



SDCA10046



The **WALT DISNEY** Company.

Memorandum

To: Distribution

Date: 1/11/91

From: Jeffrey

Extension: 6500

Subject: The Attached

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Attached is a memo that reflects some thinking that I've been doing over the past several weeks about our studio. My hope is that after everybody has had a chance to read it that we will sit down together to review and discuss it. It is meant for internal use only.

Distribution:

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**The World Is Changing:**

**Some Thoughts**  
**on Our Business**

January 11, 1991

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## The Problem

As we begin the new year, I strongly believe we are entering a period of great danger and even greater uncertainty. Events are unfolding within and without the movie industry that are extremely threatening to our studio.

Some of you might be surprised to read these words. After all, wasn't Disney number one in 1990? Yes, but our number one status was far from a sign of robust health. Instead, it merely underscored the fact that our studio did the least badly in a year of steady decline for all of Hollywood . . . a year that was capped off by a disastrous Christmas for nearly everyone. Although we led at the box office in 1990, our bottom line profits in the movie business were the lowest in three years.

Now, added to that, the nation's economy is acknowledged to be in a recession . . . a recession that I am convinced will be quite devastating to our industry.

That's the bad news. Now the good news. No one is better positioned to weather the coming storm than we are. We are the current box office champ. But, more important, our underlying philosophy of moviemaking lends itself especially well to lean times.

As a result, we are not only in the strongest position to succeed during a time of economic adversity, but we have the potential to establish a very high platform from which to launch into the next round of good times, whenever they may come.

Make no mistake about it, ours is a cyclical business and we are once again repeating the cycle. The purpose of this memo is to reaffirm our commitment to our core philosophy, because I am convinced that this is what embodies our key to success in the days ahead.

Interestingly, even if the economic outlook were rosy, I believe we at Disney would still be due for a major self-examination.

Since 1984, we have slowly drifted away from our original vision of how to run our movie business. Once we had a fairly strict and pretty successful strategy, which we referred to as our "Singles and Doubles Philosophy." At some point, we seemed to have replaced it with a strategy that might best be called the "Yes, But Philosophy" . . . as in, "Yes, he's expensive, but it's a great opportunity for us" or "Yes, that's a lot to spend on marketing, but we have too much at stake not to" or "Yes, the sequel will require a big budget, but it's a potential franchise." There should always be room for exceptions to rules, but

of late the exceptions seem to be the rule. Not surprisingly, our control of our own destiny has been eroded.

We are far from unique in this state of affairs . . . something I take little comfort from.

The current condition of our business is typical enough of American businesses that an entire management theory has been developed to describe it. This theory is formally called the Product Life Cycle. It holds that businesses go through a natural development process that is comprised of four stages: Introduction, Growth, Maturity and Decline.

In 1984, The Walt Disney Studios had already been through the full cycle. We arrived here fresh, energetic and ready to create an entire movie studio from the ground up. We succeeded spectacularly in growing a new business and re-starting the cycle. Now, there are ominous signs of the stagnation of Maturity which leads inexorably to the disaster of Decline.

This is why, even if there were no recession, I hope that I would be feeling as I do and would still be writing this memo. However, because of the severe economic environment we are entering, this review of our way of doing business is now not only timely, but critically essential.

In good times, drift can be tolerable. In bad times, it can prove fatal.

Back in 1984, our initial success at Disney was based on the ability to tell good stories well. Big stars, special effects and name directors were of little importance. Of course, we started this way out of necessity. We had small budgets and not much respect. So we substituted dollars with creativity and big stars with talent we believed in. Success ensued.

With success came bigger budgets and bigger names. We found ourselves attracting the calibre of talent with which "event" movies could be made. And, more and more, we began making them. The result: costs have escalated, profitability has slipped and our level of risk has compounded. The time has come to get back to our roots.

In urging this course, I recognize that we have some serious disadvantages and some extraordinary advantages relative to when we first started out six years ago.

Our biggest disadvantage is that, unlike 1984, when times were relatively normal, a tidal wave is now hitting Hollywood . . . a tidal wave of runaway costs and mindless competition.

But this fact plays into our biggest advantage -- you. We have a proven team that has come through time and again. Others will scramble for higher and higher ground, spending feverishly to keep their noses above water. We, on the other hand, have the internal talent, creativity and absolute ability to control our own destiny. With this strength, we can plunge in and successfully find our way no matter how strong the current. What I am asking is difficult and challenging. But it is clear that we couldn't have in place a more remarkable group of able and experienced individuals to pull it off.

Ironically, your outstanding abilities are also responsible for one of our disadvantages -- namely, our success. In 1984, when Disney was last and unprofitable, the worst that could happen was that we would remain last. Now we are Number One. Our shareholders, Wall Street and the public expect us to be a leader. Such expectations can be inhibiting. We can't let them be. Instead, we must lay out our goals with as clear a vision as when we were unconstrained by success.

In returning to an emphasis on creative story development, there will be the risk of failure, as one project or even a series of projects misses the mark. Intelligently approached, risk is a necessary component to success in the movie business. It is impossible to create new and original -- and therefore appealing -- new works without taking on the chance that you'll fall flat on your face. Remember that before "Pretty Woman," we had five misses in a row.

But, if a return to our roots will entail the risk of acceptable failure . . . if we remain on our present course, there will be the *certainty* of calamitous failure, as we will inevitably come to produce our own "Havana" or "Two Jakes" or "Air America" or "Another 48 HRS" or "Bonfire of the Vanities" . . . and then have to dig ourselves out from under the rubble.

I know that my negative outlook for our industry will be challenged by many Wall Street analysts. These pundits will argue that the film industry is recession resistant or even recession proof because, when there is fear and uncertainty in the real world, people seek escape and entertainment in their local movie theaters.

Right argument, wrong conclusion.

When there is fear and uncertainty, the people have craved *bargain* entertainment. During previous downturns, the best escapist entertainment value was at the movie theaters. But no longer.

The notion of the film industry being recession proof began during The Great Depression. People wanted escape and the movies offered it cheap -- 10 cents a ticket, or the cost of a loaf of bread. Today, a ticket to the movies costs the equivalent of six or seven loaves

of bread. What's more, a family of four requires \$20-\$30 to get in to see a movie. Add popcorn, parking, etc. and the total reaches \$35-\$40 or even more.

On the other hand, that same family can go to the local video store and rent a videotape for a mere \$2.00 . . . 50 cents each -- less than the cost of a loaf of bread.

So, when times get tough I have no doubt that people will still want to escape to the movies, but they'll want it for the historic cost of a loaf of bread.

This may be a reason to re-think our approach to home video. Perhaps we should consider charging \$200 for a rental title. This would force stores to charge \$5 for a popular title, but \$5 -- one loaf per person -- would still be an excellent entertainment bargain.

Such strategizing among our divisions, divorced from pre-conceived notions, is the kind of thinking we will need to cope with the recession.

As big a factor as the recession is, I believe we would be making a grave mistake to blame our industry's woes on the national downturn. Just as the seeds of a sick economy were growing before Iraq's invasion, the seeds of a sick movie business were growing before the recession.

And the seeds were planted by the "blockbuster mentality" that has gripped our industry. Because of this homerun thinking, every studio has increasingly been out to have the biggest weekend opening and the biggest first week gross and the earliest \$100 million total.

It used to be that there was a reliable criterion for a film's success -- whether or not it had "legs." Studios would toy with different strategies for opening a film, all with the goal of helping it develop "legs" through positive word of mouth. Now the term "legs" has all but disappeared from the Hollywood vocabulary. Thanks to the dictates of the blockbuster mentality, the shelf life of many movies has come to be somewhat shorter than a supermarket tomato.

With such a make-or-break emphasis on the first weekend's numbers, studios have been cranking out highly promoted, big budget films. The logic is that this kind of film is the surest bet for attracting a big turnout for the picture's opening weekend.

The result has been a paradox. In an effort to make "risk-free" movies, Hollywood has been willing to put tens of millions of dollars on the line with each major release.

Unfortunately, our industry has travelled this road before. During the late 1950s and into the '60s, studios spent larger and

larger amounts to produce historical epic films. This trend climaxed with the 1963 release of "Cleopatra," a film that cost \$44 million at the time -- a staggering \$186 million in 1990 dollars. These bloated "event" films and the red ink they left in their wake marked the beginning of the decline of many major studios and the rise of independent film production. Now that we have gone full circle and many of the independents have gone under while the majors are experiencing a resurgence, it would be ironic if we failed to learn from the not-so-distant past and instead blindly go about repeating the mistakes of our mogul predecessors.

Here at Disney, our biggest effort to compete in blockbuster terms, "Dick Tracy," is a case in point as to how the box office mentality is affecting the moviegoing experience. "Dick Tracy" was in the works for nearly ten years. But by the time it was ready for release, we were upon the summer of 1990 and we knew that its success would be for the most part judged by its opening weekend box office performance. So, we did everything that we could in order to get the film the audience and recognition we felt it deserved, including the unheard of notion of "clothing" our opening night audience.

The result was a film that did very well, a film we were rightly proud of, a film that was critically acclaimed . . . and a film that is still being savagely disparaged as "having failed to achieve Batman-like success at the box office."

This is not a healthy situation. If every major studio release must aspire to repeat the 1989 success of "Batman," then we will undoubtedly soon see the 1990's equivalent of "Cleopatra," a film that was made in the hope of repeating the 1959 success of "Ben Hur."

Not surprisingly, this box office mania is fostering a frenzy among actors, writers, directors and their agents as they try to claim their share of the big budget pie. If a leading star who received \$6 million for his last film reads that another star is getting \$10 million for a picture, he immediately calls his agent insisting on nothing less than \$12 million for his next movie.

It seems that, like lemmings, we are all racing faster and faster into the sea, each of us trying to outrun and outspend and out-earn the other in a mad sprint toward the mirage of making the next blockbuster.

In this atmosphere of near hysteria, I feel that we at Disney have been seriously distracted from doing what we do best. It is a tribute to our abilities that, even as we have strayed, we have continued to be successful. But it is instructive to re-visit the film that anchored our success in 1990. "Pretty Woman" is in fact the kind of modest, story-driven movie we tended to make in our salad days.

The extraordinary popularity of such films as "Pretty Woman," "Ghost" and "Home Alone" teaches the real lesson of 1990: Despite all the hype and promotional noise, in the end the public will search out the movies it wants to see. And these films, more often than not, will be primarily based on two basic elements -- a good story, well executed. Not stars, not special effects, not casts of thousands, not mega-budgets, not hype.

So, as we begin 1991, let's *really* look at those weekly box office figures and hear what the numbers are saying . . . what I believe they are telling us is to stop concentrating so much on what happens in that little room where the tickets are sold and instead concentrate on what happens in the big room where the lights dim and the magic is supposed to happen.

Magic is the key. Regardless of the recession, people will still leave their VCR's to go to the movie theater . . . if they are convinced that the experience that awaits them there will be magical enough.

We are lucky. We get to manufacture magic and, in so doing, produce a product that makes a difference.

Most other jobs exist to create products that are purely functional. While any profession can have its rewards, the range of impact in producing shoes or cars or toothpaste is limited. Our product has no function other than to entertain. Its only limits are set by our imaginations.

In a way, there is something quite noble about what we do. Our potential impact can not be minimized and should never be trivialized. At the same time that America has lost its dominance of the world's economy, it has become a pre-eminent force in the world's culture. And this is largely because of what we do. People around the world may no longer drive in American cars, build with American steel or listen to American radios. But they go see American films. They share our hopes and dreams and values when they experience the joy of a "Pretty Woman," the enchantment of a "Little Mermaid" or the inspiration of a "Dead Poets Society."

Across America and around the world, our customers expect us to offer them two hour journeys away from the mundane of day-to-day life to new worlds of experience. For the price of admission, they want to be transported to places and people they would otherwise never know. If the trip we provide is wondrous enough, then the \$7 price for a ticket to ride will still be an exceptional bargain indeed.

Especially during these economic hard times, we must not fool with the public's expectations . . . we must deliver on them.



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I have written this memo in the hope of offering a blueprint for a business that can deliver on the public's expectations with some consistency. A business that can weather the economic storms because it is governed by a sensible strategy designed to foster fiscal success . . . and, in the end, create magic.

## A Solution

Because the world has changed, we need to get back to basics. For this reason, there will not be any revolutionary new ideas presented in the following pages. Rather, what I want to offer is a restatement of our underlying philosophy, adapted to today's changing times.

In writing this, I take some comfort in knowing that I am preaching to the already converted. After all, together we've built Hollywood's number one studio largely by adhering to the concepts I'll be expounding here. But, with greater and greater success have come greater and greater temptations to stray from our guiding principles.

This memo is intended to be a working document, a reference guide to help us more effectively resist temptation so that this studio can not only survive, but thrive, in the challenging times ahead.

### The Idea is King

In the dizzying world of moviemaking, we must not be distracted from one fundamental concept: the idea is king. Stars, directors, writers, hardware, special effects, new sound systems . . . all of these can have a role to play in the success of a film, but they must all serve as humble subjects to the supremacy of the idea.

If a movie begins with a great, original idea, chances are good it will be successful, even if it is executed only marginally well. However, if a film begins with a flawed idea, it will almost certainly fail, even if it is made with "A" talent and marketed to the hilt.

People don't want to see what they've already seen. So, we need to be bold enough to stretch bounds, push the envelope of creativity and follow our hearts along with our heads. When we fail, let it be because we tried to innovate, not emulate. And, by so doing, I am convinced that we will continue to reap success.

This is the key for controlling our destiny -- to have the courage to search out authentic, great ideas . . . and then have the steadfastness to control the material that is subsequently developed.

If the idea and the screenplay are strong, then it is possible to hire a less established star and a less established director and as a result be less of a hostage to the marketplace. Or, conversely, an idea and screenplay can be so great as to attract major talent, who will be sufficiently excited that they will agree to terms that are acceptable to us.

Of course, this idea of internal development runs counter to the actions of many of our competitors, who have been paying \$2-3 million for screenplays. While their willingness to pay such sums may be a sign of financial strength, it is also a blatant admission of creative bankruptcy.

In a world where we can come up with our own idea and engage a young writer for \$50,000-\$70,000 or a proven writer for \$250,000 to develop it, it is hard to understand how the amounts being paid for spec scripts can be justified. Creative studio executives should be in the business of developing ideas, not buying them.

To be sure, after having worked so hard and achieved such considerable success at Disney, the temptation is to kick back and spend our hard-won profits on a "Basic Instinct" or a Richard Donner in the hope that their mere acquisition will lead to continued success. It's a temptation we'll keep having to resist.

It's our job to find the great idea, then nurture it and manage it until it has a shot at finding its audience.

It's not easy.

But whoever said it was.

### **The Lowdown on High Concept**

One of the most misunderstood and misused phrases in the Hollywood lexicon is "high concept." The phrase was introduced by Michael for internal use by creative executives at Paramount as a guide for evaluating ideas. But it quickly spread throughout Hollywood and has since been widely misinterpreted and abused.

"High concept" was intended to describe a unique idea whose originality could be conveyed briefly. The emphasis was supposed to be on "originality" but has come to be placed on "briefly," so that today "high concept" is thought to mean an idea that can be summarized in a logline in TV Guide.

This is unfortunate, because "high concept" is a useful, complex, thoughtful encapsulation of what we should all be working toward. It makes a link between movie making and movie marketing. It embellishes the concept that "the idea is king" by asserting that the idea that forms the basis of a film should not only be one that is compelling but also one that can be communicated.

The real meaning of high concept is that ingenuity is more important than production values. This is why we should constantly be looking for creative solutions, not financial ones.

### **The Fallacy of the Floor**

It seems that the root cause of the blockbuster mentality is the notion that one can construct a film project in such a way that it has a "floor" for its anticipated revenues. The theory goes that the way to ensure a successful movie is to release a high profile, highly promoted film, featuring at least one major star. It is felt that this kind of film not only has a built-in audience, but that it also ensures a big opening weekend.

This approach to filmmaking was seen to get its ultimate vindication with the success of "Batman," which combined action and hardware with an established fictional hero and an established real-life star, Jack Nicholson. The movie that ensued became one of the all-time box office champs and landed its producers at the helm of a major studio.

So, it was particularly interesting to see what happened when the blockbuster mentality got its true test last year. "Back To The Future Part III," "Gremlins 2: The New Batch," "Another 48 HRS," "Days of Thunder," "Rocky V," "Havana" and "Bonfire of the Vanities" are just some of the major releases that, as "Variety" reported, were "headed for miniscule profits at best."

Of course, there are those who will say that these days the ancillary markets can rescue films that do poorly at the domestic box office. To be sure, international box office, cable and, especially, home video have increased the profit potential of many films and have helped some marginal films creep into the black. But these markets have never rescued a box office bomb.

There simply is no such thing as a revenue floor. Those who think a major sequel is a sure financial bet, consider the fate of "The Two Jakes" or "Robocop II." Those who think an epic, romantic movie is a sure bet, consider "Havana." Those who think a star-driven package is a sure bet, consider "Family Business" or "Bonfire of the Vanities."

Any film can fail at the box office. And that's o.k. It's part of our business. No one can know for certain what the public will want to see. So the basic problem with the above movies wasn't that they were ill conceived or misguided or even bad entertainments. The problem was that they were just too expensive.

### **Tracy, Tracy, Tracy**

So, what about "Dick Tracy?" By every rational measure, it was a success. It topped \$100 million in domestic box office, sold millions of dollars of merchandise and was by all accounts a cultural event.

Nevertheless, having tried and succeeded, we should now look long and hard at the blockbuster business . . . and get out of it.

As profitable as it was, "Dick Tracy" made demands on our time, talent and treasury that, upon reflection, may not have been worth it. The number of hours it required, the amount of anxiety it generated and the amount of dollars that needed to be expended were disproportionate to the amount of success achieved. As a company trying to bring to market 25 to 30 films a year, we simply can't afford to indulge in the blockbuster mentality, even as a sidelight, even as a hobby.

Even if one accepts the homerun approach to moviemaking as valid, consider what it does to the other films on the agenda -- the singles and doubles. When there is so much at stake with the \$40-\$60 million films, an inordinate amount of time must be lavished on them in an effort to protect the massive investment. But, with a finite number of development, production, distribution and marketing people, this time has to come from somewhere else and it inevitably must come from the less costly projects.

The result is a few mega-budget projects that have to do well and a bunch of smaller projects whose full potential may be jeopardized because the big projects drained away the executive attention the smaller ones needed and deserved.

This is why, when Warren Beatty comes to us to pitch his next movie -- a big period action film, costing \$40 million, with huge talent participation, directed by the man who is arguably the most brilliant filmmaker today at making movies that are successful commercially and artistically, owned and controlled by Beatty and Levinson -- we must hear what they have to say, allow ourselves to get very excited over what will likely be a spectacular film event, then slap ourselves a few times, throw cold water on our faces and soberly conclude that it's not a project we should choose to get involved in.

Does this mean we abandon big, event movies altogether? Definitely not. But, we should approach them in as intelligent a manner as possible.

One way to do this is represented by our Cinergi deal. Under the terms of the agreement, for five years, we will be associated with Andy Vajna, who has a very good track record in the big budget action movie business. But our relationship is merely as a distributor, allowing us to enjoy considerable upside potential with minimal downside risk. Cinergi will continue to produce big action films featuring major stars and geared toward an international market. In this hemisphere, they will go out under the Hollywood banner, thereby adding to our library and maintaining us as a player in the Big Movie market. In this way, we should be able to profit from a business we

don't want to directly be in ourselves, while still devoting most of our energy to smaller movies, many of which will still have breakthrough potential.

Another alliance we are currently working on is with Don Simpson and Jerry Bruckheimer. Some might think that this effort runs counter to the sentiments being expressed in this memo. Nothing could be further from the truth. Don and Jerry are among the best and most responsible producers in the business. I know that the "conventional wisdom" holds that they can only make giant big budget movies. As usual, the "conventional wisdom" is wrong. I worked with Don for ten years and helped bring him together with Jerry. They understand the supremacy of the idea and they know what it means to get value for the production dollar. When talented people like this are available, we should be smart enough to try and find a way to bring them on under terms that make sense to us. If a deal is signed, it will be entirely unlike their Paramount contract. It will be structured so that they will be extremely well rewarded in success. But they will also be at substantial risk, along with us, in failure.

Of course, we still have some Big Movies of our own already on our plate. "Scenes From a Mall," "Billy Bathgate" and "What About Bob?" are all outstanding projects. But there are too many of them. In varying degrees, each of them will require a disproportionate amount of energy on our part to achieve the level of revenues such films require. We'll get them done, and we'll do them right, but in the future we'll have to do a better job of controlling our appetite.

There's a fourth Big Movie underway that should be instructive as to the kind of event film I feel we must continue to make. "Rocketeer" is, to be sure, a high-risk film at over \$35 million. But all the money will be up on the screen. And, if the film succeeds, most of the rewards will be ours. There are no giant stars, no big gross participants, we own the rights, we control the licensing and we have talent contracts covering sequels in the event it works.

"Dick Tracy" was a great experience. It was a solid hit and an outstanding accomplishment that was remarkable for making *Variety's* list of ten biggest grossers and *The New York Times'* list of ten best films. But, as much as "Dick Tracy" was about successful filmmaking, it was also about losing control of our own destiny. And that's too high a price to pay for any movie.

### **Betting on Talent**

We started out in 1984 as the most cost-conscious of all studios. One of our primary means for controlling costs was by avoiding the reigning stars of the moment. Instead we featured stars on the downward slope of their career or invented new ones of our own.

Robin Williams suggested to Newsweek magazine that we recruited talent by standing outside the back door of the Betty Ford Clinic.

The first instance of this approach to movie-making was "Down & Out in Beverly Hills," a film that re-ignited the careers of its three stars, Bette Midler, Richard Dreyfuss and Nick Nolte. We have maintained long-term relationships with all three, especially Bette Midler.

But, it would be an extreme understatement to say that a Bette Midler movie today is not the same thing as a Bette Midler movie was then. In 1984, we paid Bette only for her considerable talent. Now, we must also pay her for her considerable and well-earned celebrity.

This is what might be called the "celebrity surcharge" that must be ante'd up when hiring major stars. And, more and more, we've been working with the biggest stars in the industry. It's hard to say "no" to the likes of Steve Martin, Bill Murray, Dustin Hoffman and Sylvester Stallone. But, when we say "yes" in the future, we need to develop these relationships in a way that works both for them and for us.

These are the kind of luminaries who are said to be "bankable stars." But, 1990 should have demolished for once and for all this notion. This concept of the "bankable star" maintains that there are some stars whose very presence guarantees a certain level of box office performance. If this were true, then how can one explain what happened to 1990's vehicle for 1989's "most bankable star," Jack Nicholson, to say nothing of the heralded return to the screen of Robert Redford?

The fact is that "bankability" places too much of a burden on the star. He or she is expected to open the movie as well as to carry it. Dustin Hoffman, who is perhaps the most talented actor of our time, has never "opened" a film with a blockbuster first weekend. But his talent has been instrumental in making a number of films phenomenally successful.

And that's what it's all about. Talent. It is a performer's talent that can make a film a success. Celebrity can be an important bonus, but celebrity is really all about timing. It comes and goes and sometimes comes back again. A performer's talent endures. This is what we should be betting on.

This is why we must try to blaze a path away from unreasonable salary and participation deals. These kinds of deals can only make sense if a star's presence can absolutely guarantee monstrous success for a film. And, as we have seen, there are no such guarantees.

Unreasonable salaries coupled with giant participations comprise a win/win situation for the talent and a lose/lose situation for us. It results in us getting punished in failure and having no upside in success.

We have to find ways to make deals with major stars that work for everyone. And we have to summon the energy to go out and find the new people who have just as much talent and will be the stars of the future.

If the idea and story are strong enough, a movie shouldn't be dependant on any particular performer to be a success. This is why we should be aggressive on all fronts -- at the bargaining table with major stars, at the comedy clubs searching for future stars, and at the back door of the Clinic picking up the stars that once were and can be again.

#### Stories That Make Us Care

The idea may be king and high concepts may be powerful, but the crucial step is translating them into compelling stories.

It is the story that people remember. It is the story that gives the movie business its extraordinary power to impact the world.

Part of what makes a story work is mystical. Its originality, its theme, its characters, its dialogue -- all these are undefinable ingredients that contribute to the alchemy of a successful story.

But, given this, there are still some overall guidelines of key importance in telling a good story. Most important of these is the need to create one or more central characters who confront something elemental about themselves by the end of the film. This sounds much more cerebral than it is.

All this means is that there should be a sympathetic protagonist who goes through some transforming experience with which the audience can relate. This applies to the whole enormous and extraordinary range of film experience. Name any truly successful movie and you will find that this is the case.

Blockbuster? In "Raiders of the Lost Ark," a cocky Indiana Jones is humbled by the realization that there are forces even he should not challenge. Science Fiction? "2001" is about the transformation not just of a man but of mankind. War Film? "Patton" focuses on a man's struggle to achieve his destiny and, upon achieving it, accept that he is now a dinosaur. Comic Book? In "Superman," he must reconcile his desire to be mortal with his destiny to be a superhero. Social Comedy? "Tootsie" is about a man becoming a



better man by being a woman. Comedy Comedy? In "Airplane," Ted Striker overcomes his "drinking problem" and past to save the day. Auteur Film? "All That Jazz" concerns a man who realizes he must change, only to find it is too late. Classics? "Casablanca" is about Rick regaining his convictions, "Gone With the Wind" is about Scarlett realizing her self-sufficiency, "The Wizard of Oz" is about Dorothy learning that there's no place like home and, that most classic of classics, "Citizen Kane," from first word of dialogue to final image, is about a man who, at the end of a tumultuous life's journey, comes to understand what's important in life.

We can play this game with our own major hits: In "Three Men and a Cradle," the three men learn to grow up and accept responsibility. In "Good Morning, Vietnam," Adrian Cronauer must confront the meaning of the war in which he had been a play soldier. In "Who Framed Roger Rabbit," Eddie Valiant comes to terms with his past and, in a climactic moment, gives up booze. In "The Little Mermaid," Ariel realizes the price she must pay to realize her dreams. In "Dead Poets Society," John Keating leaves the school with the knowledge that he has made a difference. In "Pretty Woman," both Edward and Vivian choose to change their lives for each other.

These films didn't just involve transformation . . . they involved transformations that were affirmative and uplifting. More than anything else, I believe that these are the feelings that audiences seek out when they go to the movies. These are the feelings that audiences want to take home with them and treasure.

But let's not just pat ourselves on our backs over our successes. If we are to make an honest appraisal of where we've come from and where we're going, we must be willing to be soberly self-critical.

With this in mind, I'd like to also discuss two films where we may have missed the mark in developing the story. This is not to point fingers and not to lay blame. After all, I am as responsible for the resulting films that are produced here as anyone. But, if we are to do better in the future, we should consider instances where we might have done better in the past.

The two films I have in mind are "The Rescuers Down Under" and "Dick Tracy."

These two films would seem to be essentially dissimilar. But they actually share some fundamental traits. Both films are as close to technical perfection as we can get. "Dick Tracy" is an unqualified masterpiece in its imagery and "Rescuers" proved that we can match or exceed the quality of animation produced during this studio's golden era.

Interestingly, in elemental terms, both films told the same story. Inasmuch as the main character of "Dick Tracy" is Dick Tracy and "Rescuers" is Bernhard, when you cut through all of the action, the basic story of both of these movies concerns how these two characters came to make their marriage proposals.

This may sound absurd, but it is absolutely true. And it is a key reason why these two brilliantly executed films failed to develop the "legs" that we had hoped for. The core stories were uninvolved. There was no central character who had to confront his or her demons or resolve anything more challenging than when to mouth the words, "Will you marry me?"

In both movies, everything remained static for the main characters. At the end, nothing elemental had changed.

To compensate for the lack of an emotionally driving core story, the two films showered the audience with dazzling and inventive "business." But much of this failed another test of storytelling -- i.e., the movies would still have made sense had many of these scenes been cut. Just like songs in a musical, no matter how beautiful the melody, if they don't move the plot along, they don't belong.

These are post mortems and as such are inherently unfair. As an immensely complex collaborative process, a film project can trip up anywhere along the way. In the final analysis, it can't be definitively quantified.

But we should never let this fact serve as an excuse to eschew any attempts at after-the-fact analyses of what worked or didn't work in a film. Every avenue is worth pursuing if it will improve our abilities at the single most important aspect of our business: telling the story.

### **Getting Writers Who Can Tell the Stories**

One reason for our quick and early success upon arriving at Disney was that we established a stable of writers under long-term contracts. These were talented individuals whom we could work with and who felt they had a stake in this studio. Just as our marketing division's success is in part attributable to the fact that the people there are part of the give-and-take of the ongoing creative process here, so, too, did this group of writers that was integrated into our operation function particularly well.

Now the stable is nearly empty. We should fill it again.

I know that many will argue that this just isn't feasible anymore. Agents won't let their clients sign long-term contracts because the spec script market is too lucrative.

All this means is it will be tougher. It doesn't mean it's impossible.

We need to somehow find the writers and convince them that an association here is in their interests. And this may not be as difficult as it seems. If and when the \$3 million dollar scripts turn into box office duds, the speculative bubble will quickly pop and long-term contracts at a stable studio will regain some of their lost luster.

But we shouldn't wait for this to happen. All the big time writers have one thing in common. They were all once unknown and thrilled just to make a sale. The future big time writers are out there and would be grateful just to be considered by our studio. To find them, we have to search harder, dig deeper . . . and be there first.

#### **Kids Movies Aren't Just for Kids**

Too often, people think there are two broad categories of films: adult movies and kids' movies. Consequently, creative executives think there are two kinds of stories to develop: adult stories and kids' stories.

This is wrong and, especially at this company, dangerous thinking.

Our Disney franchise is of incomparable value. But it didn't get that way by making "kids" movies. It got that way by making "family" movies.

But, this, too, is a misleading term. It summons up images of movies that can only be enjoyed by Ozzie and Harriet and David and Ricky sitting in a row together sharing popcorn.

A "family movie" doesn't mean a movie that can only be enjoyed by the whole family together. It means a movie that can be enjoyed by the family individually. "Honey, I Shrunk the Kids" was a success because it was funny to an adult even when the children didn't come along. "The Little Mermaid" was a hit with late night date audiences. And, the movie that will be the biggest film of 1990, "Home Alone," didn't achieve that status without parents getting as much a kick out of its story as did their children.

These films didn't talk down to the kids. They let everybody in on the fun.

When we consider our roots, we should keep in mind the deep roots of this company which have earned such enormous trust from the general public. Walt Disney put it best when he said, "I do not make pictures for children, at least not just for children. I won't play down to them. I'll temper a story, yes. But I won't play down, and I won't patronize." He made movies for the kid that exists in each and every one of us.

### Marketing & Testing

There is an unfortunate tendency to think that when a film does great, it's because it's a great film. But when it does poorly, it's because of poor marketing. While this logic is convenient, it can be empirically disproven.

A look at international performance will show that American films almost invariably do parallel business overseas to what they did domestically. Films that "didn't do well because of marketing" never do substantially better overseas when the marketing campaigns are substantially altered.

Marketing is an important tool. In the case of Dick Tracy it was critically important. It can also be a scapegoat, but an erroneous one.

Just as marketing can be overemphasized, so can another tool -- testing. In fact, it can be dangerous, because it can lead us to trust the test rather than trusting our instincts.

How often has a film tested "off the charts" and failed to do well at the box office? One of the weaknesses of testing appears to be that inoffensively pleasant films can test misleadingly high. People enjoy the films. They write down positive responses. We get excited . . . and then they fail to perform to our inflated expectations.

Testing has the aura of science about it. And there is nothing scientific about the movie business.

### Ancillaries

One of the reasons that big budget action movies are thought to have revenue floors is because of the ancillary markets. Ten years ago, theatrical grosses represented 80% of revenues. Today they comprise only 30%. What's more, international box office has grown by 50%, whereas domestic box office has been relatively flat.

These fairly compelling statistics could lead one to believe that (a) there's a lot more money to be made out there, which can justify

bigger and bigger budgets, and (b) movies can be successfully made by targeting one or more of the ancillary markets.

Ergo, the spate of big-budget, star-driven action movies, which in theory play well in any language.

If this logic is so overwhelming, then how can one explain a film like "Dead Poets Society?" The only thing more remarkable than its domestic box office of nearly \$100 million was its international box office, which exceeded domestic by 24%.

We're talking about a film in which the subject matter was specific to a certain place and time in America, in which the biggest action scene consisted of some kids running through a forest and in which the "talky" screenplay offered overseas moviegoers the chance to hear some anonymous native-speaking voice-over actor impersonate Robin Williams impersonating John Wayne doing Macbeth. This would seem to be a film that was tailor made to flop in international markets. So, how could it have defied "conventional wisdom" to such a great extent?

Because it told a good story.

The ancillary markets are wonderful. They increase the rewards for a successful film. But consider their name. "Ancillary" is defined in Websters as "subordinate, subsidiary, auxiliary, supplementary." So, one must ask the question: What are the ancillary markets subordinate, subsidiary, auxiliary and supplementary to? Answer: The domestic theatrical market.

In almost every instance, the performance of a film in the ancillaries echoes its performance in domestic theatrical. It is the engine that drives the product through the distribution pipeline. And the fuel that powers the engine is the story. A clean, well-refined, high-octane story can transport a film over all kinds of terrain, down the carpeted aisles of pristine first-run theaters, past the floors of sticky fifth-run theaters, around the globe, onto home video, off satellite dishes, through cable and over the networks.

But, if the story is low grade, so too will the performance be, no matter how large the engine or how shiny and well-packaged the vehicle.

To count on a single element to carry a film in a particular market -- such as an action star in international theatrical -- is like playing Russian Roulette. Each time the formula works, the cost goes up, the stakes get higher and you get closer to the inevitable time when your luck runs out . . . and all that's left is an ugly mess.

Our job is not to count on re-cycled formulas, but to create and develop fresh, new stories. By so doing, we will give our projects the best chance to take off in their initial domestic theatrical runs and then to keep on succeeding through whatever subsequent entertainment technologies await them.

#### **A Hands-on Haven for Talent**

One of the ways to combat the high cost of movie making is to create a haven for talent here at Disney. Since we're not willing to offer talent top dollar, we can offer something no less tangible -- a genuine concern for their careers.

This means Disney should be a place where new talent can be recognized, where old talent can be rejuvenated and where current reigning stars can come to be both protected and try something new.

This does not mean offering talent total creative freedom. It does mean offering them a framework in which they can be challenged, nurtured and have a real shot at success.

This means recognizing the needs of individual writers, directors and actors, and addressing them. Someone like Garry Marshall is a tremendous collaborator and wants a constant interaction with others to bring out the best in himself. Others, like Peter Weir, are most successful when they can go pursue their independent vision within understood guidelines that have been established with the studio.

To make it all work requires that we pay maniacal attention to every facet of our operation. This hands-on approach may be a source of irritation to some. But, if it is done in an atmosphere of mutual respect, to most it makes sense.

An example of the positive effects of such a love/hate relationship can be seen in the following comments by Leslie Dixon, who wrote "Outrageous Fortune," in which she discusses a scene from the film where Shelley Long asks her parents for a handout by talking to the security apartment building's speaker rather than confronting them in their apartment:

"Disney was too cheap to build a set and hire actors. This provoked me to come up with a more creative scene of Shelley Long never being allowed in her parents' apartment. That's rewriting for budget, and good things can come out of it creatively."

The process works if everyone is committed to making it work. If we provide a focused, directed environment, where the objectives and vision are clear and success is well-defined, talent will respond.

Most talent welcomes a strong, knowledgeable support system that provides a clear context for the thousands of content decisions they must make. This is why it's worth the \$7,500 extra each week to double print the dailies. This is why it makes sense to put extra money in a film's budget for re-shoots, so that a director doesn't feel that he has to get everything perfect the first time. This is why we should recognize the needs of a first-time director by providing him or her the best support people possible, such as a top editor or cinematographer, etc.

Most important, this is why we should provide a place where talent has the right to fail. By making long-term arrangements with talent we believe in, we can control costs while they can gain the security that's necessary for taking creative risks and going in new directions. As the blockbuster mentality rages around us, this can be a place that talent can go to be relieved of the pressure of having to try to make the next "Batman."

But the best way to attract good talent remains the best way to make a good movie -- with a good story. Most great talent will ultimately be drawn to great material since they know only too well that good scripts are hard to come by.

If we can consistently come up with good material, we will find ourselves with a leverage that dollars just can't buy. To paraphrase a competitor's film (one that was about as non-formulaic and unexpectedly successful as they get):

"If we provide it, they will come."

#### Success Requires Access

We can be neither hands-on nor a haven if we allow ourselves to become stratified. Access has to be maintained and encouraged no matter how big and successful we become.

This is why Hollywood Pictures was created. The decision-making pyramid should remain short and squat, with a minimal distance between the place where the ideas come in and the verdicts get delivered.

Only in this way can a creative, productive give-and-take be fostered. If we should ever become bureaucratic, we will then make the kinds of movies that bureaucracies make -- boring ones.

Every one of us was once one of the little guys trying to get noticed. Let's keep our doors open.

## The Big Screen vs. the Little Screen

In deciding on a project, consideration should be made as to where it will play best. Nowadays, every film produced will ultimately end up on a television screen. But its initial reason for being should be with the theater in mind. A couple is only going to pay \$12-\$15 for a pair of tickets to a movie -- knowing full well that in six months they can rent it on video for \$2.00 -- if they feel they are going to experience something they can't get at home.

So, what are the differences between seeing something on the movie screen and the TV screen? The differences are as difficult to define as they are real.

The most obvious is that things can look bigger, more powerful, more complex, more detailed and more involving on a large screen. The same "Star Wars" Death Star that appears so awesome in the theater looks remarkably like a model on television. But, being the most obvious difference, size is also the least important.

The more significant distinction between the big screen and the little screen isn't the screen at all. It's the audience. Television is an individual experience. The theater is a communal one. And there's something about seeing a film with several hundred strangers that makes a comedy funnier, a horror film scarier and a tearjerker more heart wrenching. The entire range of emotions registers with greater force in the theater.

Home entertainment technology will not change this. No matter how big the TV screen gets or how well defined the picture, it still won't be the same as going out to the movies. To understand this, one need only imagine seeing a film today in a large state-of-the-art theater . . . alone. Without the presence of fellow moviegoers, the vastness of the screen and the theater would only serve to inhibit rather than enhance the experience.

For this reason, it can be supposed that people will often rent movies they've already seen on the big screen for two reasons: Consciously, they simply want to see the film again. But, subconsciously, they want to evoke the memory of the theatrical experience itself.

As we develop ideas for theatrical release, these are all factors that should be at least subliminally kept in mind in narrowing down the 1,000 ideas to the 100 projects to the 10 films that ultimately get made.

As much as the recent emphasis -- mistakenly I think -- has been placed on hardware and home delivery systems, we should not be



fooled. The theater is something special. The products we strive to put into them should be equally special.

### The Rising Sun

Of course, the focus has shifted to hardware for a very good reason. The people who make the hardware have been buying up Hollywood.

This has resulted in a rising tide of hysteria and paranoia that has bordered on panic.

Let's calm down.

The Japanese have been buying studios in the belief that if they can control the software, there will be great synergistic advantages of vertical integration with their hardware. This may make sense if you're in the auto business and you own the company that makes the sparkplugs for your cars. I contend that it simply doesn't make sense in the movie business.

It all started when Sony was first on the VCR scene with its Betamax, only to lose out to the VHS format. Sony chairman Akio Morita has concluded that history would have been different if Sony had owned an American studio and therefore been able to direct the market by putting film titles on Beta tapes.

This thinking is absurd. By owning Columbia, Sony now controls less than 15% of Hollywood software output. Fifteen percent does not comprise the critical mass necessary to direct a market.

Beta didn't lose to VHS because it didn't have the software. VHS won, despite not being the first out of the gate, because of a superb manufacturing, distribution and marketing effort that ultimately succeeded in making VCR and VHS synonymous in the marketplace. And it was also a better product.

Now, Matsushita is making what I believe is a defensive move by following in its competitor's path and buying MCA. This is not unlike what occurred in our business a few years ago when many of the studios followed one another into the theater business. Like the Japanese hardware manufacturers, these studios believed that some sort of synergy/vertical integration magic would happen if they controlled the screens their movies played on. Ridiculous prices were paid for assets that are now declining in value.

Luckily, we stayed out of the theater business, sticking instead with the business we understand best.

And this is where the wisdom of the Columbia and MCA purchases is particularly questionable. The Japanese are getting into a business that is to some extent outside of their cultural context.

Filmmaking at its essence is about the conveyance of emotion. Not coincidentally, filmmakers by their nature are an emotional group -- from the actors on the screen to the dealmakers behind the scenes. It is said to be a crazy business and most of its practitioners admittedly are, by normal standards, a bit eccentric.

The Japanese, on the other hand, culturally err on the side of withholding emotion. In saying this, I am not simply offering an American perspective; The Japanese are the first to tell you this about themselves.

This sense of discipline and self-control has no doubt been a major factor in achieving the Japanese economic miracle that has turned a small island nation into one of the world's pre-eminent industrial powers.

But it is also why I firmly believe that the recent marriages between Japanese hardware makers and American movie makers may not be ones made in entertainment heaven.

There will be a chasm in the fundamental understanding of the movie business that will likely prove exceedingly frustrating for Japanese and Americans alike.

But, whether I am right in this expectation of incompatibility or not, one fundamental truth will continue to hold forth during the era of Japanese studio ownership: only the product matters.

If we at Disney continue to produce a successful slate of films, they'll line up down Buena Vista Street to buy our products to display on every one of their new fangled gadgets.

We don't need to be associated with hardware manufacturers any more than we needed to be associated with exhibitors.

We only need to be associated with good movies.

#### Rules

In this paper, I've implied a lot of rules -- go for singles and doubles, hold down costs, keep hands on, watch your appetite, be wary of the Big Stars, pay ancillaries no mind, etc. Here's one more rule -- there are always exceptions to the rules.

Filmmaking is not a science. This memo is being offered as a reflection on and a re-thinking of our business. Clearly, there are going to be instances of "yes, but . . ." as in, "Yes, I know this project violates Rule X, but the concept is so compelling that it's worth it."

But, to as great an extent as possible, we should try to adhere to a set of reasonable, rational rules. Not so much for us; but for them, i.e. the outside world.

If we exercise the necessary discipline to make some rules stick, then the people we deal with will have a clear set of expectations when they sit down to the table with us. By self-enforcement of a clear code, we will make it possible for agents to think, "As long as they treat everyone else that way, at least I know it's not personal." People will come to us understanding our terms and framework in advance. Or, if they don't agree with our approach to business, they will avoid us and save everyone from wasting a lot of each other's time.

And, if we are consistent in asserting our bottom line, in the long run we are likely to make less expensive and more profitable films. There is no way to minimize the long-term importance of being willing to walk away from any one movie. There are over 200 projects under active consideration at any given time at this studio. None of them is a certain winner, since there is no such thing. If we can't make one, there will be another to take its place. We must always keep this in mind when we sit down to negotiate. We must always be willing to walk away at the moment that a deal no longer makes sense for us. For every project we lose in the short run, in the long run we are likely to get five others on terms advantageous to us because the other side will know that we mean it when we say, "That's it."

While there is always going to be some flexibility on many of the rules discussed in this memo, there are two rules that must never be broken:

1. Always exercise intelligence and good taste.

These are two things to never compromise. If we decide to make a "tent pole" movie, then let's make it as intelligently as possible, with intelligent risk. If we choose to use a major star, let it be an intelligent choice for *that* role and for *that* movie. And, as we develop projects, let us always keep in mind the indefinable question of taste. Disney films mean something very specific. But, Touchstone and Hollywood films also reflect a certain entertainment ethic, one that we can be proud of and one that we should continually respect.

2. Reserve the right to fail.

We've become big enough and successful enough that no one movie can be the difference between profitability and unprofitability for our studio. If we are to achieve greater success, we must be creative. If we are to be creative, we must risk failure. Therefore, to succeed we must occasionally fail. And sometimes, not so occasionally.

"Pretty Woman" came on the heels of five consecutive failures. In the scheme of running this movie studio, those five failures were necessary for that one extraordinary success. And they were worth it.

If we remain intelligent about our projects and exercise good taste, then the failures will remain manageable. And we will continue to be successful.

### Passion

And, as long as we're making rules, here's just one more: Everyone here should feel a passion for making movies.

Like other businesses, we manufacture a product that is sold to the public. Unlike other businesses, the product we manufacture can not be held, worn, driven or played with. But, even though it is totally ephemeral, the best of our output has come to be something that consumers will treasure for years and years.

Since we want the final result of our efforts to inspire a sense of passion on the part of our consumers, it is imperative that we feel an equal measure of passion in its production.

Any successful movie should stir emotions in its viewers, making them laugh, cry, shriek or simply be moved by what they are seeing on the screen. This is pretty powerful stuff to achieve by projecting some light on a wall.

*It's magical for the audience and it should be magical for us.*

The fact is that there is no natural momentum for a movie. It is not an orderly production process from design to assembly line to wholesale to retail.

Movies only result when there is a collective passion that moves it forward past one hurdle after another. One important ingredient in this collective passion is undeniably the talent. But it's often a sporadic ingredient, as actors, directors and writers are seldom involved in a project from beginning to end. What's more, their passion is sometimes restrained by their natural fear of failure. Therefore, passion needs to consistently come from us at the studio.

Passion is the only word that can explain why one would choose to burrow through 10-15 scripts every weekend on the chance of uncovering something great. Passion is the only word that can explain why one would spend a 60-hour week at a studio and then, for fun, on the weekend go see three movies. Passion, however misdirected, is the only word that can explain why a lot of otherwise rationale individuals would get caught up in the blockbuster mania that has engulfed our industry to such lemming-like effect.

This is a special business to be in. And people on the outside sense it. That's why they not only love to go to the movies, it is why they have become fixated on the inner-workings of the industry. They want to know how we make the magic. As much as "Entertainment Tonight" and its ilk can be irritants as they accelerate the blockbuster mentality, the mere fact these programs exist is a recognition of the specialness of what we do.

So, let's go back to the drawing board and get back to basics. And, as we do, let's not be afraid to admit to others and to ourselves, up front and with passion . . . that we love what we do.