### What Would You Do? Case Assignment

#### WALT DISNEY COMPANY

Burbank, California.

Over two decades, your predecessor and boss, CEO Michael Eisner, accomplished much, starting the Disney Channel, the Disney Stores, and Disneyland Paris, and acquiring ABC television, Starwave Web services (from Microsoft cofounder Paul Allan), and Infoseek (an early Web search engine). But his strong personality and critical management style created conflict with shareholders, creative partners, and board members, including Roy Disney, nephew of founder Walt Disney.

One of your first moves as Disney’s new CEO was repairing relationships with Pixar Studios and its then CEO Steve Jobs. Pixar produced computer-animated movies for Disney to distribute and market. Disney also had the right to produce sequels to Pixar Films, such as *Toy Story*, without Pixar’s involvement. Jobs argued, however, that Pixar should have total financial and creative control over its films. When Disney CEO Michael Eisner disagreed, relations broke down, with Pixar seeking other partners. On becoming CEO, you approached Jobs about Disney buying Pixar for $7 billion. More important than the price, however, was promising Jobs and Pixar’s leadership, President Ed Catmull and creative guru John Lasseter, total creative control of Pixar’s films *and* Disney’s storied but struggling animation unit. Said Jobs, “I wasn’t sure I could get Ed and John to come to Disney unless they had that control.”

Although Pixar and Disney animation thrived under the new arrangement, Disney still had a number of critical strategic problems to address. Disney was “too old” and suffering from brand fatigue as its classic but aging characters, Mickey Mouse (created in 1928) and Winnie-the-Pooh (licensed by Disney in 1961), accounted for 80 percent of consumer sales. On the other hand, Disney was also “too young” and suffering from “age compression,” meaning it appealed only to young children and not preteens, who gravitated to Nickelodeon, and certainly not to teens at all. Finally, despite its legendary animated films, over time Disney products had developed a reputation for low-quality production, poor acting, and weak scripts. Movies “High School Musical 3: Senior Year,” “Beverly Hills Chihuahua,” “Bolt,” “Confessions of a Shopaholic,” “Race to Witch Mountain,” and “Bedtime Stories” disappointed audiences and failed to meet financial goals. As you told your board of directors, “It’s not the marketplace, it’s our slate [of TV shows and movies].”

With many of Disney’s brands and products clearly suffering, you face a basic decision: Should Disney grow, stabilize, or retrench? Disney is an entertainment conglomerate with Walt Disney Studios (films), parks and resorts (including Disney Cruise lines and vacations), consumer products (i.e., toys, clothing, books, magazines, and merchandise), and media networks such as TV (ABC, ESPN, Disney Channels, ABC Family), radio, and the Disney Interactive Media Group (online, mobile, and video games and products). If Disney should grow, where? Like Pixar, is another strategic acquisition necessary? If so, who? If stability, how do you improve quality to keep doing what Disney has been doing, but even better? Finally, retrenchment would mean shrinking Disney’s size and scope. If you were to do this, what divisions would you shrink or sell?

Next, given the number of different entertainment areas that Disney has, what business is it really in? Is Disney a content business, creating characters and stories? Or is it a technology/distribution business that simply needs to find ways to buy content wherever it can, for example, by buying Pixar and then delivering that content in ways that customers want (i.e., DVDs, cable channels, iTunes, Netflix, social media, Internet TV, etc.)?

Finally, from a strategic perspective, how should Disney’s different entertainment areas be managed? Should there be one grand strategy (i.e., growth, stability, retrenchment) that every division follows, or should each division have a focused strategy for its own market and customers? Likewise, how much discretion should division managers have to set and execute their strategies, or should that be controlled and approved centrally by the strategic planning department at Disney headquarters?

**If you were CEO at Disney, what would you do?**

### What Really Happened? Solution

In the case, you learned that Disney’s acquisition of Pixar Studios was the key factor in saving Disney’s animated film business, which had struggled and lost money over the last decade. While giving Pixar total control over Disney animated film turned around that part of Disney’s business, the other parts of Disney – films, consumer products, media networks, and online, mobile, and video games – consistently underperformed expectations. In general, Disney products were seen as “too old” because of aging characters like Mickey Mouse and Winnie-the-Pooh, or “too young,” because they only appealed to very young children. Let’s find out what happened at Disney and see what strategic plans and steps CEO Bob Iger took to improve Disney’s competitive position.

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The purpose of a growth strategy is to increase profits, revenues, market share, or the number of places (stores, offices, locations) in which a company does business. Companies can grow externally by merging with or acquiring other companies in the same or different businesses. Or, they can grow internally, directly expanding the company’s existing business or creating and growing new businesses. The purpose of a stability strategy is to continue doing what the company has been doing, just doing it better. Companies following a stability strategy try to improve the way in which they sell the same products or services to the same customers. The purpose of a retrenchment strategy is to turn around very poor company performance by shrinking the size or scope of the business or, if a company is in multiple businesses, by closing or shutting down different lines of the business. The first step of a typical retrenchment strategy might include making significant cost reductions; laying off employees; closing poorly performing stores, offices, or manufacturing plants; or closing or selling entire lines of products or services. After cutting costs and reducing a business’s size or scope, the second step in a retrenchment strategy is recovery. Recovery consists of the strategic actions that a company takes to return to a growth strategy.

Should Disney grow, stabilize or retrench? Soon after Bob Iger became CEO, Disney found itself in the midst of a deep, global economic recession. Disney Films, which had been profitable, saw revenues drop 12% with a $12 million loss just a year after earning $97 million in profit. At Disney’s TV networks, operating income fell by 34% as the number of viewers aged 18-to-49 dropped by 9.7%.

So, faced with losses and decreasing revenues, Iger employed a retrenchment strategy. For example, with operating income also down sharply at Disney parks and resorts, Disney offered voluntary buyouts to 600 executives, hoping to significantly cut costs. Chair of the parks and resorts unit, Jay Rasulo, indicated that the cuts would help build “an organization and cost structure that meet today’s economic realities.” Likewise, further savings were achieved by consolidating departments, such as the menu planning departments at Disney Land in California and the menu planning department at Disney World in Florida, into one department to serve both parks.

While the first step of retrenchment includes significant cost reductions, the next step is recovery, taking strategic actions to return to a growth strategy. Indeed, after cutting costs, Iger “doubled down” on investments in theme parks, technology, and construction, all intended to return Disney to aggressive growth. Said Iger, “In some cases we started [building and investing] before the recession, and some cases we were in it. Our construction costs have tended to be lower because we built in the downturn.” Iger reasoned that long-term Disney couldn’t afford to pass up the significantly lower costs for construction and expensive assets like cruise ships brought about by the recession. So, in the midst of the recession, the company invested millions in the Disney Dream, a brand new cruise ship, $1 billion to Disney’s California Adventure park (next door to Disney Land), and then spent billions more to expand Hong Kong Disney Land, as well as a new Disney resort in Hawaii.

While those investments were intended to grow Disney organically, that is, to create growth in current lines of business, Disney spent $4.3 billion to buy Marvel Entertainment, home to well know Comic book heroes such as *X-Men*, *Captain America*, *Iron Man*, and *Thor*, and $563 million to buy Playdom, a company which makes games for Facebook users. When it comes to Marvel Entertainment, Iger explained, “We’ve taken back distribution, or bought back distribution from [Viacom Inc.'s] Paramount, for some critical franchises. Notably, *Iron Man* will be distributed by us, and *Avengers*. We're developing three live-action series for ABC and ABC Family. You can buy Marvel products at Disney stores. And we're working on Marvel games.”

Disney’s acquisition of Playdom helps the company in terms of technology and online games. Iger noted that, “Playdom gives us access to technology and to experience in a space that we felt we wanted and needed to be in. We did not have that expertise in the company, and we felt that bringing it into the company through an acquisition would get us there much faster than doing it organically.”

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Corporate-level strategy is the overall organizational strategy that addresses the question “What business or businesses are we in or should we be in?”There are two major approaches to corporate-level strategy, portfolio strategy and grand strategies, the latter of which is also discussed in question 3.

Corporate-level strategies such as portfolio strategy and grand strategies help managers determine what businesses they should be in. Portfolio strategy focuses on lowering business risk by being in multiple, unrelated businesses and by investing the cash flows from slow-growth businesses into faster-growing businesses. One portfolio strategy, the BCG matrix, suggests that cash flows from cash cows should be reinvested in stars and in carefully chosen question marks. Dogs should be sold or liquidated. Portfolio strategy has several problems, however. Acquiring unrelated businesses, however, actually increases risk rather than lowering it. The BCG matrix is often wrong when predicting companies’ futures (as dogs or cash cows, for example). And redirecting cash flows can seriously weaken cash cows. The most successful way to use the portfolio approach to corporate strategy is to reduce risk through related diversification.

A grand strategy is a broad strategic plan used to help an organization achieve its strategic goals. Grand strategies guide the strategic alternatives that managers of individual businesses or subunits may use in deciding what businesses they should be in. As discussed in question 1, there are three kinds of grand strategies: growth, stability, and retrenchment/recovery.

Disney is an entertainment conglomerate with Walt Disney Studios (films), parks and resorts (including Disney Cruise lines and vacations), consumer products (i.e., toys, clothing, books, magazines, and merchandise), and media networks such as TV (ABC, ESPN, shows and channels (ABC, ESPN, Disney Channels, ABC Family), radio, and the Disney Interactive Media Group (online, mobile, and video games and products). Given the number of different entertainment areas that Disney has, what business is Disney really in? Is Disney a content business, creating characters and stories? Or is it a technology/distribution business that simply needs to find ways to buy content wherever it can, for example, buying Pixar, and then delivering that content in ways that customers want (i.e., DVDs, cable channels, iTunes, Netflix, social media, Internet TV, etc.)?

Disney, says Iger, is in the content business, and that creative content, not distribution, is Disney’s “heart and soul.” “My goal is to make more great content, deliver it to more people, in more places, more often.” Creating content in the form of storytelling, not technology, is why Disney bought Pixar Studies. Pixar president Ed Catmull says, “We won’t let anything get ahead of the quality of the story.” That’s also why Disney gave Catmull and Pixar control over Disney’s animation unit. Disney’s animated films were still visually compelling, but their stories and character development were no longer compelling. By contrast, at Pixar, content is more important than animation, and that’s reflected in Pixar staff members holding regular meetings to critique and improve plot lines and characters across all of Pixar’s movie projects.

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As mentioned in question 2, a grand strategy is a broad strategic plan used to help an organization achieve its strategic goals. Grand strategies guide the strategic alternatives that managers of individual businesses or subunits may use in deciding what businesses they should be in. As discussed in question 1, there are generally three kinds of grand strategies: growth, stability, and retrenchment/recovery. Rather than using just one broad strategic plan to achieve its organizational goals, Disney, however, used two of those, growth and retrenchment/recovery.

So, does that mean that Disney doesn’t have a grand strategy? No. Disney does in fact possess a grand strategy, but it not based on growth, stability, or retrenchment/recovery. Instead, Disney’s grand strategy is to manage its portfolio of brands in an integrative way, but differently from the ideas suggested in portfolio theory. An example is the best way to illustrate this.

*It was a textbook example of the "Disney way" of doing business: a new movie that set off a fountain of spinoffs. There was a theme-park attraction, a series of Simon & Schuster books, a soundtrack album and a line of toys and childrens' clothing featuring the beloved heroine. To make sure kids knew about the movie, Disney script writers planted repeated references to it in the company's television shows.*

No, this isn’t just the well-recognized strategy that Disney used with *Toy Story 3*, the release of the first *Winnie the Pooh* movie in 50 years, or *The Pirates of the Caribbean: On Stranger Tides*, it’s the strategy that Disney used in 1958 to promote and profit from its classic animated movie, *Sleeping Beauty*. As then Disney President Roy Disney explained, “Our diversified activities are related and tend to complement each other,” adding, “Integration is the key word around here. We don't do anything in one line without giving a thought to its likely profitability in our other lines.” That *was* Disney’s strategy for decades, a strategy from which it strayed, and the strategy to which Disney returned under CEO Bob Iger.

Iger, however, added one important dimension to Disney’s integrative portfolio strategy, brand management. Each successful Disney movie (*Beauty and the Beast*), TV show (*High School Musical*), or character (*Winnie the Pooh*) is a Disney brand. And, at Disney, under Iger, the strategy is to manage and integrate those brands across the different parts of Disney’s businesses. Iger explains how it works:

*These great character franchises were all brands unto themselves. But nobody was really managing those brands, and decisions were being made in a vacuum. So if we determine that Toy Story is a real franchise for the company, then Toy Story should get made. Now, you still have to have a great story and great execution-and in the absence of that, you shouldn't make it. And not everything has to be a franchise. I was recently asked whether Ratatouille was a franchise. I said no: Ratatouille is an extremely good animated film and will be a classic unto itself, but it is not a franchise. You are not going to see Ratatouille attractions in parks. When you look at Toy Story, we're making our third film, we're opening two Toy Story Mania attractions at parks this summer, we have a very strong consumer products line, we have a Toy Story musical opening on the cruise line, we have a game in development-that's a franchise.*

So, with an integrative strategy that leverages key brands across Disney’s various businesses, how much discretion are Disney’s division managers given to execute their strategies? On first thought, it would seem that Disney’s strategic planning department would keep a tight rein to effectively execute the company’s integrated strategy. CEO Iger, explains that he and his top executives drive and control this process. Says Iger, “We get together about every six weeks with the heads of the Disney business units. Sometimes we'll even focus on a market-say, what's going on in Japan with Pooh? We've also created financial metrics to track them against each franchise so we can see what's going on financially. If we see a trend that is worrisome-or the opposite-we bring it up at this meeting.”

That tight integration, however, is balanced by tremendous creative autonomy for Disney’s division managers and content creators. Remember, first and foremost, Disney is in the business of creating content. And that means that the people managing content creation or the divisions where content is created have to have the freedom to develop great stories and strong characters. Steve Jobs, Apple Computer’s CEO, and former CEO of Pixar Studios explains that when Iger became CEO, “Disney was really messed up. Bob looked at the guys running the divisions and said, ‘You're in charge of your businesses now.’” Because of this critical issue, one of the first steps Iger took as CEO was to disband Disney’s long-standing strategic planning department.