Disney Interactive Media Group

BUAD 497 Strategic Management

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Identification of Five Forces

Disney Interactive Media Group was created in 2008 when Disney Interactive Studios and the Walt Disney Internet Group merged together. Disney Interactive Studios is a member of the video game industry, a business that is full of competition according to Porter's Five Forces.

Rivalry - High

In the video game industry, there are many competitors ranging from big name publishers and developers, to college students making video games in their spare time. Strong players exist in the social and casual games markets which is now the fastest growing sector of the video game industry. Social game companies like Zynga with titles such as *Farmville* or *Café World* dominate the Facebook landscape with over 45 million daily active users (AppData). In the AAA category, big name players consist of large developer/publisher companies such as Activision, Electronic Arts, or Capcom who own established franchise such as *Battlefield*, *Call of Duty*, and the *Street Fighter* series. AAA game titles are traditionally played on home consoles such as Xbox 360, Playstation 3, or Nintendo Wii and usually sell at retail for approximately $60.

Threat of New Entrants - High

As a result of new and emerging technologies such as smartphones and Facebook, it is now easier than ever for anyone to join the gaming space. In the past, large developers/publishers such as Electronic Arts owned the AAA video game industry and the chance of a large publisher funding a small scale game without a guarantee to yield profit was next to zero. Video game development takes 1-3 years and millions of dollars for many popular titles. Now, due to the development of Adobe Flash, XNA, and other easy to use programming engines, development cycles for casual games only take 6 months-1 year, increasing turnover rate for studios working on new titles. In addition to faster development cycles, these games are sold much cheaper and return much higher profits when compared to big budget AAA titles. For instance, Rovio's hit title Angry Birds cost only 140K to develop, but has earned an estimate 70 million dollars as of March 2011 (Industry Gamers).

Development teams are also much smaller than big budget titles and anyone with Adobe Flash and a few interested friends can start a game company, which has been proven successful. Jenova Chen founded thatgamecompany the year he graduated from the USC Interactive Media Program, and created the immensely popular *Flow* as a DLC game for the Playstation Network. *Flow* eventually became the most downloaded game on the PSN Network in 2007 with over 3.5 million plays (USC Cinema). AAA companies are also entering the casual markets by acquiring smaller development studios such as Electronic Arts' acquisition of the social games company Playfish.

Bargaining Power of Suppliers - Low

Suppliers have little to no power in the video game industry. Customers can get video games virtually anywhere: online, phones, tablets, computers, consoles, the sky is the limit regarding playing video games. Differentiating and exclusive to console game titles are the key to attracting consumer attention.

Bargaining Power of Customers - High

Buying power in the video game industry lies entirely with the consumers. With a plethora of gaming consoles such as the Xbox 360, Playstation 3, or Nintendo Wii, consumers can purchase any console or system that suits their interest. Developers and publishers have some power in that certain titles are console exclusive and consumers must buy a specific console to play the game (i.e. The Legend of Zelda: Skyward Sword is exclusive to Nintendo Wii).

In regards to mobile/casual games, consumer options are virtually limitless as well. Smartphones have application stores with thousands of games including the widely popular *Angry Birds* to remade classics such as *Final Fantasy* or *Tetris*. The internet is also a place for consumers to play games. With successful social game companies like Zynga, browser based gaming is on the rise and reaching a staggering amount of new players. These games are also easily accessible and anyone can play these games online for free.

Threat of Substitute Products - High

Video games are a form of entertainment that consumers can easily substitute with other products. Entertainment is subjective to consumer interest and the feeling of involvement related to games can be replicated by reading books, watching movies, etc. However, the cost of mobile games on phones and apples' app store are very low when compared to movie and ticket prices. The average price for applications on those platforms sells below $2 (GameBiz). Compared to the standard prices of books or movies, mobile game are relatively inexpensive and can have gameplay capable of entertaining consumers for hours. Despite the $60 price tag, traditional retail games are more complex with a higher degree of mental stimulation, thus having many more hours of lasting gameplay than mobile games that many consumers favor.

Who's Profiting?

Small, casual game companies now own the majority of the market share in the gaming industry. As mentioned in earlier, game developers that focus on rapidly creating cheap titles and following micro transactions models are the most profitable section of the industry.

Modification of Five Forces to Increase Profitability

Rivalry

To even out the playing field, Disney Interactive Media Group (DIMG) should be acquiring more game studios in order gain a broader understanding and experience in the video game industry. Acquiring Playdom and DIMG was a step in the right direction by adding Playdom's experience in the casual games market to DIMG's gaming portfolio (Industry Gamers). Disney's acquisition of Marvel also granted DIMG access to their plethora of characters that can resonate with the male demographic.

Bargaining Power of Customers

DIMG needs to create a combination of original titles to inspire new characters and game design as well as leverage their existing IP to draw in Disney fans.

Threat of Substitute Products

DIMG is one of many segments of the Disney corporation that already offers multiple types of entertainment substitutes. DIMG should work with other sectors of Disney corporate to take advantage of cross promotional opportunities.

Bargaining Power of Suppliers

DIMG should push their content on to multiple platforms such as game consoles and smartphones. This way, they give consumers easy access to game titles and increase the odds of purchases.

Threat of New Entrants

In order to gain an advantageous position in the future, DIMG should reposition its efforts to focus on casual and mobile game titles since the majority of the market share lies in these areas. DIMG has begun its' climb from lower sales in the past with its' new iPhone game:

Where's My Water, dethroning the former king *Angry Birds* from its number one spot in the App store. (Forbes). DIMG must continue to make innovative and accessible titles similar to *Where's My Water* so DIMG can become synonymous with good quality casual games the same way Disney is known for quality animation films.

Disney Interactive Studio's Competitive Advantages

Penetration of Gaming Industry

Disney Interactive Studio (DIS) has been developing and publishing children's game products since its creation in 2003. In order to support its growth in the gaming industry, Disney expressed their intentions of actively looking for and acquiring profitable targets in the game producing industry. Its' intentions to invest in game studios became apparent during the past few years, when it carried out its aggressive acquisition policy. It has since taken over console, mobile and online games development studios (e.g Tapulous Tap, Marvel entertainment and Playdom).

Acquisition of Playdom

The acquisition of Playdom has been watched with intense interest given the deal could cost Disney up to $763 million, depending on the performance of the acquired firm. According to Disney, this move was made to advance "its goal of bringing consumers its well-known stories, characters and brands" to online games. Disney has been a forerunner in the race for acquisitions, and its' competitors are following closely behind trying to make similar acquisitions. As of July 2010, companies like Disney, Google and Zynga have contributed to 62 Merger and Acquisition (M&A) deals worth $750 million. The fragmented gaming industry has become increasingly lucrative, and recently, companies are paying more attention to the social and mobile gaming segment. Disney recently seized the opportunity to jump on the bandwagon with its capture of Playdom. The size of this deal displayed Disney's financial capacity to make numerous, and yet steep-priced acquisitions. This is a competitive advantage that most of its near competitors are incapable of matching.

With these investments, Disney expects to benefit from the revenue enhancements and expand into new market niches. Tapulous Tap was an iPhone gaming startup which produced popular games like Tap Tap. With the acquisition of this firm, Disney is able to exert influence in the music related game segment and compete with huge competitors like Viacom. Additionally, it allowed DIS to move into games development for the iPhone/iPad/iPod Touch platform. Its latest game in this platform is named as "Where's My Water".

Expertise Transfer

Disney's acquisitions are allowing them transfers of expertise. Disney acquired Helsinki based HTML5 gaming engine, Rocket Pack, in 2011. With the purchase of Helsinki based HTML 5 gaming engine, Rocket Pack, 201 this intellectual property(IP), Disney acquired the ability to develop online games without the requirement of Flash, as well bypassing the need to seek a third party for publishing and sales.

Access to Talent Pools

Additionally, Disney has gained access to diverse talent pools. The industrial Playdom CEO, John Pleasants joined Disney as the co-president of DIS2 and Bart Decrem whom founded Tapulous Tap, took over the position of senior Vice President in Disney. However, there are investments which failed to live up to expectations, with Disney receiving minimal benefits from the acquisition to none at all. For example, a former subsidiary of DIS, Black Rock Studio, was closed down in July 2011 despite being acquired only for years ago. Acquisitions like these disadvantage a firm when their abilities fail to be integrated into the core competencies of the acquirer. Because Disney is a well-known children's IP proprietor, acquiring a game studio like Black Rock which produces popular hardcore racing games, it is essential that the former assimilates the latter into its company, so as to enhance its chances to penetrate into the racing game niche. However, it did not materialize at the end, most likely due to the placement of two extremely different game segments under a single umbrella. This caused misfit and created problems which prohibited sustainability in the long run. The formation of separate divisions will thus be necessary for the game development, so that these entities have the autonomy to decide what is best for them. Implementing this strategy would allow different approaches to game development while still focusing revenue generation by producing blockbuster games that are popular among avid gamers.

On the whole, the gaming industry is changing rapidly with the emergence of social and mobile gaming. With huge corporations that have the ability to influence and change policy in a short period of time, Disney has to adapt to changes in the competitive landscape by continuing the restructure of DIS, via making more profitable acquisitions and changes to the management level of the division.

Publishing and Development

One advantage of Disney Interactive Media Group (DIMG) is that they are a publisher with an in-house development team. This fact is a competitive advantage of DIMG for three main reasons:

1. Having developers in-house reduces the risk of conflict with the developers

2. DIMG's developers have access to Disney's long history of characters and have access to Disney branding, marketing and distribution that can be used to successfully introduce new characters.

3. The changing video game industry diminishes independent developer's need for big publishers.

Reduced Risk of Conflict

The video game industry has often been compared to the film industry in terms of its value chain. It starts with someone having an idea who is then backed a studio/publisher for financial and distribution support. In the video game industry the main two players are developers, who create the games, and publishers who finance, market, and distribute the game. The relationship between the two parties has been almost adversarial over the years. Developers feel they are asked to concede too much of their creative control and, often times intellectual property rights, when they rely on publishers for support. Publishers feel that developers, whose costs are continually increasing, "are over-paid and under-deliver" [1] These attitudes have led to an "us vs. them" mentality and general lack of trust among developers and publishers.

The recent legal battle between Infinity Ward and Activision is a good and unsurprising example of how damaging the conflict between publishers and developers can be. Differences of opinion regarding the creative direction of the popular and profitable game series, Call of Duty, created a rift between the publishing company Activision and the development company Infinity Ward. The two leaders of Infinity Ward were subsequently fired for what Activision called "insubordination" and "breach of contract." The development company retaliated by suing Activision for what they viewed as a breach of contract. The industry opinion of the suet is split between publishers who side with Activision because they understand the frustration of working with creative and stubborn people and developers who view Activision's actions as typical of the huge and greedy publishers. No matter who is to blame, both parties have lost a large amount of money in court costs and revenues forgone because of the inability to release another Call of Duty game.

The publisher/developer conflict tends to be less prevalent when publishers work with in-house development teams like DIMG does. Because developers are employees of the publisher, their interests are more likely to fall in line with the interests of the publisher. Therefore, in-house developers are usually allowed more creative control when it comes to the design and content of the game. Publishers have less fear that the developer’s creativity will come at too high a cost and are willing to take more risks. Furthermore, publishers tend to be more forgiving of missed deadlines and unexpected additional costs of in-house developers.

Better relationships between the publisher and developer ultimately mean more creativity and increased productivity, which is very much needed in the ever-changing gaming industry. DIMG promotes this competitive advantage in its strong leadership. The Co-Presidents of DIMG are James Pitaro, former Vice President of Yahoo Media, and John Pleasants, former chief executive of Playdom, a large social game company DIMG acquired in July 2010. The Co-Presidents have a plethora of experience in the gaming industry ranging from Yahoo Sports to Electronic Arts and have new ideas to reposition DIMG to its former marketing tool to an interactive media division that is ahead of the competition. (NY TIMES)First, Pitaro has spoken on creating new games with an emphasis on creating new characters worthy of the Disney brand and leveraging them in multiple aspects of Disney such as television, movies, etc. Second, they are putting an increased emphasis on hiring new and upcoming game development talent to bringing new and fresh ideas to the interactive space. Finally, DIMG Co-Presidents can leverage existing Disney IP to create games and interactive experiences that exclusively resonant with the Disney brand.

Disney Characters, Brand, Marketing, and Distribution

Rapidly changing technology and expectations has significantly increased the cost of developing video games. "While prior consoles had a development cost ranging between $3 and 5 million per platform, the average costs for modern consoles are around $10 million for one platform and $18-$28 million for multiple platforms."[3] Though the cost increase happened fairly rapidly, the price to consumers has been slower to change. For the past decade the average price for a video has remained at $50-$60.[4] Because of this ever rising development cost, publishers today have been reluctant to invest in new games and instead prefer to work with games, ideas, and characters that have already been proven successful.

DIMG's access to Disney characters and past video games greatly reduces the risks of an unsuccessful video game and the costs of acquiring licenses for the characters does not exist. DIMG has a much easier job than other publishers who have to actively seek opportunities for acquiring surefire characters and games.

Diminished Need for Publishers

One big trend in the video game industry is the increase of mobile gaming. Developing such games come at a significantly lower price to developers. More and more independent developers are deciding to create these mobile games on their own while maintaining their creative control and flexibility.

Access to Disney' Brand Image

Disney Interactive Media Group has a vast competitive advantage resulted by its brand image and marketing strategy supported by its vast distribution channel. These two main devices of brand image and marketing strategy place Disney Interactive Media Group ahead of other competitors in the same industry.

Disney's existing brand image is a large asset for Disney Interactive Media Group and this factor significantly helps Disney Interactive Media Group in gathering consumers' attention and entering new markets. Disney's brand image can be described by few words such as magical, childlike, fantasy, kingdom and fun. These words are associated with the brand image of the Walt Disney Company who are are in support of increasing the value of products produced by Disney Interactive Media Group. For example, the games of acquired companies and newly created web spaces by DIMG is most likely to be associated with the words that have been existing for past decades. Most people do not realize the strong power of the brand image that most companies carry on for years. The word brand comes from the originally meaning of "to burn" which means that these brands are burnt onto the products so others can recognize and differentiate the products.

Psychological Effects

Psychological effects that brand image have should not be underestimated. Consumers tend to unconsciously pair brands with certain words and descriptions. For instance, if a survey was taken asking what consumers have to say about the Walt Disney Company, many will have positive feedback thus feeding the power of a brand image when people tend to buy products from the Walt Disney Company based on its positive image.

Target Markets

In addition to its strong brand image that DIMG can use to promote the products with, Disney's marketing strategy is the most noticeable factor in the completion of the same industry. The marketing strategy that DIMG can base of off starts very early on in people's lives. The Walt Disney Company's main source of consumer market is young children and the youth. Not many people tend to get attracted to the characters and stories that the company produces but children are absolutely in love with the products that see and experience. The Walt Disney Company targets the young crowd and stay with them for as long as they can to maximize profits.

Disney's Marketing Strategy

Based on idea of targeting consumers early in their lives, the Walt Disney Company uses a specific marketing strategy which composes of five different models. The Walt Disney Company's marketing strategies contain the following ideas: Sell more to existing customers, expand your marketplace, continuous promotion, always improve and add to your offerings, and tracking businesses. The Walt Disney Company keeps track of customer sales and sells to customers tailored to their preferences. In addition they also try to introduce products that customer may like. They also try to expand internationally based on the market research and concentrating on the areas that favor Disney Products. After they settle on to a market, they continuously market the products with persistency. This kind of marketing strategy has been consistently successful in keeping its consumers happy and satisfied. Among its strategies, selling more to existing customers is the most helpful strategy for DIMG. Since DIMG has not been established for long its target should be the existing customers from other segments. For example, Disney's game for the newly acquired company is marketed towards the customer database they already had in order to achieve efficiency in marketing.

The competitive advantage that DIMG has over other competitors due to its brand image and its marketing strategy is definitely significant and has been continuing on for many years. Moreover, these advantages are more likely to constantly grow in size and achieve higher value since Disney will continue to be the company where children look for magic. Although Disney occasionally gets criticized for its early effects on children such as teaching kids the wrong impression of good and evil, those criticisms tend to be overruled by all the followers of the Walt Disney Company. Thus, these resources that DIMG can utilize in order to bring greater profit to the company are more likely to survive through the years and sustain its level of output.

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