

CASE 36

PIXAR*

After delaying the release of *The Good Dinosaur*, leaving Pixar without an offering during 2014, everyone at Pixar was looking forward to the release of two films during 2015. *Inside Out*, about the emotions that live inside the mind of a young girl, was due out in June. It was to be followed in November by *The Good Dinosaur*, about a world in which dinosaurs never became extinct. Assuming that both films would perform well, Pixar could have a memorable year. "We put our hearts into these films," said John Lasseter, the company's chief creative officer.¹

Since Pixar launched *Toy Story* in 1995, it had released 14 films, each of which debuted at the top of the box

office charts (see Exhibit 1). Its films also received critical acclaim, with nine nominations and seven wins for Best Animated Film. This was far more awards than any other studio had received since the category was added in 2001. However, despite the commercial success of *Cars 2* and *Monsters University*, these recent films did not generate the rave reviews that had been accorded to all of Pixar's earlier offerings. This led many industry observers to question whether Pixar had lost some of its creativity since it became part of the Walt Disney Company.

Disney had acquired Pixar in 2006 for the hefty sum of \$7.4 billion. The deal was finalized by the late Steve Jobs, Apple Computer's chief executive, who also served as the head of the computer animation firm. Disney CEO Bob Iger had worked hard to eventually acquire Pixar, whose track record made it one of the world's most successful animation companies. Both Jobs and Iger were aware, however, that they

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EXHIBIT 1

Pixar Films

All of Pixar's films released to date have ended up among the top animated films of all time based on worldwide box office revenues in millions of U.S. dollars.

Rank	Title	Year	Revenue
1	<i>Toy Story 3</i>	2010	\$1,065
2	<i>Finding Nemo</i>	2003	940
3	<i>Monsters University</i>	2013	745
4	<i>Up</i>	2009	735
5	<i>The Incredibles</i>	2005	630
6	<i>Ratatouille</i>	2007	620
7	<i>Monsters, Inc.</i>	2002	575
8	<i>Cars 2</i>	2011	560
9	<i>Brave</i>	2012	555
10	<i>Wall-E</i>	2009	535
11	<i>Toy Story 2</i>	1999	515
12	<i>Cars</i>	2006	460
13	<i>A Bug's Life</i>	1998	365
14	<i>Toy Story</i>	1995	390

Source: IMDB, Variety.

had to try to protect Pixar's creative culture while they also tried to carry some of it over to Disney's animation efforts.

In fact, it was these pressures to maintain its past success that led Pixar to delay the release of *The Good Dinosaur*. The firm pulled the film away from its director as it began to search for new ways to rework the story. Pixar had done this before, and the firm insisted that rethinking an animated film was not uncommon, especially when working with fresh, untested ideas. Given that animated films could take up to three years to complete, story changes could occur in the middle of production. This could require that someone else take the lead in order to complete the film.

Ed Catmull, president of Pixar, reiterated his firm's commitment to take whatever steps might be necessary to put out the best possible film. "Nobody ever remembers the fact that you slipped a film, but they will remember a bad film," he said.² Catmull's remarks indicated that Pixar was dedicated to having its lengthy process of playfully crafting a film replace the standard production line approach that had been pursued by Disney. This contrast in culture was best reflected in the Oscars that the employees at Pixar displayed proudly but which had been painstakingly dressed in Barbie doll clothing.

Pushing for Computer Animated Films

The roots of Pixar stretched back to 1975 with the founding of a vocational school in Old Westbury, New York, called the New York Institute of Technology. It was there that Edwin E. Catmull, a straitlaced Mormon from Salt Lake City who loved animation but couldn't draw, teamed up with the people who would later form the core of Pixar. "It was artists and technologists from the very start," recalled Alvy Ray Smith, who worked with Catmull during those years. "It was like a fairy tale."³

By 1979, Catmull and his team decided to join forces with famous Hollywood director George W. Lucas, Jr. They were hopeful that doing so would allow them to pursue their dream of making animated films. As part of Lucas's filmmaking facility in San Rafael, California, Catmull's group of aspiring animators was able to make substantial progress in the art of computer animation. But the unit was not able to generate any profits, and Lucas was not willing to let it grow beyond using computer animation for special effects.

Catmull finally turned, in 1985, to Jobs, who had just been ousted from Apple. Jobs was reluctant to invest in a firm that wanted to make full-length feature films using computer animation. But a year later, Jobs did decide to buy Catmull's unit for just \$10 million, which was one-third of Lucas's asking price. While the newly named Pixar Animation Studios tried to push the boundaries of computer animation over the next five years, Jobs ended up having to invest an additional \$50 million—more than 25 percent of his total wealth at the time. "There were times that we all despaired, but fortunately not all at the same time," said Jobs.⁴

Still, Catmull's team continued to make substantial breakthroughs in the development of computer-generated full-length feature films (see Exhibit 2). In 1991, Disney ended up giving Pixar a three-film contract that started with *Toy Story*. When the movie was finally released in 1995, its success surprised everyone in the film industry. Rather than the nice little film Disney had expected, *Toy Story* became the sensation of 1995. It rose to the rank of third-highest-grossing animated film of all time, earning \$362 million in worldwide box office revenues.

Within days, Jobs decided to take Pixar public. When the shares, priced at \$22, shot past \$33, Jobs called his best friend, Oracle CEO Lawrence J. Ellison, to tell him he had company in the billionaires' club. With Pixar's sudden success, Jobs returned to strike a new deal with Disney. Early in 1996, at a lunch with Walt Disney chief Michael D. Eisner, Jobs made his demands: an equal share of the profits, equal billing on merchandise and on-screen credits, and guarantees that Disney would market Pixar films as it did its own.

Boosting the Creative Component

With the success of *Toy Story*, Jobs realized that he had hit something big. He had obviously tapped into his Silicon Valley roots and turned to computers to forge a unique style of creative moviemaking. In each of its subsequent films, Pixar continued to develop computer animation that allowed for more lifelike backgrounds, texture, and movement than ever before. For example, since real leaves are translucent, Pixar's engineers developed special software algorithms that both reflected and absorbed light, creating luminous scenes among jungles of clover.

In spite of the significance of these advancements in computer animation, Jobs was well aware that successful feature films would require a strong creative spark. He understood that it would be the marriage of technology and creativity that would allow Pixar to rise above most of its competition. To achieve that, Jobs fostered a campus-like environment within the newly formed outfit similar to the freewheeling, charged atmosphere in the early days of his beloved Apple, to which he returned as acting CEO. "It's not simply the technology that makes Pixar," said Dick Cook, former president of Walt Disney studios.⁵

Even though Jobs played a crucial supportive role, it was Catmull who was mainly responsible for ensuring that the firm's technological achievements helped to pump up the firm's creative efforts. He was the keeper of the company's unique innovative culture, which blended Silicon Valley techies, Hollywood production honchos, and artsy animation experts. In the pursuit of Catmull's vision, this eclectic group transformed their office cubicles into tiki huts, circus tents, and cardboard castles with bookshelves stuffed with toys and desks adorned with colorful iMac computers.

One of Catmull's biggest achievements was the creation of what was called the Pixar Braintrust (see Exhibit 3). This creative group of employees, which included directors, met on a regular basis to assess each movie that the

EXHIBIT 2 Milestones

1986	Steve Jobs buys Lucas's computer group and christens it Pixar. The firm completes a short film, <i>Luxo Jr.</i> , which is nominated for an Oscar.
1988	Pixar adds computer-animated ads to its repertoire, making spots for Listerine, Lifesavers, and Tropicana. Another short, <i>Tin Toy</i> , wins an Oscar.
1991	Pixar signs a production agreement with Disney. Disney is to invest \$26 million; Pixar is to deliver at least three full-length, computer-animated feature films.
1995	Pixar releases <i>Toy Story</i> , the first fully digital feature film, which becomes the top-grossing movie of the year and wins an Oscar. A week after release, the company goes public.
1997	Pixar and Disney negotiate a new agreement: a 50-50 split of the development costs and profits of five feature-length movies. Short <i>Gerl's Game</i> wins an Oscar.
1998-99	<i>A Bug's Life</i> and <i>Toy Story 2</i> are released, together pulling in \$1.3 billion through box office and video.
2001-04	A string of hits from Pixar: <i>Monsters, Inc.</i> , <i>Finding Nemo</i> , and <i>The Incredibles</i> .
2006	Disney acquires Pixar and assigns responsibilities for its own animation unit to Pixar's creative brass. <i>Cars</i> is released and becomes another box office hit.
2009	<i>Wall-E</i> becomes the fourth film from Pixar to receive the Oscar for a feature-length animated film.
2011	<i>Toy Story 3</i> receives five Oscar nominations and wins two, including one for Best Animated Film.
2011	Steve Jobs dies, leaving Ed Catmull in charge.
2013	<i>Brave</i> becomes the sixth film from Pixar to receive an Oscar for Best Animated Film.

Source: Pixar.

EXHIBIT 3 Sample of Roles

Ed Catmull	President, producer
John Lasseter	Chief creative officer, producer, director, writer
Jim Morris	Business manager
Brad Bird	Director, writer
Pete Doctor	Director, writer
Harley Jessup	Production designer
Bill Cone	Production designer
Ricky Nierva	Production designer, art director, character designer
Ralph Eggleston	Art director
Randy Barrett	Character designer, set designer, matte painter
Tia Kratter	Shading art director, digital painter
Bob Pauley	Character designer, sketch artist
Jay Shuster	Character and environment designer

Source: Pixar.

firm was developing and offer their ideas for improvement. It was this emphasis on creativity that kept Pixar on the cutting edge. Each of its films was innovative in many respects and made the best possible use of computer animation. "They're absolute geniuses," gushed Jules Roman, cofounder and CEO of rival Tippett Studio. "They're the people who created computer animation really."⁶

Catmull was also working hard to build upon this pursuit of creative innovation by creating programs to develop the employees. Employees were encouraged to devote up to four hours a week, every week, to further their education at Pixar University. The in-house training program offered 110 different courses covering subjects such as live improvisation, creative writing, painting, drawing, sculpting,

and cinematography. For many years, the school's dean was Randall E. Nelson, a former juggler, who had been known to perform his act using chain saws so students in animation classes had something compelling to draw.

Becoming Accomplished Storytellers

A considerable part of the creative energy went into story development. Jobs understood that a film would work only if its story could move the hearts and minds of families around the world. His goal was to develop Pixar into an animated movie studio that was known for the quality of its storytelling above everything else. "We want to create some great stories and characters that endure with each generation," Jobs stated.⁷

For story development, Pixar relied heavily on 43-year-old John Lasseter, who went by the title of vice president of the creative. Known for his collection of 358 Hawaiian shirts and his irrepressible playfulness with toys, Lasseter was the key to the appeal of all of Pixar's films. Lasseter was very passionate about developing great stories and then harnessing computers to tell these stories. Most of Pixar's employees believed it was this passion that allowed the studio to ensure that each of its films was a commercial hit. In fact, Lasseter was regarded as the Walt Disney of the 21st century.

When it was time to start a project, Lasseter would isolate a group of eight or so writers and direct them to forget about the constraints of technology. The group members would bounce ideas off each other, taking collective responsibility for developing a story. While many studios tried to rush from script to production, Lasseter took up to two years just to work out all the details. Once the script was developed, artists created storyboards that connected the various characters to the developing plot. "No amount of great animation is going to save a bad story," he said. "That's why we go so far to make it right."⁸

Only after the basic story had been set did Lasseter begin to think about what he would need from Pixar's technologists. And it was always more than the computer animators expected. Lasseter, for example, demanded that the crowds of ants in *A Bug's Life* not be a single mass of look-alike faces. To solve the problem, computer expert William T. Reeves developed software that randomly applied physical and emotional characteristics to each ant. In another instance, writers brought a model of a butterfly named Gypsy to researchers, asking them to write code so that when she rubs her antennae, viewers could see the hairs press down and pop back up.

At any stage during the process, Lasseter might go back to potential problems that he saw with the story. In *A Bug's Life*, for example, the story was totally revamped after more than a year of work had been completed. Originally, it was about a troupe of circus bugs run by P.T. Flea that tries to rescue a colony of ants from marauding grasshoppers. But because of a flaw in the story—why would the circus bugs risk their lives to save stranger ants?—codirector Andrew

Stanton recast the story to be about Flik, the heroic ant who recruits Flea's troupe to fight the grasshoppers. "You have to rework and rework it," explained Lasseter. "It is not rare for a scene to be rewritten as much as 30 times."⁹

Pumping Out the Hits

In spite of its formidable string of hits, Pixar had difficulty in stepping up its pace of production. Although they may cost 30 percent less, computer-generated animated films still take considerable time to develop. Furthermore, because of the emphasis on every single detail, Pixar used to complete most of the work on a film before moving on to the next one. Catmull and Lasseter later decided to work on several projects at the same time, but the firm was not able to release more than one movie in a year.

To push for an increase in production, Pixar built up its workforce to well over 1,000 employees. It also turned to a stable of directors to oversee its movies. Lasseter, who had directed Pixar's first three films, supervised other directors who took the helm of various films that the studio chose to develop. *Monsters, Inc.*, *Finding Nemo*, *The Incredibles*, *Ratatouille*, and *Brave* were directed by some of this new talent. But there were concerns about the number of directors that Pixar could rely upon to turn out high-quality animated films. Michael Savner of Banc of America Securities commented: "You can't simply double production. There is a finite amount of talent."¹⁰

To meet the faster production pace, Catmull added new divisions, including one to help with the development of new movies and one to oversee movie development shot by shot. The eight-person development team helped to generate more ideas for new films. "Once more ideas are percolating, we have more options to choose from so no one artist is feeling the weight of the world on their shoulders," said Sarah McArthur, who served as Pixar's vice president of production.¹¹

Finally, Catmull kept pushing technology in order to improve the quality of animation, with no more than 100 animators working on each film. Toward this end, Catmull oversaw the development of new animation software, called Luxo, which allowed him to use fewer people, who could be pushed to address various challenges that had to be faced. During the production of *Brave*, for example, the animators had to make the curly hair of the main character appear natural. Claudia Chung, who worked on the film, talked about their reaction to various methods they kept trying: "We'd kind of roll our eyes and say, 'I guess we can do that,' but inside we were all excited, because it's one more stretch we can do."¹²

At the same time, Catmull understood that the high standards of the firm could not be compromised for the sake of a steady flow of films. This was evident in Pixar's decision to delay the launch of *The Good Dinosaur* because the firm felt that it had to rethink the film to ensure that it would work well. Everyone at Pixar remained committed to Jobs's philosophy that every one of Pixar's films should grow out

of the best efforts of the firm's animators, storytellers, and technologists. "Quality is more important than quantity," he emphasized. "One home run is better than two doubles."¹³

To preserve the firm's high standards, Catmull worked hard to retain Pixar's commitment to quality even as the firm grew. He used Pixar University to encourage collaboration among all employees so that they could develop and retain the key values tied to their success. And he helped devise ways to avoid collective burnout. A masseuse and a doctor came by Pixar's campus each week, and animators had to get permission from their supervisors if they wanted to work more than 50 hours a week.

To Infinity and Beyond?

Despite the less than stellar performance of a couple of Pixar's recent films, expectations were high for *Inside Out* and *The Good Dinosaur*, both of which would be released in 2015. It was quite likely that Pixar had been experiencing some growing pains rather than compromising on its standards under Disney. In fact, Steve Jobs had been convinced that Pixar's links with Disney would be mutually beneficial for both firms. In his own words: "Disney is the only company with animation in their DNA."¹⁴ Lasseter denied any negative effects from Disney's acquisition of his firm and insisted that Pixar's films were increasingly being subjected to higher standards because of its string of successes.

After it acquired Pixar, Disney actually placed Catmull and Lasseter in charge of the combined animation business of both Pixar and Disney. *Tangled*, *Frozen*, and *Big Hero 6*, which were both commercial and critical successes, were made at Disney under the supervision of these Pixar heads. For Lasseter, the new responsibilities for Disney represented a return to his roots. He had been inspired by Disney films as a kid and started his career at Disney before being lured away to Pixar by Catmull. "For many of us at Pixar, it was the magic of Disney that influenced us to pursue our dreams of becoming animators, artists, storytellers and filmmakers," Lasseter stated.¹⁵

But Catmull and Lasseter continued to face a challenging task, and they were still adjusting to the loss of Jobs, who passed away in 2011. At the same time, everyone at Pixar understood that a large part of their success could be attributed to the talent that the firm was able to recruit and train to work together. This led to a continuous exchange of ideas and fostered a collective sense of responsibility on all their projects. "We created the studio we want to work in," Lasseter had remarked. "We have an environment that's wacky. It's a creative brain trust: It's not a place where I make my movies—it's a place where a group of people make movies."¹⁶

Pixar's string of successful films was particularly striking, given that there had been a considerable increase in the number of animated films being released each year. Over the past decade, there were a few years in which as many as 16 films were offered as more and more studios tried to grab a share of this lucrative market. Last year's biggest box office success was *The Lego Movie*, put out by Warner Brothers, a newcomer to the category. The growth in competition had led to a string of losses at Dreamworks Animation, Pixar's largest competitor. Lasseter welcomed the increased competition because it forced Pixar to stick to its commitment to quality. "I like healthy competition," he recently stated. "I'd rather be in a healthy industry than be the only player in a dead industry."¹⁷

Think about how off-putting a movie about rats preparing food could be, or how risky it must've seemed to start a movie about robots with 39 dialogue-free minutes. We dare to attempt these stories, but we don't get them right on the first pass. This is as it should be.

—Ed Catmull, from his book, *Creativity, Inc.*, published in 2014

ENDNOTES

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