

Art of diversification by leveraging your core competency: \$ 4 billion USD worth of superheroes?

Most, if not all, of the companies has been forced by shareholders, investors and board of management to keep increasing their revenue, profit margin, EPS etc. With the increasing of competition in the market and to impress the stakeholders, many companies decided to reach these expectations by enter into new business that they are not familiar with. There are lots of case studies, along with empirical studies on the business diversification. Some say company should stick to the core business on what they are good at, some say company should diversify to new industry either by M&A, J/V to increase margin and revenue of the company. However, there are few companies in this world who know their true core competency/value and diversify their business to new target group without diluting its core value.

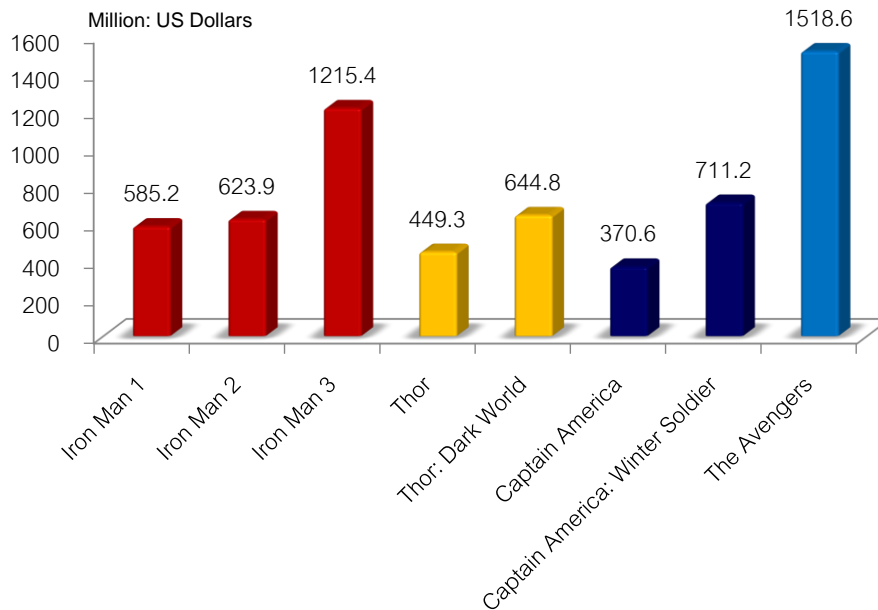
4 years ago Disney bought the Marvel Entertainment (including the right of comics, characters, toys and etc.) for over 4 billion USD in cash and stock. At the time, it wasn't hailed as a great move, not by one bit. Disney's stock price sank on news of the deal. Even though Superheroes were hot properties in Hollywood, the negative reasons are not only because previous Marvel superhero movies perform horribly in box office (Elektra, for example) but also Marvel had already signed off a long term right of the 2 most popular characters to other studios (Spider-Man for Sony and X-Men for Fox).

What is left for Disney to salvage are a Nordic god throwing a hammer, Billionaire flying in tin can suit and a guy wearing a tight blue costume throwing a shield. People, along with the investor wonder how they are going to make money from these not so popular characters in the modern day.

The motivation for Disney and for Bob Iger, CEO of Disney to enter this deal is all about story telling. Story telling is the core competency/value since the beginning of the company. Kids watched Mickey then want to go to theme park (Disney Land) to see their beloved characters in flesh, buy the merchandise toys etc. The story that can create the spill-over effect to other core Disney businesses. Mickey mouse and friends might not be able to win over teenagers and kids this day anymore. They need the characters, stories that will be able to lure customers to their other businesses.

Also they know that super heroes is not their expertise, Disney know how to create the cartoon/movie for kids but not so much for a teenagers. So what they did is stick with the guy name Kevin Feige, who uses to work at Marvel prior merger with Disney. Disney named him to be the president of Marvel Studios (subsidiary of Marvel entertainment focus in making movies). Kevin is a real marvel geek, who truly understands what die-hard marvel fans' needs. At age 40 he is one of the youngest president of big Hollywood studios.

Now let's look at the global Box office performance of Marvel superheroes owns by Disney



As show in the chart, we can see that all of sequel movies performed better in Box office than the first one and that is not including DVD and Blu-Ray sell, Cable-TV license, Merchandise, Toys, additional sideline franchise, rides in theme parks and etc.

In addition, when Disney's bought Marvel entertainment, Bob Iger told his staff to start reading Marvel comics and counting the characters that can be used. End up they have 8,000+ characters (and now they use only less than 20 of 8,000 that they have in past 4-5 years). So if they use all of 8,000+ then the cost per character is only at 500,000 USD. Also at this rate, seems like we will have over thousand years ahead to watch all Marvel movies. 4 Billion USD for comics and superheroes??? Now I would say it is worth every dime.

It is not hard to diversify from the core business, many companies did this. However, it takes much more effort from the CEO and management to spot the undervalued potential business/asset, understand the true core competency (what you are good at?) of their company, merge 2 cultures together then leverage the newly acquired business that will link with your existing product/service. Disney is one of the best examples on how they succeed in this aspect. So what is your company's core competency?

Source: Disney, Marvel, Bloomberg and Box office mojo.



About Author: Mr. Narun is a program manager at Sasin Management Consulting. He has a various experience in leading and shaping the clients' businesses with proven successful track record in providing the tailor-made implementable strategies and action plans to CEO/COO of multinational private companies (Fortune 100 companies) in oil and gas industry, Thai government organizations, and state owned enterprises (SOEs).