BUSINESS

2023/2024

REVIEW QUESTIONS

LESSON 3

1. **Google has expanded from an Internet search engine across a broad range of Internet services, including email, photo management, satellite maps, digital book libraries, blogger services and telephony. Which directions and modes of growth has Google followed? What are Google's principal resources and capabilities?**
2. **Look for information regarding the different businesses in which Amazon is involved and how they started operations in those fields. Make an analysis of its corporate strategy based on that information.**
3. **Make an analysis of the specific environment of the airlines industry based on the video of Michael Porter at the e-Campus.**
4. **Describe the directions and methods of growth of Disney before 1990. Why did Disney first decide to outsource and subsequently to integrate the production of 3D animated films? Which factors should be taken into account to make these decisions?**

In the early-1990s, Disney had theme parks, TV channels, a publishing house, film studios, film production and distribution companies, and a circuit of outlets for sales of tie-in merchandising. Its economic model essentially consisted of creating characters and capitalizing on them in all possible forms. At that moment in time, Pixar came into being, when Steve Jobs bought the small computer-assisted animation division of Lucasfilm. He eventually succeeded in pushing through an agreement with Disney. In May 1991, Disney and Pixar signed an exclusivity contract for three full-length 3D animated films. Under the terms of the agreement, the films were to be made by Pixar and distributed by Disney. Disney, headed by Michael Eisner, would pay for all production and distribution costs, in return for a 12.5 percent fee on box office takings as distributor and 85 percent of takings as producer. Disney also held merchandising rights and the right to make sequels to the films created in collaboration with Pixar.

On its release, Toy Story (1995) was considered revolutionary, both from a technological and artistic perspective. While animated films were traditionally aimed at children, Pixar's films could be enjoyed by children, but also by teenagers and adults. Emboldened by this success, Steve Jobs threatened to end the relationship with Disney unless the contract terms were adjusted in Pixar's favor. They signed a new agreement in 1997.

Films made under the 1997 contract include *A Bug's Life* (1998), *Toy Story 2* (1999), *Monsters, Inc.* (2001) and, most important, *Finding Nemo* (2003). *Finding Nemo* is Pixar's greatest success to date. It knocked Disney's *The Lion King* off the top of the rankings for the most profitable animated film in history. It also became the best-selling DVD ever for any film category. Meanwhile, *Treasure Planet* (2002), a 2D animation film entirely made by Disney, was a flop that resulted in a $100 million loss.

Steve Jobs tried anew to renegotiate the terms of the contract. After discussions lasting several months negotiations eventually broke down in February 2004 (which led some Disney board members to ask for the departure of Michael Eisner).

Table 2 shows the breakdown of costs and benefits between Disney and Pixar in the 1991 agreement, the 1997 agreement and the various proposals and counterproposal made by the two partners in 2003 and 2004.

Breakdown of costs and benefits between Disney and Pixar

	Cost Breakdown		**Distribution fee**	**Profit breakdown (after deduction of the distribution fee)**	
	Disney	Pixar	Disney	Disney	Pixar
1991 Agreement	100%	0	12.5%	85%	15%
1997 Agreement	50%	50%	12.5%	50%	50%
Pixar's 2003 proposal	0	100%	7%	0	100%
Disney's counterproposal for the *Incredibles* and *Cars*	50%	50%	10%	30%	70%
Pixar's final proposal before negotiations broke down	0	100%	Superior to 7%	0	100%

Based on Barthélemy, J. (2011), "The Disney-Pixar relationship dynamics: Lessons for outsourcing vs. vertical integration", ***Organizational Dynamics****, 40: 43-48.*

In January 2006, Disney announced the takeover of Pixar for 7.4 billion dollars (fifty times Pixar's revenues, or the price of seventy Pixar films). With 6.5 percent of Disney's capital, Steve Jobs became a board director at Disney and the company's largest individual shareholder.