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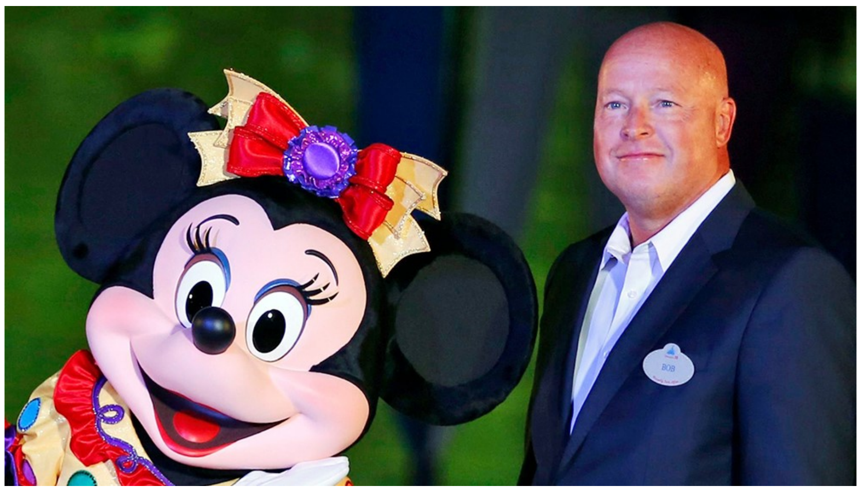
Democracy Dies in Darkness

Disney makes a big digital move. But no one can agree on how much will change.

With coronavirus largely killing movies in theatres, Disney announced a reorganization to place greater emphasis on streaming.

By Steven Zeitchik



Bob Chapek poses with Minnie Mouse during a ceremony at Hong Kong Disneyland in 2015. The Disney chief executive announced an organizational shift Monday. (Kin Cheung/AP)

With uncertainty over the coronavirus continuing and consumers’ transition to digital accelerating, Disney on Monday reorganized its corporate divisions to bolster the power of streaming service Disney Plus.

Announced to much fanfare by the company, the realignment removed marketing and distribution responsibilities from Disney’s film studio and TV operations, and transferred them to a newly created digital unit that includes Disney Plus as well as Hulu and ESPN Plus. The heads of each group will report to Disney chief executive Bob Chapek.

“Managing content creation distinct from distribution will allow us to be more effective and nimble in making the content consumers want most, delivered in the way they prefer to consume it,” Chapek said in a company statement announcing the change. “Our creative teams will concentrate on what they do best — making world-class, franchise-based content.”

The statement touted the shift as a “strategic reorganization of its media and entertainment businesses” and said a virtual investor day will be held Dec. 10 to illuminate the new realities. (The company just ended its fiscal 2020.)

But experts and insiders remain divided on how much will really shift in the new structure. At heart is a question of how much a legacy company like Disney can — or even should want to — fully pivot away from its profitable legacy businesses. Traditional television and studio, after all, generated $10.2 billion in profit in fiscal 2019. Disney Plus, the company has said, won’t be profitable at all until 2024.

Those who downplay the move note that the restructuring remains unlikely to be felt immediately by consumers. ABC remains a powerful broadcast network with major hits like the Bachelor franchise, while the film studio will maintain its longtime leaders Alan Horn and Alan Bergman under the new structure; the pair have already announced a major slate of brand-name films for 2021 and 2022. Films made above a certain budget, in other words, will almost certainly still go to movie theaters.

And many of the company's content generators, such as Marvel, already churn out work for a range of platforms that includes theatrical, television and Disney Plus.

The gap between the move's hype and reality was wide enough that longtime Disney analyst Rich Greenfield of LightShed Partners issued an unusual mea culpa. After first heralding the move as significant in a note Monday, he changed his mind on Tuesday.

"Disney's Restructuring is Less Transformative than We Thought — our original interpretation was completely wrong," he wrote in a new note. He explained that he thought it was good the changes didn't go that far. "While we remain confident that streaming economics in totality are far superior long-term than traditional movie/TV economics," the analyst wrote, "nothing can achieve the per-picture economics that Disney is able to generate through a global theatrical release."

And even if more content gets funneled to digital platforms, it won't matter, say those who shrug off the move, because the real power lies with whomever makes production decisions.

"Without greenlight and slate management, this is a very incremental change," said Larry Shapiro, a former executive at Disney Interactive, referring to the authority to finance a project and put together a film or television lineup, respectively. "I think the [new unit's] say is 'recommend where it goes' — to be finally determined by Chapek — and zero control of what gets made."

But others were more persuaded of a seismic shift. They note that the carving out of the distribution unit, particularly from the film studio, carries both symbolic and substantive meaning. It upends decades-old wisdom that a film studio functions best as an integrated whole, with the creation and release of new movies happening in tight concert.

And they say the new unit, which will be run by the former president of consumer products Kareem Daniel, gives an equal seat at the table to Disney Plus in deciding the best way to release content — setting up a system in which creations could move more easily to the platform at various points in the production process.

That is particularly needed during the uncertain days of the novel coronavirus, they say.

"Disney has to face the music and move away from its historic focus on being in the people density business and transition to a business model focused on virtual entertainment, streaming and eGaming," said Lloyd Greif, the head of Los Angeles-based investment banking firm Greif & Co. who closely follows Disney, referring to how the pandemic has shut down theaters, theme parks, hotels and cruiseships. "The business model they started and ended fiscal 2020 with is broken. The new, streaming-centric business model they are starting fiscal 2021 with will give them a better than fighting chance to be relevant and competitive."

The pandemic forced Disney to shift "Mulan" to Disney Plus this summer, and prompted the company to announce last week it would take new Pixar release "Soul" from theaters to the platform.

But both films were made during a pre-covid era for theatrical and retrofitted for the service. The new structure would potentially generate more movies that are designed, both creatively and budgetarily, for the service to begin with.

Disney Plus has attracted many subscribers since launching 11 months ago, reaching 60 million this summer. But with investment costs high and the return per subscriber no more than $7 per month, it still is not seen as a profit-generator along the lines of other business units.

The news of the reorganization came just a week after Dan Loeb, a well-known activist investor, wrote a letter to Chapek urging the firm to permanently scrap a $3 billion dividend and divert the funds to Disney Plus, instead.

Loeb believes that Disney Plus needs major dollars devoted exclusively to its content and said the company should "lean into this opportunity and invest more aggressively."

Investors, at least, seem to agree with Loeb and Greif. Disney's stock price went up as much as 7 percent in after-hours trading Monday after the announcement. It closed Tuesday up 3 percent, to $128.96, its highest price in a month, before closing down 2.37 percent at $126.59 in trading Wednesday.