood's most acclaimed animation studio under Disney's umbrella, while giving Disney access to new technology it was lacking (Whitten 2021). Pixar's pioneering techniques in digital animation had set a new standard – while Disney used all hand-drawn animation, Pixar developed computer-generated imagery (CGI), making other companies look outdated. Later, in an interview about the acquisition, Iger stated that Disney had creativity as the most important strategic pillar and that Pixar shared that same priority, being a reference in quality and original storytelling (Jain 2014). Hence, when horizontally integrating, Disney proved successful corporate strategy grew out of and reinforced its competitive strategy, as the value creation and market position of the different businesses was strengthened by working together in the same company. In the light of Porter's (1987) criteria for diversification to create shareholder value, it is possible to apply the *better-off test*: according to it, newly entered businesses benefit from the expertise of existing units and vice versa, so that the corporation is better with the two units combined, yielding competitive advantage. In Disney's horizontal integration, the better-off test was met – as there were shared activities in Disney-Pixar, business units gained ongoing tangible advantages from others within the corporation (Porter 1987). Disney was able to improve content quality and diversity, reaching an extended customer base, and consequently increasing revenue. In addition, it was possible to cut down costs through economies of scale and scope (Kenton 2021; Tarver 2021).

In addition to improving Disney's animation technology, Pixar did another valuable thing for Disney: according to Iger, "(…) it put us on the path to achieving what I wanted to achieve, which is scale when it comes to storytelling.”. However, simply buying Pixar did not ensure Disney’s success – aiming to preserve Pixar’s film-making ability while improving Disney’s, John Lasseter became creative director at Pixar and Walt Disney Animation Studios.

Later, several high-profile acquisitions followed – Marvel (2009), Lucasfilm (2012), and 21st Century Fox (2019) – opening a new era of growth for Disney (Collis 2020) [Figure 3].

In 2009, seeing it was missing on the young-adult and adult demographics, Disney made its move acquiring Marvel, purchasing the comic book company for $4 billion. According to David Joyce, a media analyst, the acquisition enabled Disney to have more contact with the young male demographics, as Marvel’s superhero characters interest mostly teenage boys and young men (Clark 2009; Whitten 2019). Iger went further, claiming the acquisition was perfect from a strategic perspective, as the brand transcended gender, age, and geographies (Clark 2009). In addition, besides recognizing the value of the brand from a strategic standpoint, Iger understood the differences between the two brands, opting for maintaining the president of production, Kevin Feige, on board (Rothaermel et al, 2020).

In 2012, the series of Disney acquisitions continued and Lucasfilm was bought for approximately $4 billion. The move fostered a beneficial relationship between them, generating vast opportunities for Disney to deliver content across its diverse portfolio of businesses (Baidawi 2016; Kovach 2012). Synergies did not take long to materialize, successfully integrating the *Star Wars* universe into Disney theme parks and launching new movies, conceding the creative side to Lucasfilm’s existing team (Barrabi 2020; Taylor 2012).

These moves changed the company – “Disney is totally different than what it used to be 10 or 12 years ago,” said Doug Stone, president of Box Office Analyst “Iger came in and was laser-focused on increasing profitability.” (Mourad et al, 2020).

### c. A new direction

Yet, at the same time Disney was focused on acquiring high-profile companies and expanding its portfolio, video-streaming platforms were shaping the entertainment industry. Over the years, Disney entered into several agreements with Netflix, fuelling the platform's growth and positioning itself as a complementor as opposed to a competitor. In 2013, Disney signed over exclusive rights to its direct-to-video films, enabling Netflix to offer the film industry's biggest hits in the 2016-2018 period soon after their launch, including *Black Panther* and *Captain America: Civil War* (Elberse and Cody 2019; Kelly and Kelly 2019).

Hence, despite all acquisitions and the stream of revenues from licensing content to Netflix, Disney's operations were showing downward performance, as cord cutting[2] was accelerating faster than expected. At the same time, streaming services like Netflix were facing explosive growth (Barnes and Koblin 2017). Noticing the urge to change, Iger proposed a legacy-defining move: it was time for Disney to venture into streaming. To (forward) vertically integrate, Disney approached BAMTech – after having acquired a 33% minority stake in 2016, the company went further in 2017 to obtain controlling ownership, buying an additional 42% for $1.58 billion (Long 2019; Perez 2017). Explaining the acquisition, Iger stated the industry had changed and that it was vital for Disney to forge a direct relationship with consumers. With BAMTech's technology, it would be possible to launch a direct-to-consumer service and have direct access to customer data, a key resource in the age of big data and AI (Brown 2017).

The case of Disney and BAMTech is consistent with the well-known maxim by Stuckey and White: *Don't vertically integrate unless it is absolutely necessary to create or protect value* (Stuckey and White 1993). In fact, the authors developed a framework, [Figure 4] according to which Disney's foray into streaming is justifiable for three reasons: first, the adjacent stage of the industry chain – SVOD – had been gaining increased market power, with Netflix having

[2] Cancellation of satellite and cable TV subscriptions.

a large subscriber base [Figure 5]. Second, noticing the high returns and growth of streaming within the entertainment industry [Figure 6], it was attractive for Disney, a player in the "dominated industry", to enter the "dominating" one. Last, vertical integration made sense from a strategic perspective, as Disney could exploit market power – entrants would have to go into all stages to compete, increasing capital costs and the minimum efficient scale of operations, consequently imposing high entry barriers (L. Martin 2016) and shaping the market to its advantage (Stuckey and White 1993).

Even so, Disney's deal to venture into streaming was ambitious: it made the company a direct competitor to Netflix, one of its steady sources of revenue through licensing agreements [Figure 7]. On top of that, Disney's new streaming service planned on going public and global in 2019, the same year the company would have the right to end its agreement with Netflix (Brown 2017). The company announced it would introduce two streaming services, both built by BamTech: ESPN+, focused on sports programming; and Disney+, displaying movies and series from Disney, Pixar, Marvel and Lucasfilm (Long 2019; Perez 2017).

**2 | Disney+**

"We're going to launch big, and we're going to launch hot."

Bob Iger

It did not take long for Iger to put BAMTech into use: the following year, in April 2018, the streaming service ESPN+ was available for $4.99 per month or $49.99 per year (Kelly and Kelly 2019). Next, the CEO would launch a Disney streaming service, making director-to-consumer a priority, and creating a business segment dedicated to its operations.

The statements regarding streaming were bold, showing Disney was eager to seize its opportunity. Yet, even though Disney had its hands full with the launch of Disney+ in 2019, that year would hold one more endeavour: the acquisition of 21st Century Fox for $71 billion (Roles and Carrick 2018). Although the company already owned Pixar, Marvel, and Lucasfilm, the Fox deal further reinforced their range of content to fuel the launch of Disney+ later that year. In fact, Iger admitted that the acquisition would allow them to accelerate the direct-to-consumer strategy, their "highest priority" (Barnes and Brooks 2019). The acquisition gave Disney access to a plethora of new characters, such as *Deadpool* and *X-Men* (Collis 2020). In addition, the company acquired television networks such as FX Networks, National Geographic and Fox's 30% ownership of Hulu, meaning Disney ended up with a controlling share of 60%. That gave Disney, the "family-friendly" brand, more content for targeting adult demographics (Ha 2019; Long 2019). Furthermore, a widespread reason why Disney had made one more acquisition was that "he's [Bob Iger] stocking up for the long winter ahead", analysts claimed, referring to the intensification of the video-streaming competition (Franck 2019; Mallette and Goddard 2018; Schwartz 2019; St. James 2019).

Besides providing a broader content catalogue, the deal gave Disney further integration – from creating the programmes to distributing them through television, and streaming services (Collis 2020) – allowing the company to get valuable data on customers and their entertainment-viewing habits, which it could then use to develop more content and for advertising purposes (Franck 2019; Schwartz 2019).

On November 12th 2019, Disney+ was launched (Leonard 2019). Yet, they started long before that date: information about the new service was made available to the media and people's interest arose – the first landing page [Figure 8] delivered a strong message, displaying the logos of the brands that would be available, such as Marvel and Star Wars (Brereton 2020; Leonard 2019). Furthermore, an email sign-up gave Disney the chance to collect information about the user; In Abril 2019, seven months before the launch, the company added a countdown clock [Figure 9] and last, in September, there was a sign-up email for Disney+, in which visitors could personalize their account (Brereton 2020).

Nevertheless, as excited as customers were about the new offer concerning streaming, there was one question left to address: pricing. Disney launched its service with a solid understanding of the market, knowing they were late and that other players, namely Netflix, were well established (Brereton 2020). Hence, in August 2019, four months prior to the launch, Disney announced the Disney+ service would be available from $6.99 [Figure 10], and that there would be a bundling option with Disney+, Hulu, and ESPN+ for $12.99 [Figure 11], the same price point as Netflix (Leonard 2019; Meisenzahl 2019).

The aggressive strategy proved right: before Disney+ launched, Iger set expectations that they would aim to achieve 60 to 90 million subscribers within five years. Disney+ hit that goal in October 2020, less than a year after launching, with 60 million subscribers (Brereton 2020) [Figure 12]. Setting new goals, Disney now hopes for as many as 260 million subscribers by 2024 [Figure 13], making Bob Chapek, the current CEO, say Disney's future lies in streaming directly to consumers, calling it his "north star" (Kelly and Kelly 2019).

**3 | Disney's future & The *streaming wars***

Netflix was the disruptor in the video-steaming industry, shifting its business model from DVDs to streaming and developing an algorithm that tailors content recommendation to the likes of users. Later, knowing it was depending on external sources of content, it started to (backward) vertically integrate, doing the opposite move Disney did. Though Disney+ was a late entrant [Figure 14], it came in strong with the pricing and the bundle option, as the company knew it has a plethora of challenges to overcome – thus, it now provides serious *value-for-money* with its strong portfolio of brands [Figure 15] (Whitten 2019).

Disney's straightforward plan of $6.99 per month plan includes 4K streaming, IMAX capabilities, and four simultaneous streams, greatly surpassing Netflix. In contrast, the latter is at the "top of the food chain" when it comes to cost: the fees for all three plans have risen multiple times. The $9.99 basic version gives one stream at a time and only one device for downloads (Jackson 2022; Meisenzahl 2019); its most popular option sits at $15.49 per month with two simultaneous screens/devices and HD. To match Disney's offer of four simultaneous streams and 4K, users must subscribe to the premium plan, being charged $19.99 for it [Figure 16] (Sherman and Subin 2021).

However, despite Disney's price advantage, multiple future releases in Disney+ revolve around old assets, including spinoffs for *Moana* or *Star Wars*, which may disappoint subscribers. Furthermore, the content is not added on a regular basis, unlike Netflix, which has new releases every month and greatly invests in the development of original content [Figure 17] [Figure 18] (Jackson 2022; Sherman and Subin 2021). Netflix has had years to grow – providing the largest amount of content among all SVOD services [Figure 19] [Figure 20], the company covers all demographics and markets. After having invested in originals, Netflix's content portfolio kept growing, offering a well-stocked cabinet of licensed content and having the largest number of originals within the streaming industry [Figure 20] (Sweney 2021). In addition, by adjusting its content offering to different regions, tailoring it to local preferences and habits, Netflix penetrated and achieved a strong presence across all markets. Consequently, the large subscriber base makes it easy to attract third-party content producers which in turn bring together more subscribers, establishing indirect network externalities.

Nevertheless, after years of investment, subscribers still favoured licensed content, many having a subscription just to watch a given show [Figure 21] and claiming they would unsubscribe from the platform if the company were to lose its licensing rights [Figure 22] [Figure 23] [Figure 24]. Hence, despite the quantity difference in original content offering, Disney+ ranks before Netflix in terms of consumers' preferences [Figure 25]. Moreover, as approximately 20% of Netflix's licensed content was owned by Disney/Fox [Figure 26], it is no surprise that when surveying Netflix's customers around the time Disney+ was launched, 20% claimed to be "Very likely" to adhere to the platform and 33% said they were "Somewhat likely" to subscribe to Disney+ [Figure 27]. Being ahead of Netflix in terms of content preference by the subscribers, Disney appears to wish to improve in quantity as well, as statistics point towards heavy investments for new content creation in the upcoming years [Figure 28], surpassing Netflix's.

Furthermore, as if the Disney brand was not a heavyweight already, the company is greatly advertising its content and new offerings, spending unprecedented amounts [Figure 29]. Aiming to establish new synergies and links across various business segments, Disney+ is now leveraging Disney and not just the other way around: this year, in 2022, it was announced that Disney+ subscribers would get up to 25% discount in selected Disney resorts and theme parks, an effort to establish revenue synergies through cross-selling, after two consecutive years of losses on that business segment due to COVID-19 constraints [Figure 30] (Hiles 2022).

Establishing synergies among its business segments, having Parks, Experiences and Products working as the streaming service's cash cow, may be Disney+'s strategy to establish a large subscriber base while operating at a loss in a short-to-medium term [Figure 30] [Figure 31]. Showing no signs of slowing down, Disney announced its launch in over 40 countries by summer 2022, including Albania, Bulgaria, Croatia, the Czech Republic, United Arab Emirates and Vatican City (Mullally 2022). In addition to geographic expansion, Disney revealed the launch of ad-supported video on demand (AVOD) at the end of 2022. The new service will likely carry a lower price than the current version, which will benefit price-sensitive subscribers; furthermore, the new plan will give Disney the opportunity to generate an additional revenue stream from companies wishing to build their brand among AVOD subscribers (Clark 2022; Ramakrisnan 2022).

Netflix, on the other hand, does not have an internal capital market like Disney: there are no additional cash-generating businesses that allow the company to have an aggressive pricing strategy while investing in new content without resorting to external capital. Quite the opposite, Netflix is dependent on external investors, facing the inherent fluctuations of the capital market. As such, the company seems forced to have increasing operating margins [Figure 32] to continue its forays, especially in the face of the recent loss of excitement of external capital market investors about video streaming. Although the company maintains its leadership position with 214 million subscribers, whilst Disney+ counts with 129.8 million, as of the first quarter of 2022 [Figure 12], Netflix seems to be falling behind at its own game. Despite having the largest market share, subscriber growth rate has been decreasing for years for multiple reasons: the money injected into new original content is fuelled by increasing subscription prices; many subscribers drop out when the licensing agreements for their favourite show ends [Figure 20] [Figure 21]; and last, most markets are already mature and very penetrated (Yahoo Finance. 2022). Additionally, for the first time in over a decade, in April 2022 the company announced a loss of 200.000 subscribers globally [Figure 33], further stating expected losses of an additional two million subscribers by the end of the third quarter of 2022. Therefore, share price fell approximately 35% following the announcement [Figure 34], taking $55 billion of the company's value (Hern 2022; Maas 2022).

For now, it seems unlikely there will only be one winner – Disney's *crown jewel* is still family-friendly content, as their catalogue has nearly 100 years' worth of movies made with "young imagination" in mind, making Disney+ a streaming heaven for family entertainment (Sweney 2021). In addition, the previous acquisitions and portfolio diversification enable Disney to reach out to adults as well, mainly with Marvel and 21st Century Fox, exhibiting titles like *Agents of S.H.I.E.L.D. or Grey's Anatomy* (Jackson 2022; Sherman and Subin 2021). On the other hand, Netflix's endeavours into originals and locally adapted content might be what is going to hold the company, with consumers being hooked to their favourite show, as statistics reveal an increasing trend of subscribing to more than one streaming service [Figure 35]. In that case, the two might coexist by adopting different positioning strategies [Figure 36] and sharing the market, with Disney remaining number one for younger demographics and Netflix continuing its efforts with local, independent, and adult content.

Yet, in the long run – as forecasts point towards Disney+ surpassing Netflix's subscriber base [Figure 13] – the *streaming wars* can turn into a case in which Disney's corporate strategy of amassing a portfolio of entertainment brands enables it to overcome Netflix's early-mover advantage in streaming. Disney built its empire of brands for over a decade, expanding its portfolio and creating synergies with the acquired companies. Hence, it may be *too big to fail*: sooner or later, the quality and variety of its content, reinforced by price leadership with the bundle offer may start to make cracks in Netflix's subscriber base, thus creating a *snowball effect*. For Netflix, that may mean subscription revenues cannot cover the investment into new original content, causing an increased churn; for Disney, it can have a positive effect, proving indeed content is king, and that quality will always beat quantity.

**Conclusion**

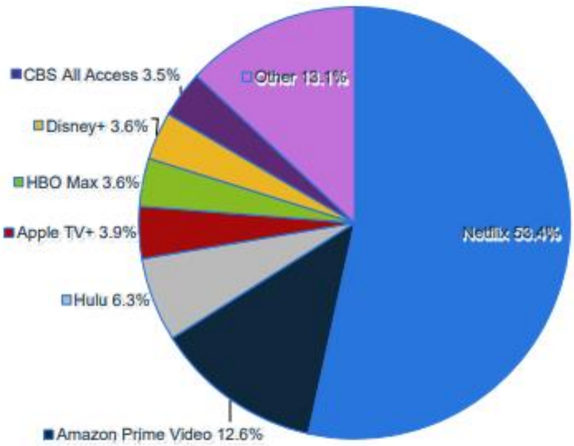
Disney's success was built over the years, acquiring a full-house of brands which provide content for all demographics (Whitten 2019). Hence, after having established synergies with a more efficient cost structure, the (forward) vertical integration move confirmed that Disney will continue to build on its achievements.

Being favoured in terms of content offering, Disney is reinforcing its position with heavy content investment, aggressive pricing, and strong marketing. Thus, with its own strategy merits and taking advantage of Netflix's rising subscription costs and increased churn, data suggests the company will be the leader of the *streaming-wars* long term [Figure 13].

Furthermore, after Disney leveraging the growth of Disney+, the two now seem to go hand-in-hand in terms of synergies, strengthening one another and turning the page into one more chapter of The Walt Disney Company.

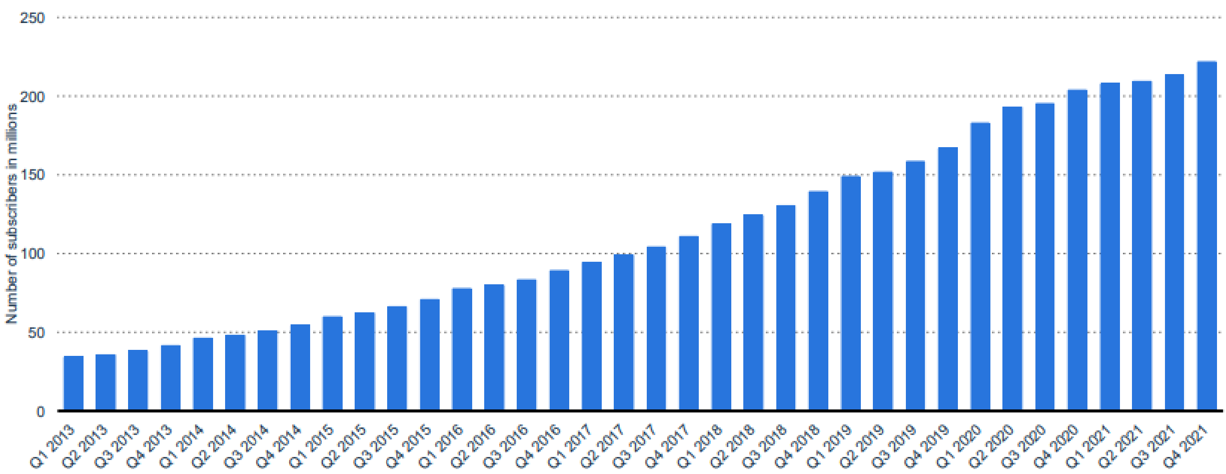
**Appendix | *Netflix: The disruptor faces headwinds***

Figure 1: Most popular video streaming service based on share of audience demand for digital originals worldwide in 2020



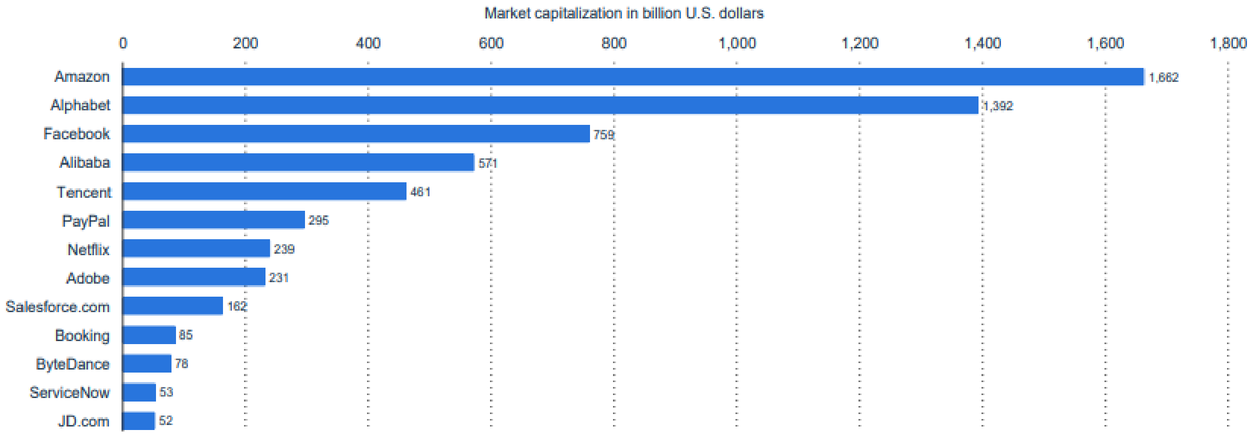

Source: *Netflix*, Statista Dossier, pg. 8

Figure 2: Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 4th quarter 2021 (in millions)



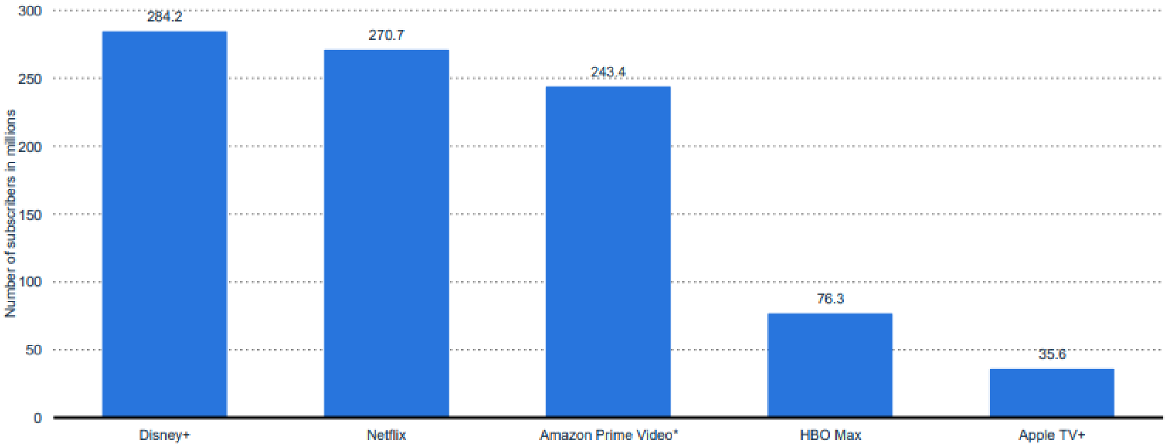

Source: *Netflix*, Statista Dossier, pg. 28

Figure 3: Market capitalization of the largest internet companies worldwide as of February 2021 (in billion U.S. dollars)



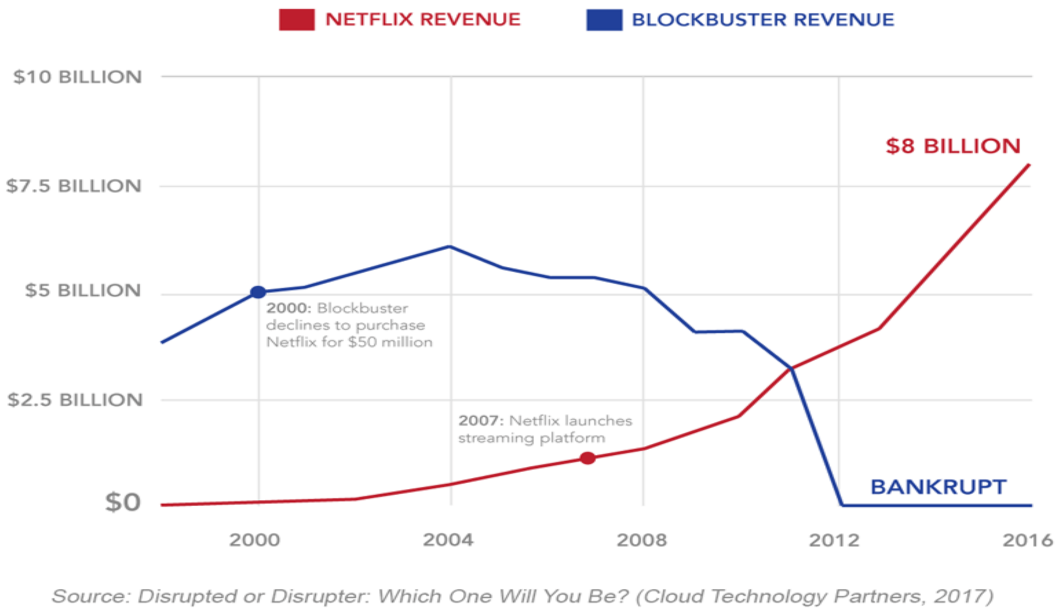

Source: *Netflix,* Statista Dossier, pg. 2

Figure 4: Estimated number of SVOD subscribers worldwide in 2026, by service (in millions)



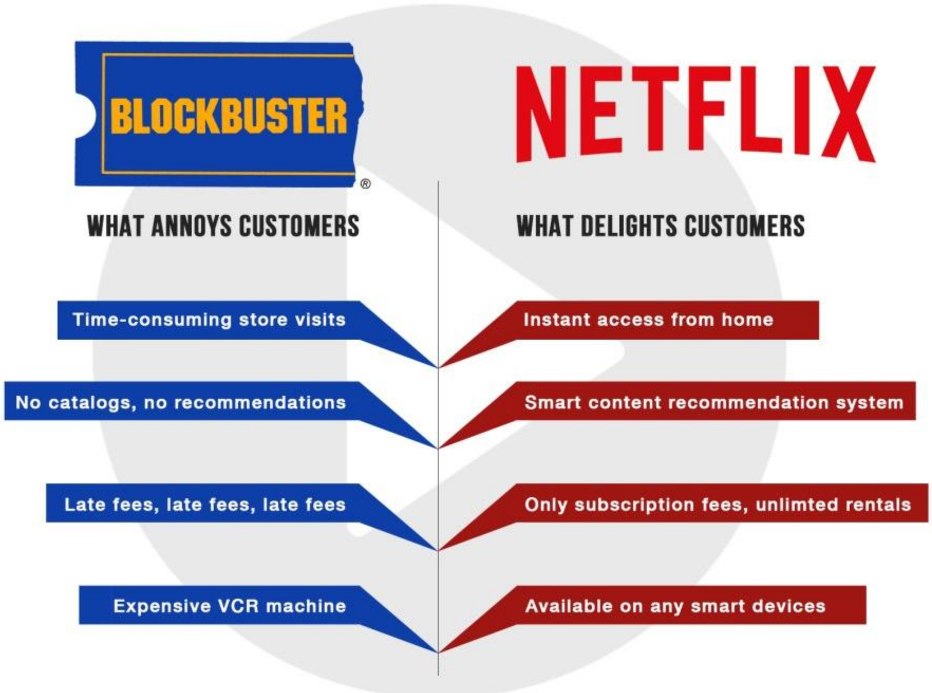

Source: *Netflix,* Statista Dossier, pg. 6

Figure 5: Netflix VS BlockBuster (1998-2016)



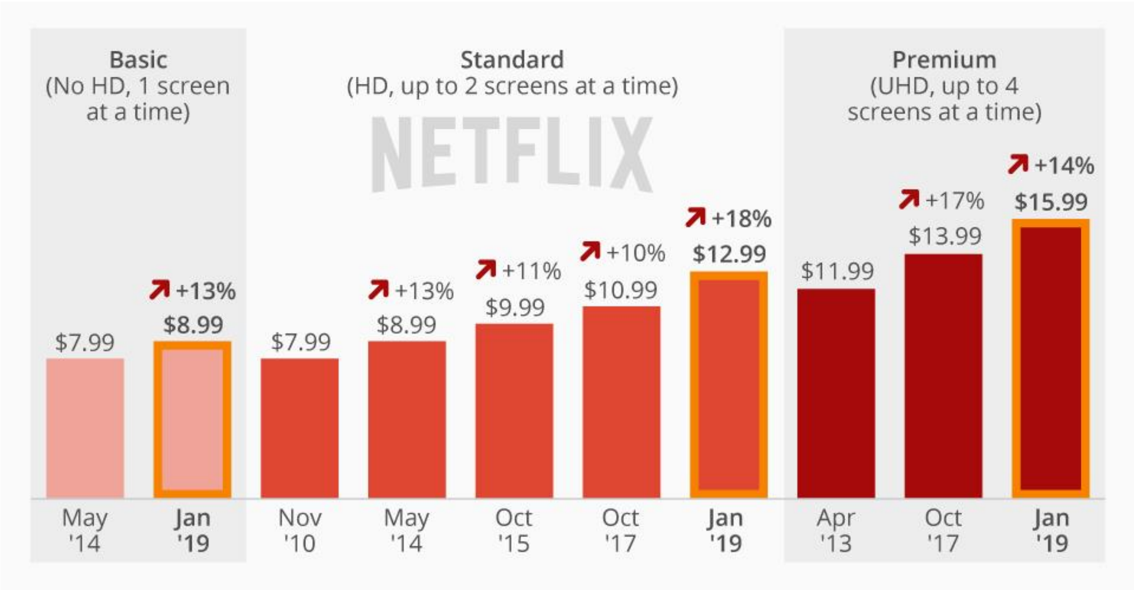

Source: *Disrupted or Disruptor, Which one will you be?* (Cloud Technology Partners, 2007)

Figure 6: Main differences between Blockbuster and Netflix



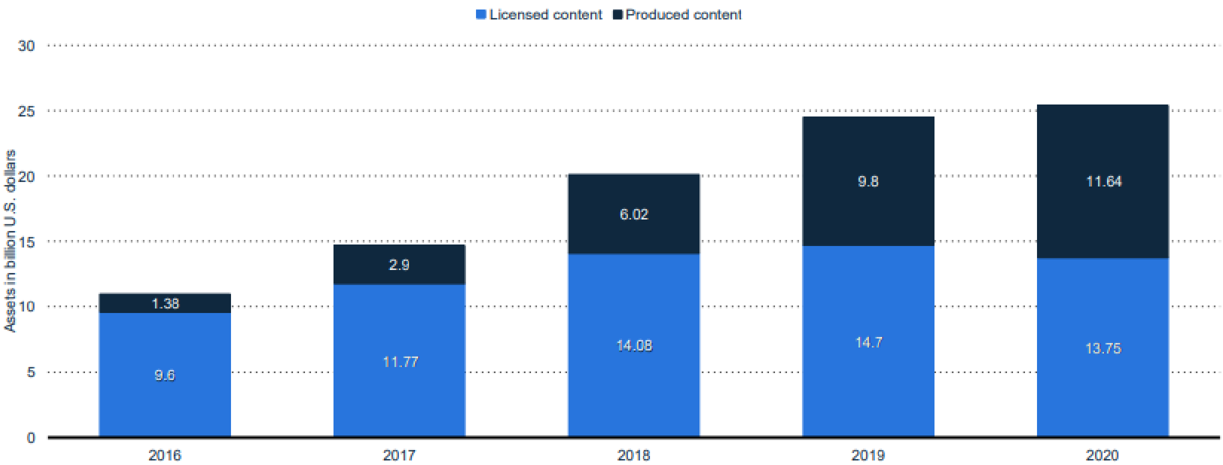

Source: *Winning the Customer Journey Battle: Netflix vs Blockbuster Case Study* (The Strategy Journey, 2020)

Figure 7: A brief history of Netflix price hikes (subscription prices in the US)



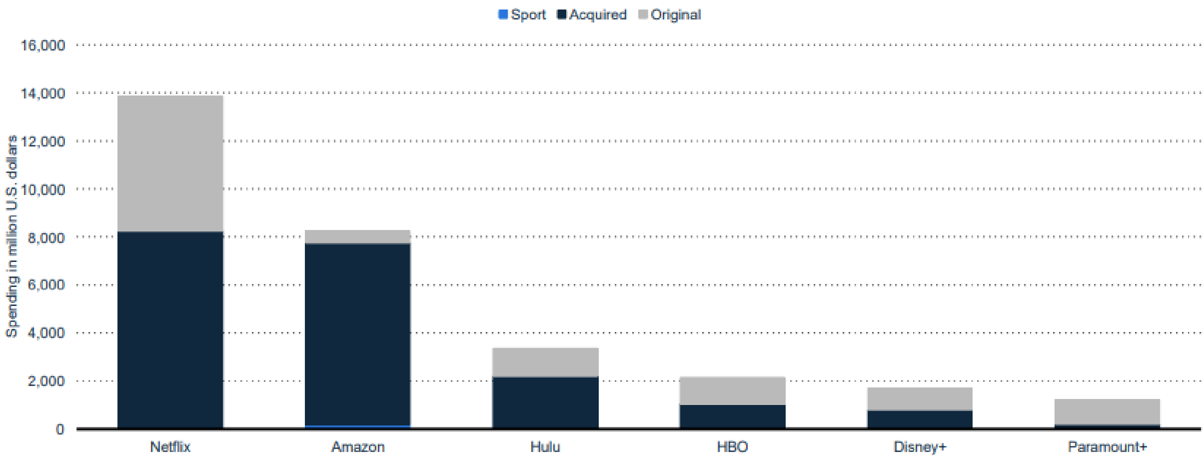

Source: *Company announcements - Price reports*, Statista

Figure 8: Netflix's content assets worldwide from 2016 to 2020, by type (in billion U.S. dollars)



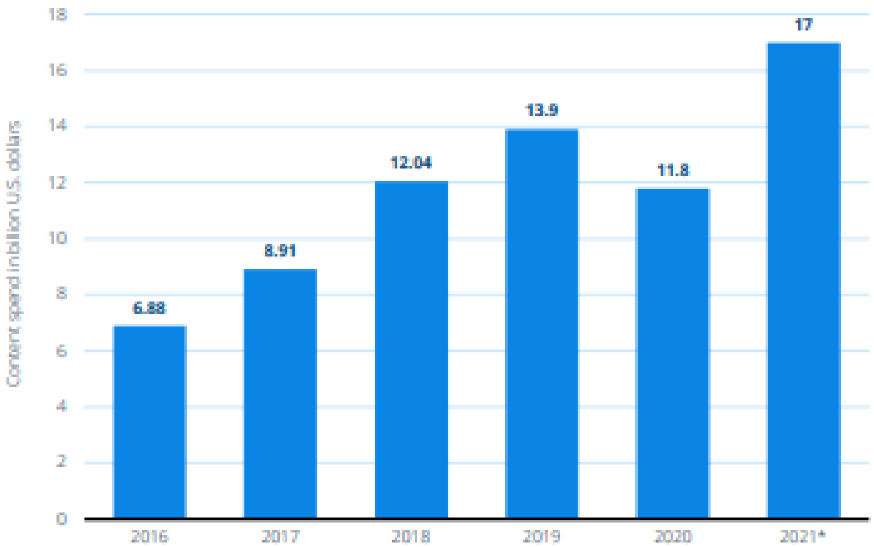

Source: *Netflix*, Statista Dossier, pg.33

Figure 9: Programming expenditure of subscription video-on-demand (SVOD) services worldwide in 2021, by category (in million U.S. dollars)



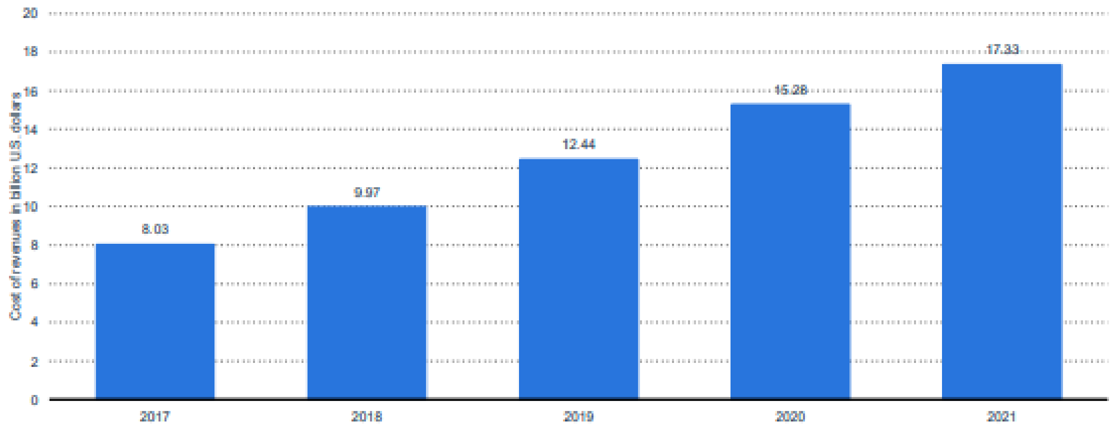

Source: *Netflix*, Statista Dossier, pg.7

Figure 10: Content spend of Netflix 2016-2021



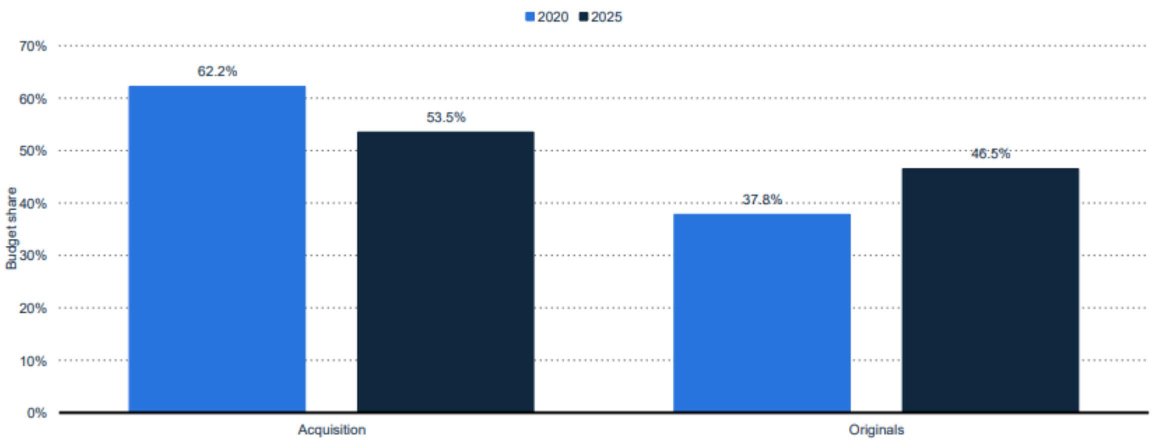

Source: *Streaming Wars*: *The Value Of Original Content To Streaming Services*, a Statista dossier plus, pg.18

Figure 11: Netflix cost of revenue 2017-2021 (in billion U.S. dollars)



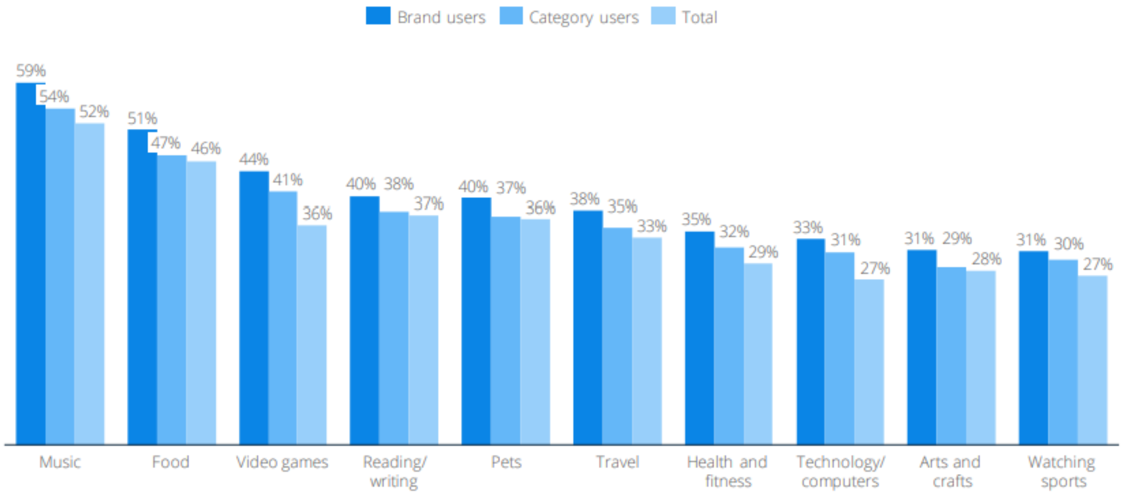

Source: *Netflix*, Statista dossier, pg. 13

Figure 12: Distribution of Netflix's budget worldwide in 2020 and 2025, by programming type



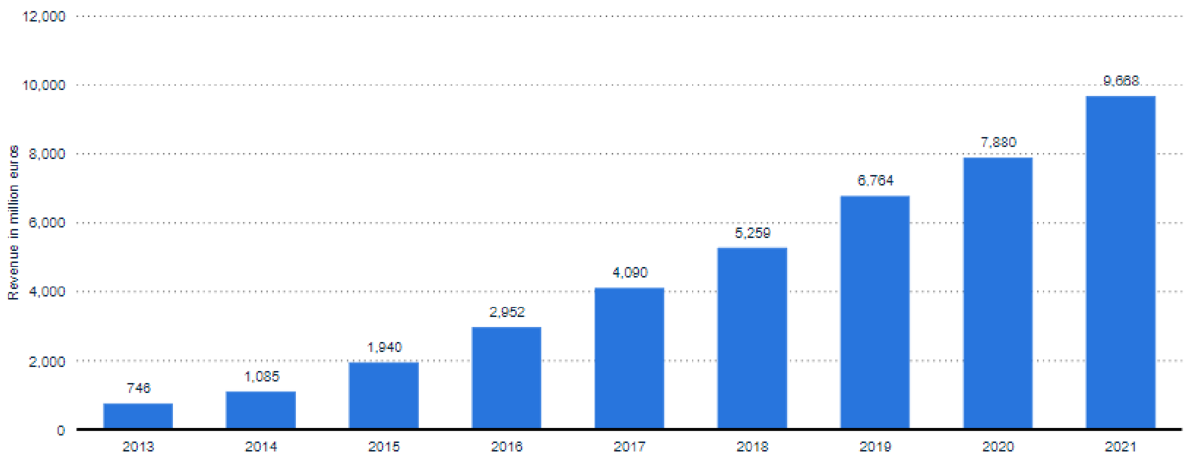

Source: *Netflix - Statista Dossier*, pg. 30

Figure 13: Top 10 interests/hobbies of Netflix users in the U.S.



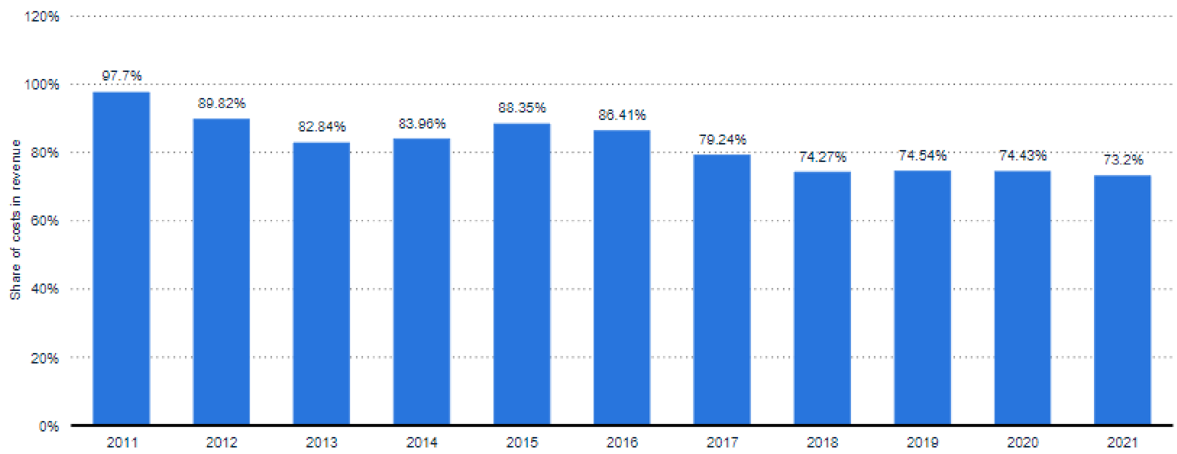

Source: *Video-on-demand: Netflix in the United States 2022*, Statista Global Consumer Survey, pg.13

Figure 14: Spotify's revenue worldwide from 2013 to 2021 (in million euros)



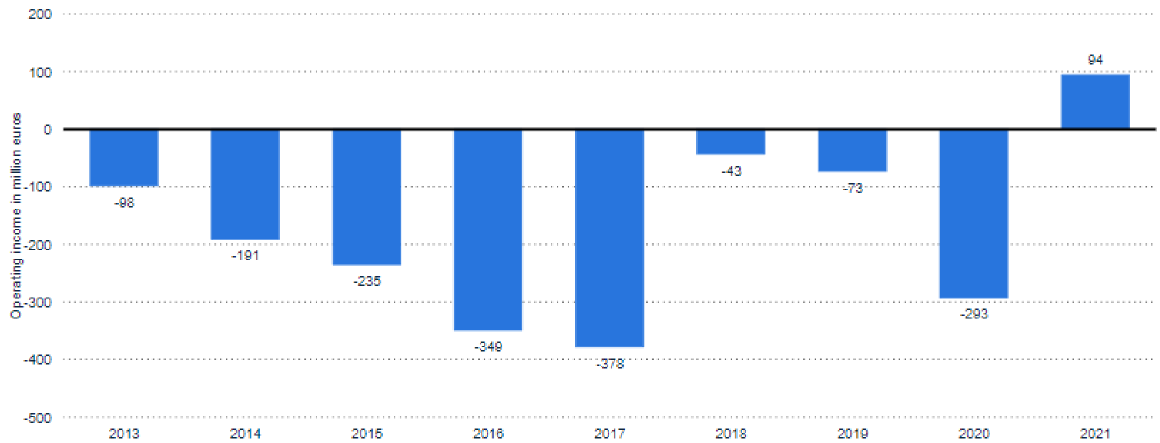

Source: *Spotify*, Statista Dossier, pg. 2

Figure 15: Share of Spotify's cost of revenue from 2011 to 2021




Source: *Spotify*, Statista Dossier, pg. 8

Figure 16: Operating income of Spotify worldwide - 2013 to 2021 (in million euros)




Source: *Spotify*, Statista Dossier, pg. 4

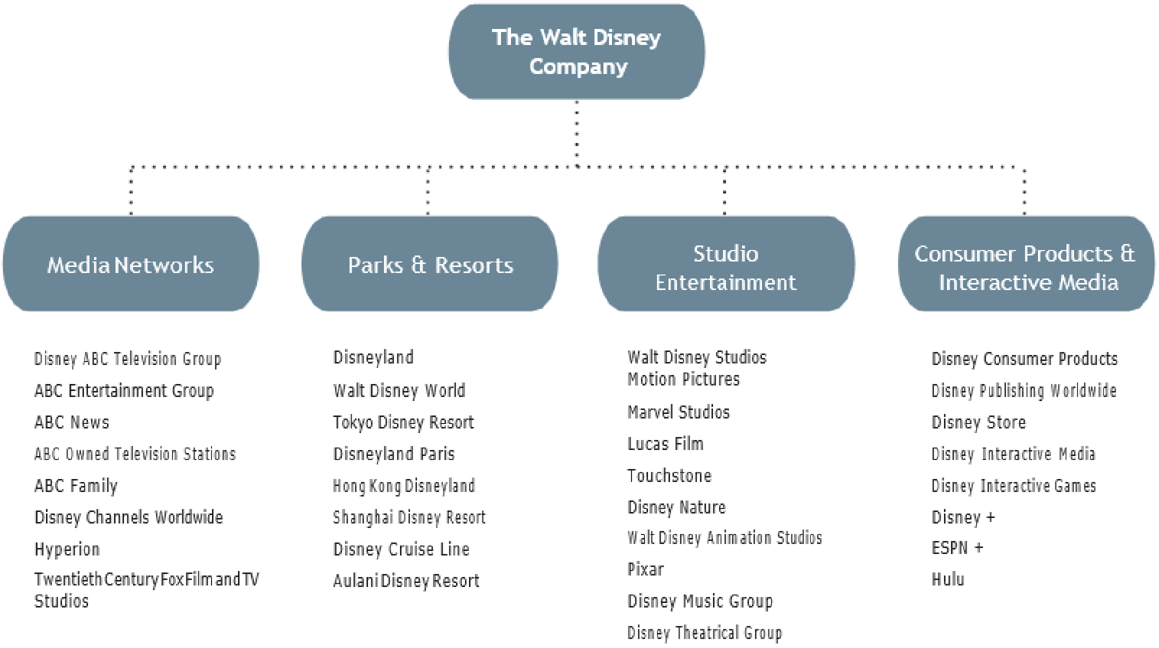
Figure 17: Current Netflix pricing plan (US dollars)

| | Basic | Standard | Premium |
|---|---|---|---|
| Monthly cost* (United States Dollar) | **$9.99** | **$15.49** | **$19.99** |
| Number of screens you can watch on at the same time | 1 | 2 | 4 |
| Number of phones or tablets you can have downloads on | 1 | 2 | 4 |
| Unlimited movies, TV shows and mobile games | ✓ | ✓ | ✓ |
| Watch on your laptop, TV, phone and tablet | ✓ | ✓ | ✓ |
| HD available | | ✓ | ✓ |
| Ultra HD available | | | ✓ |

Source: Netflix website, https://help.netflix.com/pt-pt/node/24926/us, accessed on 27/02/2022

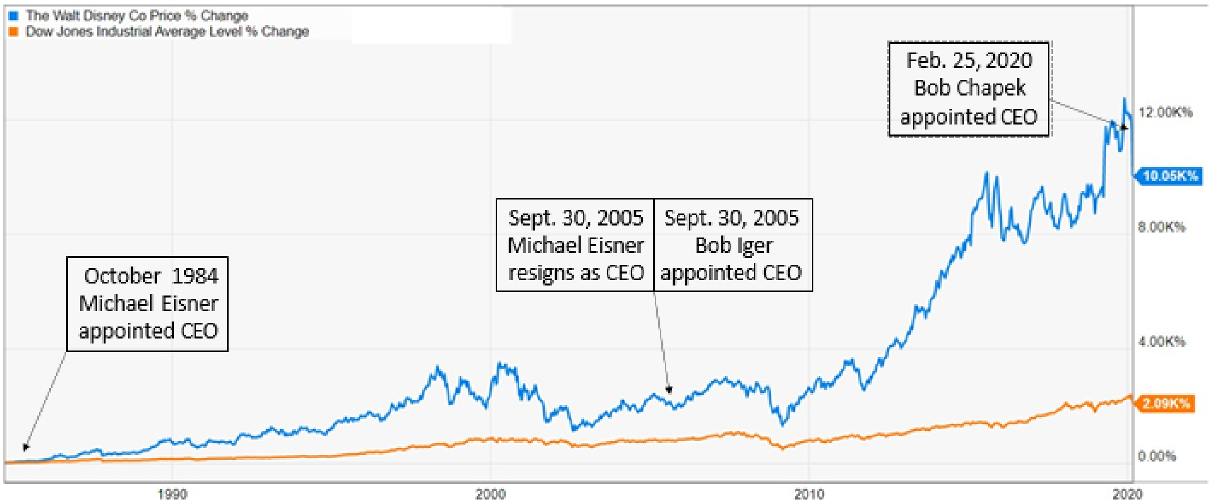
## Appendix | *Disney+ and the heated dispute for leadership in video-streaming*

Figure 1 – Disney's Business Segments



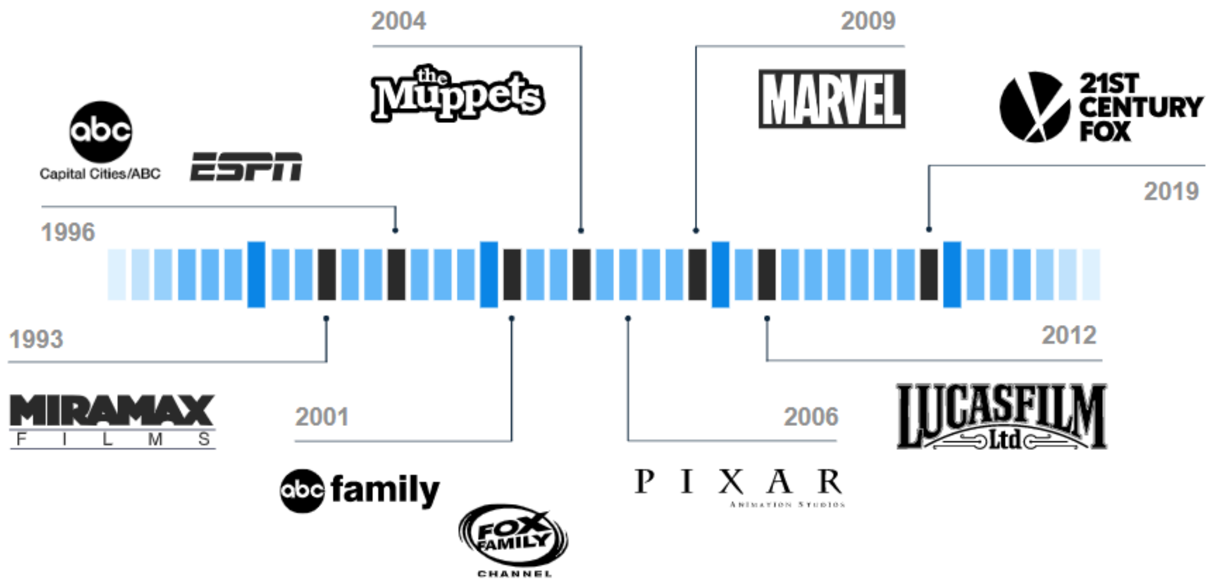

Source: Rothaermel, Frank., Inamdar, Noorein. and King, David., 2020. "The Walt Disney Company". Harvard Business Review. https://store.hbr.org/product/the-walt-disney-company/mh0070?sku=MH0070-PDF-ENG.

Figure 2 – Disney's Normalized (% Change) vis-à-vis Dow Jones Industrial Average, 1984–2020



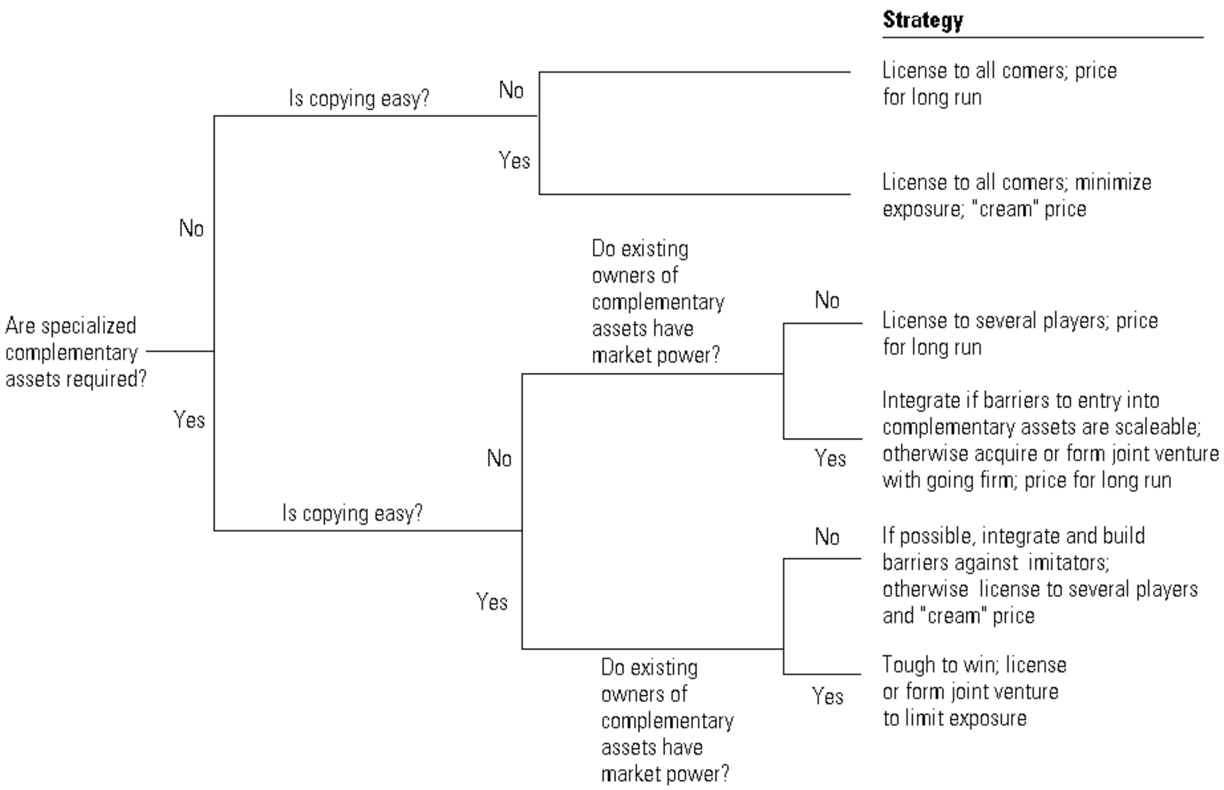

Source : Rothaermel, Frank., Inamdar, Noorein. and King, David., 2020. "The Walt Disney Company". Harvard Business Review. https://store.hbr.org/product/the-walt-disney-company/mh0070?sku=MH0070-PDF-ENG.

Figure 3 – Disney's roadmap of acquisitions



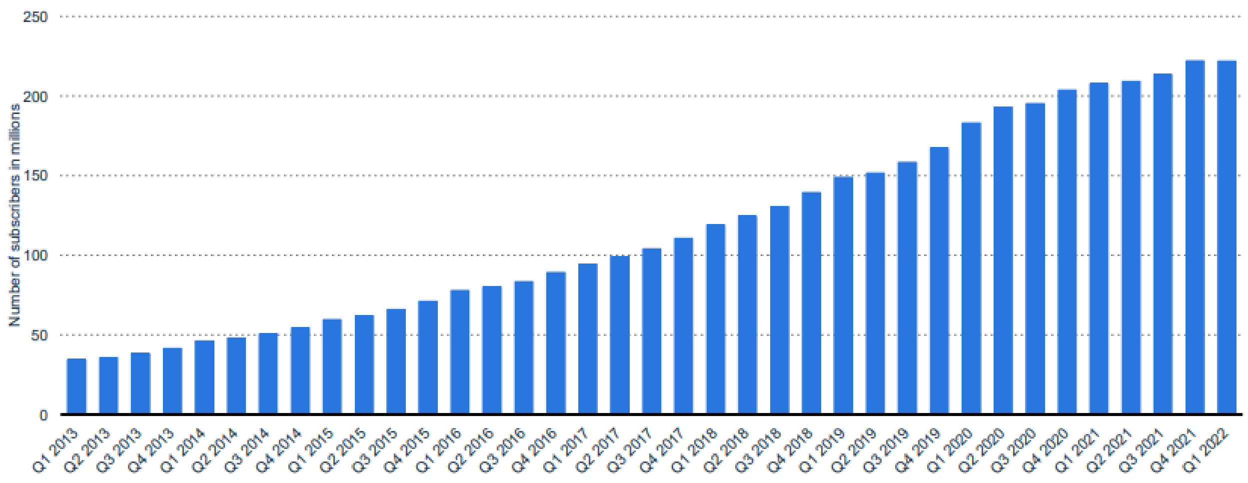

Source: *Video Streaming In The U.S.: An Industry In Flux* – a Statista Dossier plus on Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 16

Figure 4 – Vertical Strategy Framework for Innovators



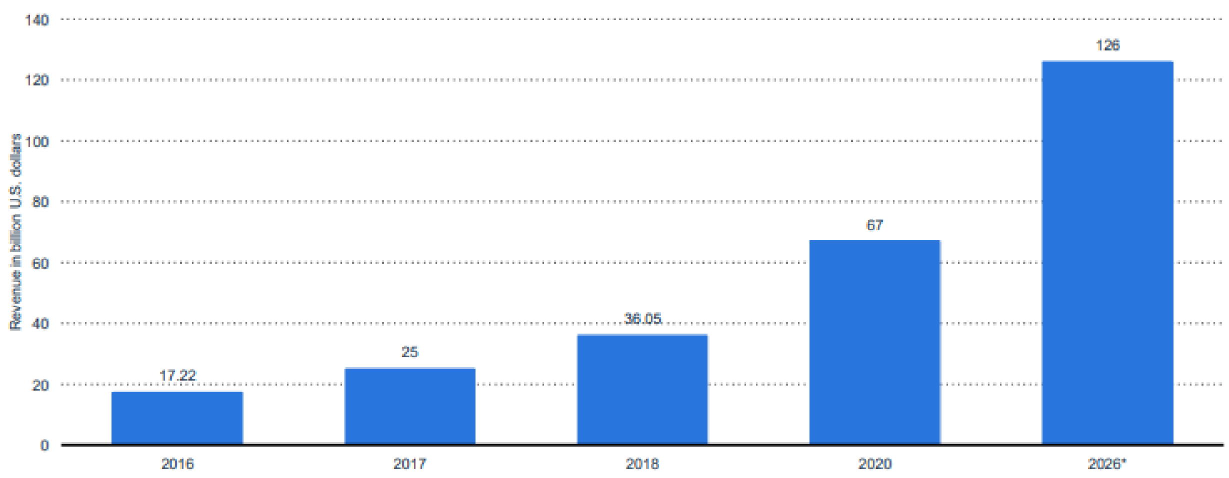

Source: Stuckey, John. and White, David., 1993. "When and When Not to Vertically Integrate". MIT Sloan Management Review. https://store.hbr.org/product/when-and-when-not-to-vertically-integrate/smr006?sku=SMR006-PDF-ENG

Figure 5 – Number of Netflix paid subscribers worldwide from 1st quarter 2013 to 1st quarter 2022 (in millions)




Source : *Netflix*, Statista Dossier, pg. 22

Figure 6 – Subscription video-on-demand (SVOD) revenue worldwide from 2016 to 2026 (in billion U.S. dollars)



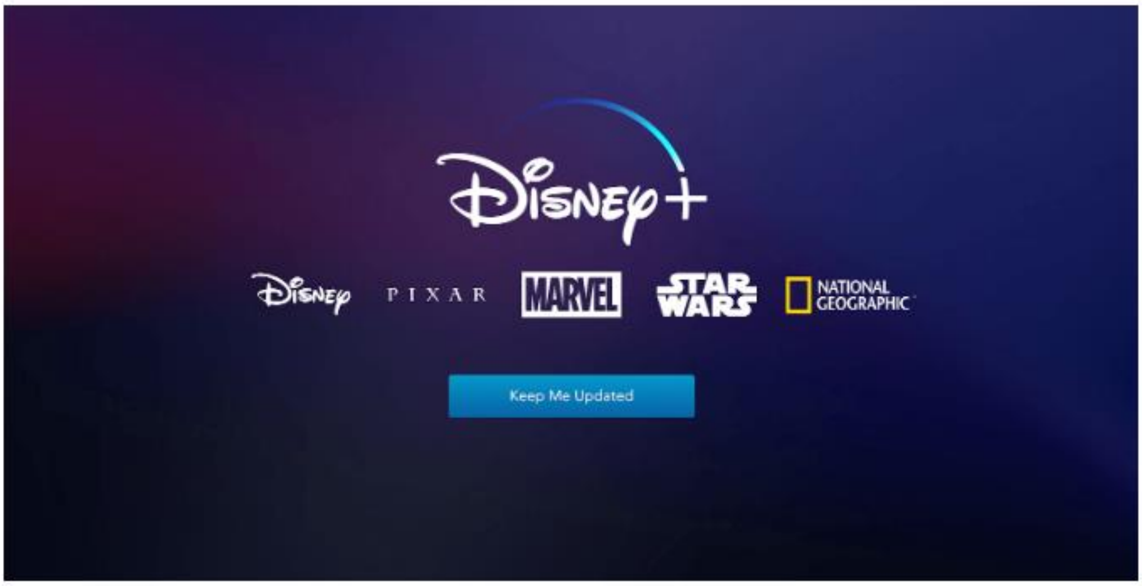

Source: *Disney+*, Statista Dossier, pg. 2

Figure 7 – Netflix : Early films and Television rights Deals (as of March 2019)

| Partner | Length | Description of Deal | Examples of Content |
|---|---|---|---|
| Disney | 2011-2019 | Rights to television shows from Disney Channel and ABC and feature films from Walt Disney Animation Studios, Pixar Animation Studios, Marvel Studios, and Disneynature; television episodes from past seasons made available immediately, and current season episodes aired 30 days after original broadcast date; classic films made available immediately and feature films in 2016; reportedly cost $150-$300 million per year. | *Alice in Wonderland, Pocahontas, Hercules, Mulan, Dumbo, Star Wars* series, *The Avengers* series, *Guardians of the Galaxy, Black Panther, Lost, Scrubs, Hannah Montana, Desperate Housewives, Wizards of Waverly Place, High School Musical.* |

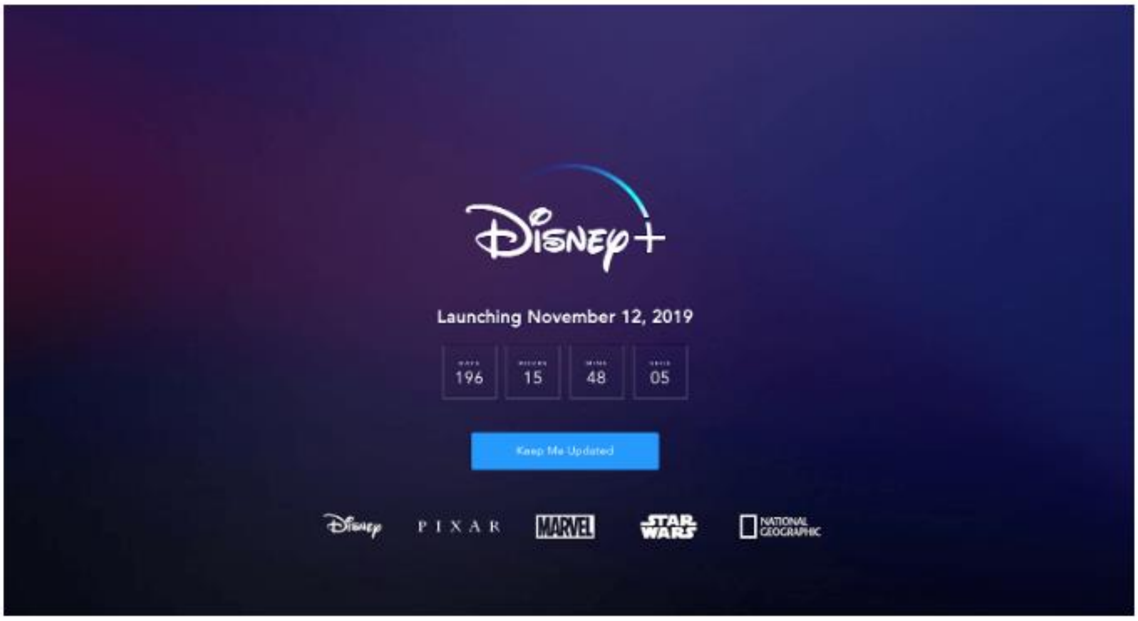
Source: Elberse, Anita, and Cody, Monica. 2019. "The Video-Streaming Wars In 2019: Can Disney Catch Netflix?". Harvard Business Review. https://store.hbr.org/product/the-video-streaming-wars-in-2019-can-disney-catch-netflix/519094?sku=519094-PDF-ENG?autocomplete=true. [partial table]

Figure 8 – Disney+ first landing page




Source: Brereton, Jake. 2020. "How They Launched It: Disney+". Launchnotes. https://www.launchnotes.com/blog/how-they-launched-it-disney-plus.

Figure 9 – Disney+ landing page's countdown clock

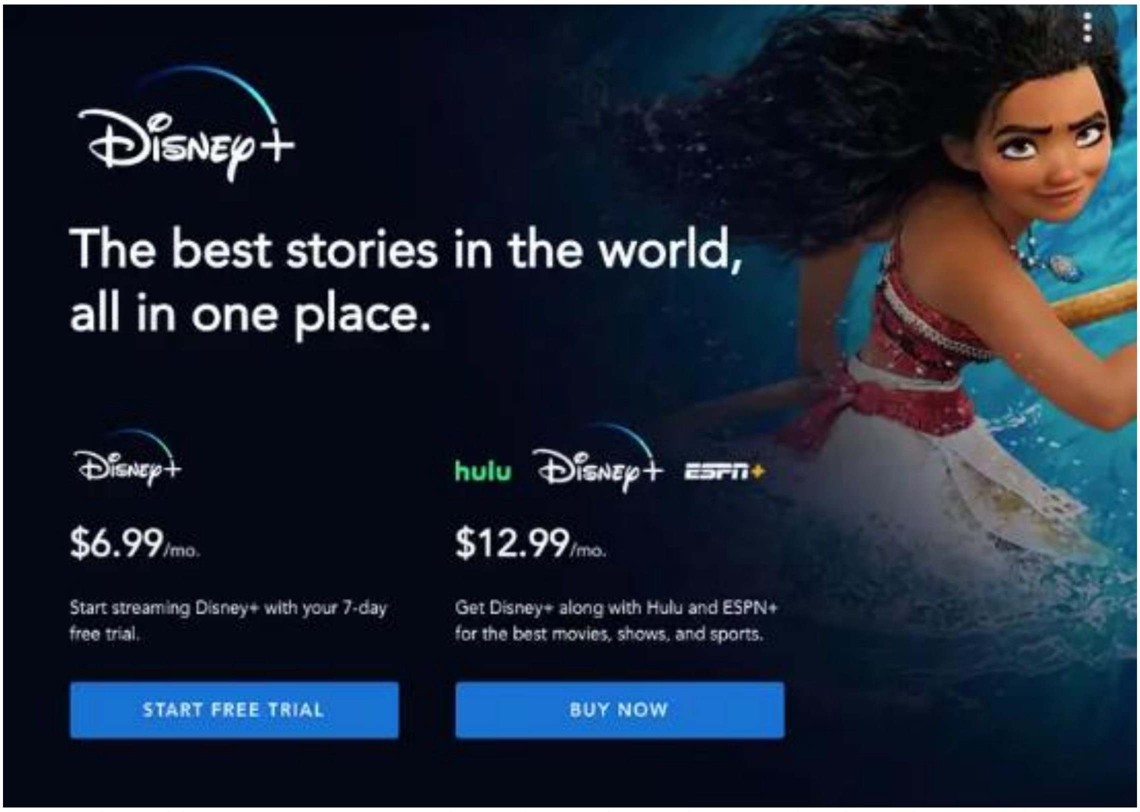



Source: Brereton, Jake. 2020. "How They Launched It: Disney+". Launchnotes. https://www.launchnotes.com/blog/how-they-launched-it-disney-plus.

Figure 10 – Disney+ pricing at U.S. launch

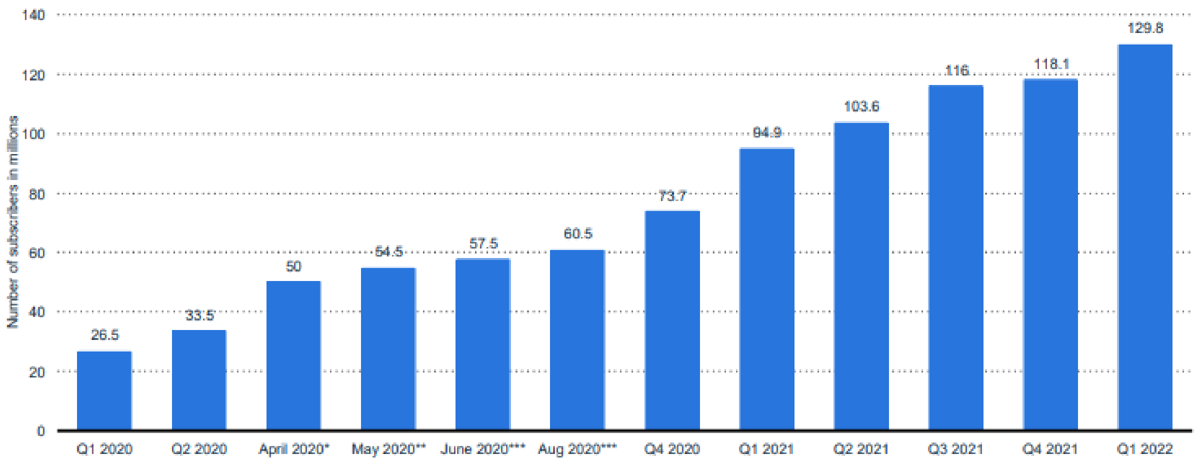

Source: Meisenzahl, Mary., 2019. "Here's how Disney Plus stacks up against its main competition: Netflix". Business Insider. https://www.businessinsider.com/disney-plus-is-a-new-streaming-service-competing-with-netflix-2019-11

Figure 11 – Disney+ bundling option



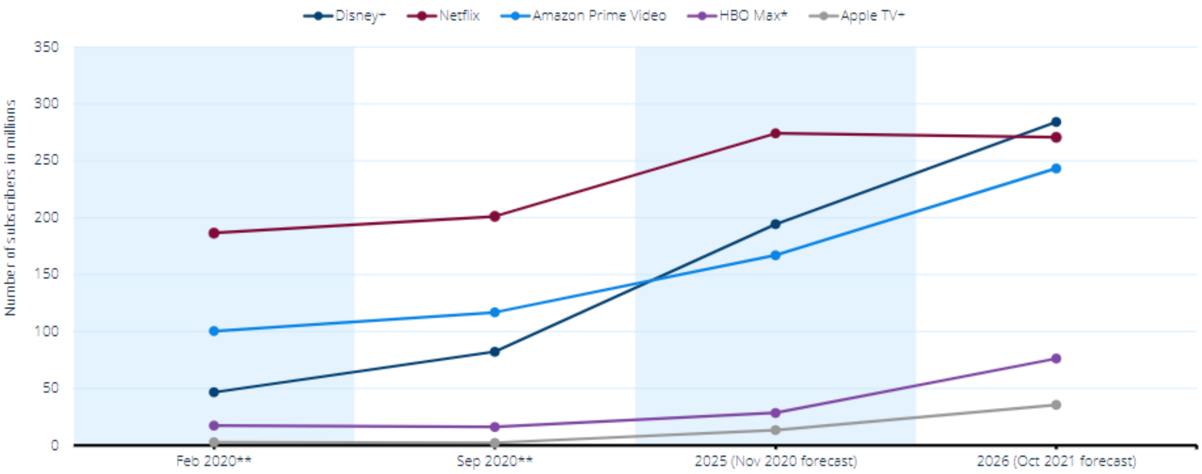

Source: Meisenzahl, Mary., 2019. "Here's how Disney Plus stacks up against its main competition: Netflix". Business Insider. https://www.businessinsider.com/disney-plus-is-a-new-streaming-service-competing-with-netflix-2019-11

Figure 12 – Number of Disney Plus subscribers worldwide from 1st quarter 2020 to 1st quarter 2022 (in millions)



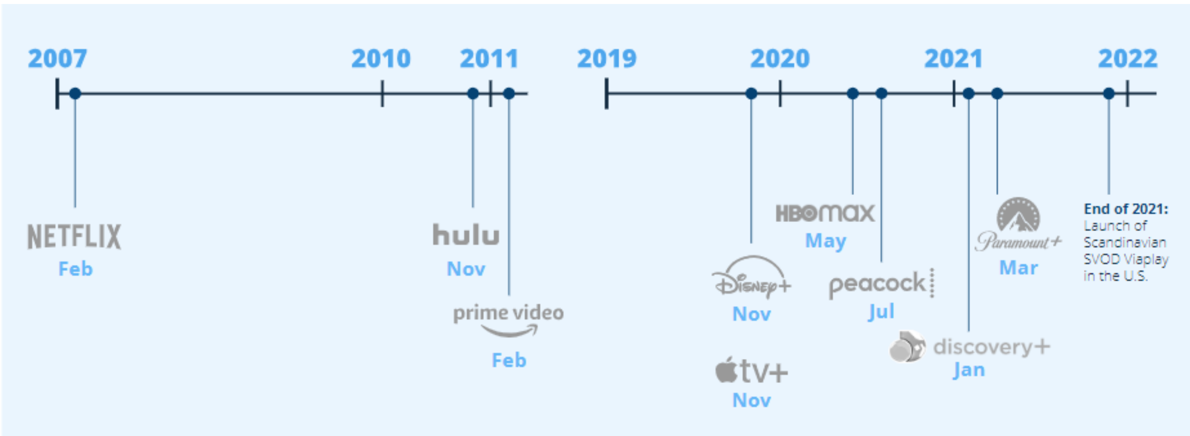

Source: *Disney+*, Statista Dossier, pg. 22

Figure 13 – Estimated number of SVOD subscribers worldwide from 2020 to 2026, by service (in millions)




Source: *Streaming wars: the value of original content to streaming services*, Statista Dossier, pg. 9

Figure 14 – Streaming services from 2007 to 2022




Source: *Streaming wars: the value of original content to streaming services*, Statista Dossier, pg. 7

Figure 15 – Key SVOD services: Global and U.S. market overview

| Service | Netflix | Prime Video | Disney+ | Apple TV+ | HBO Max | Paramount+ | Peacock | Hulu | discovery+ |
|---|---|---|---|---|---|---|---|---|---|
| Parent company | - | - | Disney | - | AT&T WarnerMedia | ViacomCBS | Comcast NBCUniversal | Disney | Discovery |
| Subscribers in Q1 2021 | **207.64 million** | **200 million** Amazon Prime subscribers (not only Prime Video) | **100 million** | 2020: **40 million** | **44.2 million** (incl. HBO) | **36 million** (incl. ViacomCBS' portfolio: Showtime, BET+, and Paramount+) | 2020: **33 million** sign-ups, 26 million subscribers | **39.4 million** | **13 million** (whole direct-to-consumer business of Discovery, incl. Discovery+) |
| Price per month (as of June 2021) | Basic **$8.99**; standard **$13.99**; premium **$17.99** | **$8.99** | Disney+ only **$7.99**; bundle **$13.99** | **$4.99** | Ad-supported version **$9.99**; without ads **$14.99** | Q1 2021: **$4.99** with ads; **$9.99** without ads – Paramount+ | Premium **$4.99** | Basic **$5.99**; without ads **$11.99** | With ads **$4.99**; without ads **$6.99** |
| Content spending | 2020: **$11.8 billion**<br><br>Estimated value 2021: **$17 billion** | 2020: **$11 billion** | Estimated by 2024: **$8-9 billion**; **$14-16 billion** for Disney's streaming services in total | 2019: **$6 billion** | Estimated value of **$4 billion** over the first three years | 2020: **$1 billion** on streaming content (ViacomCBS companywide). Estimated value on streaming content (companywide) by 2024: **$5 billion** | Estimated value in aggregate 2020-2021 (incl. marketing): **$2 billion** | Estimated by 2024: **$14-16 billion** for Disney's streaming services in total | Estimated 2021: **$20 billion** (WarnerMedia and Discovery together) |

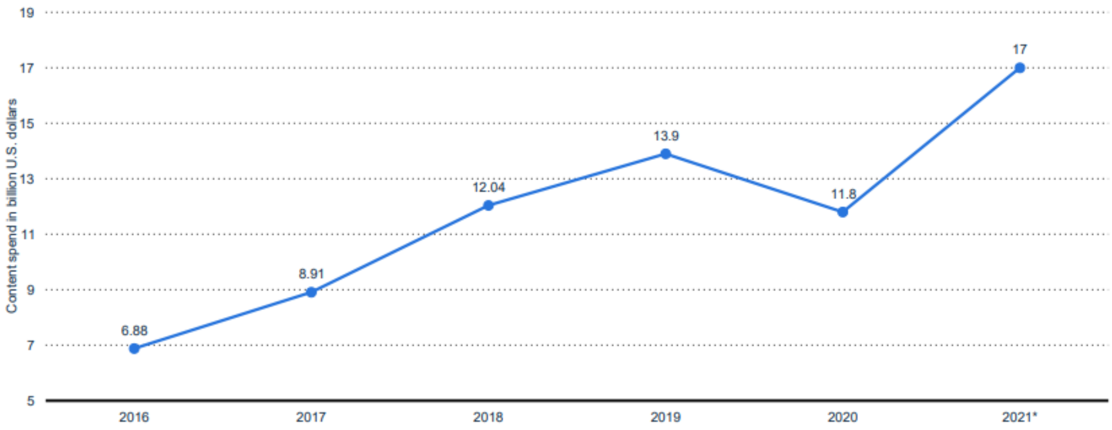
Source: *Streaming wars: the value of original content to streaming services*, Statista Dossier, pg. 8

Figure 16 – Netflix's subscription plans

| | Basic | Standard | Premium |
|---|---|---|---|
| Monthly cost* (United States Dollar) | **$9.99** | **$15.49** | **$19.99** |
| Number of screens you can watch on at the same time | 1 | 2 | 4 |
| Number of phones or tablets you can have downloads on | 1 | 2 | 4 |
| Unlimited movies, TV shows and mobile games | ✓ | ✓ | ✓ |
| Watch on your laptop, TV, phone and tablet | ✓ | ✓ | ✓ |
| HD available | | ✓ | ✓ |
| Ultra HD available | | | ✓ |

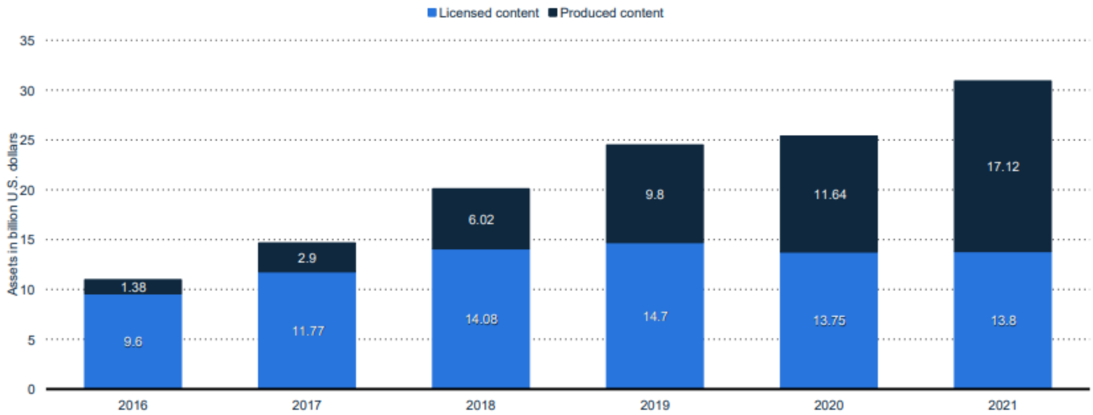
Source: *Netflix*, https://help.netflix.com/pt-pt/node/24926/us, accessed 29/04/2022

Figure 17 – Content spending of Netflix worldwide from 2016 to 2021 (in billion U.S. dollars)



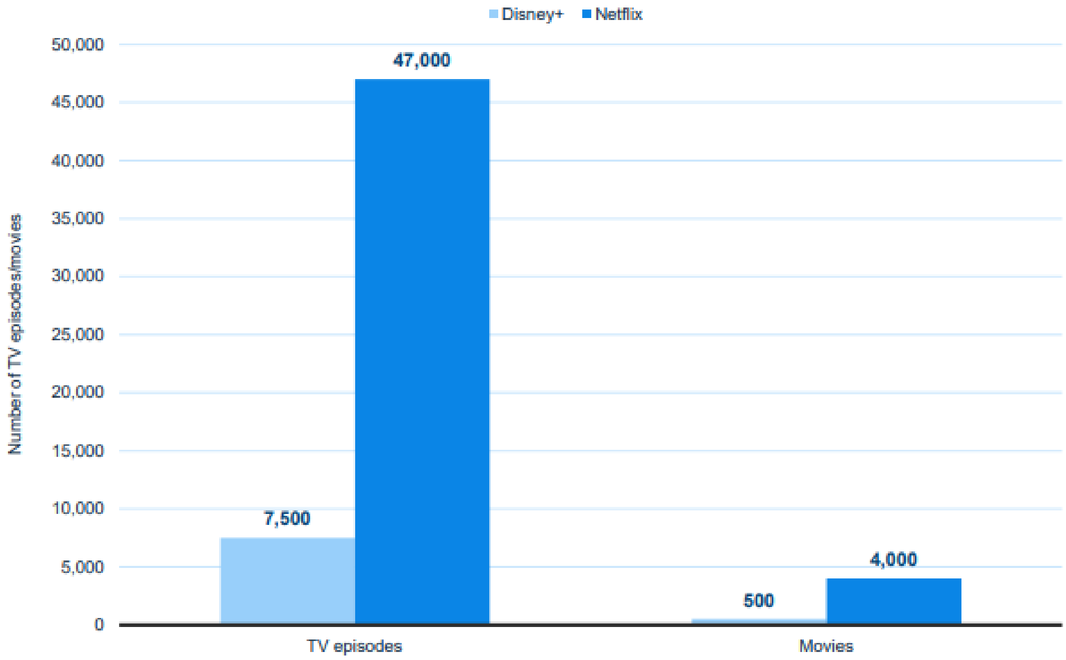

Source: *Netflix*, Statista Dossier, pg. 29

Figure 18 – Netflix's content assets worldwide from 2016 to 2021, by type (in billion U.S. dollars)



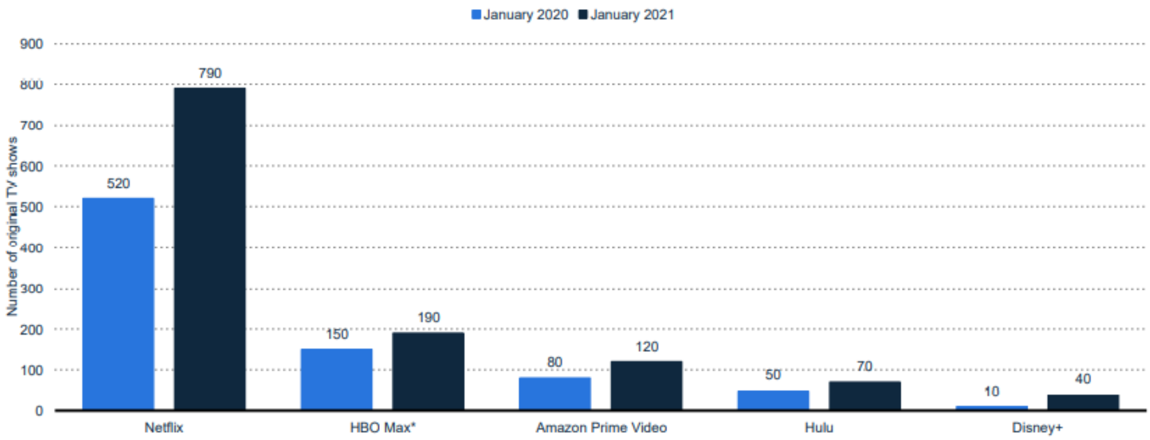

Source : *Netflix*, Statista Dossier, pg. 35

Figure 19 – Quantity of content difference between Disney+ and Netflix catalogue



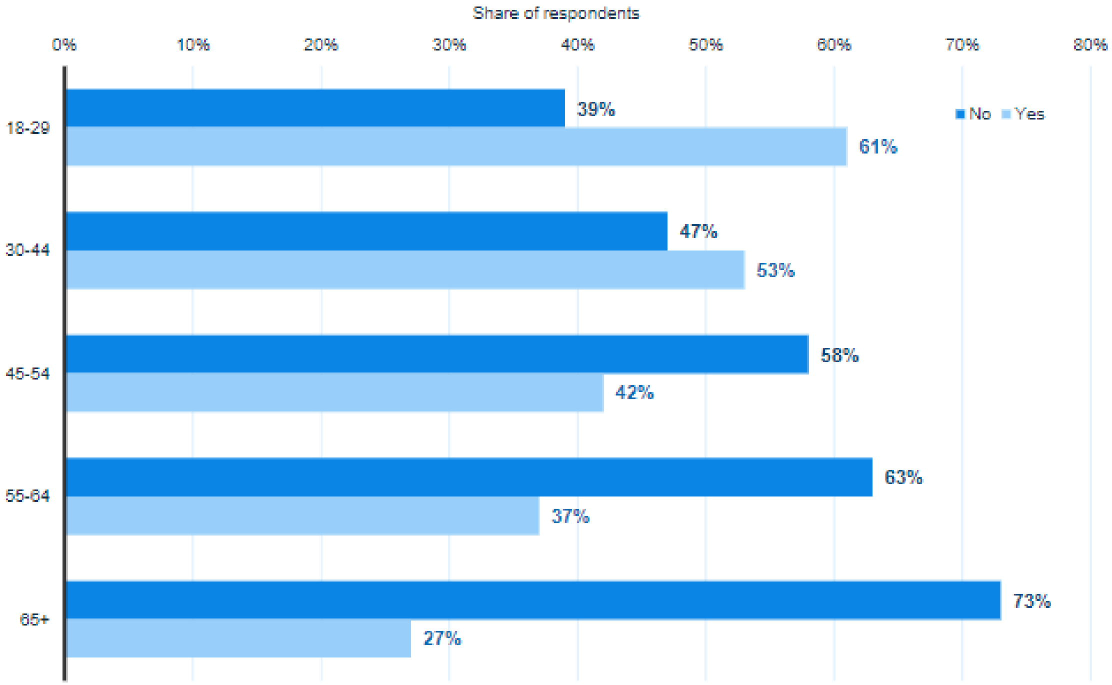

Source: *Video Streaming In The U.S.: An Industry In Flux*, A Statista Dossier plus On Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 17

Figure 20 – Number of original TV shows available on SVOD services in the U.S.



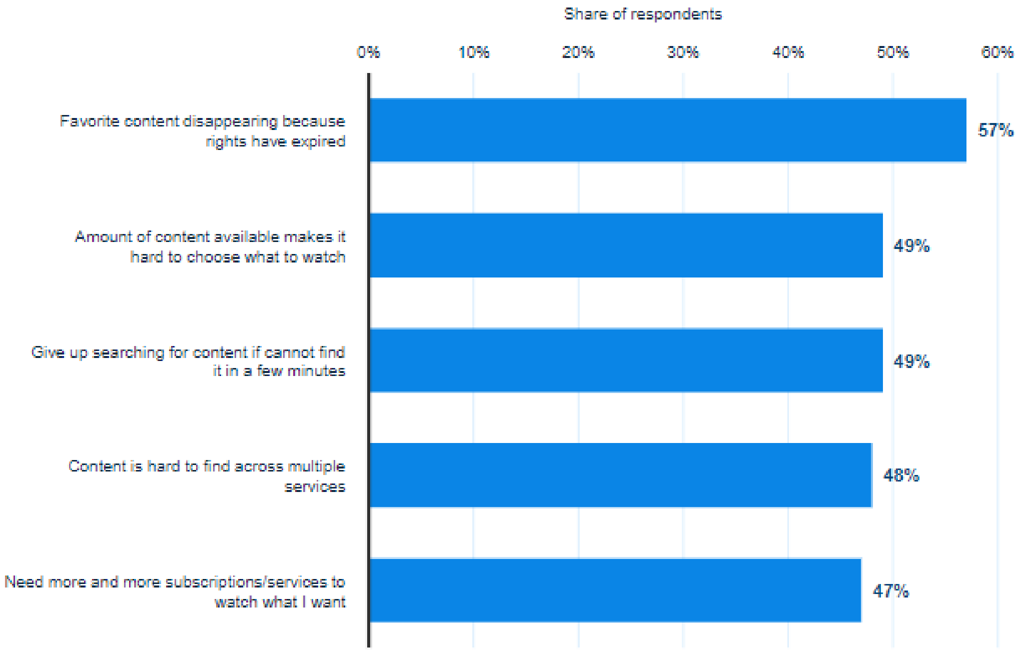

Source: *Disney+*, Statista dossier, pg.17

Figure 21 – Consumers pay for a streaming service to watch a particular show



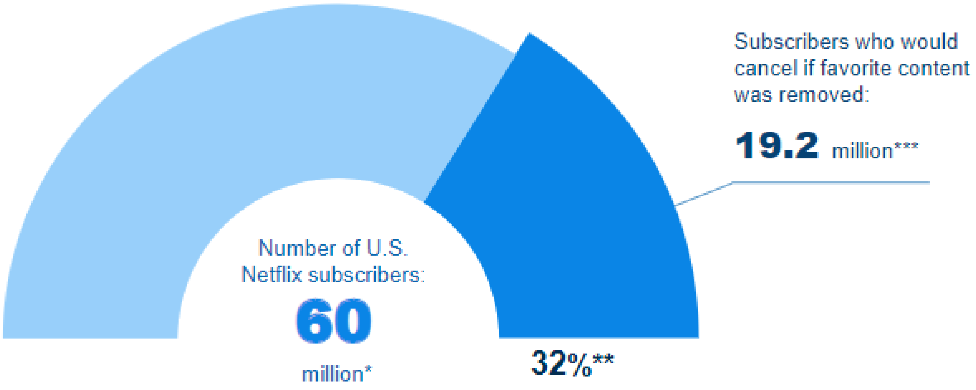

Source: *Video Streaming In The U.S.: An Industry In Flux* – A Statista dossier plus on Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 9

Figure 22 – Main concerns amongst SVOD subscribers



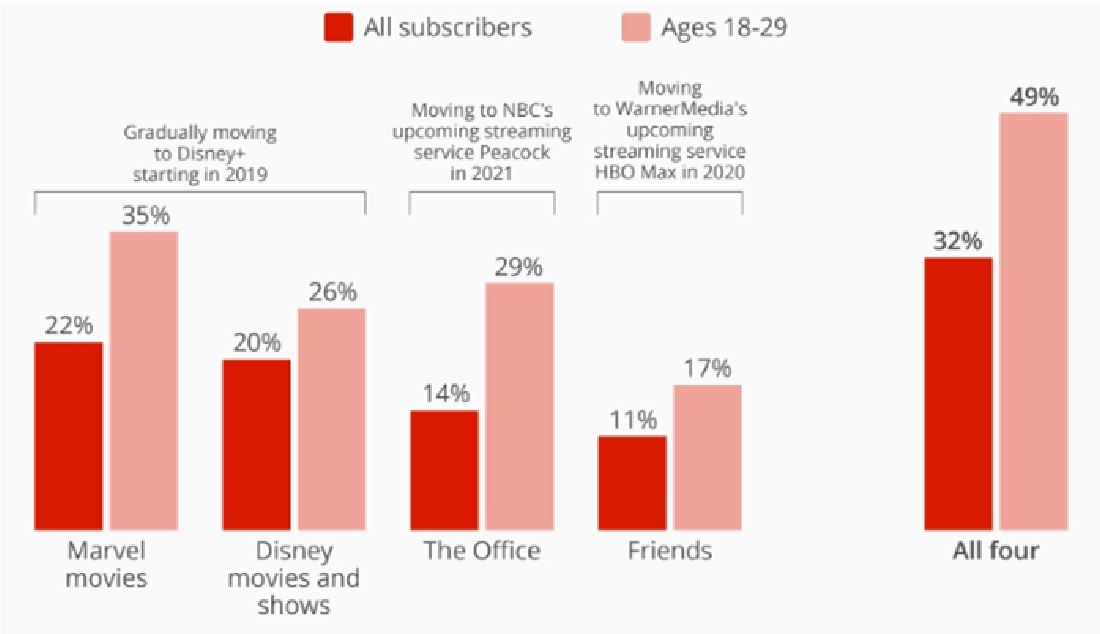

Source: *Video Streaming In The U.S.: An Industry In Flux* – Statista dossier plus on Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 17

Figure 23 – Netflix's consumers would consider cancel their subscription if the favourite content was removed




Source: *Video Streaming In The U.S.: An Industry In Flux* – Statista dossier plus on Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 30

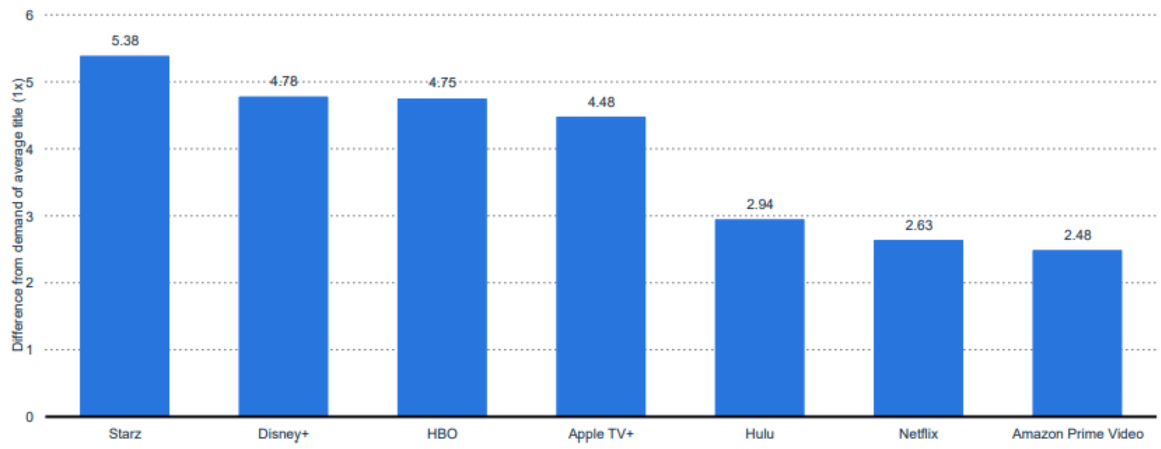
Figure 24 – Percentage of U.S. Netflix subscribers who would cancel if the following content was removed




Source: Richter, Felix., 2019. Infographic: *Is Netflix Facing a Mass Exodus?.* Statista Infographics.

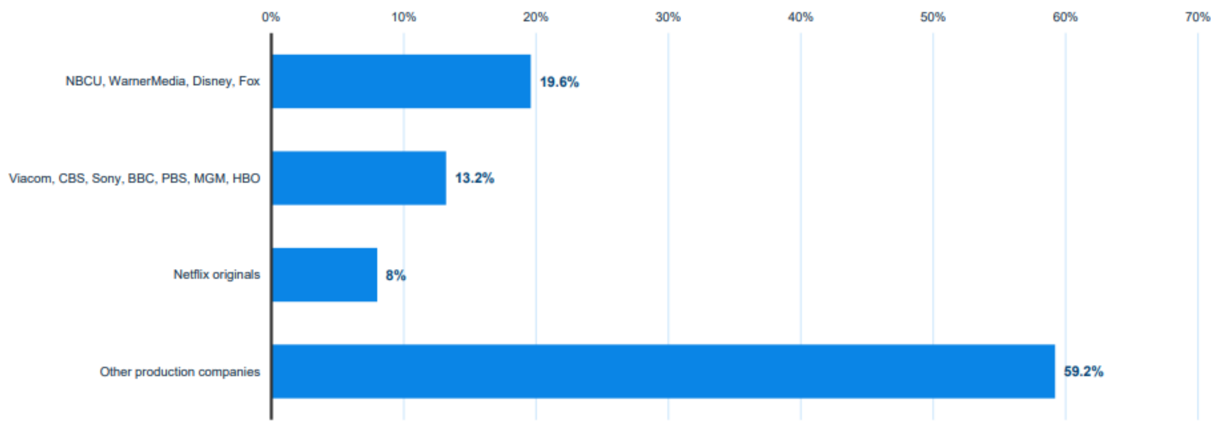
https://www.statista.com/chart/19913/netflix-subscribers-planning-to-cancel/.

Figure 25 – VoD platforms with the most in-demand original series worldwide 2020-2021



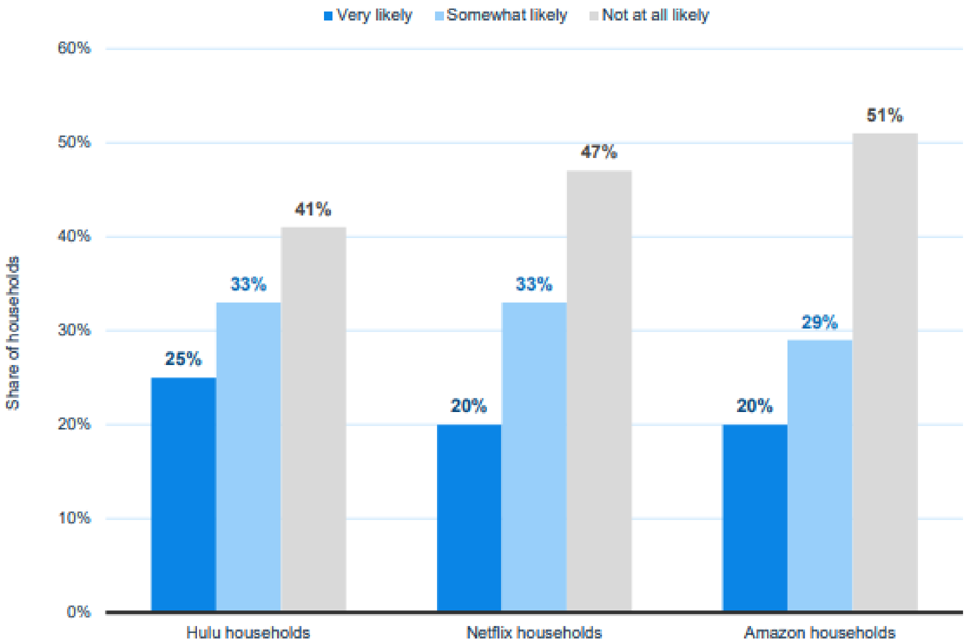

Source: *Disney+*, Statista dossier, pg. 19

Figure 26 – Disney's content on Netflix catalogue



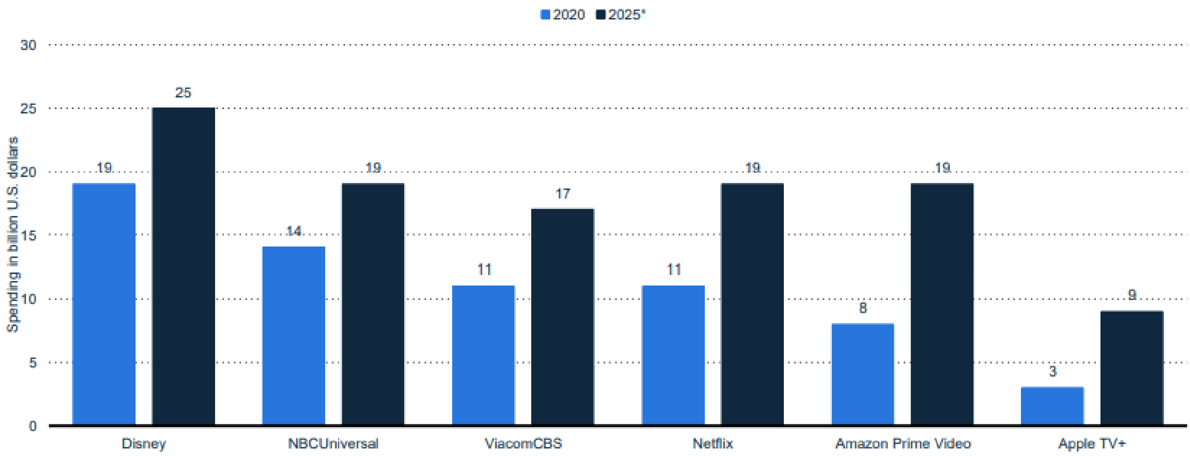

Source : *Video Streaming In The U.S.: An Industry In Flux*, A Statista Dossier plus On Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 29

Figure 27 – Percentage of U.S. streaming households likely to sign up to Disney+



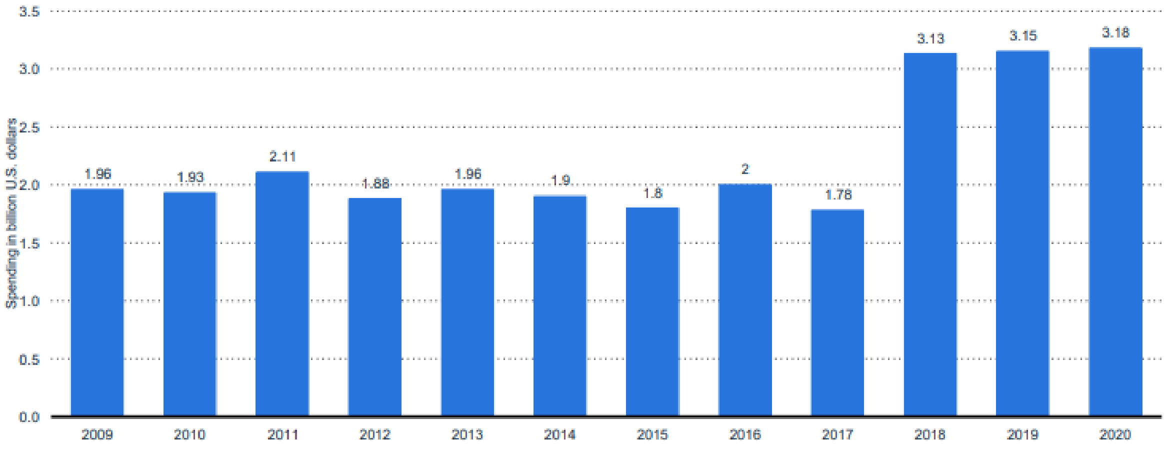

Source: *Video Streaming In The U.S.: An Industry In Flux*, A Statista Dossier plus On Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 18

Figure 28 – Content spending of selected traditional media and streaming companies worldwide in 2020 and 2025 (in billion U.S. dollars)



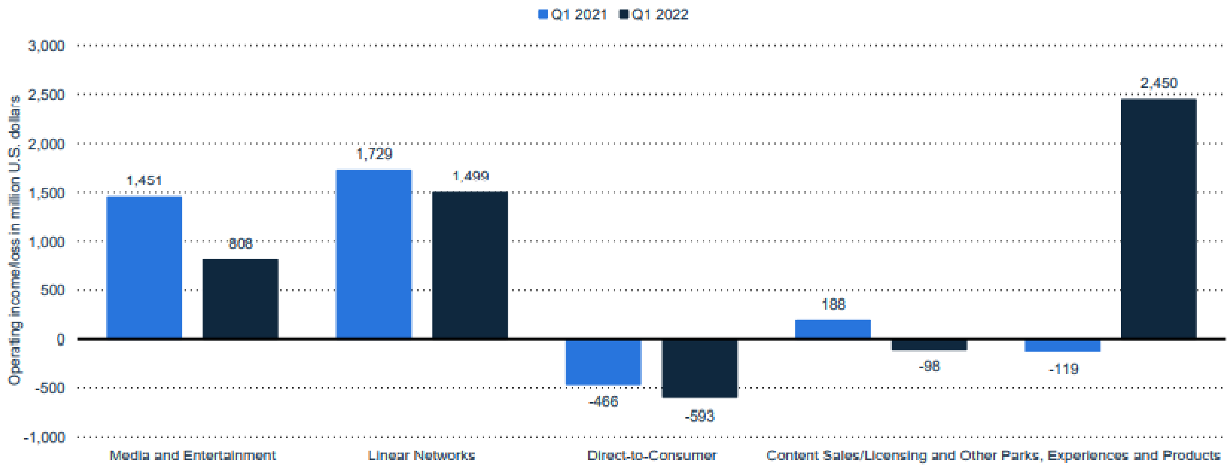

Source: *Disney+*, Statista dossier, pg. 7

Figure 29 – Walt Disney Company's advertising spending in the United States from 2009 to 2020 (in billion U.S. dollars)




Source: *The Walt Disney Company*, Statista dossier, pg. 11

Figure 30 – Operating income/loss of The Walt Disney Company in 1st quarter 2021 and 1st quarter 2022 by segments (in million U.S. dollars)




Source: *Disney+*, Statista dossier, pg. 10

Figure 31 – Revenue and operating results for Disney's Media and Entertainment segment

| (in millions) | | 2021 | | 2020 | % Change Better (Worse) |
|---|---|---|---|---|---|
| *Revenues:* | | | | | |
| Linear Networks | $ | **28,093** | $ | 27,583 | 2 % |
| Direct-to-Consumer | | **16,319** | | 10,552 | 55 % |
| Content Sales/Licensing and Other | | **7,346** | | 10,977 | (33) % |
| Elimination of Intrasegment Revenue[1] | | **(892)** | | (762) | (17) % |
| | $ | **50,866** | $ | 48,350 | 5 % |
| *Segment operating income (loss):* | | | | | |
| Linear Networks | $ | **8,407** | $ | 9,413 | (11) % |
| Direct-to-Consumer | | **(1,679)** | | (2,913) | 42 % |
| Content Sales/Licensing and Other | | **567** | | 1,153 | (51) % |
| | $ | **7,295** | $ | 7,653 | (5) % |

[1] Reflects fees received by the Linear Networks from other DMED businesses for the right to air our Linear Networks and related services.

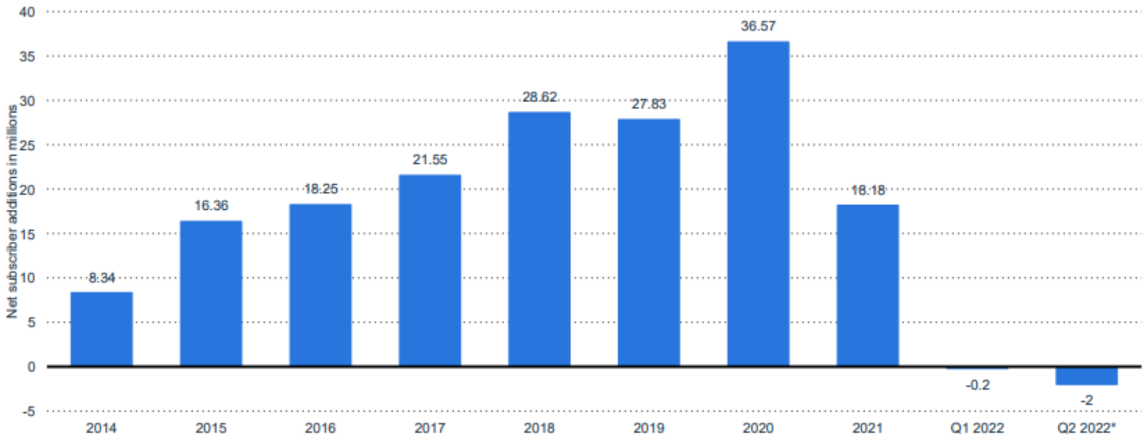
Source: The Walt Disney Company - Annual report 2021

Figure 32 – Revenue and operating results for Netflix

| | As of/ Year Ended December 31, | | | | | | Change |
|---|---|---|---|---|---|---|---|
| | | 2021 | | 2020 | | 2019 | 2021 vs. 2020 |
| | (in thousands, except revenue per membership and percentages) | | | | | | |
| Financial Results: | | | | | | | |
| Streaming revenues | $ | 29,515,496 | $ | 24,756,675 | $ | 19,859,230 | 19 % |
| DVD revenues | | 182,348 | | 239,381 | | 297,217 | (24) % |
| Total revenues | $ | 29,697,844 | $ | 24,996,056 | $ | 20,156,447 | 19 % |
| Global Streaming Memberships: | | | | | | | |
| Paid net membership additions | | 18,181 | | 36,573 | | 27,831 | (50) % |
| Paid memberships at end of period | | 221,844 | | 203,663 | | 167,090 | 9 % |
| Average paying memberships | | 210,784 | | 189,083 | | 152,984 | 11 % |
| Average monthly revenue per paying membership | $ | 11.67 | $ | 10.91 | $ | 10.82 | 7 % |
| | | | | | | | |
| Operating income | $ | 6,194,509 | $ | 4,585,289 | $ | 2,604,254 | 35 % |
| Operating margin | | 21 % | | 18 % | | 13 % | |

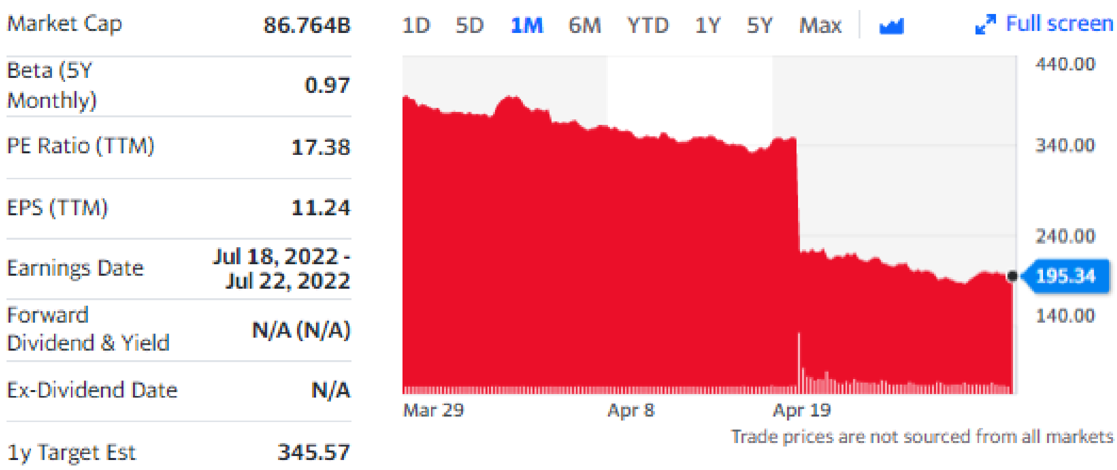
Source: Netflix – Annual report 2021

Figure 33 – Paid net subscriber additions of Netflix worldwide from 2014 to 2nd quarter 2022 (in millions)



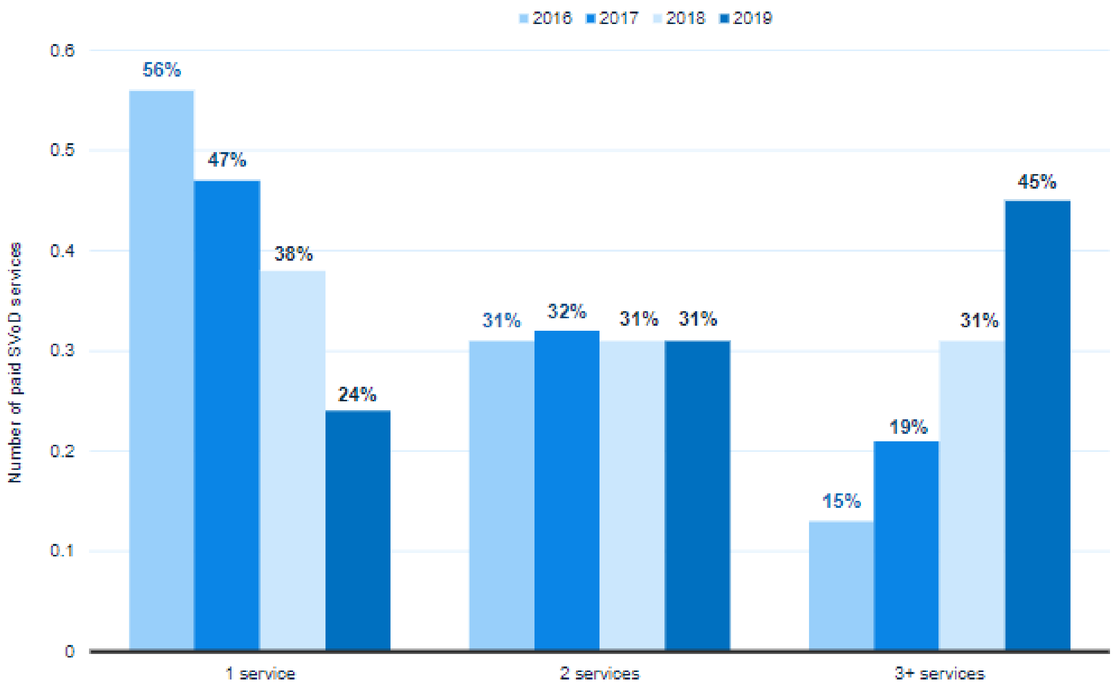

Source : *Netflix*, Statista dossier, pg. 23

Figure 34 – Netflix’s stock drop



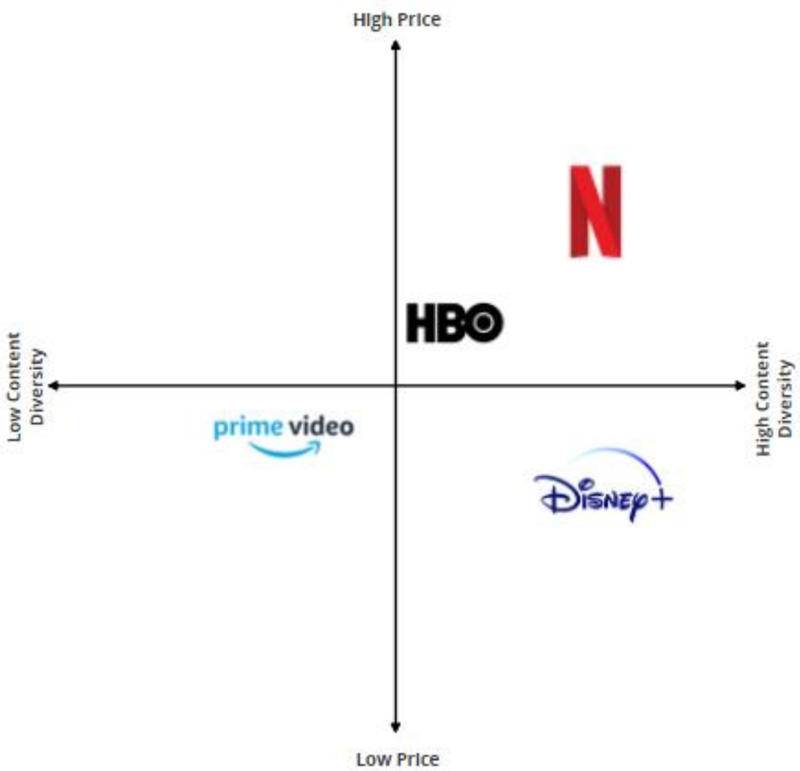
Source: Yahoo Finance, https://finance.yahoo.com/quote/NFLX?p=NFLX, accessed 29/04/2022

Figure 35 – Consumers have been subscribing to multiple streaming services




Source: *Video Streaming In The U.S.: An Industry In Flux* - a Statista dossier plus on Disney's Influence On Netflix And The U.S. Streaming Industry, pg. 10

Figure 36 – Perceptual map: SVOD players on price and content diversity



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