Krishnan Srinivasan

Professor Connor

FILM 285

18 December 2015

Imagineering and Acquiring Talent

Joint Disney-Pixar productions dominate today's world of animated entertainment. Their partnership, which began with *Toy Story*, initially collapsed in 2004, until it was resuscitated after the on-boarding of Bob Iger as the CEO of Pixar.[1][2] Becoming partners with Pixar in the 90s helped save Disney during a period of stagnation and diminishing brand value. The rise of Pixar animation in the 90s and early 00s put the studio on a trajectory away from Disney, however, as it moved away from its origins as a technology company and realized its potential as an independent animation studio. The divergence of the studios was catalyzed by the failures of the Eisner era of Disney, which included attempts to steal Pixar's projects away from Pixar, fostering distrust and dissent between the two companies and abruptly ending their partnership. The eventual Disney-Pixar acquisition in 2006 that followed was the product of internal changes in strategy and leadership at Disney, with the rise of the

---

[1] Richard Verrier and Claudia Eller, "Jobs-Eisner Feud May Have Caused Pixar-Disney Split," The Baltimore Sun, February 03, 2004, accessed December 14, 2015, http://articles.baltimoresun.com/2004-02-03/business/0402030189_1_eisner-pixar-steve-jobs.

[2] Michal Lev-Ram, "Disney CEO Bob Iger's Empire of Tech," Fortune, December 29, 2014, accessed December 14, 2015, http://fortune.com/2014/12/29/disney-ceo-bob-iger-empire-of-tech/.

current CEO Bob Iger. The structure of this deal allowed Disney to quickly regain its footing in the entertainment industry and create a model for brand acquisition and integration that continues today.

Before Pixar became a prestigious independent animation studio, it had its roots as a technology company, enabling its innovations and entrance into the entertainment industry as a competitor to Disney. Pixar Animation Studios was a spinoff from Lucasfilm's Computer Graphics Division created after a $5 million purchase from Steve Jobs in 1986.[3][4] At the time, it had just begun developing short films, creating the first Academy Award Nominated 3D-Animated Short Film, *Luxo Jr.*, which was John Lasseter's directorial debut. A few years later, in 1992, the Pixar and Disney collaborated to produce CAPS (Computer Animation Production System), which was employed in many of the Disney productions that followed.[5] The early beginnings of Pixar construct a complex identity that showed Pixar anchored firmly in both the computer and animation industries. However, when Pixar finally released its first major film, *Toy Story*, it's decision to brand itself as an animation studio over a technology corporation was unmistakable. In a Charlie Rose interview shortly after the release of

[3] Alvy Ray Smith, "Pixar Founding Documents," Alvy Pixar History Page, accessed December 16, 2015, http://alvyray.com/pixar/default.htm.

[4] "Our History." Pixar. Accessed December 15, 2015. http://www.pixar.com/about/Our-Story.

[5] "Pixar Animation Studios History," History of Pixar Animation Studios – FundingUniverse, The Right Mix of Magic and Mastery: 1992-95, accessed December 14, 2015, http://www.fundinguniverse.com/company-histories/pixar-animation-studios-history/.

Toy Story, both John Lasseter and Steve Jobs, founders of Pixar, went on national television to promote this image of the company. Around the eight minute mark, Steve Jobs reiterated that Pixar was about "telling stories," when questioned if technical accomplishments at Pixar was his focus, and went on to say "our heroes are Disney!"[6] In addition to promoting the Disney-Pixar partnership, the interview served as a great example of the synergy that was possible when Disney and Pixar worked together, and explained perhaps why later, after the two companies had broken ties, they were able to set aside differences and merge into one entity.

After the release of *Toy Story*, Pixar and Disney went on to release back-to-back successful movies. In 1995, the studio's IPO was the biggest one of the year, eclipsing that of Netscape's.[7] At the time, potentially one of the most valuable aspects of Pixar became the "Braintrust," which evolved from the team of individuals who led the production of the first *Toy Story*. The Braintrust exemplified one of the key elements at Pixar, which was to prioritize forming an extremely good story over the production costs and expected earnings for the films it made. While one could argue the same could be said of Disney, the Braintrust was more successful in its execution and

---

[6] John Lasseter and Steve Jobs, "Steve Jobs and John Lasseter Interviewed by Charlie Rose (1996)," interview by Charlie Rose, YouTube, December 21, 2012, 8:00, accessed December 15, 2015, https://www.youtube.com/watch?v=w0Vvl_ByCXM.

[7] Walter Isaacson, *Steve Jobs* (New York: Simon & Schuster, 2011), pg. 291.

ultimately influenced Disney's own approaches to animation direction later on.[89] The premise of the Braintrust was that the script writers and directors of the projects would have meetings where they were honest with one another with regards to their ideas on the direction they should take with the project. This formed a process that would take unfinished ideas and refine them into the blockbusters they ultimately became. As Catmull, one of the Pixar founders and visionaries of this process, notes in his article for *Fast Company*, the process was something they had shaped at Pixar and imported into Disney after the acquisition. But in the period before the acquisition, the Pixar-Disney partnership consisted of co-creating and distributing films that would earn Pixar a cut of the profits, making Pixar financially dependent on Disney, since they would need Disney's distribution pipeline for their films to be successful.[10] The conditions of their agreement,which was aggressively put forth by Eisner, created an environment that led to multiple roadblocks during their relationship, ultimately leading to their split in 2004.[11]

---

[8] Ed Catmull, "Inside The Pixar Braintrust," Fast Company, March 12, 2014, accessed December 15, 2015, http://www.fastcompany.com/3027135/lessons-learned/inside-the-pixar-braintrust.

[9] Ed Catmull, "How Disney Found Its Way To A Hit With Frozen," Fast Company, March 12, 2014, accessed December 15, 2015, http://www.fastcompany.com/3027544/getting-to-frozen-how-the-disney-braintrust-grew-up

[10] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

[11] "Pixar Says 'So Long' to Disney," Wired.com, January 29, 2004, accessed December 15, 2015, http://www.wired.com/2004/01/pixar-says-so-long-to-disney/.

The end of the Disney-Pixar partnership in 2004 was not the result of a sudden collapse of trust, but of a slowly fraying relationship. The conditions of the contract between the two companies stated that any sequels to Disney-Pixar movies would not be counted under the five-picture deal between the two companies, adding a lot of stress to the Pixar relationship from the very beginning. Taking advantage of this agreement, the Eisner style of revitalizing the Disney Corporation led the company to attempt producing *Toy Story 2* as a direct-to-home video production without the inclusion of Pixar.[12] With the persistence of Steve Jobs, Pixar was able to reclaim the rights to make the film, but Eisner required that it would not be counted as part of the five-picture contract, causing considerable discontent at Pixar in 2001, and delaying the production of *Toy Story 3* until years after the acquisition had eventually taken place.[13][14] These differences remained unresolved in 2004, resulting in the severing of Disney-Pixar ties after the completion of *Finding Nemo*, which was another huge hit.[15] While the disagreements between Jobs and Eisner that fueled the separation were in part due to Eisner's attempts to take advantage of the partnership to benefit Disney, the bigger issue at hand was the fundamental disagreement with regards to

---

[12] Verrier and Eller, "Jobs-Eisner Feud May Have Caused Pixar-Disney Split."

[13] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

[14] Claudia Eller and James Bates, "Disney, Pixar in Dispute Over Pact," Los Angeles Times, October 22, 2001, accessed December 17, 2015, http://articles.latimes.com/2001/oct/22/business/fi-60071.

[15] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

philosophy. To Eisner, the attempts to spin sequels off into direct-to-home video productions showed his eagerness to turn a quick profit over preserving the narrative and artistic value of the production, leading to the inevitable compromise of long term vision for short term gains. The opposite style of execution fit more into Pixar's framework, as they were focused on the quality of the content, and this dichotomy made it very clear for Jobs when it came time to separate that Pixar's efforts were better spent elsewhere.

In spite of the differences in philosophies of the Braintrust and Eisner's Disney, there was still a large team of creators and executives at Disney who held the integrity of the product above its immediate monetary value. Ultimately, it was this respect for filmmaking that reconnected the separated companies. But first, Eisner's style of leadership in the company had to go, so in 2005, various stakeholders in Disney attempted to engage in a hostile take-over of the company, resulting in the removal of Eisner as CEO and the instatement of Bob Iger to replace him.[16] This shift in leadership led to a dramatic revival of the company with strategic talent and brand acquisitions to not only keep it afloat, but perform drastically better than ever before. Iger's first challenge as CEO then was to quickly revive the studio's golden goose by appealing to Jobs.

[16] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

While it may not have been very clear at the time to Eisner, the Disney-Pixar relationship was essential for Disney's survival, and this was well understood by Iger. When he attended the opening of the Hong Kong Disneyland after his instatement, Iger realized "there wasn't a character in the parade that had come from a Disney animated film in the last ten years except for Pixar."[17] Additionally, market analysts at Disney had found that the Pixar brand was rated higher than Disney's after polling mothers with young children, making a clear case for Pixar as being essential to the revival of Disney Animation. Pixar's philosophy of feature film development had made a quantitative impact on the animated film industry, forcing Disney to face its diminishing grasp on audiences and update its identity for a new era in animation.

With his instatement as CEO, Bob Iger was handed the leadership of the company in a time when the future of Disney seemed extremely uncertain. The troubled situation gave Iger the opportunity to completely reshape the structure of the company unlike any CEO before him. To win over the support of Steve Jobs to rejoin Pixar with Disney, Iger personally visited Apple and first struck a deal with Jobs to begin selling Disney content in the new iTunes store. Soon after, they were in talks about a purchase of Pixar by Disney.[18] Despite the fallout, Steve Jobs still eager to have relations with Disney, evident by his willingness to negotiate with Iger, but now

---

[17] David A. Price, *The Pixar Touch: The Making of a Company* (New York: Alfred A. Knopf, 2008), pg. 252.

[18] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

that he was the one Disney was trying to woo back, he held the upper-hand in negotiations. From Iger's account of the deal, he remembered calling Jobs shortly after being made CEO, and when trying to arrange a meeting with Jobs to make the acquisition proposal, Jobs preempted Iger, forcing him to explain his reasoning for acquisition over the phone.[19] From the time of splitting, Pixar had such a positive reputation that it had begun to receive propositions from other studios like Warner Bros. to work on joint projects.[20] Pixar's advantage led to Iger having to court Jobs to win the deal, so without hesitation, Iger quickly made an offer, and within weeks they had worked out a deal that would become one of Disney's largest acquisitions.[21][22]

The $7.4 billion stock swap that was at the heart of the acquisition gave much insight into the degree to which Disney's internal strategy and structure had shifted at this point in time. From the Eisner era of short term deals for stock growth, the purchase signified the board's willingness to pay a hefty sum for a studio that would prove its worth to the corporation in the years ahead. Given the price tag of the deal, and how soon after the instatement of Iger it took place, it was clear that the company

---

[19] Daniel Miller, "How Robert Iger's 'fearless' Deal-making Transformed Disney," Los Angeles Times, June 6, 2015, accessed December 17, 2015, http://www.latimes.com/entertainment/envelope/cotown/la-et-ct-disney-iger-20150607-story.html.

[20] "Pixar Ends Disney Distribution Deal," CNNMoney, January 30, 2004, accessed December 16, 2015, http://money.cnn.com/2004/01/29/news/companies/pixar_disney/.

[21] Chris Foresman, "Disney CEO Went to Steve Jobs to Find out If Disney Films "sucked"," Ars Technica, January 24, 2013, accessed December 16, 2015, http://arstechnica.com/apple/2013/01/disney-ceo-went-to-steve-jobs-to-find-out-if-disney-films-sucked/.

[22] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

was desperate for change. The board's contentment with the purchase even surprised Iger, who was not expecting this kind of support so soon after being made CEO.[23] The deal would make Pixar a subsidiary of Disney, where it would still keep its name, and brought on visionaries like Ed Catmull and John Lasseter to the animation leadership, entrusting the Disney Animation Studio in the hands of the Pixar founders. In the FY2006 annual SEC report, the purchase of Pixar shows to have diluted the Disney stock, creating a negative perception for the stock in the eyes of current holders, who would now own a smaller share of the company.[24] The report acknowledges this fact, and goes on to assert, however, that "over time the transaction will yield benefits to the Company such that the transaction will ultimately be accretive to earnings per share." Despite the strong optimism and contentment with the purchase, one of the repercussions of the deal was that it put the Pixar and Apple CEO on the Disney board, and also made him the companies biggest individual shareholder overnight.[25] The new partnership had given Disney not only the Pixar brand name and talent, but also a connection to the biggest tech company in the world.

In many ways, the Disney-Pixar acquisition gave Iger both credibility and confidence, putting him on good terms with the rest of the company. Years after the

---

[23] Miller, "How Robert Iger's 'fearless' Deal-making Transformed Disney."

[24] The Walt Disney Company, FY09 Form 10-K for the Period Ending September 30, 2006, pg. 22.

[25] Paul R. La Monica, "Disney Buys Pixar," CNNMoney, January 25, 2006, accessed December 18, 2015, http://money.cnn.com/2006/01/24/news/companies/disney_pixar_deal/.

Disney-Pixar deal, he was made a Director on the board of Apple after the death of Jobs, tying the two companies together even further.[26] The ties between the two companies put Iger close to a world of constant innovation, making technological investments one of the themes of his leadership. By buying out Pixar, Disney gained a brand, a talented team of creators, and a computer animation studio that helped create some of the most advanced computer animation technology of its time. By learning how to quickly incorporate Pixar into its corporate structure, Disney became skilled at being able to acquire brands and incorporate them seamlessly into the Mouse House, foreshadowing the future milestones in Iger's leadership.

After acquiring Pixar in 2006, Disney went on to make several other large investments with Iger at the helm. Iger was on the hunt to acquire more notable brands, mini-Disneys, that he could incorporate and use to extend the reach of the Disney corporation via its various arms of entertainment, including its parks, merchandise, motion pictures, and television. In 2009, Iger used this brand-acquiring strategy to add Marvel to its portfolio of subsidiaries, reaping bigger rewards for the company in big budget live action films.[27] Then, in 2011, Iger brought his skilled deal-making to George Lucas' Lucasfilm. At the time, Lucas was still not ready to sell, but

---

[26] Jay Yarow, "Apple Mixes Up Its Board Following Steve Jobs' Death," Business Insider, November 15, 2011, accessed December 16, 2015, http://www.businessinsider.com/disney-ceo-bob-iger-is-joining-apples-board-2011-11.

[27] Devin Leonard, "How Disney Bought Lucasfilm," Bloomberg Business, March 7, 2013, pg. 3-4, accessed December 16, 2015, http://www.bloomberg.com/bw/articles/2013-03-07/how-disney-bought-lucasfilm-and-its-plans-for-star-wars.

soon after positioning one of his friends at the head of Lucasfilm, he gave Iger the OK in 2012. Ironically, the Lucasfilm purchase brought Pixar and Lucasfilm a full circle, as Pixar had started as a division under Lucasfilm.

Acquisitions aren't the only success under Iger, however. In addition to being able to acquire and integrate some of the best brands in entertainment, Iger's Disney, like the Pixar of the 90s, was also grounded to some degree in technology, where it places its biggest bets on the future. It is also not entirely unimaginable where the acquired story universes under Iger and the technology promoted by him may meet in the future, as much of Disney's focus today in research has been on stretching the boundaries of virtual reality. In Burbank, where Walt Disney first headquartered Imagineering Labs as the research arm of the company, Iger has made large investments on projects like virtual reality chambers.[28] The shift in Disney, then, from the late 20th century to the past 15 years, has been on big investments on future projects and products over short term goals. Much of these changes are thanks to the perspective that the company gained during its period of stagnation and its revival with the purchase of Pixar, making the deal central to the company's recent history.

In 1996, after the release of *Toy Story*, Disney, under Eisner, made its most expensive acquisition at the time, Capital Cities and ABC, for $19 billion dollars.[29]

---

[28] Lev-Ram, "Disney CEO Bob Iger's Empire of Tech."

[29] Miller, "How Robert Iger's 'fearless' Deal-making Transformed Disney."

Eisner, as the head of the company, was not new to acquisitions, nor was he unwilling to place large bets, but the purchase's return on investment could be seen as more short term than Pixar's, given that ABC was already established as a large television network. The purchase brought Bob Iger to Disney, however, who eventually rose to become CEO and views his rise as an example of how acquisitions can thrive in the companies they become a part of. The contrast between Eisner and Iger is that the former struggled to separate the responsibilities of a publicly traded stock from the strategies and bets on the future that the latter proved to be a master of. With the acquisition of Pixar as a central pivoting point for the company with regards to these two CEOs, Disney swung from stagnation to aggressive expansion and brand integration. The growth of the company since the 90s serves as a testament as to why these strategic acquisitions, beginning with Eisner's decision to pick up ABC, can bring in talent that paves a company's way to the future.

2,585 words.

Bibliography

Associated Press. "Steve Jobs' $4.6B in Disney Shares Go to Trust." Yahoo Finance. November 23, 2011. Accessed December 12, 2015. http://finance.yahoo.com/news/Steve-Jobs-4-6B-Disney-shares-apf-3093441630.html?x=0&l=1.

Catcall, Ed. "Inside The Pixar Braintrust." Fast Company. March 12, 2014. Accessed December 15, 2015. http://www.fastcompany.com/3027135/lessons-learned/inside-the-pixar-braintrust.

Catmull, Ed. "How Disney Found Its Way To A Hit With Frozen." Fast Company. March 12, 2014. Accessed December 15, 2015. http://www.fastcompany.com/3027544/getting-to-frozen-how-the-disney-braintrust-grew-up.

Eller, Claudia, and James Bates. "Disney, Pixar in Dispute Over Pact." Los Angeles Times. October 22, 2001. Accessed December 17, 2015. http://articles.latimes.com/2001/oct/22/business/fi-60071.

Foresman, Chris. "Disney CEO Went to Steve Jobs to Find out If Disney Films “sucked”." Ars Technica. January 24, 2013. Accessed December 16, 2015. http://arstechnica.com/apple/2013/01/disney-ceo-went-to-steve-jobs-to-find-out-if-disney-films-sucked/.

Isaacson, Walter. *Steve Jobs*. New York: Simon & Schuster, 2011.

Lasseter, John, and Steve Jobs. "Steve Jobs and John Lasseter Interviewed by Charlie Rose (1996)." Interview by Charlie Rose. YouTube. December 21, 2012.

Accessed December 15, 2015. https://www.youtube.com/watch?v=w0Vvl_ByCXM.

Leonard, Devin. "How Disney Bought Lucasfilm." Bloomberg Business. March 7, 2013. Accessed December 16, 2015. http://www.bloomberg.com/bw/articles/2013-03-07/how-disney-bought-lucasfilm-and-its-plans-for-star-wars.

Lev-Ram, Michal. "Disney CEO Bob Iger's Empire of Tech." Fortune. December 29, 2014. Accessed December 14, 2015. http://fortune.com/2014/12/29/disney-ceo-bob-iger-empire-of-tech/.

Miller, Daniel. "How Robert Iger's 'fearless' Deal-making Transformed Disney." Los Angeles Times. June 6, 2015. Accessed December 17, 2015. http://www.latimes.com/entertainment/envelope/cotown/la-et-ct-disney-iger-20150607-story.html.

Monica, Paul R. La. "Disney Buys Pixar." CNNMoney. January 25, 2006. Accessed December 18, 2015. http://money.cnn.com/2006/01/24/news/companies/disney_pixar_deal/.

"Our History." Pixar. Accessed December 15, 2015. http://www.pixar.com/about/Our-Story.

"Pixar Animation Studios History." History of Pixar Animation Studios – FundingUniverse. Accessed December 14, 2015. http://www.fundinguniverse.com/company-histories/pixar-animation-studios-history/.

"Pixar Ends Disney Distribution Deal." CNNMoney. January 30, 2004. Accessed December 16, 2015. http://money.cnn.com/2004/01/29/news/companies/pixar_disney/.

"Pixar Says 'So Long' to Disney." Wired.com. January 29, 2004. Accessed December 15, 2015. http://www.wired.com/2004/01/pixar-says-so-long-to-disney/.

Price, David A. The Pixar Touch: The Making of a Company. New York: Alfred A. Knopf, 2008.

Smith, Alvy Ray. "Pixar Founding Documents." Alvy Pixar History Page. Accessed December 16, 2015. http://alvyray.com/pixar/default.htm.

Verrier, Richard, and Claudia Eller. "Jobs-Eisner Fend May Have Cused Pixar-Disney Split." The Baltimore Sun. February 03, 2004. Accessed December 14, 2015. http://articles.baltimoresun.com/2004-02-03/business/0402030189_1_eisner-pixar-steve-jobs.

The Walt Disney Company, FY09 Form 10-K for the Period Ending September 30, 2006. Filed November 15, 2006. Web Archive. https://thewaltdisneycompany.com/sites/default/files/reports/fy06form-10k.pdf, accessed December 12, 2015.

Yarow, Jay. "Apple Mixes Up Its Board Following Steve Jobs' Death." Business Insider. November 15, 2011. Accessed December 16, 2015. http://www.businessinsider.com/disney-ceo-bob-iger-is-joining-apples-board-2011-11.