

CASE STUDY

**THE MARVEL WAY:
RESTORING A BLUE OCEAN**

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**A LEGEND
IS
CREATED**

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THE MARVEL WAY: RESTORING A BLUE OCEAN

MARVEL'S FIRST BLUE OCEAN


- ▶ Founded in the 1930's, Marvel created me-to comic books.
- ▶ Forced by competitor DC to value innovate Marvel created new books for non-customers – college students – and built a blue ocean in storytelling.
- ▶ Marvel superhero's were characters first, reluctantly transformed into superheroes.
- ▶ The company thrived.



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THE MARVEL WAY: RESTORING A BLUE OCEAN

POPULAR MARVEL CHARACTERS



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THE MARVEL WAY: RESTORING A BLUE OCEAN

MARVEL/TOY BIZ DEAL

- ▶ Issac "Ike" Perlmutter and his business partner, toy designer Avi Arad, buy bankrupt toy company Toy Biz.
- ▶ Perlmutter strikes a deal with Perelman's Marvel; Marvel buys 46% of Toy Biz in exchange for an exclusive royalty-free license to sell Marvel toys.
- ▶ This deal gives Toy Biz the highest margins of any toy maker worldwide.



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**UNITED STATES
BANKRUPTCY COURT**

DEC. 27, 1996

PERELMAN'S MARVEL FILES BANKRUPTCY

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**DURING BANKRUPTCY COMPETING PREDATOR
CARL ICAHN BRIEFLY TAKES CONTROL**

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THE MARVEL WAY: RESTORING A BLUE OCEAN

RED OCEAN MAYHEM RULED

"IT WAS LIKE BEING IN A WAR ZONE. YOU DIDN'T KNOW FROM DAY TO DAY WHETHER YOU WERE REPORTING TO (PERELMAN CEO) SCOTT SASSA, OR (ICAHN CEO) CALAMARI, OR ICAHN, OR THE BANKRUPTCY COURT, OR WHO."

Anonymous Employee

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**TOY BIZ PARTNERS IKE PERLMUTTER
& AVI ARAD PREVAIL OVER THE
BATTLING BILLIONAIRES TO BUY
MARVEL.**

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POST-BANKRUPTCY MARVEL:

**\$250 MILLION IN DEBT
\$30M ANNUAL INTEREST DUE
CASH POOR: PAYROLL WAS IFFY
STAFF IS DEMOTIVATED AND DECIMATED
BY PRIOR LAYOFFS
FANS WERE BOYCOTTING MARVEL**

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**RESTORING A BLUE
OCEAN**

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**THE
VALUE/COST
TRADE-OFF**


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THE MARVEL WAY: RESTORING A BLUE OCEAN

MARVEL HIRES PETER CUNEO AS CEO

Video: Part A

"Most turnarounds fail because they are primarily focused on cost reduction. In certain turnarounds cost reduction will work for awhile and increase your cash flows but if you don't grow your revenues you're still going to die. In the case of Marvel cost reduction was really not a factor. The business was already being run, I would say, very frugally. So the challenge was, basically, revenue growth and finding the strategic leaps that we needed to make."



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STABILIZING THE BUSINESS

"IN CERTAIN TURNAROUNDS COST REDUCTION WILL WORK FOR AWHILE AND INCREASE YOUR CASH FLOWS BUT IF YOU DON'T GROW YOUR REVENUES YOU'RE STILL GOING TO DIE."

Peter Cuneo

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CUNEO: "TURNAROUNDS REQUIRE THREE THINGS"

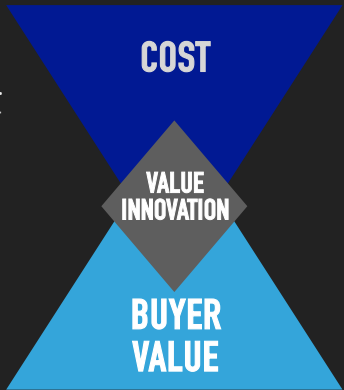
- ✓ **Cost Reduction**
- ✓ **Revenue Growth**
- ✓ **Strategic Leaps**

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THE MARVEL WAY: RESTORING A BLUE OCEAN

THE VALUE COST TRADE-OFF

- ▶ **Competitive Strategy:** Increasing value requires cost. Reduce cost *or* increase buyer value.
- ▶ **Blue Ocean Strategy:** Delivering higher value does not require higher cost. Simultaneously reduce costs *and* dial-up buyer value.



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UNDERSTANDING THE VALUE/COST TRADE-OFF IS VITAL TO UNDERSTANDING BLUE OCEAN STRATEGY

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COMPETITIVE STRATEGY

- ▶ Consider Marvel's position using Competitive Strategy:
- ▶ **Strengths:** great storytellers but many were alienated and angry.
- ▶ **Weaknesses:** Marvel had to pay \$30M annually in interest alone – they almost missed payroll.
- ▶ **Opportunities:** Nobody wanted to do business with Marvel. Customers were boycotting their core product.
- ▶ **Threats:** Bankruptcy.



COMPETITIVE STRATEGY SUGGESTS MARVEL WAS DOOMED. AND YET...


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VALUE INNOVATION

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THE MARVEL WAY: RESTORING A BLUE OCEAN

BREAKING THE VALUE/COST TRADE-OFF: VALUE INNOVATION



COST


- ▶ **ELIMINATE** - Which of the factors that the industry takes for granted should be *eliminated*?
- ▶ **REDUCE** - Which factors should be *reduced well below* the industry's standard?



BUYER VALUE


- ▶ **RAISE** - Which factors should be raised *well above* the industry's standard?
- ▶ **CREATE** - Which factors should be *created* that the industry has never offered?

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WE REFER TO THE PROCESS OF ELIMINATING, REDUCING, RAISING, AND CREATING AS THE **FOUR ACTIONS FRAMEWORK**.

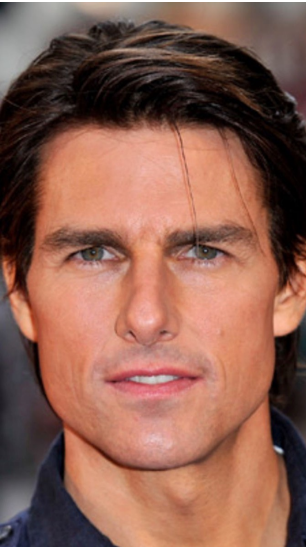
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"THE INDIRECT OVERHEAD, AT THAT TIME, ON A MAJOR MOVIE FROM A STUDIO WAS THIRTY PERCENT. THAT MEANS **ONLY 70% OF THE BUDGET WAS ACTUALLY BEING SPENT MAKING THE FILM**. WHEN MARVEL STARTED OUR INDIRECT OVERHEAD WAS 3%. SO IMMEDIATELY WE WERE SAVING CLOSE TO 30% ON THE COST OF THE FILM." - PETER CUNEO

ELIMINATE

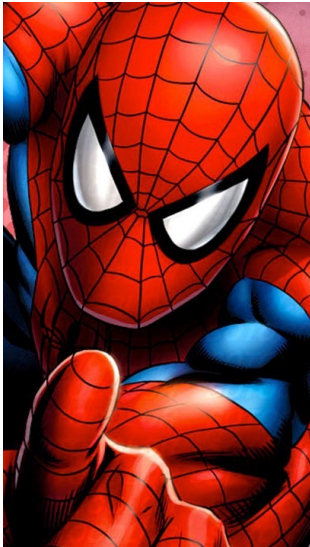
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"OUR CULTURE FOR MAKING FILMS WAS VERY DIFFERENT. IN CASTINGS - AND THIS IS TRUE EVEN WHEN WE HAD STUDIO PARTNERS - WE THOUGHT THAT OUR CHARACTERS WERE THE HEROES. SO **WE DID NOT NEED TO CAST BIG HOLLYWOOD NAMES THAT WERE VERY COSTLY**." - PETER CUNEO

REDUCE


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"THE KEY TO ENTERTAINMENT IS ALWAYS TO HAVE A **VERY STRONG EMOTIONAL BOND** BETWEEN YOUR INTELLECTUAL PROPERTY - IN THIS CASE CHARACTERS - AND YOUR FANS. IF YOU DON'T HAVE THAT YOU CAN'T WIN." - PETER CUNEO

RAISE

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“... WHAT THE CREATIVE COMMITTEE WAS DOING IS BASICALLY MAKING SURE THAT THE STORYLINES, THE ESSENCE OF OUR CHARACTERS, WAS MAINTAINED REGARDLESS OF WHAT MEDIA FORM OR WHAT CONSUMER PRODUCT CATEGORY WE WERE COMPETING IN.”

“BECAUSE WE HAD THE NUMBER ONE TRACK RECORD IN THE HISTORY OF HOLLYWOOD WHEN IT CAME TO LIVE-ACTION FILMS – AND I’M USING THE MEASUREMENT OF AVERAGE WORLDWIDE BOX OFFICE – WE WERE ABLE, BECAUSE OF THAT TRACK RECORD, TO FORM A FINANCING THAT GAVE AWAY NO EQUITY. IT WAS A DEAL THAT WAS UNIQUE, HAD NEVER BEEN DONE BEFORE, AND I DARE SAY WILL NEVER BE DONE AGAIN.” – PETER CUNEO

CREATE

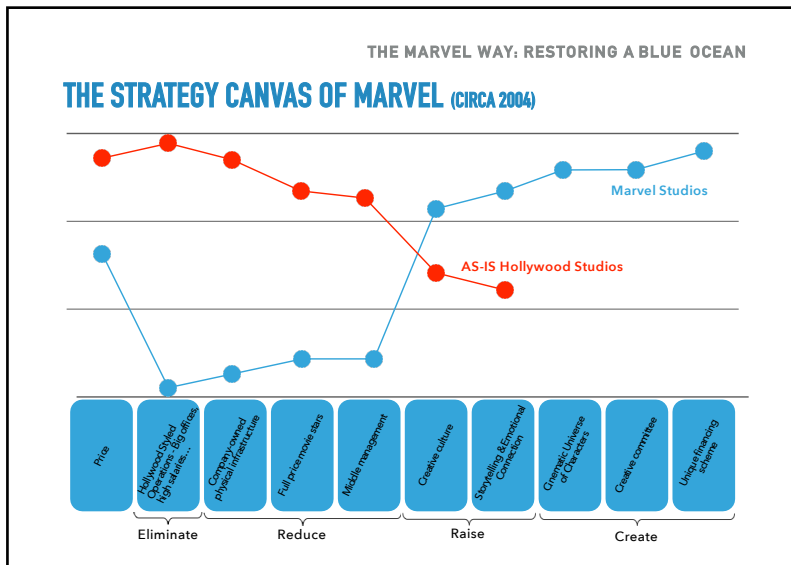
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MARVEL: ELIMINATE-REDUCE-RAISE-CREATE GRID

<p>ELIMINATE</p> <p>Hollywood Styled Operations - Big offices, high salaries...</p>	<p>RAISE</p> <p>Creative culture Storytelling & Emotional Connection</p>
<p>REDUCE</p> <p>Middle management Full price movie stars Company-owned physical infrastructure</p>	<p>CREATE</p> <p>Creative committee Unique financing scheme Cinematic Universe of Characters</p>

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VALUE EXTRACTION VS. VALUE INNOVATION


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PETER CUNEO

Video: Part B

"Changing the culture of an organization from a losing culture to a winning culture takes time. You can't just walk the halls talking about it. You have to demonstrate that the new values that you believe in are one's that you're going to live up to. It requires action to back those up. Over time, when people see that you really mean what you're saying, then you're going to be in better shape." - Peter Cuneo

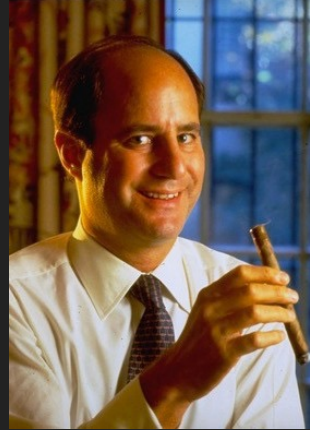


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**VALUE EXTRACTION:
RONALD PERELMAN**

- ▶ Invested about \$10 million of his personal wealth.
- ▶ Extracted about \$300 million; mainly from bonds issued in the businesses name.
- ▶ Left the business bankrupt, the staff decimated, comic retailers closed, fans angry, & remaining employees demoralized.



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"For Mr. Perelman, walking away from Marvel appears to be humiliating -- he will be remembered as the man who bought a successful company and ran it into the ground..."


An Agreement Is Reached In Marvel Rift. Floyd Norris.
The New York Times, March 8, 1997

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**VALUE INNOVATION:
ISAAC "IKE" PERLMUTTER**

- ▶ Purchased Toy Biz out of bankruptcy. Price unknown though believed to be inexpensive.
- ▶ Used position from Toy Biz to acquire Marvel from bankruptcy.
- ▶ Hired Cuneo, Maisel, & others to reinvigorate and rebuild Marvel.
- ▶ Personally received \$800 million in cash plus \$590 million in Disney stock when Disney acquired Marvel: \$1.39 billion.



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"I think it all started at the board level. We never asked our senior managers to find money in the short-term to make a particular goal. We really had th long-term in mind at all times. We never ran the business to exit, to be sold. We ran the business for continuous growth in the value of the stock. ... We were very disciplined to the long-term which is very hard to do by the way."

Peter Cuneo

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**ALIGNING VALUE,
PROFIT, &
PEOPLE**

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THE MARVEL WAY: RESTORING A BLUE OCEAN

ALIGNING VALUE, PROFIT, & PEOPLE

"For any strategy to be successful and sustainable, an organization must develop an offering that attracts buyers; it must create a business model that enables the company to make money out of its offering; and it must motivate the people working for or with the company to execute the strategy. While good strategy content is based on a compelling value proposition for buyers with a robust profit proposition for the organization, sustainable strategy execution is based largely on a motivating-people proposition. Motivating people requires more than overcoming organizational hurdles and winning people's trust with fair process. It also rests on aligned and fair incentives."

Blue Ocean Strategy, Expanded Edition. Ch. 9

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DIEHARD FANS WILL SALIVATE, WHILE NEWBIES WILL FIND THEMSELVES DRAWN IN BY DOWNEY'S BEGUILING COOL, HIS CHARACTER'S UNEXPECTED PATHOS, AND A SUIT OF ARMOR WE'LL ALL WANT FOR CHRISTMAS.

— REVIEW OF IRON MAN. COLE HADDON, EAST BAY EXPRESS

VALUE


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"IT IS EXTREMELY RARE FOR A COMPANY TO FIND A NEW STRATEGY THAT COULD ADD MULTIPLES TO THE VALUATION OF THE BUSINESS. THAT WAS THE FORTUNATE SITUATION WHERE WE FOUND OURSELVES IN 2004."
- MARVEL STUDIO CREATOR DAVID MAISEL

PROFIT

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"IF YOU AS AN ORGANIZATION CAN'T HANDLE A CULTURE WHICH REWARDS PEOPLE WITH CRAZY IDEAS, OF PEOPLE WHO ARE DIFFICULT TO DEAL WITH, THEN YOU'RE NOT GOING TO BE SUCCESSFUL IN A CREATIVE BUSINESS. YOU WANT TO CREATE AN ATMOSPHERE WHERE THOSE PEOPLE FEEL GOOD ABOUT WHERE THEY'RE AT, AND PROSPER... LET THEM KNOW THAT YOU APPRECIATE WHAT THEY DO." - MARVEL FORMER CEO PETER CUNEO

PEOPLE

Stan Lee

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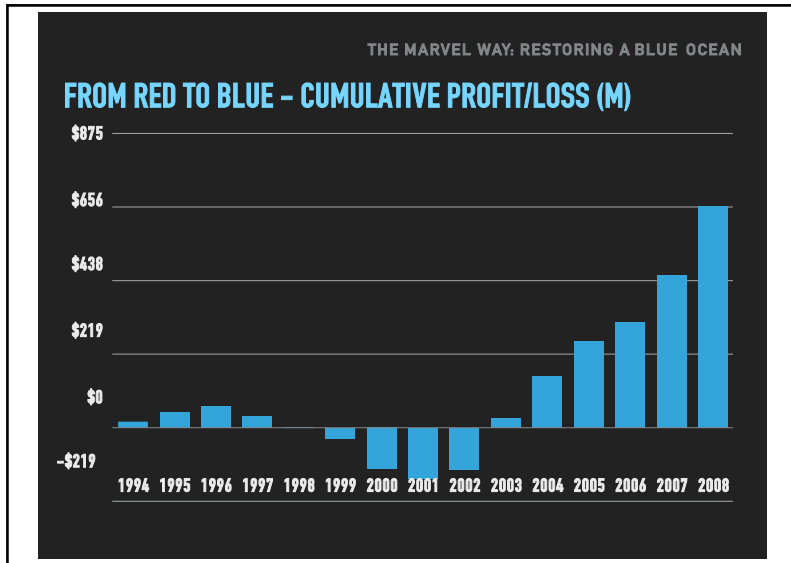
"Human beings generally do not like change, even positive change. We all like to cocoon in our lives. We have our patterns. Disrupting those patterns can sometimes be very upsetting. Certain leaders just can't make those hard decisions. They don't, unfortunately, let people go if necessary. They don't want to disrupt people. But, of course, you have to to save a business. **You have to make those changes."**

Peter Cuneo

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BLUE OCEAN RESULTS

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JUST UNDER 11 YEARS AFTER EXITING BANKRUPTCY DISNEY ACQUIRES PERLMUTTER'S MARVEL FOR \$4.2 BILLION

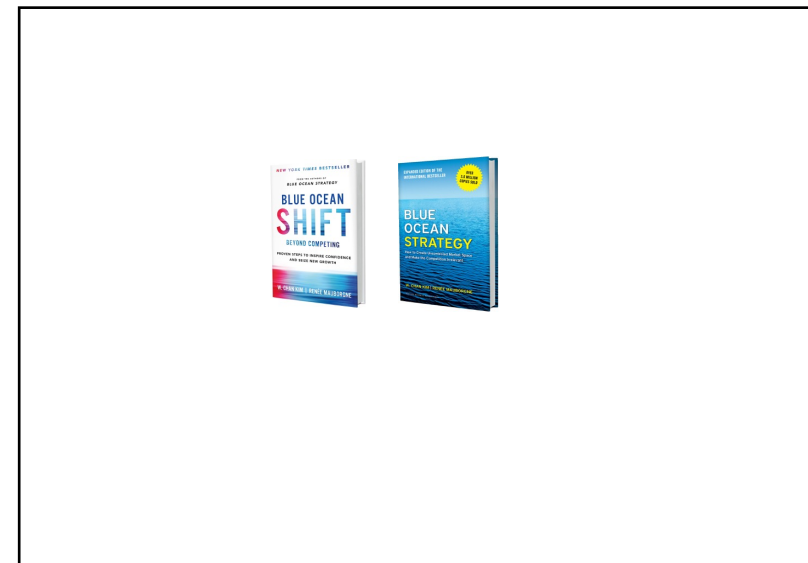
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IRON MAN	IRON MAN 2	IRON MAN 3	THOR	THOR THE DARK WORLD	CAPITAIN AMERICA	THE AVENGERS
\$585M	\$263M	\$623M	\$449M	\$371M	\$1.5B	
IRON MAN 2	THOR	CAPITAIN AMERICA	GUARDIANS OF THE GALAXY	THE AVENGERS AGE OF ULTRON	ANTMAN	
\$1.2B	\$633M	\$714M	\$774M	\$1.4B	\$519M	

All figures worldwide box office revenue

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