Masters of Scale Episode Transcript – Bob Iger Part 2

“Disney’s Bob Iger: How acquisitions become an ecosystem, part 2”

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REID HOFFMAN: We’re back with part 2 of this two-part episode with Bob Iger, executive chairman and former CEO of Disney. In part 1, we talked about Bob’s incredible talent for acquisitions – not just making them happen, but making them work.

So let’s talk for a minute about ecosystems. And not just any ecosystem, one that demands a specific expert.

> **JASON WARD:** My name is Jason Ward. I am a birder, science communicator, host of “Birds of North America.” And I am also the new Chief Diversity Officer for the American Bird Conservancy.

HOFFMAN: As Jason can tell us, just because an ecosystem is stable, doesn’t mean it’s always peaceable. The birds he studies are proof of that.

> **WARD:** There are a lot of birds who compete for the same resources. Birds are very territorial. A lot of people kind of refer to them as being the closest thing that we have to modern day dinosaurs. I push back on that. I say, "No, no, no, they are not the closest thing that we have to modern day dinosaurs. They are modern day dinosaurs.”
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> When we watch “Jurassic Park” and we see the T. Rex or the Velociraptor wreak havoc, we shouldn't separate the birds from that. These birds are out here wreaking havoc, okay? These birds are out here swooping down on insects and bashing them against trees and fighting with each other as well. Food, territory – these things are incredibly important, and birds will fight over them.

HOFFMAN: Jason specializes in observing migratory birds. That means he’s able to observe how weather, climate change, and even unexpected predators affect these little flying dinosaurs’ ability to thrive.

> **WARD:** For most smaller birds, like songbirds, their main predators are going to be other birds. So peregrine falcons, which are my favorite bird, are smaller birds of prey who specialize in being able to hunt down other birds.
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> But we also have introduced predators as well. Cats are the number one introduced threat to bird populations. Cats are not native to North America. It’s estimated that about four billion birds die each and every year just from cat attacks.

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HOFFMAN: But even with the prowling cats and the interspecies infighting, birds of different feathers do find ways to flock together.

> **WARD:** If you think about community, you have a loose group of birds who are all occupying the same patch of forest, hunting for different things: The sparrow is on the ground, looking for little tasty invertebrates. Robins, who are scurrying around on the ground looking for worms to eat. Woodpeckers, who are tapping away at the bark.
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> But something interesting happens if a hawk lands in that tree: one bird will sound the alarm, the other birds will start to pay attention. And then, they'll all harass that hawk, dive bomb it, pester it, just annoy it until it leaves the area because it's had enough.

HOFFMAN: Different bird species banding together to fend off a bloodthirsty hawk sounds like the plot of a long-lost Disney classic. The story of a habitat, hanging in delicate balance. Species may compete with each other, or even disagree. But when the habitat is threatened, each species' best chance at survival is to work together.

I believe that building a global brand means creating a diverse and sustainable ecosystem. Change is inevitable, and so is conflict. But growing with sustainability in mind will help you weather the storm.

[THEME MUSIC]

HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe that building a global brand means creating a diverse and sustainable ecosystem. Change is inevitable, and so is conflict. But growing with sustainability in mind will help you weather the storm.

My guest, Disney's Bob Iger, could teach a master class in how to grow a diverse, yet cohesive, brand ecosystem in the 21st century. In fact, he already has. Bob teaches a course on Business Strategy and Leadership on MasterClass.com.

As you'll recall from part 1, Bob orchestrated four of the most significant purchases in Disney's history: Pixar, Marvel, Lucasfilm, and 21st Century Fox.

One of the challenges of acquiring all those titles, characters, and stories, is how to maintain brand cohesion without forcing those very different properties to start acting too much like each other. You want Star Wars to feel like Star Wars, and Thor to feel like Thor. But you also want them to seem like they belong in the same universe.

> **BOB IGER:** The consumer looks at Marvel as Marvel and Disney as Disney and Pixar as Pixar and Star Wars as Star Wars. Now, there have been times we've put them together. We've discovered over time you don't want to call Avengers a Disney film, because the fans don't want that, but it's perfectly fine if you go to Disneyland to see a

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Marvel presence there. In fact, we're building an Avengers campus at Disneyland that will open as soon as Disneyland's allowed to open after the pandemic ceases.

And there's a Marvel presence being built in Hong Kong, and another one in Florida, and Star Wars as well. But we've managed the brands separately, and brought them together when it has real value, and it doesn't seem like it gets in the way of consumer perception and the love the consumer has for those brands.

HOFFMAN: Let's talk about that consumer love for a moment. Because I truly think this is one of the greatest feats Disney has pulled off. A magic trick from the Magic Kingdom.

It's easy to forget how much of the Disney ecosystem turns on its theme parks. If Disney is a planet, this system of theme parks is its Amazon rainforest.

But, how can that be? Isn't a theme park what a company does to make a quick buck? When your branded content is your most valuable asset, why would you trade its integrity away for a chance to sell flume rides and funnel cakes?

So... that is not how Disney sees the parks at all. Far from dragging on Disney's branded IP, the theme parks are what I would call "brand-accretive." Why? Because they give Disney's characters and stories a live, immersive, and physical presence that fans can engage with.

Nothing at the park is a pure cash grab. Every part of the experience is there to make the visitors fall even harder in love. And each location achieves this in its own way.

- There's the Disneyland Resort in Anaheim, California – the very first park, which Walt Disney himself opened in 1955
- There's Walt Disney World in Orlando, Florida
- There's Tokyo Disney
- Disneyland Paris, formerly known as EuroDisney
- Hong Kong Disneyland
- And, as of 2016, Shanghai Disneyland

This most recent Disneyland, the first of its kind in mainland China, was more than just a brand expansion. It was a major inroad into a critical global market.

IGER: We had entered markets around the world, but many of them superficially – we needed to go deeper. And what I really had in my eyes on there was China and planting a flag in the soil in China and building a theme park, which is what gave rise – literally and figuratively – to Shanghai Disneyland.

HOFFMAN: Bob had been working on Shanghai Disneyland since 1998, working under Michael Eisner.

IGER: When Michael was still CEO, we were eyeing mainland China as a market for a theme park. In fact, I went on his behalf in 1998, and surveyed the property. I set foot on the property in '98, and cut the ribbon to open the park in 2016. That's an 18-year process. By the way, fortunately, I was born with a great patient gene. I'm very patient.

So we knew, because of population and because of the likelihood that China would develop into a very significant market, with great growth in their GDP, and in particular, more spendable income and more interest in entertainment and quality entertainment, that it would be ripe for us eventually. We also knew that because of regulation and concern for protecting their own ideology that access to general media would be limited. And in the late ‘90s, even into the early part of this century, the movie market hadn't developed fully in China.

HOFFMAN: You may remember from part 1 that Bob Iger had declared three strategic goals when becoming CEO of Disney.

IGER: There were three strategic priorities. One was, and I know it's going to sound obvious, but let's put all of our capital into high quality, branded content. Branded is critical there.

The second was: let's embrace technology as an opportunity for its potential, rather than looking at it as a threat.

And third was: we needed to go global in a much more profound way.

HOFFMAN: It was that third goal Bob Iger was now focused on.

IGER: So when you talk about growing in China, how do you do it? And Michael and I both knew that building a theme park, while only, I don't know, 12, 15 million people may go through in a given year in that one, which is tiny, when you look at the whole population base, but the experience it creates is so immersive, so powerful, so long lasting, that it would have a major halo impact on the perception of Disney and the brand. And after I became CEO, that became even more and more apparent, particularly as the movie business started to develop. I thought, well, if we could grow the brand presence there, then we'll grow our movie presence there.

HOFFMAN: That halo effect Bob mentioned is real. Everything under the Disney brand reinforces everything else under the brand. If I go on a Disney Cruise, I’m more likely to watch a Disney movie. If I enjoy that movie, I’m more likely to go to a theme park … and when I get back from that theme park, I’m more likely to see their next movie. Each engagement raises my connection and my emotional love of the brand.

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HOFFMAN: Shanghai Disneyland would give Disney a further foothold in a society that was just starting to open up to Western culture … on its own terms.

China strictly limits how many foreign films play in their theatres. They also have some famously severe censorship rules. If *Frozen II* never makes it to Chinese theatres, you don't get Chinese kids dragging their parents to see Elsa and Anna live in the park. The 'halo' of the halo effect dims. So Disney worked – in concert – with the Chinese government as they built their new park.

> **IGER:** It was a totally different way of looking at things. But doing it was really complex. Find the property, negotiate the right deal, deal with not only regulation, but the fact that the government really is a partner. And they've been a good partner, by the way, a very good partner. And we've been a good partner to them in many ways too. But extremely complex to build a $6 billion theme park in a place that doesn't have anything like it, even explaining to construction companies, how we use steel. It's not just perpendicular to one another.
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> You build a pirate's attraction, and look at the steel infrastructure, it's like nothing the construction industry in China had ever seen at that point, or even safety standards. Having construction workers show up with goggles and helmets and steel-toed boots, and having them live – because they lived on property, 10,000 of them – live under conditions that we would be satisfied with, we'd be proud of. So there were many complexities.
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> But I think the biggest one was figuring out what to build. And I felt that technology, because of the access it's given us to the world, in many ways, has created the perception that borders between countries have broken down, because you can get anywhere. You can bring anything anywhere.

HOFFMAN: In a borderless world, high quality branded content is even more highly prized than before. In a vast ocean, you need the buoys to be really bright.

But, even though you may erase borders, that doesn't mean you can or should erase culture.

> **IGER:** What that I think has misled people to believe is that the world has become more and more of a one-culture. And so take Disney and bring it to the world. Well, in many respects, we do have a brand and stories that can do that. But desire to own and control your own culture, and pride in culture is enormous still, maybe even bigger, because of the incursion of other cultures into these markets.
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> And so what we designed was something that was authentically Disney, because they wanted Disneyland, "bring us Disneyland." And our partners traveled to Disneyland and Disney World and Hong Kong and Tokyo, and we want that.

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> And I said, “No, that's not what we want to build here. We want to give you something authentically Disney, but distinctly yours, distinctly Chinese.” And that mantra went into everything we designed and built, everything. And so it's very different.

HOFFMAN: How is it different? For one thing, there’s no train. No monorail, no old West steam engine. Because celebrating a transcontinental U.S. railroad built by exploited Chinese laborers might be a bad idea.

Other changes aren’t just about what’s taken away, but what’s added. Like “The Garden of the Twelve Friends,” a series of mosaics depicting classic Disney characters as signs of the Chinese zodiac. Very selfie-friendly, like all of the new park, built with smartphone-loving Chinese audiences in mind. And of course, there’s the food where squid exists alongside corn dogs and burgers.

> **IGER:** It's Disneyland. In their eyes, it is their Disneyland. And I think not only did that earn the respect of people who go and want to go, because they go in and it feels like home. But it earned the respect of the government, because I don't think they had seen that before, and they were worried about cultural imperialism, and I was worried about being a perpetrator of that. Didn't want to do that. And it's worked, fastest theme park to profit that we've ever built.

HOFFMAN: In part 1, we talked about the horror movie *The Blob* to understand how corporate takeovers done the wrong way can seem like a growing monster, devouring everything in its wake.

This would be a bad way to make inroads in China. But, instead of bulldozing culture, Disney managed to establish a distinct identity for their Shanghai park that would feel like its own, diverse part of the larger Disney ecosystem.

But … there was one more deal in Bob’s sights that would, at least in the ledgers, dwarf all the ones that came before. In March of 2019, Disney acquired 21st Century Fox from Rupert Murdoch, divesting Fox from most of its entertainment properties. That deal was for $71.3 billion, 10x the size of the Pixar deal and 17x the size of Lucasfilm or Marvel. Suddenly, Disney’s holdings included The Simpsons, the FX network, and hundreds of titles in the 20th Century Fox catalog.

The move led to some tongue-in-cheek speculation about when Homer Simpson would be joining the Avengers. Comic fans noted that this would return several iconic Marvel franchises, like Deadpool and the X-Men, back to the fold.

But the sheer size of this deal made others wonder if maybe Disney hadn’t finally grown too big.

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We're back with Disney's Bob Iger. In part 1, we looked at three acquisition deals that were specific, strategic, and focused. In fact, Lucasfilm was one that Rupert Murdoch had had his eye on.

> **IGER:** I've talked to Rupert Murdoch about it because Fox distributed all the Star Wars movies, and if any studio had a relationship with George, it was Fox, and no one ever brought it up there. I think he kicked himself for that. He would probably even say this, I think it drove him crazy.

HOFFMAN: But, wouldn't a deal of this size put Disney in the very same position as it was when Bob first took over? That is, presiding over a sprawling, unfocused empire, with multiple properties competing for attention?

In part 1, when Bob recalled first taking over as chief executive, he said:

> **IGER:** We were making Miramax films and Touchstone films, and we were spreading our capital a little bit too widely. So I focused it.

HOFFMAN: But now, Disney's holdings would include some very off-brand titles. Not just the profane *Deadpool*, but nearly 100 original shows on the FX network, like *American Horror Story*, most of which are aimed squarely at grown-ups.

What place did these properties have in the Disney ecosystem? How could these birds of very different feathers possibly get along?

The answer is in one of Bob Iger's very first strategic goals: "Embrace Technology." In this case, by turning some of these new holdings into a launch pad for their new streaming service, Disney Plus.

> **IGER:** We wanted to be part of the new economy, and technology was the answer to doing that. But in order to do it, we had to begin to take a foot out of our traditional businesses, which are enormously profitable, and put our foot into the new non-traditional businesses, which wouldn't be profitable for a while, which meant telling Wall Street, we're going to decrease our profits by a few billion dollars in the process. But don't worry, we're ultimately going to get there. And they believed us.

HOFFMAN: Disney Plus launched in November 2019. And in a way, it works a lot like Disney's theme parks, lining up different attractions side by side on a single plot of land … or in this case, on your home screen.

But putting all of Disney's new holdings in one place would violate everything Bob has said about keeping branded content focused. It would disrupt the family-friendly ecosystem Disney spent decades cultivating.

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Remember, a great brand manager makes sure everything they do is additive in some way to the brand. If every touch point doesn't bring delight, don't do it.

Days before the launch of Disney Plus, Bob confirmed publicly that not all of the new Fox holdings would stream on their new platform. Mature content would be directed to Hulu, in an exclusive deal that would keep the Deadpools firewalled off from the Dumbos.

This might seem a bit drastic. But it's no different than the way Disney firewalls off its ESPN content.

That's right. In case you forgot, Disney owns ESPN as well.

So in reality, Disney Plus isn't Disney "getting into" the streaming game – it's them coming full circle.

> **IGER:** When we put those brands up that we've been talking about this whole time – Pixar, Marvel, Lucas, Disney, 21st Century Fox, with that came National Geographic – and all of those franchises from *Lion King* to the *Avengers*, to *Black Panther* to Star Wars to Mickey Mouse, it was hard for anybody to say, "Well, this won't work, because look what's on the screen."
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> Did we know about *Mandalorian* yet? No. But we knew we could take advantage of our brands and the affinity people had to them, and we knew we had great talent. And it was confidence that led us there, and it gave birth to *Mandalorian*, which you can't possibly plan for. But thank the good Lord, and it's been an enormous success any way you look at it.

HOFFMAN: An epic space adventure, told Western-style, *The Mandalorian* was sort of a culmination of everything Disney's done right in the past 15 years.

The Mandalorian was Disney Plus' first original show. And its immediate popularity helped launch Disney's streaming service into the stratosphere. Featuring an adorable Baby Yoda didn't hurt either.

> **IGER:** It is in so many ways the future. And it goes all the way back to those strategic priorities, which is: make high grade, high quality branded content, and use technology to bring it to consumers in more modern, more relevant, and more ubiquitous ways.

HOFFMAN: Ultimately, what Disney has created with its streaming strategy is a great visual representation of what it has done so successfully as a parent company. Each brand, each property exists as its own entity, its own icon, sometimes its own app. But each still contributes to the larger ecosystem. Bringing out the best in each other, contributing to the whole, and making the environment sustainable for generations to come.

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That strategy got put to the test during the devastation of COVID-19. So many parts of the Disney ecosystem are based on live experiences – theme parks, cruises, Broadway, movies that open in theatres – all were vulnerable to the pandemic.

In February, Bob had stepped down as CEO and become executive chairman. But the enormous impact of COVID meant all hands on deck.

> **IGER:** For me, the difficulty was I felt so much responsibility for the company having been CEO for 15 years. As I said to someone, I felt like I was on a bus responsible for every passenger, but I was no longer driving.

HOFFMAN: Bob shares many more of the ideas and values he embraced during his fifteen years as CEO of Disney in his book, *The Ride of a Lifetime*. And to hear more of the lessons he shared with me, become a member of Masters of Scale where you can listen to the complete unedited interview I had with Bob.

With the Disney bus driving through rocky terrain, Bob stayed on in an active role even as the new CEO, Bob Chapek came on board, and everyone worked together to make sure the bus didn't crash.

> **HOFFMAN:** So what were some of the key moves because the pandemic hits, given the breadth of the Disney enterprise, because cruise ships, theme parks, everything else? This must have been a kind of an all hands on deck, 10-alarm fire. Just like everything.
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> **IGER:** This was actually, this is the most collaborative I've ever seen the company, which was difficult because we weren't in the same room. But whether it's our CFO or our head of human resources, corporate communications, legal, the heads of all the businesses, everybody had a hand in helping us manage through this. And there were initial decisions, were horrifying to us, "shut Disneyland down?" Interesting, when Gavin Newsom first made an announcement about shutting certain things down in California, he called and said, "We're not going to make you shut Disneyland down." And I said, "No, we're going to shut Disneyland down. It's the right thing to do."
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> That's a huge thing to shut something like that down. Aside from the success, what you're depriving people of, and then it's dealing with your workforce, which is enormous.
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> Getting our cruise ships back from the sea, figuring out how to not only disembark thousands of passengers, but then what do you do with your crew? You've got 1,800 crew, I think, on each of these big ships, for instance, and getting them home, and just being really careful and caring about people. And then it's all your production teams and movie dates and marketing messages and ESPN and live sports. I mean, think about that.

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Thank goodness for Disney Plus, but almost everywhere we turned, we were dealing with a raging, raging fire.

HOFFMAN: The vastness of the Disney ecosystem had given the company enormous power. But it also meant that when disaster struck, it struck the entire forest. Luckily, the acquisitions Bob had helped bring about meant that not every sector was equally vulnerable. While on one side, elements like live experiences, were suffering, the other – like streaming content – could pick up the slack. It was true symbiosis. And once it started to feel as though the Disney habitat would survive, Bob could leave more and more in the new CEO's hands.

IGER: In reality, I've done the same two things I set out to do when I took this job and passed on the baton to him, which is help him be successful, and help manage the creative endeavors of the company. And nothing has really changed at all. And I've not been running the company, since whenever the date was that I handed it over to him.

HOFFMAN: Just as Bob counseled George Lucas, making sure your brand is in good hands can mean the survival of a legacy.

But regardless of what happens in the coming year, the biodiverse ecosystem Bob helped create is on stable ground.

I asked Bob what he considered his measure of success.

IGER: So many things that we make become cultural icons. So you think about baby Yoda – eight half-hour shows on Disney Plus, and baby Yoda becomes a household name. The nice thing about Disney and Pixar and Marvel and there are so many examples of that, Buzz and Woody and Mickey Mouse and "Let It Go."

I think anything that becomes so part of a culture, both not only today, but long lasting, is a real measure of success.

HOFFMAN: I'm Reid Hoffman. Thanks for listening.