MICHAEL EISNER

Work In Progress

MICHAEL EISNER and TONY SCHWARTZ

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"Strengthening the Disney brand, Frank and I soon recognized, wasn't something that could be achieved in a single broad stroke. We came to think of Disney as a canvas on which many artists paint in pointillist style -- one dot at a time. If each of those dots is executed with precision, imagination, and an awareness of the whole, the painting becomes richer, more vibrant and multidimensional. Walt Disney and his team created such a masterpiece. When a new group of artists comes along, the risk is that they'll bring a diminished commitment to excellence, or a lack of attention to the whole. Then the opposite process can occur. Point by point, stroke by stroke, the masterpiece deteriorates into something mediocre and commonplace, even ugly, until eventually it's destroyed altogether. A brand is a living entity, and it is enriched or undermined cumulatively over time, the product of a thousand small gestures."

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"As I look ahead at Disney's prospects and my own, the future seems both exhilarating and daunting. Companies are designed to be immortal. Our job is to keep Disney young by forever looking ahead and anticipating what's next, without sacrificing the wisdom and stability of our past.

Technology is evolving at such a furious pace that predicting the future is a sure route to humility. Just three years ago, no less an authority than Bill Gates warned that expectations for the Internet shouldn't be "cranked too high". Gates recognized the potential of the Internet, but underestimated the immediacy of its impact. The moment he caught on, of course, he switched his company's strategy virtually overnight. Microsoft may be our most daunting competitor. Nonetheless, the experience suggests at least two lessons. One is that the next big wave can take even the most accomplished swimmers by surprise. The other is that a key to survival in an unpredictable sea is to be nimble and resilient.

Fortunately, Disney operates on a basic premise that hasn't changed. People want to be entertained and informed. At Disney, we do that through story telling."

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"The statistics are humbling. As many as 60-percent of all acquisitions destroy rather than enhance shareholder value. More than half of the deals since the 1980s produced shareholder returns below industry averages. A majority were eventually divested. In short, most fail over time. As Warren Buffett once put it, acquisitions are typically born of "an abundance of animal spirits and ego". They reflect the drive among CEOs to be the biggest kids on the block, to command the front page of the Wall Street Journal and the New York Times, to treat deal making as a grown up version of Monopoly.

Even when acquisitions make strategic sense, the first and most common mistake is overpaying. Companies pay a premium to the market for control -- typically 25- to 50-percent more than the stock price on the day of the offer. Often, the acquired company is overpriced relative to its real value. Synergies and cost-efficiencies, if they materialize at all, are frequently insufficient to offset overpaying in the first place. Finally, disparate cultures are rarely melded smoothly, and ongoing frictions undermine operations. At Disney, we had spent more than a decade resisting major acquisitions for precisely these reasons. ABC was the first one that made sense to us. In our view, we paid a fair price for a great company that represented an ideal strategic fit. Having found the right match, we were determined to beat the odds and make the marriage work."

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"Disney is different. The name plainly stands for something. Walt's genius had been to make Disney synonymous with the best in family entertainment -- whether it was a theme park or a television show, an animated movie or even a Mickey Mouse watch. Customers did seek out Disney products, just as they were drawn to Disney animated movies, or visited Disney's Magic Kingdom. The name "Disney" promised a certain kind of experience: wholesome family fun appropriate for kids of any age, a high level of excellence in its products and a predictable set of values. By the time Frank and I took over, nearly two decades after Walt's death, Disney had begun to seem awkward, old-fashioned, even a bit directionless. But that was misleading. The underlying qualities that made the company special lived on, just the way a person's character endures. Our job wasn't to create something new, but to bring back the magic, to dress Disney up in stylish new clothes and expand its reach, to remind people why they loved the company in the first place."

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"One issue we faced was how to invest our excess cash flow. There were three options. One was to pay it out in a special, large dividend. The problem is that our shareholders rightly expect that Disney, with the leverage of its name, ought to be able to earn more with its cash than an individual would by investing the dividends. The second option was to make an acquisition, and we continued to look for the right one at the right price. The final option was to buy back our stock. That was the one we chose at this stage. Companies such as Coca-Cola and General Electric have done the same thing very successfully. Our rationale was simple. By buying back stock when others were selling it, we were focusing on the intrinsic value of the company, which we judged to be far greater than its current market price. Further, by reducing the number of our outstanding shares, earnings per share would be increased for the remaining shareholders.