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The Walt Disney Company: The Entertainment King

I only hope that we never lose sight of one thing – that it was all started by a mouse.

— Walt Disney

The Walt Disney Company's rebirth under Michael Eisner was widely considered to be one of the great turnaround stories of the late twentieth century. When Eisner arrived in 1984, Disney was languishing and had narrowly avoided takeover and dismemberment. By the end of 2000, however, revenues had climbed from $1.65 billion to $25 billion, while net earnings had risen from $0.1 billion to $1.2 billion (see **Exhibit 1**). During those 15 years, Disney generated a 27% annual total return to shareholders.[1]

Analysts gave Eisner much of the credit for Disney's resurrection. Described as "more hands on than Mother Teresa," Eisner had a reputation for toughness.[2] "If you aren't tough," he said, "you just don't get quality. If you're soft and fuzzy, like our characters, you become the skinny kid on the beach, and people in this business don't mind kicking sand in your face."[3]

Disney's later performance, however, had been well below Eisner's 20% growth target. Return on equity which had averaged 20% through the first 10 years of the Eisner era began dropping after the ABC merger in 1996 and fell below 10% in 1999. Analysts attributed the decline to heavy investment in new enterprises (such as cruise ships and a new Anaheim theme park) and the third-place performance of the ABC television network. While profits in 2000 had rebounded from a 28% decline in 1999, this increase was largely due to the turnaround at ABC, which itself stemmed from the success of a single show: *Who Wants To Be a Millionaire*. Analysts were starting to ask: Had the Disney magic begun to fade?

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The Walt Disney Years, 1923–1966

At 16, the Missouri farm boy, Walter Elias Disney, falsified the age on his passport so he could serve in the Red Cross during World War I. He returned at war's end, age 17, determined to be an artist. When his Kansas City-based cartoon business failed after only one year,[4] Walt moved to Hollywood in 1923 where he founded Disney Brothers Studio[5] with his older brother Roy (see **Exhibit 2**). Walt was the creative force, while Roy handled the money. Quickly concluding that he would never be a great animator, Walt focused on overseeing the story work.[6]

A series of shorts starring "Oswald, the Lucky Rabbit" became Disney Brothers' first major hit in 1927. But within a year, Walt was outmaneuvered by his distributor, which hired away most of Disney's animators in a bid to shut Disney out of the Oswald franchise.[7] Walt initially thought he could continue making Oswald shorts with new animators and a new distributor, but after reading the fine print of his contract, he was devastated to learn that his distributor owned the copyright.

Desperate to create a new character, Walt modified Oswald's ears and made some additional minor changes to the rabbit's appearance. The result was Mickey Mouse. When Mickey failed to elicit much interest, Walt tried to attract a distributor by adding synchronized sound—something that had never been attempted in a cartoon.[8,9] His gamble paid off handsomely with the release of *Steamboat Willie* in 1928.[10] Overnight, Mickey Mouse became an international sensation known variously as "Topolino" (Italy), "Raton Mickey" (Spain), and "Musse Pigg" (Sweden). However, the company was still strapped for cash, so it licensed Mickey Mouse for the cover of a pencil tablet—the first of many such licensing agreements. Over time, as short-term cash problems subsided, Disney began to worry about brand equity and thus licensed its name only to "the best companies."[11]

The Disney brothers ran their company as a flat, nonhierarchical organization, in which everyone, including Walt, used their first names and no one had titles. "You don't have to have a title," said Walt. "If you're important to the company, you'll know it."[12] Although a taskmaster driven to achieve creativity and quality, Walt emphasized teamwork, communication, and cooperation. He pushed himself and his staff so hard that he suffered a nervous breakdown in 1931.[13] However, many workers were fiercely committed to the company.

Despite winning six Academy Awards and successfully introducing new characters such as Goofy and Donald Duck, Walt realized that cartoon shorts could not sustain the studio indefinitely. The real money, he felt, lay in full-length feature films.[14] In 1937, Disney released *Snow White and the Seven Dwarfs,* the world's first full-length, full-color animated feature and the highest-grossing animated movie of all time.[15] In a move that would later become a Disney trademark, a few *Snow White* products stocked the shelves of Sears and Woolworth's the day of the release.

With the success of *Snow White*, the company set a goal of releasing two feature films per year, plus a large number of shorts. Next, the company scaled up. The employee base grew sevenfold, a new studio was built in Burbank, and the company went public in 1940 to finance the strategy.

Disney survived the lean years of World War II and the failure of costly films like *Fantasia* (1940) by producing training and educational cartoons for the government, such as *How Disease Travels.*[16] Disney made no new full-length features during the war, but re-released *Snow White* for the first time in 1944, accounting for a substantial portion of that year's income.[17] Subsequently, reissuing cartoon classics to new generations of children became an important source of profits for Disney.

After the war, the company was again in difficult financial straits. It would take several years to make the next full-length animated film[18] (*Cinderella,* 1950), so Walt decided to generate some quick income by making movies such as *Song of the South* (1946) that mixed live action with animation.[19] Further diversification included the creation of the Walt Disney Music Company to control Disney's music copyrights and recruit top artists. In 1950, Disney's first TV special, *One Hour in Wonderland*, reached 20 million viewers at a time when there were only 10.5 million TV sets in the U.S.[20]

With the release of *Treasure Island* in 1950, Disney entered live-action movie production and, by 1965, was averaging three films per year. Most were live-action titles, such as the hits *Old Yeller* (1957), *Swiss Family Robinson* (1960), and *Mary Poppins* (1964), but a few animated films like *101 Dalmatians* (1961) were also made. To bolster the film business, Disney created Buena Vista Distribution in 1953, ending a 16-year-old distribution agreement with RKO. By eliminating distribution fees, Disney could save one-third of a film's gross revenues. And to further improve the bottom line, Disney avoided paying exorbitant salaries by developing the studio's own pool of talent. Observed one writer: "Disney himself became the box office attraction—as a producer of a predictable family style and the father of a family of lovable animals."[21]

Disney expanded its television presence in 1954 with the ABC-produced television program *Disneyland (*followed the next year by the very popular *Mickey Mouse Club*, a show featuring pre-teen "Mouseketeers" as hosts). Walt hoped *Disneyland* would both generate financing and stimulate public interest in the huge outdoor entertainment park of the same name, which he had started designing two years earlier at WED Enterprises (WED being Walt's initials). This was kept separate from Disney Productions to provide an environment where Walt and his "Imagineers" could design and build the park free of pressure from film unions and stockholders.

The park was a huge risk for the company, as Disney had taken out millions of dollars in bank loans to build it. But the bet paid off. The enormous success of Disneyland, which opened in 1955, was a product of both technically advanced attractions and Walt's commitment to excellence in all facets of park operation. His goal had been to build a park for the entire family, since he believed that traditional parks were "neither amusing nor clean, and offered nothing for Daddy."[22] Corporate sponsorship was exploited to minimize the cost of upgrading attractions and adding exhibits.[23] To conserve capital, Disney also licensed the food and merchandising concessions. Once the park had generated sufficient revenue, the company bought back virtually all operations within the park.[24] Disneyland's success finally put the company on solid financial footing.[25]

With Disneyland still in its infancy, Walt dreamed of starting another theme park. In 1965, he secretly purchased over 27,000 acres of land near Orlando, Florida on which he planned to build Walt Disney World and EPCOT—an "experimental prototype community of tomorrow." However, Walt was never able to see his dream come to fruition; he died just before Christmas 1966. "He touched a common chord in all humanity," said former President Dwight Eisenhower. "We shall not soon see his like again."[26]

Walt Disney's philosophy was to create universal timeless family entertainment. A strong believer in the importance of family life, the company was always oriented to fostering an experience that families could enjoy together. As Walt Disney said, "You're dead if you aim only for kids. Adults are only kids grown up, anyway."

The huge number of "firsts" that the company could claim were a tribute to the success of this philosophy, but Disney recognized that they were not without risk. "We cannot hit a home run with the bases loaded every time we go to the plate. We also know the only way we can ever get to first base is by constantly going to bat and continuing to swing."

Disney attempted to retain control over the complete entertainment experience. Cartoon characters, unlike actors, could be perfectly controlled to avoid any negative imagery. Disneyland had been constructed so that once inside, visitors could never see anything but Disneyland. According to Walt, "The one thing I learned from Disneyland [is] to control the environment. Without that we get blamed for things that someone else does. I feel a responsibility to the public that we must control this so-called world and take blame for what goes on."[27]

The Post-Walt Disney Years, 1967–1984

The realization of Walt Disney World and EPCOT consumed Roy O. Disney, who succeeded his brother as chairman and lived just long enough to witness the opening of Walt Disney World in 1971. The theme park almost instantly became the top-grossing park in the world, pulling in $139 million from nearly 11 million visitors in its first year. Its two on-site resort hotels were the first hotels operated by Disney. To generate traffic in the park, Disney opened an in-house travel company to work with travel agencies, airlines, and tours. Disney also started bringing live shows, such as "Disney on Parade" and "Disney on Ice," to major cities all over the world.

The next major expansion was Tokyo Disneyland, announced in 1976. Although wholly owned by its Japanese partner, it was designed by WED Enterprises to look just like the U.S. parks. Disney received 10% of the gate receipts, 5% of other sales, and ongoing consulting fees.

Film output during the years of theme park construction declined substantially. Creativity in the film division seemed stifled. Rather than push new ideas, managers were often heard asking, "What would Walt have done?" The result was more sequels rather than new productions. To help stem the decline in its film division in the late 1970s and early 1980s, Disney introduced a new label, Touchstone, to target the teen/adult market, where film-going remained strong.

From 1980 to 1983, the company's financial performance deteriorated. Disney was incurring heavy costs at the time in order to finish EPCOT, which opened in 1982. It was also investing in the development of a new cable venture, The Disney Channel, launched in 1983. Film division performance remained erratic. As corporate earnings stagnated, Roy E. Disney (son of Roy O. Disney) resigned from the board of directors in March 1984. In the following months, corporate raiders Saul Steinberg and Irwin Jacobs each made tender offers for Disney with the intention of selling off the separate assets. However, oil tycoon Sid Bass invested $365 million, rescuing the company, reinstating Roy E. Disney to the board, and ending all hostile takeover attempts.[28]

Eisner's Turnaround, 1984–1993

Eisner takes the helm Backed by the Bass group, Eisner, 42, was named Disney's chairman and chief executive officer, and Frank Wells was named president and chief operating officer in October 1984.[29] Eisner, a former president and chief operating officer of Paramount Pictures, had been associated with such successful films and television shows as *Raiders of the Lost Ark* and *Happy Days*. Wells, a former entertainment lawyer and vice chairman of Warner Brothers, was known for his business acumen and operating management skills. Roy E. Disney was named vice chairman. Eisner subsequently recruited Paramount executives Jeffrey Katzenberg and Rich Frank to be chairman and president, respectively, of Disney's motion pictures and television division.

Eisner committed himself to maximizing shareholder wealth through an annual revenue growth target and return on stockholder equity exceeding 20%. His plan was to build the Disney brand while preserving the corporate values of quality, creativity, entrepreneurship, and teamwork. Concerns that the new managers would neither understand nor maintain Disney's culture faded rapidly. The history and culture of the company and the legacy of Walt Disney were inculcated in a three-day training program at Disney's corporate university. As part of the training, all new employees, including executives, were required to spend a day dressed as characters at the theme parks as a way to develop pride in the Disney tradition.

Eisner viewed "managing creativity" as Disney's most distinctive corporate skill. He deliberately fostered tension between creative and financial forces as each business aggressively developed its market position. On the one hand, he encouraged expansive and innovative ideas and was protective of creative efforts in the concept-generation phase of a project. On the other hand, businesses were expected to deliver against well-defined strategic and financial objectives. All businesses (see **Exhibit 3**), including individual films and TV shows, were expected to have the potential for long-run profitability. Nevertheless, spending was readily approved if necessary to achieve creativity.

Revitalizing TV and movies One of the new management's top priorities was to rebuild Disney's TV and movie business. Disney had stopped producing shows for network television out of concern that it would reduce demand for the recently launched Disney Channel. But Eisner and Wells believed that a network show would help create demand by highlighting Disney's renewed commitment to quality programming. In early 1986, *The Disney Sunday Movie* premiered on ABC. According to Eisner, the show "helped to demonstrate that Disney could be inventive and contemporary. . . . It put us back on the map."[30] During this time, Disney produced the NBC hit sitcom *Golden Girls* and the syndicated non-network shows *Siskel & Ebert at the Movies* and *Live with Regis & Kathie Lee.* Eisner also created a syndication operation to sell to independent TV stations some of the TV programming that Disney had accumulated over 30 years.

Disney's movie division was nearly as moribund when Eisner and Wells took over. Disney's share of box office had fallen to 4% in 1984, lowest among the major studios, and Eisner contended that not one of the live-action movies that Disney had in development seemed worth making. However, in Eisner's first week at Disney, an agent called him with the script to what would become *Down and Out in Beverly Hills,* Touchstone's first R-rated movie. While Disney had risked alienating its core audience with the film, no backlash materialized.

Beginning with that movie, 27 of Disney's next 33 movies were profitable, and six earned more than $50 million each, including *Three Men and a Baby* and *Good Morning Vietnam*. For the industry as a whole, an estimated 60% of all movies lost money. By 1988, Disney Studios' film division held a 19% share of the total U.S. box office, making it the market leader. "Nearly overnight," said Eisner, "Disney went from nerdy outcast to leader of the popular crowd."[31] During this run, Disney began releasing 15 to 18 new films per year, up from two new releases in 1984. Releases under the Touchstone label were primarily comedies, with sex and violence kept to a minimum. Live-action releases under the Walt Disney label were designed for a contemporary audience but had to be wholesome and well plotted.

Katzenberg, who was known for his ability to identify good scripts, for his grueling work ethic (scheduling staff meetings for 10 p.m.), and for his dogged pursuit of actors and directors for Disney projects, convinced some of Hollywood's best talent to sign multideal contracts with Disney. Under Katzenberg, Disney pursued strong scripts from less established writers and well-known actors in career slumps and TV actors rather than the highest-paid movie stars. The emphasis was on producing moderately budgeted films rather than big-budget, special effects-laden blockbusters. Management held movie budgets to certain target ranges that acted as a "financial box" within which the creative talent had to operate. Films were closely managed to ensure that they would come in on time and near their target budgets, which were set below the industry average.[32]

Disney's animation division was slower to turn around, in part because animated movies took so long to produce. Disney decided to expand its animation staff and to accelerate production by releasing a new animated feature every 12 to 18 months, instead of every 4 to 5 years. Disney also invested $30 million in a computer animated production system (CAPS) that digitized the animation process, dramatically reducing the need for animators to draw each frame by hand. In 1988, Disney spent $45 million on *Who Framed Roger Rabbit*, a technically dazzling movie that combined animation with live action. The movie was uncharacteristically expensive for Disney, but the gamble paid off with the top earnings at the box office in 1988 ($220 million). Additional profits came from the merchandise, as the movie was Disney's first major effort at cross-promotion. By the time of the premiere, Disney had licensing agreements for over 500 Roger Rabbit products, ranging from jewelry to dolls to computer games. McDonald's and Coca-Cola also did promotional tie-ins.

Maximizing theme park profitability Unlike Disney's television and movie business, Disney's theme parks had remained popular and profitable after the deaths of Walt and Roy Disney. However, the new management team updated and expanded attractions at the parks. Disney spent tens of millions of dollars on new attractions such as "Captain EO" (1986) starring Michael Jackson. Investments in the parks were offset by attendance-building strategies designed to generate rapid revenue and profit growth (see **Exhibit 4**). These included for the first time national television ads, as well as special events, retail tie-ins, and media broadcast events. Disney also lifted restrictions on the numbers of visitors permitted into its parks, opened Disneyland on Mondays when it had previously been closed for maintenance, and raised ticket prices (see **Exhibits 5 and 6**). Despite the ticket hikes, market research showed that guests felt they received value for their money.

The Disney Development Company was established to develop Disney's unused acreage, primarily in Orlando, where only 15% of the 43 square miles had been exploited. It proceeded to aggressively expand its activities, which included a several-thousand-room hotel expansion at Disney World (and the company's first moderately priced hotel) and a $375 million convention center.

Coordination among businesses As the business units expanded after 1984, overlaps among them began to emerge. Promotional campaigns with corporate sponsors in one business needed to be coordinated with similar initiatives by other Disney businesses. It was also unclear how, for example, to allocate the minute of free advertising granted to Disney during *The Disney Sunday Movie.*

Like many diversified companies, Disney employed negotiated internal transfer prices for any activity performed by one division for another. Transfer prices were charged, for example, on the use of any Disney film library material by the various divisions. While Eisner and Wells encouraged division executives to resolve conflicts among themselves, they made it clear that they were available to arbitrate difficult issues. Senior management's position was that disputes should be settled quickly and decisively so that business unit management could get on with their jobs.

Nevertheless, in 1987, a corporate marketing function was installed to stimulate and coordinate companywide marketing activities. A marketing calendar was introduced listing the next six months of planned promotional activities by every U.S. division. A monthly meeting of 20 divisional marketing and promotion executives was initiated to discuss interdivisional issues. A library committee was set up that met quarterly to allocate the Disney film library among the theatrical, video, Disney Channel, and TV syndication groups. An in-house media buying group was also established to coordinate media buying for the entire company.

Management also jointly coordinated important events, such as *Snow White's* 50th anniversary in 1987 and Mickey's 60th birthday the following year. A meeting of all divisions generated novel ideas, coordinated schedules, and built commitment and excitement for the year's theme. Plans were then coordinated by the five-person corporate events department. "I think our biggest achievement to date," said Eisner in 1987, "has been bringing back to life an inherent Disney synergy that enables each part of our business to draw from, build upon, and bolster the others."[33]

Expanding into new businesses, regions, and audiences In the consumer products division, the Disney Stores (launched in 1987) pioneered the "retail-as-entertainment" concept, generating sales per square foot at twice the average rate for retail. The stores were designed to evoke a sense of having stepped onto a Disney soundstage. While children were the target consumers, the stores' merchandise mix of toys and apparel also included high-end collectors' items for Disney's grown-up fans. The consumer products division also entered book, magazine, and record publishing. Hollywood Records, a pop music label, was founded in 1989 for less than $20 million, the cost of making a single Hollywood movie. In 1990, Disney established Disney Press, which published children's books, and in 1991, the company launched Hyperion Books, an adult publishing label that printed, among others, Ross Perot's biography. Disney also established new channels of distribution through direct-mail and catalog marketing.

In its theme parks division, Disney's major project was Euro Disney, which opened in 1992 on 4,800 acres outside Paris. While Disney designed and developed the entire resort, it did not have majority ownership of the business. About 51% of Euro Disney S.C.A. shares had been sold on several European exchanges, leaving Disney a 49% ownership stake. Infrastructure, attractive financing, and other incentives from the French government, as well as a heavily leveraged financial structure, kept Disney's initial investment cost to $200 million on the $4.4 billion park. In return for operating Euro Disney, the company received 10% from ticket sales and 5% from merchandise sales, regardless of whether or not the park turned a profit.

The company was adamant about maintaining its adherence to the Disney formula for family recreation, pointing to Tokyo Disneyland as evidence of the formula's universal appeal. Despite important cultural differences, Tokyo Disneyland had defied its critics and performed well, welcoming its 100 millionth guest in 1992. The French were more suspicious, warning of a potential "Cultural Chernobyl,"[34] so Eisner enlisted a former professor of French literature to be Euro Disney president and oversee the park's development according to both Disney's specifications and French sensitivities. The project required compromise by the staff as well as the guests. French cast members were required to shave, for example,[35] while Disney gave in on the issue of alcohol in the park, making wine available in its restaurants.

The company had set its attendance target at 11 million visitors in the first year. During the summer, attendance was above the projected rate, but the park suffered a downturn as colder weather set in. Although Disney officials publicly emphasized their satisfaction with Euro Disney, the project required considerable fine-tuning. The company slashed hotel and admission prices, laid off workers, and deferred its management fees for two years.

At its other parks, Disney added attractions and stepped up expansion of its hotels and resorts to encourage longer stays and attract major conferences such that hotel occupancy rates at the resorts in Anaheim, Orlando, Tokyo, and Paris averaged well over 90% year-round.[36] In addition to the creation of the nightlife complex Pleasure Island[37] and a new water-based attraction, Typhoon Lagoon, Disney World grew with the construction of Splash Mountain and the expansion of the Disney-MGM Studios

Theme Park. In California, Disneyland opened Toontown, a new section based on the *Roger Rabbit* movie. Between 1988 and 1994, the company spent over $1 billion on theme park expansion.

In movies, Disney began to release a series of highly profitable and critically successful animated features (see **Exhibit 7**). *The Little Mermaid* (1989) was followed by *Beauty and the Beast* (1991)—the first animated film ever nominated for a Best Picture Oscar—and by *Aladdin* (1992). In live action, having once felt the need to apologize publicly for the partial nudity in *Splash* (1984), Disney settled comfortably into the industry mainstream, releasing films like *Pretty Woman* through its Touchstone studio. Hollywood Pictures was then established in 1990 as the third studio under the Disney umbrella, and in 1993, the company acquired Miramax, an independent production studio making low-budget art films such as *Pulp Fiction* (1994). Disney increased its volume of movie output from 18 films a year in 1988—the most in Disney's history—to an ambitious 68 new films in 1994 (see **Exhibit 8**). However, between 1989 and 1994, fewer than half of the company's films grossed more than $20 million, and many earned less than half that amount.

As the home video industry grew, Buena Vista Home Video (BVHV) pioneered the "sell through" approach, marketing videos at low prices (under $30) for purchase by the consumer (instead of charging $75 and selling primarily to video rental stores). At 30 million copies, *Aladdin* in 1993 became the best-selling video of all time (followed by *Beauty and the Beast*). BVHV achieved the same market leadership role overseas, with marketing and distribution in all major foreign markets.

In 1992, Disney spent $50 million to acquire a National Hockey League expansion team based a few miles from Disneyland in Anaheim. Inspired by the box office popularity of a Disney movie, Eisner named the team The Mighty Ducks, the name of the team in the movie. Shortly thereafter came the sequel, *D2: The Champions*, featuring a soundtrack by Queen, produced by Disney's Hollywood Records label. The Mighty Ducks had a natural partner in Disney-owned KCAL-TV,[38] following a trend among media companies toward purchasing sports teams as a source of programming. Nor did the Ducks' prospects end with traditional sports marketing, given the potential for other cross-marketing opportunities. In 1993, 80% of the money spent on NHL merchandise went for "Duckwear."[39]

Late in 1993, Disney unveiled its first Broadway-bound theater production—a stage version of *Beauty and the Beast*. The $10 million show was a hit on Broadway. Although notoriously risky, Disney quickly recouped its estimated $400,000-per-week operating costs. Eisner and Katzenberg were directly involved in the production's development—offering creative guidance, calling for rewrites, and restaging scenes.[40] The following year, Disney made a $29 million deal to restore the New Amsterdam Theater on West 42nd Street in New York, giving a substantial boost to the city's beleaguered efforts to revive the district and giving Disney a home on Broadway. Eisner regarded theater as a long-term stand-alone business: "Our plans for the New Amsterdam Theater mark our expanding commitment to live entertainment."[41]

Turmoil and Transition, 1994–1995

At the beginning of 1994, Disney's projects seemed to be progressing satisfactorily. Disney's newest animated feature, *The Lion King*, would break box office records by year's end. Film revenues and related merchandise sales for *The Lion King* would eventually total more than $2 billion, with net income reaching $700 million. At the same time, Euro Disney (renamed Disneyland Paris in 1994) was finally getting on track after a Saudi prince and a number of European banks worked out a deal with the company by midyear to refinance the park, which had lost over $1 billion since 1992. Yet, a series of upheavals would rock the foundations of the company during the course of 1994.

On April 4, 1994, Disney President Wells was killed in a helicopter crash in Nevada. The loss of Wells created a void within the company that could not immediately be filled. As one observer put it, "[Wells] was a practical Sancho Panza to Eisner's mercurial Quixote, a tough-as-nails negotiator and lawyer-cum-numbers guy who freed Eisner to do what he does best—think creatively about everything from movies to international theme parks."[42] Eisner assumed the combined title of president and chairman while redistributing Wells's former responsibilities selectively among members of Disney's top management. Just weeks after Wells's death, Eisner, 52, underwent quadruple bypass heart surgery. Although Eisner barely let up following the surgery (running the company by phone within days after the procedure), the jockeying to replace Wells gained momentum. At the center of this was Katzenberg.

Katzenberg openly aspired to build on his success as head of the film division by assuming Wells's position as Disney president. Within Disney, Katzenberg reportedly was seen as a highly effective studio operative but not a corporate strategist, where he was at odds with Eisner about Disney's direction on such issues as music business expansion and theme park development.[43] After his bid for a corporate role was rebuffed by Eisner, Katzenberg left the company—the second step in dismantling the triumvirate widely considered to be responsible for Disney's resurgence after 1984. Katzenberg soon joined forces with director/producer Steven Spielberg and David Geffen of Geffen Records to form the entertainment company Dreamworks. Shortly after Katzenberg's departure, a series of key executives either left the company or changed roles.

Acquisition of ABC

In July 1995, Disney announced it was buying CapCities/ABC to own a programming distribution channel.[44] Without the input of investment bankers, Disney bought ABC for $19 billion in the second-largest acquisition in U.S. history. The acquisition made Disney the largest entertainment company in the U.S. and provided it with worldwide distribution outlets for its creative content. ABC included the ABC Television Network (distributing to 224 affiliated stations) and 10 television stations, the ABC Radio Networks (distributing to 3,400 radio outlets) and 21 radio stations, cable networks such as the sports channels ESPN and ESPN2, several newspapers, and over 100 periodicals.[45] The deal also transformed Disney from a company with a 20% debt ratio to one with a 34% debt ratio ($12.5 billion) after the takeover.

The merger was likened to a marriage between King Kong and Godzilla. Barry Diller observed that while Disney and CapCities/ABC were ideal partners, "the only negative [was] size. It's a big enterprise, and big enterprises are troublesome." Michael Ovitz, then chairman of talent firm Creative Artists Agency, said the merger gave Disney global access. But despite "synergy euphoria" in Hollywood and on Wall Street, some observers were skeptical about the merger due to the maturity of the network television business, the purchase price (22 times its estimated 1995 earnings), and the difficulties of creating synergy through vertical integration. Some suggested that synergy would be better "accomplished through nonexclusive strategic alliances between the companies."[46]

A year after the merger, there were press reports of a culture clash between executives at ABC and Disney. "Insiders say Disney's micro-management has left many at ABC unhappy and anxious," wrote one *Wall Street Journal* reporter. "The congenial atmosphere that once dominated the network's top ranks is gone; in its place is the high-pressure culture of Disney, which often pits executives against each other."[47] In addition, some ABC executives were uncomfortable with how ABC was being used to cross-promote Disney brands. ABC, for example, had aired a special on the making of the animated film, *The Hunchback of Notre Dame*, after the film opened to disappointing ticket sales.[48] According to *The Wall Street Journal*, the initiative came from ABC executives.[49] "The ABC people are a part of our team and they are interested in the well-being of the entire organization," said a Disney spokesman. "I think we'd have been faulted for *not* using that kind of synergy."[50]

ABC had also struck several deals with Disney rivals before the merger to develop programming. ABC and Dreamworks, for example, had agreed to finance jointly the cost of developing new TV shows. "We needed access to production talent," said one ABC executive of the deal.[51] Disney felt that such arrangements were no longer economical after the merger because Disney had its own production studio, and therefore terminated such agreements.[52]

Disney Slumps to the End of the Century

After acquiring ABC, Disney's financial performance began to deteriorate, particularly in 1998 and 1999. "It's impossible to predict the day that growth will be back," said Eisner. "I think it's coming, but it's not coming tomorrow. We have not given up our goal of 20% annual growth."[53] Disney's board of directors voted to cut Eisner's bonus from $9.9 million in 1997 to $5 million in 1998 and to $0 the following year. But growth returned in 2000—sooner than most analysts expected—on the strength of the company's broadcast and cable operations and its theme parks division.

ABC had been the top-rated network at the time of the merger but had fallen to third place. However, ABC returned to the top in 2000, largely due to the success of the prime-time game show, *Who Wants To Be a Millionaire*, which was broadcast three times a week and which raised the ratings of the shows airing immediately afterwards (see **Exhibit 9**). "Television networks have fixed costs," said one analyst. "So when the revenues begin to materialize, all that flows to the bottom line and that's great news for profits."[54] Furthermore, the cable operations were estimated, by 1999, to be worth more than the $19 billion Disney paid for the entire CapCities/ABC acquisition.[55] ESPN had become the most profitable TV network in the world, more profitable in absolute terms than the major broadcast networks. However, profitability was hurt by the rising cost of programming, especially sports. In 1998, ABC and ESPN paid $9 billion for the right to air NFL games through 2005.

In live-action films, Disney's approach to filmmaking had changed dramatically. Joe Roth, who replaced Katzenberg as head of Disney's live-action movies in 1994, began putting out big-budget, star-driven "event" movies such as *Con Air* (1997) and *Armageddon* (1998). "This is not a commodity business," said Roth. "The [movies] people will want to watch need to stand out."[56] He had also argued that the change was necessary because of the growing impact of international audiences, who were attracted to movies with big-name stars and with expensive special effects that transcended language barriers. In 1999, however, several costly box-office bombs led Roth to scale back budgets. When Roth had taken over in 1994, the average budget for a live-action Disney movie was $22 million (versus an industry average of $30 million).[57] That figure had risen to $55 million by 1999 (and an industry average of $52 million).[58] The cost of producing animated films had also risen rapidly in recent years.[59] *Tarzan* (1999) cost an estimated $170 million. These figures did not include marketing and distribution costs, which typically totaled over $50 million for a Disney animated film.[60]

Disney's home video division had been a major driver of growth during the 1990s, largely as a result of the decision to release its animated classics on video. By the end of the decade, however, revenues were dropping. Disney decided to make all but 10 of its animated films permanently available. The remaining 10—Disney's most popular animated titles—would follow the old rotation schedule. Only one would be on the shelves each year, and its release would be promoted by a companywide marketing campaign. Disney also expected the growing market for digital video discs (DVDs) to boost its home video division as consumers switched from VCRs to DVD players and repurchased the classic Disney titles on DVD.

Through 2000, Disney maintained its position as market leader in theme parks. The strategy in the theme park division was to turn all of its parks into destination resorts—places where tourists would spend more than one day. As of 2000, only Walt Disney World qualified. The average tourist spent three days at Walt Disney World but only one day at Disneyland, Disneyland Paris, and Tokyo Disneyland. The company believed that the key to turning a park into a destination resort was to build more than one park at a site. Walt Disney World, for example, included EPCOT, Disney-MGM Studios, and Disney's Animal Kingdom (each with separate admission gates). By 2002, Disney planned to open second parks at Disneyland (California Adventure in 2001), Tokyo Disneyland (DisneySea in 2001), and Disneyland Paris (Disney Studios in 2002). In November 1999, Disney announced that it was also forming a partnership with Hong Kong's government to build a new $3.6 billion theme park on an island six miles west of central Hong Kong, scheduled to open in 2005.

Disney also made a major push onto the Internet, with uneven results. In 1996, Disney began selling its products online, but in 1997 it failed in its launch of a subscription service called the Daily Blast. In 1999, Disney merged its Internet assets with the search engine Infoseek.[61] This entity operated Disney's Web sites (including Disney.com, ESPN.com, and ABCNews.com) and set up a portal called the GO Network (www.go.com), which was a gateway to the Web similar to Yahoo.[62] While Disney had planned to compete with the major portals, traffic at Go.com lagged behind that of its rivals. In response, Disney shut down the Go.com portal in 2001, laying off 20% of its 2,000 Internet employees. Disney said it would focus on e-commerce and on providing news and entertainment content through its individual Web sites. "You can view this as a strategy change," said one Disney executive. "[Go.com] did not have a leadership position. On the other hand, we have been extremely successful with our commerce and content sites."[63]

During the slump, Eisner concluded that Disney needed to pare back operations that had become bloated during the company's long run of success.[64] In 1999, Disney began a cost-cutting plan that was projected to save $500 million a year starting in 2001. Eisner refocused attention on the leaner marketing of products, reduced film budgets and output, and tightened cost control in its TV production unit.[65] He also conducted a major review of capital spending, with an eye toward eliminating businesses that could not show a healthy return. Club Disney, a chain of shopping mall play centers, was closed as a result, as were the ESPN Stores. Disney also began selling "non-strategic" assets such as Fairchild Publications, a magazine subsidiary acquired in the ABC deal.

Eisner's Strategic Challenges

Managing Synergies

Eisner believed that Disney's ability to leverage its brand and create value depended on corporate synergy. According to Eisner, the key to Disney's synergy was Disney Dimensions, a program held every few months for 25 senior executives from every business. As of 2000, over 300 people had been through the program, which Eisner described as a "synergy boot camp." Participants traveled to corporate headquarters in Burbank, Walt Disney World, and ABC in New York to learn about the company. They cleaned bathrooms, cut hedges, and played characters in the park. From 7 a.m. to 11 p.m. for eight days, participants were not allowed to handle their regular duties. Eisner explained:

> Everyone starts off dreading it. But by the third day, they love it. By the end of the eighth day, they have totally bonded. . . . When they go back to their jobs, what happens is synergy, naturally. When you want the stores to promote *Tarzan*, instead of the head of animation for *Tarzan* calling me, and me calling the head of the Disney Stores, what happens is the head of *Tarzan* calls the head of the stores directly.

Disney also had a synergy group, reporting directly to Eisner, with representatives in each business unit. The group's purpose was to "maximize synergy throughout the company . . . serve as a liaison to all areas, [and] keep all businesses informed of significant and potentially synergistic company projects and marketing strategies."[66] Divisions filed monthly operating reports in which they were expected to discuss new cross-divisional projects. Eisner was said to award larger bonuses to those who had been most committed to synergy. "This award system," said Dennis Hightower, a former Disney executive, "forced us to look left and right and to build bridges between divisions."[67] When business units clashed over production and marketing plans, Eisner stepped in to referee.

Synergy boosted revenues through cross-promotion. A prime example was Disney's leverage of its animated movie investments. Typically, in the year before a movie's release, creators from Disney animation made presentations to the heads of the consumer products, home video, and theme parks units. Participants then brainstormed on product options and reconvened monthly to update one another. Once divisions had their strategies in place, Disney approached its licensing partners, who paid a royalty for the privilege of marketing and selling the Disney brand. With the help of this cross-merchandising, Disney intended each new animated film to function as its own mini-industry. However, Disney claimed its primary focus remained entertainment, not licensing. "The film does come first," said a Disney spokesman. "Without the original product, the merchandise wouldn't come to anything."[68] The theme parks also worked to increase merchandise sales. Several years after the parks in Japan and Europe had opened, consumer product sales had more than tripled in Japan and risen 10-fold in Europe.[69]

Synergy affected the scope of Disney's business geographically, horizontally, and vertically. Geographically, the company sought to generate greater international sales, especially in Europe and Japan. In 1999, Disney generated about 21% of its revenue from abroad, while other global brands such as Coca-Cola and McDonald's had figures of 63% and 61%, respectively.[70] "If there's one single realm that can put our company back on the growth track, it is the overseas market," said Eisner.[71] "If we can drive per capita spending levels on Disney merchandise in Britain, France, Germany, Italy and Japan to 80% of the U.S. level, it would generate $2 billion a year in incremental annual revenue."[72] In 1999, consumers in Europe spent 40% as much, per capita, on Disney products as those in the United States. In Japan, the figure was 80%.[73] Disney planned to better integrate its overseas operations. In the past, each division had opened its own foreign office. Disney decided to consolidate its foreign offices under regional executives, including a CFO and brand manager. Part of the idea was to save money by renting shared office space and coordinating advertising, but the real focus was on creating more synergy through cross-promotion.

Horizontally, Disney sought to enter new types of entertainment. For example, it began developing new regional venues within the United States to make the Disney experience more accessible, including ESPN Zones -- sports restaurants with interactive sports attractions -- and DisneyQuests multistory facilities with a range of virtual and interactive attractions (such as elaborate video games) for both kids and adults. Similarly Disney expanded into cruise ships and educational retreats. The company packaged its cruises with visits to Disney World near its home port. Eisner said the company was unlikely to sell the ships even if they produced a low return on capital because they helped bring families to Disney World. The Disney Institute, opened in 1996 at Walt Disney World, focused on fitness and "adventures in learning" rather than purely on entertainment.[74] It catered to adults and families with older children by offering courses such as animation, landscape design, and culinary arts.

Vertically, the company's major initiatives involved the Internet and TV. Disney saw the Internet as a possible distribution channel for its film library and its sports and news programming, among other content. "Our goal is to lead in this space because we know that soon it will be where entertainment in the home consolidates," said Eisner.[75] In TV, ABC developed more of its own content—like a movie studio. Other studios began to wonder if ABC would still buy shows from them.[76] Eisner contended that if he heard about an interesting show while walking Disney's hallways, he would urge ABC to run it. If "it ends up being *ER*, then that is strategic planning," he said.[77]

Synergy also affected Disney's costs. In August 1999, Eisner merged Touchstone Television into a division of ABC to save an estimated $50 million a year[78] and increase cooperation. However, the restructuring involved moving a New York business to Los Angeles and, by some accounts, created a culture clash.[79] Synergy drove lower costs in theme parks as well. "It would make no more sense to build a completely different theme park in each new locale than it would to completely change the *Lion King* stage play every time it opened in a new city," a company report said.[80] With this rationale, the new Disney Studios Park next to Disneyland Paris included popular attractions from Disney-MGM Studios.

But synergy had its limits. For example, the effectiveness of movie tie-ins was dropping: "In the past decade, moviemakers have been able to wring ever-higher royalty rates from licensees of toys, clothing, and other goods. But the payoff has been shrinking. Mattel Inc. felt the pinch when several recent Disney pics . . . passed $100 million at the box office but did little for toy sales."[81]

In 1999, Disney decided to reduce the number of its licensed products by half, having reached a peak of over 4,000 in 1994. "This became far too many relationships to productively manage," said Eisner. "By having broader relationships with fewer licensees, we will be able to more effectively build new merchandise campaigns to strengthen such established characters as Winnie the Pooh."[82] As part of this strategy, the company decided to place less emphasis on merchandise tied to Disney's latest film releases and more emphasis on products featuring its core characters. For example, Disney launched a national TV ad campaign in fall 2000 promoting a new line of Mickey Mouse clothing.

Managing the Brand

As Disney entered new businesses, it increasingly faced the prospect of damaging its brand. Perhaps the most publicized example was the controversy over the ABC show *Ellen*. Sparked by the 1997 disclosure that the title character of the show was a lesbian, the Southern Baptists, the country's largest Protestant church, organized a boycott of all Disney products because Disney had departed from "traditional family values." In addition, Catholic groups objected to the Miramax movie *Priest* (1994), which featured a gay cleric; animal rights activists protested Disney's treatment of animals at the Animal Kingdom theme park; and Arab-Americans decried what they felt were stereotypical portrayals in the movie *Aladdin*.[83] Moreover, Disney's Hong Kong theme park had been delayed for two years because of *Kundun* (1997), a Disney movie about the Dalai Lama that the Chinese government found objectionable.

At the same time, some felt Disney was hamstrung by its wholesome image. The Disney Channel ranked a distant third in ratings for kids aged 2 to 11, behind Nickelodeon and Time-Warner's Cartoon Network. Both networks exploited Disney's emphasis on wholesome programming based on myths, history, and fairy tales by putting on more contemporary shows. "The Nickelodeon opportunity was to get inside the lives of today's kids," said Herb Scannell, Nickelodeon's president. "We've been contemporary. [Disney has] been traditional."[84] The same was perhaps true in the consumer products division. "Many of Disney's products were designed for a 'kinder, simpler time'—the days before video games," said one analyst.[85]

Managing Creativity

Disney had hired Michael Ovitz but he left with a $100 million-plus severance package after 14 ineffective months on the job. Noone was hired to replace him as president in 1996. In his autobiography, *Work in Progress*, Eisner talked about the importance of finding a president with a strong background in finance, dispute mediation, and labor relations who could free Eisner to focus on broad company issues and the creative side of Disney's businesses. He believed ABC Group Chairman Robert Iger was such a person and promoted him to president and COO in January 2000.

One of Eisner's traditional techniques for managing creativity was the "gong show," a weekly meeting in which Disney employees in each division would brainstorm for new ideas. However, the gong show had slowly fallen into disuse. Eisner explained:

> The Little Mermaid came out of a gong show, and so did Pocahontas. Lots of ideas came out of those meetings, and people had a great time. Gong shows still go on in the animation business, but they've sort of faded off in other parts of the company. That's part of getting big and successful. Suddenly, very, very important people don't want to put themselves into the position of getting "gonged." Not everybody likes having his or her idea dismissed.[86]

Disney had a strategic planning unit that was a financial check on Disney's various divisions. Put into place by Wells and former CFO Gary Wilson, the system encouraged conflict by pitting division managers against the strategic planning department. "You always have to fight your colleagues to show your worth," said one Disney executive.[87] Eisner's "feeling is that [if] you put a lot of smart people in a room and listen to them duke it out . . . the best idea will pop out," said another Disney executive.[88] Strategic planners were assigned to each of Disney's business units and reported to the head of strategic planning, who reported to Eisner. Some insiders felt that too much conflict was built into Disney's culture. "My rule of thumb was, if you ever have a meeting with more than five other people, you're in big trouble," said one Disney executive who had recently had a project rejected.[89]

Between 1994 and January 2000, approximately 75 high-level executives left the company.[90] Some observers wondered whether Disney was putting too much emphasis on controlling costs and thus driving away its creative talent. "It's not as fun a place as it used to be," said Ryan Harmon, a former Imagineer. "It's just money, money, money. The creative side doesn't rule anymore."[91] Other Disney executives cited Disney's combative culture and Eisner's increasingly autocratic management style as reasons for leaving.[92] Eisner countered that Disney's turnover was not unusual given the company's size and success. "Every headhunter head hunts Disney," he said. "Where would you go? You go to the companies that do very well. It may not be convenient, but it's a compliment."[93]

Disney's Strategy for Growth: Smart or Dumbo?

When Eisner arrived at Disney, there were 28,000 employees. By 2000, the number had ballooned to 110,000, reflecting Disney's ever-growing number of businesses. Did Disney still have a coherent strategy for its business mix? Did Eisner's 20% growth target still make sense, particularly when Disney faced ever-increasing competition across all its businesses (see **Exhibit 10**)?

Some observers worried that the company had simply become too large to accommodate Eisner's management style. "Can a [$25] billion enterprise, with its efforts flung throughout the world, be creatively run by a single person?" asked one executive at a rival studio. "It didn't get to be that business with one creative head."[94] Did Eisner—the man credited with Disney's rebirth—now need to change his approach to running his entertainment empire?

Exhibit 1 The Walt Disney Company Financial Data, 1983–2000 ($ millions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996[a]	1997	1998	1999	2000
Revenues																		
Theme parks and resorts	$1,031	$1,097	$1,258	$1,524	$1,834	$2,042	$2,595	$3,020	$2,794	$3,307	$3,441	$3,464	$3,960	$4,502	$5,014	$5,532	$6,139	$6,803
Studio Entertainment (film)	165	245	320	512	876	1,149	1,588	2,250	2,594	3,115	3,673	4,793	6,001	6,471	6,981	6,586	6,166	5,994
Consumer Products	111	110	123	130	167	247	411	574	724	1,082	1,425	1,798	2,151	3,688	3,782	3,165	2,954	2,622
Media Networks	0	0	0	0	0	0	0	0	0	0	0	0	0	4,078	6,522	7,433	7,970	9,615
Internet & Direct Marketing	0	0	0	0	0	0	0	0	0	0	0	0	NA	NA	174	260	206	368
Total	1,307	1,452	1,701	2,166	2,877	3,438	4,594	5,844	6,112	7,504	8,529	10,055	12,112	18,739	22,473	22,976	23,435	25,402
Operating Income																		
Theme parks and resorts	190	186	255	404	549	565	785	889	547	644	747	684	861	990	1,136	1,288	1,479	1,620
Studio Entertainment (film)	-33	1	34	52	131	186	257	313	318	508	622	856	1,074	895	1,079	749	154	110
Consumer Products	57	54	56	72	97	134	187	223	230	283	355	426	511	577	893	810	600	455
Media Networks	0	0	0	0	0	0	0	0	0	0	0	0	0	871	1,699	1,757	1,580	2,298
Internet & Direct Marketing	0	0	0	0	0	0	0	0	0	0	0	0	NA	NA	-56	-94	-93	-402[b]
Total	214	242	345	528	777	885	1,229	1,425	1,095	1,435	1,724	1,966	2,446	3,033	4,751	4,015	3,687	4,081
Selling, General, & Admin.	26	60	50	66	70	96	120	139	161	148	164	162	184	309	367	282	244	350[b]
Net Income	93	98	174	247	445	522	703	824	637	817	300	1,110	1,380	1,214	1,966	1,850	1,300	920
Total Assets	2,381	2,739	2,897	3,121	3,806	5,109	6,657	8,022	9,429	10,862	11,751	12,826	14,606	36,626	37,776	41,378	43,679	45,017
Ratios																		
Operating Margin (%)	14%	11%	17%	21%	25%	23%	24%	22%	16%	17%	18%	18%	19%	16%	18%	16%	13%	13%
ROA (%)	4%	4%	6%	8%	12%	10%	11%	10%	7%	8%	2%	9%	9%	3%	5%	4%	3%	2%
ROE (%)[c]	7%	9%	15%	17%	24%	25%	26%	25%	17%	19%	6%	21%	23%	11%	12%	10%	6%	4%
Total Debt/Assets	19%	31%	28%	18%	15%	9%	13%	20%	23%	20%	20%	23%	20%	34%	29%	30%	27%	22%
Stock Performance																		
Index Disney Stock	100	131	218	394	471	563	1,165	906	960	1,447	1,460	1,545	2,195	2,647	3,499	3,387	3,011	3,226
Index S&P 500	100	151	186	231	215	252	325	300	353	399	428	416	562	701	903	1,089	1,295	1,218

Source: Annual reports. [a]Reorganization in 1996. [b]Approximately half of SG&A was due to an increase in sales and marketing in the Internet division. [c]ROE was –1.7% in 1940, 6.7% in 1945, 11.7% in 1950, 15.6% in 1955, –6.2% in 1960, 21.5% in 1965, 10.0% in 1970, 10.0% in 1975, 12.6% in 1980.

Exhibit 2 Disney Timeline and When Disney Entered New Businesses (exits are shaded)

Year	Event	Film	TV/Radio	Theme Parks	Consumer Products	Other
1923	Walt Disney Productions founded	Short cartoons				
1928	Mickey Mouse introduced					
1929	Mickey Mouse pencil tablets licensed				Tablet licensing	
1930	Mickey Mouse comic strip, comic book, and doll licensed				Comic book, doll licensing	Comic strips
1933	First music record licensed				Record licensing	
	Ingersoll makes Mickey Mouse watches				Watch licensing	
1934	*Le Journal de Mickey* published in France				International magazine	
1937	***Snow White and the Seven Dwarfs* debuts**	Feature cartoons				
1940	Initial public stock offering					
	Disney studio moves to Burbank					
	Fantasia debuts (first stereo sound)					
1949	*Seal Island* (first true-life adventure short)					
	Walt Disney Music Co. formed				Record label—soundtracks	
1950	*Treasure Island* released	Live-action movies				
	One Hour in Wonderland airs		TV specials—children			
1952	WED Enterprises founded to design Disneyland					
1953	Buena Vista Distribution Co. formed	Film distribution				
1954	*Disneyland* TV show begins to air		TV series—children			
1955	Disneyland opens			Theme park		
	Mickey Mouse Club TV show premiers					
1966	Walt Disney dies					
1969	*Disney on Parade* tours					Arena shows
1971	Walt Disney World opens			Theme resort		
1980	Buena Vista Home Video division formed	Home video distribution				
1982	***EPCOT Center opens***					
1983	Tokyo Disneyland opens			Int'l theme park		
	Disney Channel debuts		Cable channel—kids			
1984	Michael Eisner and Frank Wells hired					
	Touchstone label created	Movies—adults				
	Arvida Corp. acquired			Real estate development		
1985	Disney produces *The Golden Girls* for NBC		TV programming—adults			
1986	Disney begins to syndicate TV programs		TV syndication			
1987	First Disney Stores open				Retail stores	

Year	Event	Film	TV/Radio	Theme Parks	Consumer Products	Other
	KCAL, a Los Angeles TV station, purchased		TV stations			
	Arvida sold			Real estate development		
1989	Disney-MGM Studios Theme Park opens					
	Pleasure Island nightlife complex opens			Nightclubs		
	Hollywood Record label formed				Record label—pop music	
1990	First international Disney Store opens in London				International retail stores	
	Disney Press established				Book publishing—children	
	Mickey's Kitchens open					Fast food
1991	Time share started: Vacation Club			Time-shares		
	Hyperion Books established				Book publishing—adults	
1992	Euro Disney (later, Disneyland Paris) opens					
	Beauty and the Beast nominated for Best Picture					
	National Hockey League awards Disney a team					Hockey
	Mickey's Kitchens closed					Fast food
1993	Disney buys Miramax studios	Independent films—adults				
1994	Wells, president and COO, dies					
	Lion King debuts					
	Disney buys theater in Times Square					Theater operations
	Disney's first Broadway show, *Beauty and the Beast*					Broadway shows
1995	Disney announces ABC deal		TV and radio networks			Newspapers (four, as part of ABC deal)
	Company sets up Disney Interactive				Educational software and video games	
1996	Disney launches *Disney.com* Web site					Online shopping
	Disney buys 25% of Anaheim Angels baseball team					Baseball
	Disney Institute opens			Educational retreats		
	Town of Celebration, FL, opens to residents					Planned community
1997	Disney opens Wide World of Sports at Disney World			Sports complex		
	Club Disney opens at shopping malls			Indoor playparks		
	ESPN Stores open				Sports-themed retail	
	Disney buys Starwave, an Internet content provider					Internet content provider
	Disney starts Daily Blast, an online subscription service					Internet subscription service
						Newspapers
1998	*Disney Magic* cruise ship sets sail			Cruise line		
	Radio Disney, a radio network for children, debuts		Radio programming—children			
	Animal Kingdom, the fourth gate at Disney World, opens					
	Infoseek and Ultraseek acquired					Internet search engine, corporate intranets
	ESPN Zones opens					Sports-themed restaurants
	DisneyQuest opens					Regional interactive entertainment facilities
1999	Disney and Infoseek launch the GO Network portal					Internet portal
	Club Disneys and ESPN Stores close			Indoor playparks	Sports-themed retail	
2000	*Aida* debuts on Broadway					Mature-themed Broadway shows
	Disney buys 45% of CineNova in Europe		Int'l cable channel			
	Disney sells Ultraseek					Corporate intranets

Year	Event	Film	TV/Radio	Theme Parks	Consumer Products	Other
2001	Disney shutters Go Network					Internet portal

Source: Compiled by casewriters.

Exhibit 3 Disney's Business Lines in 2000

MEDIA NETWORKS

Media Networks breaks down into two categories: Broadcasting and Cable Networks. Broadcasting includes the ABC Television Network, the company's ten television stations, the company's radio stations and the ABC Radio Network and Radio Disney. Cable Networks consists of the ESPN-branded cable networks, The Disney Channel and the start-up cable operations, including Toon Disney and beginning in January 2000, SoapNet.

Broadcasting
- ABC Television Network
- TV Stations
- ABC Radio Networks
- Radio Stations

Cable Networks & International
- ESPN
- Disney Channel
- Toon Disney
- SoapNet

STUDIO ENTERTAINMENT

Studio Entertainment ;principally includes the company's feature animation and live-action motion picture,home video, television and cable production, including syndication and pay TV, stage play and music production and distribution businesses.

Theatrical Films
- Walt Disney Pictures
- Touchstone Pictures
- Hollywood Pictures
- Miramax

Buena Vista Home Entertainment

Buena Vista Music Group
- Hollywood Records
- Mammoth Records
- Lyric Records

Theatrical Productions

Distribution
- Buena Vista
- Buena Vista International

Television Production
- Program Development
- First-Run Animation
- Live-Action Syndication
- Pay Televisions Services

Televentures

THEME PARKS AND RESORTS

Theme Parks and Resorts reflects the company's theme park and resort activities except Disneyland Paris, which is accounted for under the equity method and included in Corporate and Other Activities, its sports team franchises and its DisneyQuest and ESPN Zone regional entertainment businesses.

Walt Disney Attractions
- Disneyland Resort
- Walt Disney World Resort
- Disney Vacation Club
- Disney Cruise Line
- Tokyo Disneyland

Walt Disney Imagineering

Anaheim Sports
- Mighty Ducks of Anaheim
- Anaheim Angels

Disney Regional Entertainment
- DisneyQuest
- ESPN Zone

CONSUMER PRODUCTS

Consumer Products licenses the name "Walt Disney," as well as the company's characters, visual and literary properties, to various consumer manufacturers, retailers, show promoters and publishers throughout the world. The company also engages in direct retail distribution principally through The Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the company produces audio and computer software products for the entertainment market, as well as film, video and computer software products for the educational marketplace.

Merchandising Licensing

The Disney Store

Disney Publishing

Walt Disney Art Classics

Disney Interactive

INTERNET AND DIRECT MARKETING

Internet and Direct Marketing represents the operations of Disney's online activities and the Disney Catalog. After the fiscal year end, the Internet and Direct Marketing division combined with Infoseek to become Disney's Internet entity, GO.com.

Disney Online

ESPN Internet Group

ABC Internet Group

GO.com Commerce

GO.com International

GO Network

Source: The Walt Disney Company, *1999 Fact Book*, p. 4.

Note: In January 2001, Disney closed the GO.com portal.

Exhibit 4 Top 30 Amusement Parks Worldwide (attendance in millions)

Rank	Park and Location	1983 Attendance	1991 Attendance	1999 Attendance	CAGR 1983–1991	CAGR 1991–1999
1.	**Tokyo Disneyland**[a]	**10.2**	**15.8**	**17.5**	**5.6**	**1.3**
2.	**Magic Kingdom, Walt Disney World, FL**[a]	**12.6**	**18.0**	**15.2**	**4.5**	**(2.1)**
3.	**Disneyland, Anaheim, CA**[a]	**9.9**	**11.6**	**13.4**	**2.0**	**1.8**
4.	**Disneyland Paris**[a]	**N/O**	**N/O**	**12.5**	**N/O**	**N/O**
5.	**EPCOT, Walt Disney World, FL**[a]	**10.1**	**14.4**	**10.1**	**4.5**	**(4.3)**
6.	**Disney-MGM Studios, FL**[a]	**N/O**	**6.8**	**8.7**	**N/O**	**3.1**
7.	Everland, Kyonggi-Do, South Korea	N/A	N/A	8.6	N/A	N/A
8.	**Animal Kingdom, Walt Disney World**[a]	**N/O**	**N/O**	**8.6**	**N/O**	**N/O**
9.	Universal Studios Florida, Orlando	N/O	6.9	8.1	N/O	2.0
10.	Blackpool (England) Pleasure Beach	N/A	N/A	6.9	N/A	N/A
11.	Lotte World, Seoul, South Korea	N/O	4.5	6.1	N/O	3.9
12.	Yokohama (Japan) Sea Paradise	N/O	N/O	6.7	N/O	N/O
13.	Universal Studios, Universal City, CA	3.6	4.6	5.1	3.1	1.3
14.	SeaWorld Florida, Orlando	3.0	3.9	4.7	3.3	2.4
15.	Huis Ten Bosch, Sasebo, Japan	N/O	N/O	4.0	N/O	N/O
16.	Nagashima Spa Land, Kuwana, Japan	N/O	N/O	4.0	N/O	N/O
17.	Busch Gardens, Tampa Bay, FL	3.0	2.9	3.9	(0.4)	3.8
18.	Six Flags Great Adventure, Jackson, NJ	3.1	3.0	3.8	(0.4)	3.0
19.	SeaWorld California, San Diego	2.9	3.8	3.6	3.4	(0.7)
19.	Knott's Berry Farm, Bueno Park, CA	3.2	4.0	3.6	2.8	(1.3)
21.	Universal's Islands of Adventure, Orlando	N/O	N/O	3.4	N/O	N/O
22.	Paramount's Kings Island, OH	2.6	2.9	3.3	1.4	1.6
23.	Cedar Point, Sandusky, OH	2.4	3.0	3.3	2.8	1.2
23.	Morey's Piers, Wildwood, NJ	N/A	N/A	3.3	N/A	N/A
23	Ocean Park, Hong Kong	N/A	2.5	3.3	N/A	3.5
26.	Six Flags Magic Mountain, Valencia, CA	2.5	3.2	3.2	3.1	0
27.	Suzuka (Japan) Circuit	N/O	N/O	3.2	N/O	N/O
28.	Tivoli Gardens, Copenhagen, Denmark	5.0	4.0	3.1	(2.8)	(3.1)
28.	Six Flags Great America, Gurnee, IL	2.3	2.6	3.1	1.5	2.2
30.	Santa Cruz Beach Boardwalk, CA	2.3	3.0	3.0	3.4	0

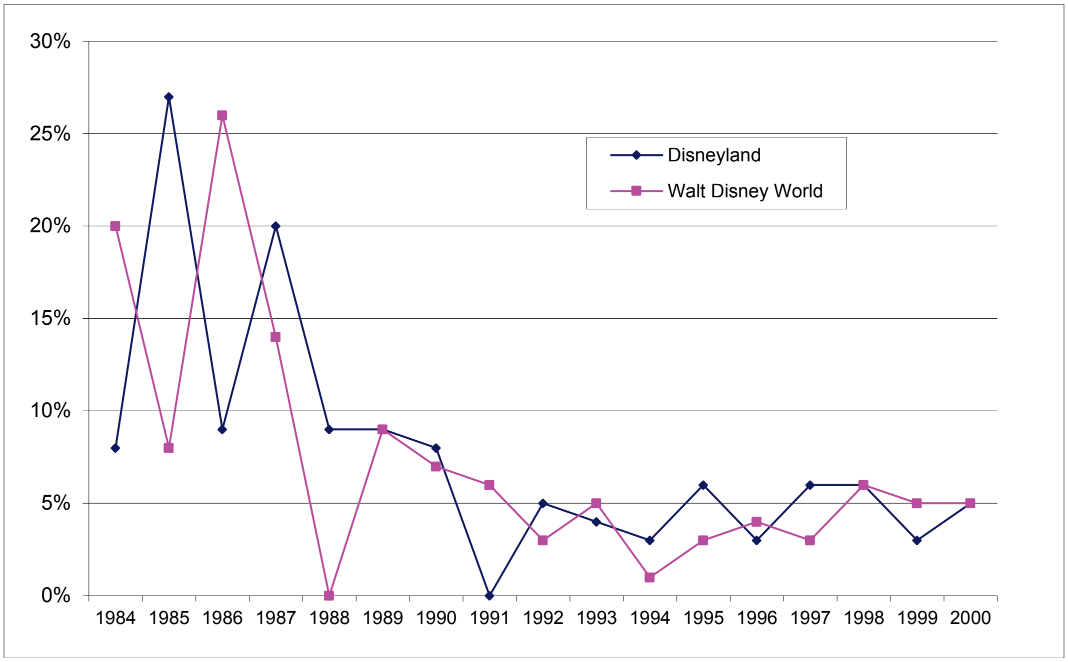
Source: *Amusement Business, Los Angeles Times, Toronto Globe & Mail, The San Diego Union-Tribune,* and *The Wall Street Journal*.

N/A—Not available.

N/O—Not yet open.

[a]Worldwide Disney theme park attendance grew at a CAGR of 5.7% from 1983 to 1991 and at a CAGR of 3.2% from 1991 to 1999. Attendance at Disney's Florida theme parks grew at a CAGR of 7.1% from 1983 to 1991 and at a CAGR of 1.0% from 1991 to 1999. Attendance at Walt Disney World and Disneyland grew at a CAGR of 4.8% between 1983 and 1987.

Exhibit 5 Annual Increase in Adult Ticket Prices (%)



Source: Walt Disney Co. and *Amusement Business*.

Note: Between 1983 and 1987, ticket price increases at the parks accounted for about $300 million of incremental revenue.

Exhibit 6 Average Adult Admission Prices at Select U.S. Parks

Park and Location	1985	1990	1995	2000	CAGR 1985–1990	CAGR 1990–2000
Six Flags Great America, Gurnee, IL	$14	$20	$26	$39	7.4	6.9
Six Flags New England, Agawam, MA	12	17	22	33	7.2	6.9
Cedar Point, Sandusky, OH	14	20	27	38	7.4	6.6
Paramount's Kings Island, Kings Island,	14	21	27	39	8.4	6.4
SeaWorld Florida, Orlando	15	25	36	46	10.8	6.3
Paramount's Carowinds, Charlotte, NC	13	19	26	35	7.9	6.3
Dorney Park, Allentown, PA	12	17	25	31	7.2	6.2
Knott's Berry Farm, Buena Park, CA	13	21	29	38	10.1	6.1
Paramount's Kings Dominion, Doswell, VA	14	20	28	36	7.4	6.1
Six Flags Over Texas, Arlington	14	20	28	36	7.4	6.1
Six Flags Magic Mountain, Valencia, CA	14	22	29	39	9.5	5.9
Busch Gardens, Williamsburg, VA	15	21	29	37	7.0	5.8
Six Flags Great Adventure, Jackson, NJ	15	23	31	40	8.9	5.7
Worlds of Fun, Kansas City, MO	13	19	25	32	7.9	5.4
Disneyland, Anaheim, CA	**17**	**28**	**33**	**41**	**10.5**	**3.9**
Walt Disney World, Lake Buena Vista, FL	**20**	**33**	**39**	**46**	**10.5**	**3.4**

Source: Compiled by casewriters from *Amusement Business* data and *Los Angeles Times, Toronto Globe & Mail, San Diego Union-Tribune,* and *The Wall Street Journal.*

Note: In 1983, adult one-day tickets for Disney World and Disneyland were $15 and $12, respectively.

Exhibit 7 Top-Grossing Animated Films of All Time

Rank	Movie	Inflation-Adjusted U.S. Box-Office Revenue (millions of 2000 dollars)	U.S. Revenue (unadjusted)	Revenue Outside U.S. (unadjusted)	Year of Original Release	Creative Producer	Studio
1	**Snow White**	**572**	**185**	**n/a**	**1937**	**Walt Disney**	**Walt Disney**
2	**101 Dalmatians**	**552**	**153**	**71**	**1961**	**Walt Disney**	**Walt Disney**
3	**The Jungle Book**	**454**	**136**	**64**	**1967**	**Walt Disney**	**Walt Disney**
4	**Fantasia**	**436**	**76**	**n/a**	**1940**	**Walt Disney**	**Walt Disney**
5	**The Lion King**	**393**	**313**	**459**	**1994**	**Jeffrey Katzenberg**	**Walt Disney**
6	**Sleeping Beauty**	**381**	**52**	**n/a**	**1959**	**Walt Disney**	**Walt Disney**
7	**Bambi**	**370**	**103**	**165**	**1942**	**Walt Disney**	**Walt Disney**
8	**Pinocchio**	**354**	**84**	**n/a**	**1940**	**Walt Disney**	**Walt Disney**
9	**Cinderella**	**328**	**91**	**n/a**	**1950**	**Walt Disney**	**Walt Disney**
10	**Lady and the Tramp**	**293**	**94**	**n/a**	**1955**	**Walt Disney**	**Walt Disney**
11	**Aladdin**	**275**	**217**	**285**	**1992**	**Jeffrey Katzenberg**	**Walt Disney**
12	**Toy Story 2**	**254**	**246**	**240**	**1999**	**John Lasseter**	**Pixar/Disney**
13	**Peter Pan**	**240**	**87**	**n/a**	**1953**	**Walt Disney**	**Walt Disney**
14	**Toy Story**	**232**	**192**	**167**	**1995**	**John Lasseter**	**Pixar/Disney**
15	**Who Framed Roger Rabbit?**	**200**	**157**	**195**	**1988**	**Jeffrey Katzenberg**	**Walt Disney**
16	**A Bug's Life**	**182**	**163**	**195**	**1998**	**John Lasseter**	**Pixar/Disney**
17	**Beauty and the Beast**	**182**	**146**	**207**	**1991**	**Jeffrey Katzenberg**	**Walt Disney**
18	**Tarzan**	**177**	**171**	**264**	**1999**	**Bonnie Arnold**	**Walt Disney**
19	**Pocahontas**	**171**	**142**	**206**	**1995**	**James Pentecost**	**Walt Disney**
20	**The Little Mermaid**	**148**	**112**	**111**	**1989**	**Jeffrey Katzenberg**	**Walt Disney**
21	**Dinosaur**	**138**	**138**	**180**	**2000**	**Pam Marsden**	**Walt Disney**
22	**Mulan**	**135**	**121**	**183**	**1998**	**Pam Coats**	**Walt Disney**
23	**Hunchback of Notre Dame**	**118**	**100**	**226**	**1996**	**Don Hahn**	**Walt Disney**
24	**Hercules**	**113**	**99**	**152**	**1997**	**R. Clements, A. Dewey, and J. Musker**	**Walt Disney**
25	The Prince of Egypt	113	101	117	1998	Jeffrey Katzenberg	Dreamworks
26	The Rugrats Movie	113	101	40	1998	D. Beece, A. Hecht, G. Csupo, and A. Klasky	Nickelodeon/ Paramount
27	Space Jam	107	90	135	1996	D. Falk, K. Ross, D. Goldberg, J. Medjuck, and Reitman	Warner Bros.

Rank	Movie	Inflation-Adjusted U.S. Box-Office Revenue (millions of 2000 dollars)	U.S. Revenue (unadjusted)	Revenue Outside U.S. (unadjusted)	Year of Original Release	Creative Producer	Studio
28	Chicken Run	107	107	65	2000	Jeffrey Katzenberg	Dreamworks
29	Antz	102	91	80	1998	P. Cox, B. Lewis, A. Warner, and J. Katzenberg	Dreamworks
30	Pokemon: The First Movie	89	86	70	1999	N. Grossfield, M. Kubo, and T. Kawaguchi	Shogakukan

Source: www.boxofficereport.com, Independent Movie Data Base (www.imdb.com).

Note: Out of the top 100 grossing films of all time (including both animated and non-animated movies), Paramount and Fox distributed 16 each; Disney, 14; Universal and Warner, 13 each; MGM/UA, 12; Sony (under the Columbia and TriStar labels), 11; RKO, 2; and Avco, Selznick, and Orion, 1 each.

Exhibit 8 Domestic Box-Office Market Shares in Percent (with number of movie releases in parentheses)[a]

Distributor	1985	1988	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1999 Box-Office Revenues ($ million)
Disney[b]	**4 (NA)**	**19.4**	**16.7**	**15.1**	**20.5**	**19.2**	**23.1 (68)**	**27.5 (75)**	**25.2**	**21.0**	**21.9**	**23.0**	**1,263.0**
Warner[c]	17	11.2	17.5	17.9	21.9	21.9	22.3	22.9	20.7	17.1	18.7	20.2	1,061.0
Universal[d]	15	9.8 (20)	13.1	11.0	11.7	13.9	12.5	12.5	8.4 (19)	9.9 (14)	5.5 (18)	13.0	954.0
Paramount	11	15.2	14.9	12.0	9.9 (20)	9.3 (15)	13.9	10.0	12.6	11.8	15.8	11.0	855.0
Fox[e]	10	11.6	13.1	11.6	14.2	10.7	9.4 (NA)	7.6 (NA)	12.5	11.2	10.6	11.0	794.0
Sony[f]	19	9.3 (36)	13.9	20.0	19.1	17.5	9.2 (NA)	12.8	11.1	20.4	10.9	9.0 (31)	652.0
MGM/UA[g]	8 (NA)	10.3	2.8 (15)	2.3 (16)	1.2 (9)	1.8 (12)	2.8 (NA)	6.2 (NA)	5.1 (20)	2.5 (17)	2.9 (18)	4.0 (13)	310.0
Dreamworks	–	–	–	–	–	–	–	–	–	1.7 (3)	6.9 (7)	4.0 (9)	310.0
Total	**84.0**	**86.8**	**92.0**	**89.9**	**98.5**	**94.3**	**93.2**	**94.5**	**95.6**	**93.9**	**93.2**	**79.2**	**5,889.0**

Source: Standard & Poor's, *Variety, Hollywood Reporter.*

NA: Not available.

[a] Some data approximated by Standard & Poor's and casewriter.

[b] Includes Disney and Touchstone/Hollywood labels, as well as separately run studio, Miramax—maker of lower-budget movies—that Disney acquired in 1993. From 1996 to 1999, Miramax averaged 38 releases per year and a 6% market share.

[c] Includes Warner Bros. label and New Line, a separately run studio that makes lower-budget movies. From 1996 to 1999, New Line averaged 29 movie releases per year and a 6% market share.

[d] Owned by Vivendi Universal.

[e] Owned by News Corp., includes Fox and Fox Searchlight labels.

[f] Includes Sony Pictures, Sony Pictures Classics, and Columbia Pictures labels and used to include TriStar (which was folded into Columbia in the late 1990s).

[g] Includes MGM, United Artists (UA), and Goldwyn labels.

Exhibit 9 Most-Watched TV Networks and Programs, 1980–1999

Rank	Network[a]	Program	Rank	Network[a]	Program
1980–81			**1990–91**		
1	CBS (19.8)	Dallas (CBS)	1	NBC (12.7)	Cheers (NBC)
2	ABC (18.2)	60 Minutes (CBS)	2	ABC (12.5)	60 Minutes (CBS)
3	NBC (16.6)	The Dukes of Hazzard (CBS)	3	CBS (12.3)	Roseanne (ABC)
4		Private Benjamin (CBS)	4	FOX (6.4)	A Different World (NBC)
5		M*A*S*H (CBS)	5		The Cosby Show (NBC)
1981–82			**1991–92**		
1	CBS (19.0)	Dallas (CBS)	1	CBS (13.8)	60 Minutes (CBS)
2	ABC (18.1)	Dallas (CBS)	2	NBC (12.3)	Roseanne (ABC)
3	NBC (15.2)	60 Minutes (CBS)	3	ABC (12.2)	Murphy Brown (CBS)
4		Three's Company (ABC)	4	FOX (8.0)	Cheers (NBC)
4		NFL Football (CBS)	5		Home Improvement (ABC)
1982–83			**1992–93**		
1	CBS (18.2)	60 Minutes (CBS)	1	CBS (13.3)	60 Minutes (CBS)
2	ABC (17.7)	Dallas (CBS)	2	ABC (12.4)	Roseanne (ABC)
3	NBC (15.1)	M*A*S*H* (CBS)	3	NBC (11.0)	Home Improvement (ABC)
3		Magnum P.I. (CBS)	4	FOX (7.7)	Murphy Brown (CBS)
5		Dynasty (ABC)	5		Murder, She Wrote (CBS)
1983–84			**1993–94**		
1	CBS (18.0)	Dallas (CBS)	1	CBS (14.0)	Home Improvement (ABC)
2	ABC (17.2)	Dynasty (ABC)	2	ABC (12.4)	60 Minutes (CBS)
3	NBC (14.9)	The A Team (NBC)	3	NBC (11.0)	Seinfeld (NBC)
4		60 Minutes (CBS)	4	FOX (7.2)	Roseanne (ABC)
5		Simon & Simon (CBS)	5		Grace Under Fire (ABC)
1984–85			**1994–95**		
1	CBS (16.9)	Dynasty (ABC)	1	ABC (12.0)	Seinfeld (NBC)
2	NBC (16.2)	Dallas (CBS)	2	NBC (11.5)	ER (NBC)
3	ABC (15.4)	The Cosby Show (NBC)	3	CBS (11.1)	Home Improvement (ABC)
4		60 Minutes (CBS)	4	FOX (7.7)	Grace Under Fire (ABC)
5		Family Ties (NBC)	5	UPN (3.4)	Monday Night Football (ABC)
1985–86			**1995–96**		
1	NBC (17.5)	The Cosby Show (NBC)	1	NBC (11.7)	ER (NBC)
2	CBS (16.7)	Family Ties (NBC)	2	ABC (10.6)	Seinfeld (NBC)
3	ABC (14.9)	Murder, She Wrote (CBS)	3	CBS (9.6)	Friends (NBC)
4		60 Minutes (CBS)	4	FOX (7.3)	Caroline in the City (NBC)
5		Cheers (NBC)	5	UPN (3.1)	Monday Night Football (ABC)
1986–87			**1996–97**		
1	NBC (17.8)	The Cosby Show (NBC)	1	NBC (10.5)	ER (NBC)
2	CBS (15.8)	Family Ties (NBC)	2	CBS (9.6)	Seinfeld (NBC)
3	ABC (14.1)	Cheers (NBC)	3	ABC (9.2)	Friends (NBC)
4		Murder, She Wrote (CBS)	4	FOX (7.7)	Suddenly Susan (NBC)
5		Night Court (NBC)	5	UPN (3.2)	Naked Truth (NBC)
1987–88			**1997–98**		
1	NBC (16.0)	The Cosby Show (NBC)	1	NBC (10.2)	Seinfeld (NBC)
2	ABC (13.7)	A Different World (NBC)	2	CBS (9.6)	ER (NBC)
3	CBS (13.4)	Cheers (NBC)	3	ABC (8.4)	Veronica's Closet (NBC)
4		Growing Pains (ABC)	4	FOX (7.1)	Friends (NBC)
5		Night Court (NBC)	5	WB (3.1)	Monday Night Football (ABC)
1988–89			**1998–99**		
1	NBC (15.9)	The Cosby Show (NBC)	1	CBS (9.0)	ER (NBC)
2	ABC (12.9)	Roseanne (ABC)	2	NBC (8.9)	Friends (NBC)
3	CBS (12.5)	Roseanne (ABC)	3	ABC (8.1)	Frasier (NBC)
3		A Different World (NBC)	4	FOX (7.0)	Monday Night Football (ABC)
5		Cheers (NBC)	5	WB (3.2)	Veronica's Closet (NBC)
1989–90			**1999–00**		
1	NBC (14.6)	Roseanne (ABC)	1	ABC (9.3)	Who Wants To Be a Millionaire (ABC)
2	ABC (12.9)	The Cosby Show (NBC)	2	CBS (8.6)	Who Wants To Be a Millionaire (ABC)
3	CBS (12.2)	Cheers (NBC)	3	NBC (8.6)	Who Wants To Be a Millionaire (ABC)
4		A Different World (NBC)	4	FOX (5.9)	ER (NBC)
5		Funniest Home Videos (ABC)	5	UPN (2.7)	Friends (NBC)

Sources: 2000 Nielsen Media Research (2000 Report on Television) and www.entertainmentscene.com.
[a]Ranked by average prime-time Nielsen ratings.

Exhibit 10 Business Lines of Disney Competitors

	Disney	AOL-Time Warner	Viacom-CBS	Bertelsmann	Vivendi-Universal	News Corp.	Sony[a]
Broadcast TV stations	✓	✓	✓	✓		✓	
Broadcast TV network	✓	✓	✓			✓	
Cable distribution systems		✓					
Cable networks	✓	✓	✓		✓	✓	
Satellite TV				✓	✓	✓	✓
Film production	✓	✓	✓	✓	✓	✓	✓
Film library	✓	✓	✓	✓	✓	✓	✓
Movie theaters					✓		✓
Music	✓	✓		✓	✓		✓
Radio	✓		✓	✓			
Publishing	✓	✓	✓	✓	✓	✓	
Internet	✓	✓	✓	✓	✓	✓	✓
Theme parks	✓	✓			✓		
Retailing	✓	✓	✓	✓	✓		
Audio/video players							✓
2000 Revenues[b] ($ billions)	$25.4	$36.2	$20.0	$15.7[d]	$17.7[e]	$14.2	$10.0[c]
Pretax Income ($ millions)	2,633.0	8,400.0	560.6	NA	613.0	1,724.0	2,381.2
Net Income ($ millions)	1,196.0	(3,500)	(816.1)	NA	246.0	1,921.0	1,097.6
Avg. 5-year ROE	8.9	(18.2)/3.1	4.4	NA	7.6/15.0	7.0	9.0
Avg. 10-year ROE	15.0	NA	0.3	NA	9.8/11.6	7.4	8.2

Source: *The Economist*; annual reports; Standard & Poor's; OneSource; Bloomberg.

[a]Sony Corporation of America.

[b]Bertelsmann figure is from the fiscal year ended June 30, 2000.

[c]Includes only the media portions of the company. The total was $64.5 billion.

[d]The company is privately held.

[e]Includes only the media portions of the company. The total was $48.4 billion.

Endnotes

[1] Robert La Franco, "Eisner's Bumpy Ride," *Forbes*, July 5, 1999, p. 50.

[2] Joe Flower, *Prince of the Magic Kingdom* (New York: John Wiley & Sons, 1991), p. 143.

[3] John Huey, "Eisner Explains Everything," *Fortune*, April 17, 1995.

[4] In 1922, Disney and Ub Iwerks started Laugh-O-Grams, which went out of business in 1923. After Walt moved to Hollywood, he persuaded Iwerks to join his new company a year later.

[5] The name of the studio was changed to Walt Disney Productions in 1929.

[6] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), p. 16.

[7] Among the primary animators, only Ub Iwerks remained loyal to Disney.

[8] Robert De Roos, "The Magic Worlds of Walt Disney," in *Disney Discourse* (Eric Smoodin, ed., New York, Routledge, 1994), p. 52.

[9] Walt even sold his car to help finance the soundtrack.

[10] Bob Thomas, *Building a Company* (New York: Hyperion, 1998), pp. 60–62.

[11] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), p. 26.

[12] Joe Flower, *Prince of the Magic Kingdom* (New York: John Wiley & Sons, 1991), p. 55. In the 1990s, organization charts were still uncommon at Disney. People were expected to know how the organization worked without reference to charts.

[13] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), p. 30.

[14] Douglas Gomery, "Disney's Business History: A Reinterpretation," in *Disney Discourse* (Eric Smoodin, ed., New York, Routledge, 1994), p. 72.

[15] *Snow White* had not been nominated for an Oscar in 1938 for Best Picture. However, at the 1939 awards show, the Academy of Motion Picture Arts and Sciences awarded the movie an honorary full-size Oscar along with seven miniature Oscars.

[16] Douglas Gomery, "Disney's Business History: A Reinterpretation," in *Disney Discourse* (Eric Smoodin, ed., New York, Routledge, 1994), pp. 73–74.

[17] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), p. 57.

[18] The company had found that it could produce a full-length animated film only once every three or four years, rather than the two per year that it had initially tried for.

[19] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), pp. 59–60.

[20] Ibid., p. 70.

[21] "The Walt Disney Company (A)," HBS No. 388-147 (Boston: Harvard Business School Publishing, 1988), p. 4.

[22] Ibid., p. 3.

[23] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), p. 64.

[24] The company also established a division to create its own nonlicensed products specifically for Disneyland.

[25] Douglas Gomery, "Disney's Business History: A Reinterpretation," in *Disney Discourse* (Eric Smoodin, ed., New York, Routledge, 1994), p. 76.

[26] Dave Smith and Steven Clark, *Disney: The First 100 Years* (New York: Hyperion, 1999), p. 101.

[27] "The Walt Disney Company (A)," HBS No. 388-147, p.14.

[28] Howard Rudnitsky, "Creativity, With Discipline," *Forbes*, March 6, 1989, p. 41.

[29] In 1986, the company changed its name to The Walt Disney Company.

[30] Michael D. Eisner and Tony Schwartz, *Work in Progress* (New York: Random House, 1998), p. 152.

[31] Ibid., p. 157.

[32] Disney also sought to spread the risk of film production by offering shares in limited partnerships. Through Silver Screen Partners II and III, nearly half a billion dollars was raised to expand film and television production activities. The limited partners shared the financial cost of producing a movie but were residual claimants on the profit stream with a highly leveraged position.

[33] "The Walt Disney Company (A)," HBS No. 388-147, p. 1.

[34] *Newsweek*, April 13, 1992, p. 67.

[35] "The Walt Disney Company (B)," HBS No. 794-129, p. 2.

[36] "Mickey Mouse to Get Lai'ed," via hotelchatter.com, accessed September 2008.

[37] The rationale for Pleasure Island was that Disney World's adult visitors needed more things to do at night. Opened in 1989, the complex was a six-acre nightlife haven featuring dance clubs, shopping boutiques, and restaurants. Early performance was below par. One of the problems was the pricing policy. Each club had a separate cover charge, which discouraged guests from moving between venues, leaving the streets of Pleasure Island empty. Disney instituted a single adult-rate admission charge for the entire area, revamped the less successful clubs, and began holding a nightly "New Year's Eve" outdoor celebration. Managers had monthly "in-costume" duties to keep them in closer touch with guests and to give them insights into how to improve operations. For example, additional food and beverage stations appeared, and layout was rearranged to better suit the waiters and waitresses. Disney also began advertising heavily in the local media, cultivating the one-third of guests who came for a night out from the surrounding Orlando area.

[38] KCAL was later sold because Disney acquired a second station in Los Angeles as part of the ABC deal. Owning both stations would have been a violation of FCC rules.

[39] *The Wall Street Journal*, July 12, 1995, p. B2.

[40] Jeremy Gerard, "Disney's New Dream: 42nd Street Fantasia," *Variety*, February 7–13, 1994, p. 57.

[41] Ibid.

[42] Michael D. Eisner and Tony Schwartz, *Work in Progress* (New York: Random House, 1998), p. 157.

[43] Richard Turner, "Is Walt Disney Ready to Rewrite Its Own Script?" *The Wall Street Journal*, August 26, 1994, p. B1.

[44] Disney had previously considered buying CBS or NBC. Disney terminated negotiations with General Electric, which owned NBC, due to widely disparate bids. And although CBS chairman Larry Tisch had publicly maintained that his network was not for sale, Disney was, according to Eisner, in talks with CBS right up until the ABC deal was announced.

[45] The ABC deal made Disney the nation's sixth-largest TV station owner and the third-largest radio station owner.

[46] *The Wall Street Journal*, August 4, 1995, p. A8.

[47] Elizabeth Jensen and Thomas King, "World of Disney Isn't So Wonderful for ABC," *The Wall Street Journal*, July 12, 1996, p. B1.

[48] Ibid.

[49] The show had already been running on the Disney Channel.

[50] Elizabeth Jensen and Thomas King, "World of Disney Isn't So Wonderful for ABC," *The Wall Street Journal*, July 12, 1996, p. B1.

[51] Ibid.

[52] Complicating the relationship, Dreamworks partner Katzenberg was still in the midst of a lawsuit with Disney, in which he was arguing that he had been guaranteed a percentage of all the future profits of the projects he had initiated while working there. In 1999, a settlement was reached giving Katzenberg $250 million.

[53] Dwight Oestricher, "Disney's Eisner Vows that Growth Will Return," *Dow Jones News Service*, November 4, 1999.

[54] Sharon Epperson, "Third Quarter Turns Out to Be Magical for Disney," *CNBC News Transcripts*, August 3, 2000.

[55] Disney's 1999 annual report, p. 8.

[56] Ronald Grover, "At Disney, There's Life After Toons," *BusinessWeek*, November 11, 1996, p. 102.

[57] Ibid.

[58] "1999 US Economic Review," MPA Worldwide Market Research, p. 16.

[59] While Disney maintained its dominance in animation, the company had failed to repeat the enormous success of *The Lion King* (1994). The 10 animated films that followed were all less profitable. Moreover, three of the company's biggest hits over this time were not created by Disney but by Pixar, a Northern California studio specializing in computer-generated imagery (CGI) acclaimed for both its technical wizardry and its storytelling skill. Disney had a deal to distribute five Pixar films through 2007, sharing the profits 50-50. To make CGI films like Pixar's, Disney built a $70 million digital studio. *Dinosaur* (2000) was Disney's first CGI film, but while the film was lauded for its special effects, it was derided by movie critics for its weak dialogue and plot. Disney had faced an assault over the past several years as Dreamworks, Fox, and Warner Brothers all tried to produce full-length animated films, but without Disney-level success. In 2000, Fox closed its animation studio, deciding to focus instead on CGI animation of the kind produced by Pixar. After several costly failures, Warner Brothers' animated division scaled back production, opting for lower-quality animation and movies based on established brands such as *Pokemon 2000* (which fared poorly). Only Dreamworks remained committed to matching Disney with several new films in the works, some traditionally animated, some computer generated. In the latter category was *Chicken Run*, one of only three non-Disney animated films in history to earn $100 million at the U.S. box office.

[60] Claudia Eller, "Disney Chief Lets Out a Roar Amid Anxiety Over Costly 'Dinosaur,'" *Los Angeles Times*, May 12, 2000, p. C1.

[61] The Internet Group had its own tracking stock and listed its results separately from the rest of Disney.

[62] And like Yahoo and AOL, the GO Network offered e-mail, chat rooms, a search engine, and stock and weather updates.

[63] Ronna Abramson, "Disney Puts a Stop to Go.com," TheStandard.com, January 29, 2001.

[64] Bruce Orwall, "Eisner Moves to Slow Down Disney Spending," *The Wall Street Journal*, August 16, 1999, p. B1.

[65] In 1999, Disney set up a new group called Strategic Sourcing to cut its procurement costs. Its function was to negotiate better terms from the vendors that supplied Disney with the $9 billion worth of goods and services it purchased each year. For example, Disney calculated that it used 110 million shopping bags and gift boxes per annum. By standardizing box and bag sizes and by consolidating and leveraging its purchasing power, Disney estimated that it was able to save $1.5 million a year. In taking this approach with all its purchases, Disney projected that the Strategic Sourcing program would save it $300 million a year by 2004 (1999 annual report, p. 5).

[66] Disney's Web site, www.disney.com.

[67] "Disney's 'The Lion King' (B): The Synergy Group," HBS Case No. 899-042.

[68] "Disney Roars in Kingdom of Movie Merchandise," *Los Angeles Times*, August 11, 1994.

[69] 1999 annual report, p. 7. Figures compare sales levels two years before each park opened with sales five years after.

[70] Marc Gunther, "Eisner's Mouse Trap," *Fortune*, September 6, 1999, p. 116.

[71] David Germain, "Disney Earnings Drop as Revenue Slump Continues," *AP Business Wire*, November 4, 1999.

[72] Christopher Parkes, "Disney Chief Draws on the Past," *The Financial Times*, November 6–7, 1999.

[73] 1999 annual report, p. 12.

[74] When Harvard gave Walt an honorary master's degree in 1938, Walt remarked, "I try to entertain, not educate: an important part of education is stimulating an interest in things." (Cynthia Rossano, "Honoris Causa," *Harvard Magazine*, May–June 2001, p. H28.)

[75] Suzy Wetlaufer, "Common Sense and Conflict: An Interview with Disney's Michael Eisner," *Harvard Business Review*, January–February 2000, p. 124.

[76] Disney had only moderate success selling shows to other networks, producing *The PJs* on Fox and *Felicity* on the WB Network but few others.

[77] Bruce Orwall, "Michael Eisner's New Agenda," *The Wall Street Journal*, January 26, 2000, p. B1.

[78] Disney's 1999 annual report, p. 34.

[79] "Two Sharks in a Fishbowl," *The Economist*, September 13, 1999, p. 67.

[80] 1999 annual report, p. 7.

[81] Kathleen Morris, "This *Phantom* is a Menace to Toymakers," *BusinessWeek*, July 19, 1999, p. 42.

[82] 1999 annual report, p. 3.

[83] Paul Farhi, "Commercial KO'd by Offensive Punch Line," *The Washington Post*, June 26, 1999, p. C7.

[84] Marc Gunther, "Eisner's Mouse Trap," *Fortune*, September 6, 1999, p. 107.

[85] Bruce Orwall, "From its ABC to its DVDs, Disney is Seeing Brighter Picture," *The Wall Street Journal*, March 27, 2000, p. B1.

[86] Suzy Wetlaufer, "Common Sense and Conflict: An Interview with Disney's Michael Eisner," *Harvard Business Review*, January–February 2000, p. 117.

[87] Frank Rose, "The Eisner School of Business," *Fortune*, July 6, 1998, p. 29.

[88] Ibid.

[89] Ibid.

[90] Claudia Eller and James Bates, "It's Quitting Time Again at Disney," *Los Angeles Times*, January 13, 2000, p. A1.

[91] Bernard J. Wolfson, "Creative Brain Drain at Disney?" *The Orange County Register*, October 20, 1999, p. C1.

[92] Claudia Eller and James Bates, "It's Quitting Time Again at Disney," *Los Angeles Times*, January 13, 2000, p. A1.

[93] Ibid.

[94] Bernard Weinraub, "Clouds Over Disneyland," *The New York Times*, April 9, 1995, sec. 3, p. 12.