

Robert Sica

Meredith Guthrie, PhD

Special Topics in Mass Communication: Disney

2 December 2014

Michael Eisner, Pixar's Past Toxin

Pixar Animation Studios has consistently created computer-animated masterpieces for over twenty-five years. Its three leading men – Ed Catmull, Steve Jobs, and John Lasseter – shared a dream to intersect technology with art. They in turn created what Steve Jobs described as “the most powerful and trusted brand in animation” (Isaacson 436) – though not without struggle every step of the way. Specifically, Pixar and the Walt Disney Company have had a historically complicated relationship. This dynamic was particularly tense during the controversial length of Michael Eisner's reign as Disney CEO, which ended in September of 2005.

In the mid-1980's, Pixar released ground-breaking technology that could computerize the animation process; this caught Disney's attention. After Pixar released a series of successful shorts, Disney and Pixar reached an agreement to create a full-length animated film. After *Toy Story's* overwhelming critical and box office success, Eisner became greedy. He turned Jeffrey Katzenberg, the previous head of Disney's motion picture division, into a potential threat to Pixar. He exploited Disney and Pixar's contractual agreements, and even opened up a division to make Pixar sequels without Pixar. After being ousted as CEO, he was overtly opposed to Disney's decision to acquire Pixar, which arguably revived the company; I contend Michael Eisner became a toxin to Pixar until Robert Iger finally replaced him at Disney in 2005.

Pixar's story begins in 1979, when George Lucas recruited computer scientist Ed Catmull to lead Lucasfilm's Computer Graphics Division ("Our Story"). Lucas and Catmull's mission was to develop groundbreaking technology for the film industry ("Our Story"). Animator John Lasseter, just fired from Walt Disney Animation Studios, was hired to lead the small animation operation intended to showcase the division's software and hardware (Price). Lucas' nasty divorce at the time led him to eventually sell the division to Steve Jobs, and the new independent company was named "Pixar" (Price).

At the same time, Walt Disney's older brother Roy led an initiative to revive Walt Disney Animation Studios. Disney animation hit a "rock bottom" in the mid 1980's; the 1985 animated film *The Black Cauldron* was at the time the most expensive animated film ever made, but was also a commercial and critical failure (*Waking Sleepy Beauty*). Roy Disney told newly elected CEO Michael Eisner that he would like to revive the company's respected but declining animation division by finding a way to computerize the animation process (Isaacson 242). Pixar created a customized system of hardware and software called The Computer Animation Production System (CAPS) to computerize the ink, paint, and post-production process of traditionally animated Disney films (*The Pixar Story*). CAPS was first used in the final scene of *The Little Mermaid* (Isaacson 242). Following films, including *Aladdin*, *Beauty and the Beast*, and *The Lion King*, were made entirely using CAPS (*The Pixar Story*).

Despite Disney's successful use of the CAPS system, Pixar endured serious financial struggles in the mid-80's. Job's intent in purchasing Lucasfilm's Computer Graphics Division was his vision that ordinary consumers would find rendering 3-D images at home using Pixar technology to be compelling, but Pixar was near bankruptcy (Price). Despite a series of cold layoffs at Pixar, Jobs continued to invest in its animation department; he felt a deep emotional

connection and admiration for Lasseter's work. Even so, Lasseter was afraid to ask Jobs for an additional \$300,000 for the short *Tin Toy*, but after "displaying his boards, doing the voices, showing his passion for his product – Jobs started to warm up" (Isaacson 247). *Tin Toy* is about a one-man-band toy that tries to escape from a baby; it won the 1988 Academy Award for animated short films, and was the first computer-generated film to do so. Eisner and Katzenberg wanted to get Lasseter back into Disney (Isaacson 248). They thought that something more could be done with the premise of animated toys that come alive and have emotions (Isaacson 248). However, Lasseter was very grateful for Job's loyalty and support, and refused to leave. As Katzenberg put it:

Lasseter's shorts were really breathtaking both in storytelling and in the use of technology. I tried so hard to get him to Disney, but he was loyal to Steve and Pixar. So if you can't beat them, join them. We decided to look for ways we could join up with Pixar and have them make a film about toys for us. (Isaacson 248)

The negotiations for Disney's first film with Pixar were underway. Despite Jobs and Katzenberg being masterful negotiators, Jobs did not have much leverage; Pixar needed this deal much more than Disney did. Eventually, an agreement was established in May of 1991: Disney would own the film and its characters outright, have creative control, and pay Pixar about 12.5% of ticket revenue (Price). It had the option to do Pixar's next two films and the right to make sequels with or without Pixar (Price).

After a series of versions and revisions, *Toy Story* premiered in November 1995, becoming the highest-grossing film of that year, and the first animated film ever nominated for an Academy Award for best original screenplay (Price). What was unclear was whether *Toy Story* was a Pixar movie, or a Disney movie. Jobs demanded the first; in his biography by Walter

Issacson, Jobs shared, “After *Toy Story*’s success, I realized that we needed to cut a new deal with Disney if we were ever to build a studio and not just be a work-for-hire place” (Issacson 291).

To cut a new deal, Pixar needed to bring money to the table. One week after *Toy Story*’s release, Jobs decided to take Pixar public. It was a risk that paid off - by the end of the day, Job’s shares in Pixar – which accounted for 80% of the company – were at approximately \$1.2 billion (Isaacson 291). He knew he could now demand half of the profits of Pixar films, but more importantly, that he could demand co-branding with Disney; a concern for Jobs was that many consumers believed *Toy Story* was a Disney-made film (Price). Eisner and Jobs reached a new agreement in February of 1997 for a new five-film deal, and *Bugs* (which would be renamed *A Bug’s Life*) would be the first (Price). Under the deal, production cost and revenue from box office, home video, and tie-in products such as clothes and toys were to be split between the companies (Price). Pixar would get equal branding with Disney in its films, in advertising, and on tie-ins (Price). To Eisner, the advantage of the new deal was more films. Jobs laid the groundwork of establishing Pixar as one of the most trusted brands in animation.

As Pixar began making its second film, Eisner turned Katzenberg into a threat to Pixar. In 1984, Eisner and Frank Wells were contenders for the CEO position (Price). Wells ended the dispute, graciously deciding to take President, the number two position. Wells died in a helicopter crash in 1994, and Katzenberg was shocked to hear that Eisner would assume Well’s responsibilities (Price). Katzenberg believed that Eisner had promised him Wells’ job if Wells ever left (Price). Eisner was annoyed with Katzenberg’s entitlement, writing to his lawyer, “Jeffrey will do very well. He will end up as a high level executive, but eventually he will fail” (Price). After being fired from Disney, Katzenberg joined Steven Spielberg and David Geffen to

form DreamWorks SKG (the initials “SKG” stand for its founders). Lasseter still felt comfortable running creative ideas by Katzenberg (Price). Eventually, Lasseter dropped by Katzenberg’s office to tell him about *Bugs*. Lasseter remembers Katzenberg’s predominant reaction was wanting to know when *Bugs* would be released (Price).

Shortly after their conversation, Lasseter and others at Pixar would learn the first project for DreamWorks would be another ant film, *Antz*. Lasseter called Katzenberg in a panic, screaming, “Jeffrey, how could you?” (Price). According to Lasseter, ““He started talking about all this paranoid stuff about conspiracies – that Disney was out to get him... he said he had to do something. That’s when I realized it wasn’t about me. We were just cannon fodder in his fight with Disney”” (Price). Indeed, Katzenberg was the victim of a conspiracy – apart from Eisner firing him and refusing to pay the bonus guaranteed in his contract, Eisner scheduled *Bugs* to be released the same weekend as *The Princess of Egypt*, which was originally intended to be DreamWork’s first animated release. Katzenberg in turn decided to release *Antz* two months before *Bugs*, despite Pixar’s head start. Word made it to Pixar that it did not even matter whether *Antz* was all that good; Katzenberg just wanted to “beat” Disney / Pixar (Price). According to Lasseter and Jobs, Katzenberg called each of them with a threat – if they changed the release date of *Bugs*, Katzenberg would shut down *Antz* (Price). Disney and Pixar refused. While *Antz* performed respectfully at the box office, *A Bug’s Life* grossed \$163 million in its domestic theatrical release, 80% more than *Antz*’s \$90 million (Price). While *Antz* and Katzenberg were potential threats to Pixar caused by Eisner, Lasseter’s approach to simply focus on creating an entertaining film meant Pixar had nothing to worry about (Price).

While *A Bug’s Life* was in production, Eisner and Jobs’ relationship grew tense. According to Price, it was because of their similarities: “Besides being notably aggressive in

representing their companies' interests, each man was stubborn to the point of petulance and prone to taking disagreements personally" (Price). After Disney executives decided to make *Toy Story 2* a theatrical release, rather than direct-to-video, Eisner revealed his stubbornness. He insisted that *Toy Story 2* would follow the model of the film deal of 1997, but *not count* as one of five films (Price). This is because in the contract, Disney bargained for five original films – not sequels – that would assure five sets of characters for each of its theme parks (Price). Jobs reluctantly agreed. After *Toy Story 2*'s release in 1999, Eisner wanted to make *Toy Story 3* under the same conditions. Jobs argued that Disney had already gotten a "bonus film" from the deal with *Toy Story 2*, and that one of the rationales of not including sequels in the deal – that they would perform poorly – was no longer necessary, as *Toy Story 2* outperformed *Toy Story 3* (Price). Essentially, if Pixar made *Toy Story 3* under the same condition as *Toy Story 2*, Eisner would receive seven movies from the five-movie deal.

The relationship turned hostile when Eisner made a poor comment against one of Apple's marketing campaigns. In a testimony before a Senate committee in February 2002 on film piracy, Eisner unmistakably spoke against Jobs' ad for iTunes: "There are computer companies that have full-page ads and billboards that say: 'Rip, mix, burn.' In other words, they can create a theft and distribute it to all their friends if they buy this particular computer" (Isaacson 432). This was a surprisingly unwise comment coming from the CEO of the largest media and entertainment conglomerate. Eisner did not seem to understand what "rip" means. The term simply means to import files from a CD to a computer. Eisner misinterpreted the comment as to mean to unlawfully "rip off". Jobs, who personally created the campaign, was livid. He phoned Thomas Schumacher, president of Disney Feature Animation, screaming, "Do you know what Michael just did to me?" (Price).

After contemplating Eisner's demands for *Toy Story 3* and other comments, Jobs threatened to break ties with Disney after the five-movie deal. "I'll never make a deal as long as Eisner is there," Jobs told Roy Disney (Price). Eisner gave the impression of being unconcerned, writing to Disney employees, "Yesterday we saw for the second time the new Pixar movie, *Finding Nemo*, that comes out next May. This will be a reality check for those guys. It's okay, but nowhere near as good as their previous films. Of course they think it's great." (Isaacson 434). The first issue with this e-mail was that it leaked to *The Los Angeles Times*, prompting Jobs to go "ballistic" (Isaacson 434). Also, Eisner's review of the movie was a bit off (Isaacson 434). Released in 2003, *Finding Nemo* became Pixar and Disney's biggest hit so far (Isaacson 434). The film grossed \$340 million domestically and \$868 million worldwide, was the most popular DVD of all time until 2010, and won the Oscar for best-animated feature. Pixar's \$183 million profit from the film gave them a total of \$521 million for a final showdown with Eisner and Disney (Isaacson 434).

In response to Eisner's behaviour, Job's proposed a plan that was obviously a ploy more than an actual arrangement. Under this proposal, Disney would no longer have co-ownership of Pixar films, would only receive a 7.5% distribution fee, and its exclusive authority to distribute the films would last for only five years (Price). Jobs also insisted that the final two films of the 1997 deal, not yet made – *The Incredibles* and *Cars* – fall under the new deal (Price). This meant Disney would be giving up rights it already had in these films, worth hundreds of millions of dollars (Price). Eisner had once last card to play in response to Jobs' fury. Under both the 1991 and 1997 agreements, Disney had the right to make sequels to any of Pixar's films without Pixar. He said it was "a little bit embarrassing" that DreamWorks had a sequel to *Shrek* out that summer, but "for whatever reason, which I am not going to get into, we don't have the same

announcements” (Price). Eisner opened the Circle 7 division specifically for the purpose of making sequels to Pixar films. While some originally thought it was a ploy, this became unlikely, considering its staff quadrupled over the following year (Price). *Toy Story 3* was in full swing, and sequels to *Monsters, Inc.* and *Finding Nemo* were in development. This horrified Lasseter. “I was worried about my children, what they would do with the characters we’d created. Its like a dagger to my heart” (Isaacson 436). Jobs later remarked, “When you see what the company did putting out *Cinderella II*, you shudder at what would have happened” (Isaacson 435).

Roy Disney was able to oust Eisner as CEO from Disney in 2005 for his disappointing reign following Wells’ death. As a successor, the Board chose Robert Iger, Disney’s former Chief Operation Officer. When receiving the news, Iger called Jobs, saying he would like to make a deal with Pixar and Disney (Isaacson 438). An important “trial deal” between the two would be a key Disney partnership with Apple. In 2005, Apple was planning to release an iPod that would play video. To sell, the device needed content, and Jobs did not want to publicly negotiate with distributors, because as always, he wanted to keep the announcement a surprise (Isaacson 438). Iger immediately offered ABC’s most popular shows – *Desperate Housewives* and *Lost* – to Apple, a deal that was completed in a week (Isaacson 438). During the 2005 Keynote Address, Steve Jobs announced an iPod with video support, and that the iTunes Store would sell music videos in addition to music. Then, Jobs unveiled “one more thing”; the iTunes Store would sell television shows playable on the video iPod. Bob Iger appeared on stage, saying, “One of the things that Steve and I are incredibly excited about is the intersection between great content and great technology” (Isaacson 439).

The arrangement indicated it was again possible for Pixar and Disney to make a deal. The need for such a deal became evident when Iger attended the opening for the Disneyland in Hong

Kong resort with Eisner, during Eisner's final appearance as CEO. Iger realized the only characters in the parade that had been created in the past decade were Pixar's (Issacson 439). Iger soon took a trip to the Pixar building, suggesting that he would be interested in an acquisition deal. After hearing about Pixar's plans for the next few years, including *Cars*, *Ratatouille*, and *Wall-E*, Iger was determined to get the deal done (Price). Disney then proposed to purchase Pixar for \$7.4 billion in stock. Jobs would become Disney's largest share-holder (about 7%), and Disney Animation would be put under Pixar (shutting down Circle 7), with Lasseter and Catmul running the unit (Price). Despite no longer acting as CEO, Eisner arranged to attend a board meeting and explain why he felt the acquisition was a poor decision (Isaacson). After he left, Iger said to the board, "Let me tell you what was wrong with that presentation" (Isaacson 442). After hearing both men, the board approved Iger's deal, which in some ways, was a reverse acquisition – Lasseter would be the chief creative officer of both Disney and Pixar. The acquisition ended the complicated and tense relationship between the companies, and arguably launched a revival era for The Walt Disney Company.

Eisner was a consistent roadblock and threat to Pixar Animation Studios. As soon as Pixar connected with Disney and began producing successes, Eisner's greed took the best of him. His misjudgement that Jeffrey Katzenberg would fail turned Katzenberg into a potential threat to Pixar. Eisner continued to exploit previously established film agreements when negotiating with Jobs; their relationship became particularly nasty when Eisner spoke poorly against Apple's marketing campaign for iTunes. Eisner controversially began enacting his legal right to create sequels films to Pixar without Pixar, but Bob Iger shut down the division after taking the CEO position. Even after being ousted as CEO, Eisner attempted to stop Disney's acquisition of Pixar, even though it would arguably launch a revival era for the company. Eisner was a toxin to Pixar

Animation Studios. Luckily for Disney and Pixar, he was removed, finally ending the companies' complicated and tense relationship.

Works Cited

- Barnes, Brooks. "Iger on Steve Jobs: 'He Pushed You'." *The New York Times* [New York] 6 Oct. 2011: n. pag. *The New York Times*. Web. 24 Sept. 2014.
- Isaacson, Walter. *Steve Jobs*. N.p.: Simon & Schuster, 2011. Print.
- "Our Story." *Pixar*. N.p., n.d. Web. 14 Oct. 2014.
- The Pixar Story*. Dir. Leslie Iwerks. Disney/Pixar, 2011. Film.
- Price, David A. *The Pixar Touch*. N.p.: Vintage, 2009. Print. *The Pixar*
- T.L., Stanley. "Pressure mounts on Eisner after Pixar breaks off talks." *Advertising Age* 75.5 (2004): n. pag. *Communication & Mass Media Complete*. Web. 14 Oct. 2014.
- "Two Cents." *Broadcasting & Cable* 134.6 (2004): 42. *Communication & Mass Media Complete*. Web. 14 Oct. 2014.
- Waking Sleepy Beauty*. Dir. Don Han. 2009. Film.