Doing a Deal? Merger and Acquisition Negotiation and Business Strategy Analysis: Case Study of Amazon and MGM

Luwen Xu, Hanwen Zhang, and Lulu Zhang

***Abstract*—In 2021, Amazon acquired MGM for $8.45 billion, making it Amazon's second-largest acquisition and giving it a leading position in streaming. In addition, the acquisition is due to Amazon's lack of good original productions to compete with the media world, MGM's lack of funds to produce better intellectual property rights, and through pre-negotiation BATNA analysis, the deal is the best option for both parties. But the acquisition also raises questions about both sides, such as distribution issues and antitrust concerns and so on. However, through the Porter Five Force model to analyze the post-acquisition competitive strategy, should be confirmed by the previous analysis of BATNA, this acquisition is a win-win situation. As the acquisition is too new, by reviewing the company's historical literature and collecting the literature of the negotiation study, this paper summarizes four parts, namely, the introduction and business pain points of Amazon and MGM, BATNA before the negotiation, the pre-negotiation causes and consequences, and the post-acquisition business strategy. The paper also makes suggestions for future research on the acquisition.**

***Index Terms*—Amazon, Metro-Goldwyn-Mayer, negotiation, BATNA, Michael Porter's five forces model.**

I. Introduction

With the advent of the Internet era, streaming media platforms are gradually coming into the public's vision. Then it set off a race to occupy the market among the major streaming media platform companies. The most competitive of them are Amazon Prime Video, Netflix, and HBO MAX. Streaming media platforms have now become one of the most important ways for viewers to watch films and TV programs. This means its development is attacking the traditional theater industry. The total profit of the theater industry has experienced a rapid decline in North America. That influenced the traditional film studios inevitably, driving them to search for a way to survive under the revolution in the theater industry. For example, Disney acquired Pixar, Marvel, and Fox, and AT&T divested Time Warner to merge with Discovery. Against such a background, the Internet commercial giant Amazon owns Amazon Prime Video, and one of the oldest Hollywood film studios, MGM, had to consider what to do next. Amazon has spent an enormous sum trying to build its own big movie and TV franchises, but they have rarely been successful. So Amazon's investment in this area was mismatched to the returns. To cover the loss of this part, they took the measure of licensing distribution rights and purchasing copyrights from other mature film studios to make a profit. When it comes to MGM, the situation is simpler. After the financial crisis in 2008, the company was heavily in debt, which affected its operations dramatically. So the company sold its copyrights and performance rights to maintain the brand. At the same time, they were actively looking for the right buyers to pursue long-term development.

The acquisition between Amazon and MGM has not been analyzed much in previous literature. Therefore, the article will explore this acquisition from the following aspects. First, the paper will give a brief introduction of both companies through their business models and issues. Then, the BATNA of this negotiation will be discussed, which will focus on the alternative business strategies of the two parties. Next, the paper will elaborate on the negotiation review and outcome. At last, the article will analyze the post-acquisition strategies, using Michael Porter's Five Forces Model.

II. Systematic Reviews of Negation and Business Strategy

A. Background of Amazon and MGM

1) Amazon

Amazon.com, Inc., a giant technology company, started its business from an online bookstore and sold its first book in July 1995. Amazon's first public offering (IPO) was completed in May 1997, after that the company developed rapidly to become the largest online retailer around the world [1]. To expand into new product category in media, Amazon released a service called Amazon Unbox, which was later renamed Amazon Prime video in 2006. Amazon Prime Video is a streaming media platform, which provides services for renting, purchasing, and watching videos and TV programs online [2]. On January 20, 2011, Amazon bought Lovefilm, a 1.6 million-subscriber European Web-based DVD rental firm based in London, for 200 million pounds. Amazon aims to boost its digital media business by acquiring this live-streaming subscription company [3]. In addition, Amazon began to produce its own content in 2010 by launched Amazon Studios. The original series Transparent and film Manchester by the Sea helped Amazon Studios receive two global awards [1].

Manuscript received October 26, 2021; revised January 22, 2022. This work was supported in part by the U.S. Department of Commerce under Grant BS123456.

L. W. Xu is with the School of Economics and Management, Southwest University, Chongqing, 400715 China (e-mail: emmaxu1103@hotmail.com).

L. L. Zhang is with the Queen's University Belfast, Britain, 102206, China (e-mail: Lzhang32@qub.ac.uk).

H. W. Zhang is with ASAA High School, 250000 China (e-mail: 2998074344@qq.com).

doi: 10.18178/joebm.2022.10.3.691

Amazon has three core business concepts: First, customer-centered values. Amazon is consumer-centric and consumer-oriented. With its sophisticated web servers, Amazon makes it easier and faster for users to search for books. When consumers choose books, the system will display the information of many products, so as to facilitate shopping comparison. Second, the business philosophy of cost reduction. Amazon is an online e-commerce company whose virtual web economy connects businesses with consumers. Compared with the physical stores at that time, the early online e-commerce has no rental costs and store maintenance costs, no restrictions on time and space, longer transaction time, breaking the barriers of transaction scope, reducing transaction costs and improving transaction efficiency. Third, the expansion of the whole region. In 2001, Amazon formally opted for horizontal alliances with music companies, publishing sites and brick-and-mortar stores. The unique form of cooperation enables Amazon to expand business types and market scope, attract more potential consumers and bring more operating income.

However, Amazon founder and chief executive Jeff Bezos has not been able to build his dream big movie and TV franchise since the company launched amazon Studios in 2010. Despite the department's success in scripted television for such series as The Marvelous Mrs. Maisel and The Boys, there is little to be seen as a global franchise at Marvel's superheroes or Game of Thrones level. And Amazon has spent nearly $1 billion on the Lord of the Rings series as it pursues super-hotspots. Because Amazon has had less success in producing in-house movie franchises, they have chosen to license distribution rights to potential blockbusters from other studios. The company recently reportedly paid Paramount Pictures $200 million for the sci-fi action movie The Tomorrow War, starring Guardians of the Galaxy actor Chris Pratt [4].

2) MGM

Metro-Goldwyn-Mayer Studios Inc., one of the oldest film studios, is engaged in producing and distributing films and television programs. Marcus Loew established MGM in 1994 by combining Metro Pictures, Goldwyn Pictures, and Louis B. Mayer Pictures into one company [5]. The studio grew quickly and became one of the eight-film enterprises of Hollywood. The films MGM produced are the symbols of American movies, such as the 007 series, Gone with the Wind, and The Hobbit. These classical works helped the studio win many Oscars. The period from 1926 to 1959 was the most lucrative time for this legendary company, punctuated by two Ben Hur productions. Following that, the company showed a trend of decline that lasted for nearly a half-century [6].

MGM's business model had been repeatedly bought and sold, and a 1948 Supreme Court ruling forced the studio to abandon the screening business, leaving it unable to maintain the high volume and quality of blockbusters. In 1967, Canadian investor Edgar Bronfman bought MGM, but his poor entertainment business led to poor performance. In 1969 MGM was sold to Las Vegas gambling magnate Kirk Kerkorian [7]. 1981 Kirk Kerkorian bought United Artists and merged it into MGM. In 1986 Kerkorian sold MGM to CNN for $1.45 billion. He later bought back some of the assets as CNN ran out of money [8]. In 1990 Kerkorian sold his stake in MGM to an Italian consortium led by Giancardo Parrtti for $1.3 billion. It is this merger and acquisition business model that led to MGM's unstable operation and large debts.

However, since the sale of its blockbuster in Culver City in 1985, several changes in ownership and few original works, as well as a decline in DVD revenue, have forced the studio into bankruptcy with $4 billion in debt and delayed the 23rd James Bond film [9]. Although MGM's catalog now has a total of about 4,000 films, many of its characters (such as the Pink Panther and Chucky the doll) and franchises (such as Legally Blonde and Tomb Raider) still need to be reshaped because of the intense competition [10]. For example, MGM's new franchise, now developed by Michael B Jordan, is a Rocky spin-off Creed, and the crown jewel is still the 58-year-old evergreen James Bond franchise, but the next Bond film, No Time to Die, is Daniel Craig's last 007 film, which has been postponed twice [11].

B. Negotiation Analysis and Future Business Strategy

1) BATNA

Before a negotiation, both sides should pay attention to evaluating their best alternative to a negotiated agreement (BATNA), especially for the weaker party. Because first, the BATNA can give the negotiators a clear mind during the negotiation. Second, it is also crucial for maximizing the value of current assets [12]. So this part will discuss other options, except for this deal between Amazon and MGM.

For MGM, it can transform itself from a "stand-alone" film studio to a conglomerate with a variety of media resources by merging or being merged [13]. To be more specific, MGM can find another big company with the characteristics of a good financial situation, sufficient capital, and owing streaming platform to buy it. The suitable purchaser can not only ensure MGM maintains its production on films and television shows, but also expanding its business with the buyer's relating resources.

Although the North American film market is warming up in 2018, the old Hollywood film companies are still being threatened by streaming content platforms, such as Netflix and Amazon [14]. With the development of the Internet, streaming platforms are growing rapidly and are taking over the film industry on a large scale. This is shocking the traditional distribution pattern. Disney acquired Pixar and Fox, Sony acquired Columbia Pictures and AT&T acquired Warner Media, all these cases illustrated that the film company could successfully overcome the revolution in the film and television industry. In 2010, because of the huge debt the company got from the financial crisis in 2008, MGM submitted an application for bankruptcy protection to the Federal Bankruptcy Court. Then the company decided to sell the company to those who will undertake its debt. This news attracted dozens of enterprises interested, including Warner Media, News Corporation, and Sarah India Pariwar [13]. Therefore, as one of the most famous film studios in America with large numbers of contents, MGM has a strong appeal to those big companies to buy it.

Or MGM can explore overseas markets by producing successful works with external movie companies or releasing movies abroad to make a fortune to maintain the brand [13], [14]. In recent years, more and more Hollywood films received high box office in the overseas film market. Disney was the biggest winner. For example, the Disney princes series film has gained many followers overseas. And The Meg, a film produced by China and America, global box office reached $530,259,473. MGM may revive the lion through the potential overseas market.

When it comes to Amazon, the problem that the company wants to solve is the lack of good original content. This is also the reason why Amazon was willing to spend such a large sum of money to buy MGM. So, to Amazon, it can buy other MGM-like media companies to ensure the quality of films and television shows released by Amazon. Despite investing a significant amount of money in films, Amazon was less successful in producing high-quality works. But his main competitor, Netflix, has Game of Thrones. Disney acquired Pixar, Marvel, and 20th Century Fox, which continuously provided it with original content. For Amazon, it is unquestionably more cost-effective to acquire a mature group with a track record of success rather than invest a significant amount of time and energy in creating new works.

Or Amazon can continue its content acquisition strategy, which is exclusive digital licensing agreements [15]. In recent years, more and more streaming platforms have been established to compete with Amazon Prime Video and Netflix, like “Apple+”, “Disney+”, and “Discovery+” [16]. Disney+, established by Disney, has the Disney library to provide content for it and to attract a large number of subscribers. Netflix had 3,803 titles on the platform, which is fewer than the 14,210 titles of Amazon Prime Video, but the quality of Netflix is higher than that of Amazon [16]. So, Amazon needs to improve the quality of the films and TV productions shown on its platform. Signing exclusive digital licensing agreements with the film company can help Amazon get high-quality titles for its subscribers. And the big market Amazon has will also benefit those film companies.

2) Negotiation review and outcome

In May 2021, Amazon and MGM announced that they had reached a final merger agreement under which Amazon would buy MGM for $8.45 billion. For MGM, it has nearly a century of film making history and a vast catalog of more than 4,000 movies and 17,000 TV shows. At the same time, Amazon Studios is focused on making TV shows, and MGM is well-timed to complement Amazon Studios. In addition, Amazon will protect MGM's heritage and film catalog and give customers more access to these existing works [17]. Through the acquisition, Amazon hopes to use MGM to support Amazon Studios and its film and television divisions and attract more high-spending Prime users. And, in a statement, Mike Hopkins, Amazon Studios’ senior vice president, said, “The real financial value behind this deal is the treasure trove of intellectual property (IP) in the deep catalog that we plan to reimagine and develop with MGM’s talented team.” Ultimately, Amazon will empower MGM to continue to do what they do best: the great storytelling [18].

However, the acquisition looks like a win-win, but both sides face some problems. The first one is that Amazon may pull MGM’s programming from other platforms. MGM, as an independent film and television studio, makes money mainly by selling distribution rights to cinemas, television networks, and streaming services. However, based on the trend in the subscription streaming age, companies want to keep programs to their own properties. For example, Disney pulled many shows and movies from Netflix before the launch of Disney Plus. However, MGM has produced The Handmaid's Tale, Shark Tank and Fargo for Disney-owned Hulu, ABC, and FX. As a result, Amazon may extract popular shows from streaming rivals, such as Disney [19]. In addition, Amazon may allow MGM to continue making some movies and shows that premiere elsewhere.

The second one is that Amazon may only continue to show MGM movies in cinemas for a short time. for instance, MGM’s next Bond film, No Time to Die, will still premiere in theaters, as cinema releases and international distribution agreements remain the company’s most direct way to make money from the film. In addition, any other big-budget films planned by MGM are likely to be released in theaters. But Amazon may just be putting these movies in theaters in order to better establish itself in Hollywood and attract top talent, and to get top directors, writers and actors to work with the company. Besides, Amazon wants to introduce more traditional entertainment into its streaming business, so they are avoiding traditional movie distribution strategies, which means they premiere MGM movies on Amazon Prime videos so that the company can please Amazon Prime users [20].

The third one is Amazon’s distribution of MGM shows. Since Amazon’s subscription is based on streaming Prime Video, it could be MGM’s primary venue. But Amazon could also use MGM’s programming to fill its free, ad-supported streaming TV service, IMDb TV. For example, MGM builds an original programming library for IMDb TV by producing exclusive programs and movies. In addition, IMDb TV could be an early destination for MGM’s upcoming films, and then attracting more viewers and boosting sales. And, Amazon may reduce MGM’s recent premiere on IMDb TV [21]. The last one is Amazon’s failure to disclose the deal in regulatory filings, which prompts the D.C. attorney general to file antitrust lawsuits against the e-commerce giant and accuse Amazon of anticompetitive behavior, like price fixing led to higher consumer prices and stifled innovation and choice across the online retail market [22].

C. The Post-Acquisition Business Strategy

This paper will combine the Michael Porter's Five Forces Model to analyze the business strategy after the merger from the perspectives of the competitive ability of existing competitors, the entry ability of potential competitors, the substitution ability of substitutes.

The Michael Porter’s Five Forces Model, developed by Michael Porter, is a model that focuses on the analysis of a company’s competitiveness [23]. It focuses on the influence of the external environment on company competitiveness and divides the sources of influence on competitiveness into five components: Bargaining power of suppliers, bargaining power of buyers, threat of new entrant, threat of substitute of services or products, and competition from companies in the same industry. The Porter’s Five Forces model can be used to effectively analyse the company’s competitive environment and develop a reasonable business strategy.

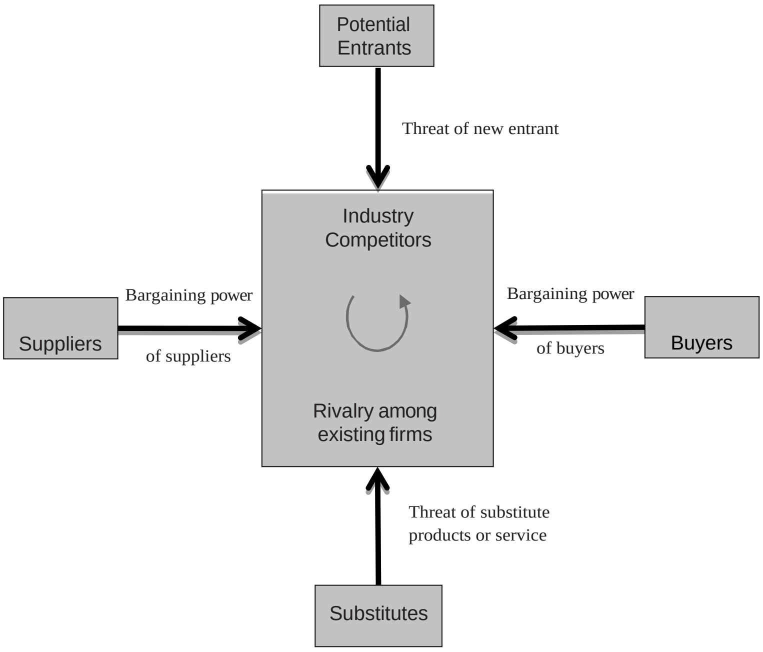

Fig. 1. Michael Porter’s five forces model.

1) The entry ability of potential competitor

From the perspective of Amazon's business strategy, the potential benefit of acquiring MGM is that Amazon can use MGM’s technology to create high-quality works to earn profits, and the cost is relatively high. Buying MGM would entail the following risks. First, how to keep MGM making quality products. If MGM loses money, it will continue to be saddled with debt and unable to make a profit. Second, how to manage MGM. For a company that has just been acquired, it is not clear how to manage the company well. The key is how to manage MGM well and create a virtuous circle. By contrast, failing to manage MGM will only cost Amazon money. For Amazon, as a supplier, it provides a very stable market with many buyers, which makes it impossible for every buyer to become its major customer. When Amazon buys MGM, it can use MGM technology to enhance the features of products, making it difficult for buyers to convert or expensive to convert, or difficult to find alternatives that can compete with suppliers’ products.

2) Substitution ability of substitute

The threat of market alternatives also needs to be guarded against. MGM’s mass production of high-quality works and Amazon’s lower unit price pose a huge threat to other competitors in the market, prompting consumers to buy on Amazon’s platform, thus increasing sales and earning profits. Generally speaking, the competitors are relatively balanced, and the competition participants range widely; Market tends to mature, product demand growth is slow; Amazon can try to promote a product or service by lowering prices and offering the same product or service with very low switching costs. A strategic move can be handsomely rewarded if it succeeds; Companies with strong external strength will go on the offensive after acquiring weak companies in the industry. As a result, new entrants become the main competitors in the market. Exit barriers are high, that is, the cost of exit competition is higher than the cost of continuing to participate in the competition. Among them, exit barriers are mainly affected by economic, strategic, emotional and socio-political factors, including asset specificity, exit fixed costs, strategic mutual constraints, emotional unacceptability, government and social restrictions.

3) Perspective of the competitive ability of existing competitor

EBay. The company was founded in 1995 and is headquartered in SAN Jose, California. EBay’s revenue has actually started to decline in recent years, but in 2020, its net revenue hit its best level since 2013 at $10.2 billion. On EBay, sellers list products for sale and buyers can find them on the platform. EBay sellers also offer similar products to Amazon sellers. The biggest difference? EBay sellers can auction products or set fixed prices. Amazon does not offer auctions. EBay is essentially a giant garage sale, not a marketplace, which puts it in a unique position compared to Amazon.

Walmart (WMT), which is closer to the discount department store concept, is another good example of amazon’s competitor. The company is one of the oldest on this list, founded by Sam Walton in Rogers, Arkansas, in 1962. Amazon and Wal-Mart are the two largest retailers in the United States and have long competed against each other. Walmart dominates the physical space, but Amazon leads online. Although Wal-Mart has been around for more than 30 years, both companies are now competing for the same customers. The two brands compete on everything from innovation to digital growth to logistics and sustainability.

Flipkart’s business model is very similar to Amazon’s, except for the Flipkart Plus SuperCoins reward system, which unlike Amazon Prime requires earning rather than buying. Flipkart’s revenue has been growing, reportedly up 12% in 2020 from the previous year. As India’s e-commerce market grows, Flipkart is one of Amazon's biggest rivals in the region.

Otto is one of the largest e-commerce companies in Europe. It was founded in Hamburg, Germany in 1949. The oldest company on the list, which started out ordering products by mail and phone, moved into online shopping in

1995. While the company is known as a one-stop shop for electronics (such as Apple and Microsoft), fashion and sports gear, its biggest market (particularly in Germany) is furniture and homeware. In 2020, the Alto Group reported total revenues of 15.6 billion euros ($18.5 billion), making its online sales in Germany only second to Amazon's.

Moving away from physical products, let us turn to **Netflix (NFLX)**. The biggest competitor to Amazon Prime Video. The video-on-demand service began in 1997, when founders Reed Hastings and Marc Randolph mailed themselves a DVD from Scotts Valley, California. Since then, the company's revenue has grown.

III. Discussion

A. Implications and Contribution

The above analysis of the acquisition can provide other companies with BATAN reference before negotiation and the Porter Five Force model mentioned in this study may provide a strategic analysis of the status quo after the acquisition of all industries, so as to see whether the acquisition benefits and has a significant impact on strategy development. And with the increase of competition and the development of science and technology, such mergers and acquisitions will be more and more, for the two parties to reach a good negotiated agreement is particularly important and many of the factors of negotiation to give negotiators greater power, as well as after the agreement business strategy analysis is equally important.

In addition, the main contribution of the paper is to fill up the gaps in the analysis of Amazon's acquisition of MGM. Previous research has not thoroughly examined the case because it occurred recently in May 2021. The majority of the material currently available focuses on describing the acquisition procedure and details. This research not only illustrates the business models and pain points of both sides, but also focuses on the analysis of BATNA, the post-acquisition strategy, and the possible trend of the case. This paper make a systematic analysis and explanation of this case through three processes, which are pre-acquisition, acquisition, and post-acquisition. It also provides a reference for subsequent scholarly research on this acquisition.

B. Limitations

A limitation of this research is that it analyses the BATNA of two companies from only one perspective. This paper focuses on the optional business strategies that are part of BATNA. In addition to making this deal, what other business strategies could the parties choose to achieve their business goals and benefit from them? However, there are more angels that could be found that are worth studying. For example, the subsequent academics may explore the bargaining zone, reservation prices, and aspiration prices of both companies, which are relatively close to BATNA [24]. Besides, other scholars may discuss how to enhance the BATNA on the basis of this article, and delve into the bargaining power of both sides [25]. To discuss BATNA in different perspectives, the subsequent scholars will expand the integrity of BATNA, and develop the study on the acquisition between Amazon and MGM.

IV. Conclusions

At a broader level, this paper was motivated by the observation that under the development of internet technology, streaming platforms were constantly attacking the traditional film industry. To find out the impact of this phenomenon on technology companies and traditional film companies, this paper studied the acquisition between Amazon and MGM through business issues, BATANA, and the business strategy of both sides. The article employs Michael Porter's Five Forces Model to analyze the post-acquisition strategies for deeper research. The study found that through this merger, Amazon got MGM's heritage and film catalog, while MGM received sufficient financial support to maintain its operation. The merger was a win-win outcome for both companies.

The findings revealed by this research are of potential importance to entrepreneurs and management in terms of these two kinds of companies. Companies wishing to utilize mergers to solve the operational issues may need to be aware of the BATAN reference before negotiation and design proper business strategies to deal with the potential problems after acquisition. The research approach employed for this research study provided new insight into the merger between the tech company and the film studio, even though it limited the variety of findings. Further research should shed more light on more possibilities of this merger.

Conflict of Interest

The authors declare no conflict of interest.

Author Contributions

Luwen Xu searched the basic information of Amazon and MGM and analysed the BATNA on both sides of the negotiation; Hanwen Zhang illustrated the business models of two company and analysed the post-acquisition strategy with the Michael Porter's Five Forces Model; Lulu Zhang elaborated Amazon and MGMs' business issues and wrote the negotiation review and outcome; all authors had approved the final version.

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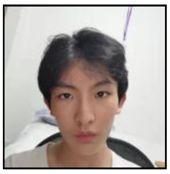
Luwen Xu is living in Beijing, China. She was born on November 3, 1999. Xu is currently a senior at the School of Economics and Management, Southwest University, in Chingqing, China. Her major of the study is finance.

She interned at the China Minsheng Banking Hangtian Bridge Branch in the summer of 2019.

Ms. Xu was a member of Public Relations and Sports Department of the College Student Union from Sept. 2018 to June 2019. She has been awarded a third-class scholarship in the Faculty of Economics and Management for the 2018-2019 academic year.

Lulu Zhang was born in Shandong on 17 October 2000 and is pursuing the BSc (S) accounting course at Queen's University Belfast on 21 September 2022.

She worked with a professor at New York University on Disney's acquisition of Pixar, and learned from that a good negotiation can lead to a successful trade, and that many of the factors in the negotiations give negotiators more power.



Hanwen Zhang lives in Qingdao, Shandong Province, China. He was born on November 30, 2004. Now he is a sophomore in high school, majoring in business.

He worked as an intern in his parents' company as an assistant for one summer, also have a certain concept of work.

Mr. Zhang ran for president of the school's business club and led the team to win the first prize in the provincial business competition during the winter vacation of 2020.