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Disney Outlook Brightens On Streaming Revenue Prospects

When entertainment giant Disney announced its new streaming services recently, there was some initial scepticism whether Disney+ could catch up with existing subscription video-on-demand (SVOD) platforms, much less the industry’s runaway leader, Netflix. Nonetheless, investors took to the prospects of increased revenues and Disney’s stock rose over 11.5% on April 12 following the announcement, and has notched new all-time highs since.

The positive investor reaction is likely because the powerhouse has a competitive advantage when it comes to copyrighted content. Disney owns the blockbuster fantasy Marvel group, which includes Marvel Studios and Marvel Television. Marvel Studios makes an estimated $1.3 billion per year producing movie hits like The Avengers. Fox Entertainment Group is also under the Disney umbrella, which has the added appeal of National Geographic and Sky PLC. Then there’s the Star Wars franchise that was added to the fold in 2012, when Disney bought Lucasfilm for $4 billion. Last but certainly not least, the Disney Group owns the family-friendly Walt Disney Pictures and its entire back movie catalogue from Snow White to Pirates of the Caribbean. Many of the titles Disney owns have been consumer favourites for decades, meaning their timeless appeal will be a big lure for potential Disney+ subscribers.

The sports group ESPN is also part of Disney’s portfolio of companies. Needless to say, sports programme streaming is another big advantage for Disney, which could open up cross-selling opportunities for ESPN+ and Disney+ further down the road. On top of the movies, television and sports content, Disney Group owns record label and music publishing companies, meaning it has audio as well as visual content to offer.

Disney’s new streaming services could increase its global popularity and revenues from different countries. The group’s extremely strong position in the entertainment market has now been reinforced by its adoption of technology to spread its content to a wider audience. Its latest move means that Disney is moving into the driver’s seat in terms of being a popular stock after taking a back seat to more technology-based companies like Netflix and Amazon streaming services.

When it comes to the entertainment industry, content is king, and Disney doesn’t fall short in this department. Its economies of scale have allowed Disney to undercut Netflix by almost 50% when it comes to monthly subscription fees, at least until the penetration pricing has run its course. Compare a monthly subscription of $6.99 when Disney+ launches in November, to a Netflix plan which averages $13. That translates into attractive savings for consumers who decide to switch providers, or an easy decision if they add on Disney’s programming to complement another streaming provider.

The key competitive advantage for Disney lies in its content because it’s costing companies like Netflix more and more to keep up in terms of programming. To maintain its current

10% of the television market share, Netflix has been forced to increase spending on programming from $18.6 billion to $19.3 billion, meaning its operating profits are shrinking accordingly. Disney, on the other hand, has been a vertically-integrated company for decades, with the experience of owning its own movie and television production studios, so scaling up to meet streaming demand ought to be a smooth ride for the entertainment behemoth. Yet, Disney isn't resting on its laurels and has earmarked $1 billion for streaming programming per year.

However, Disney shareholders must remain patient. In its quest to attain 60-90 million global subscribers, Disney+ is not expected to make a profit until 2024. That means the expected boost to its bottom-line is still a few years out.

Overall however, Disney's prospects are positive with this new service, even as the streaming wars wage on.

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