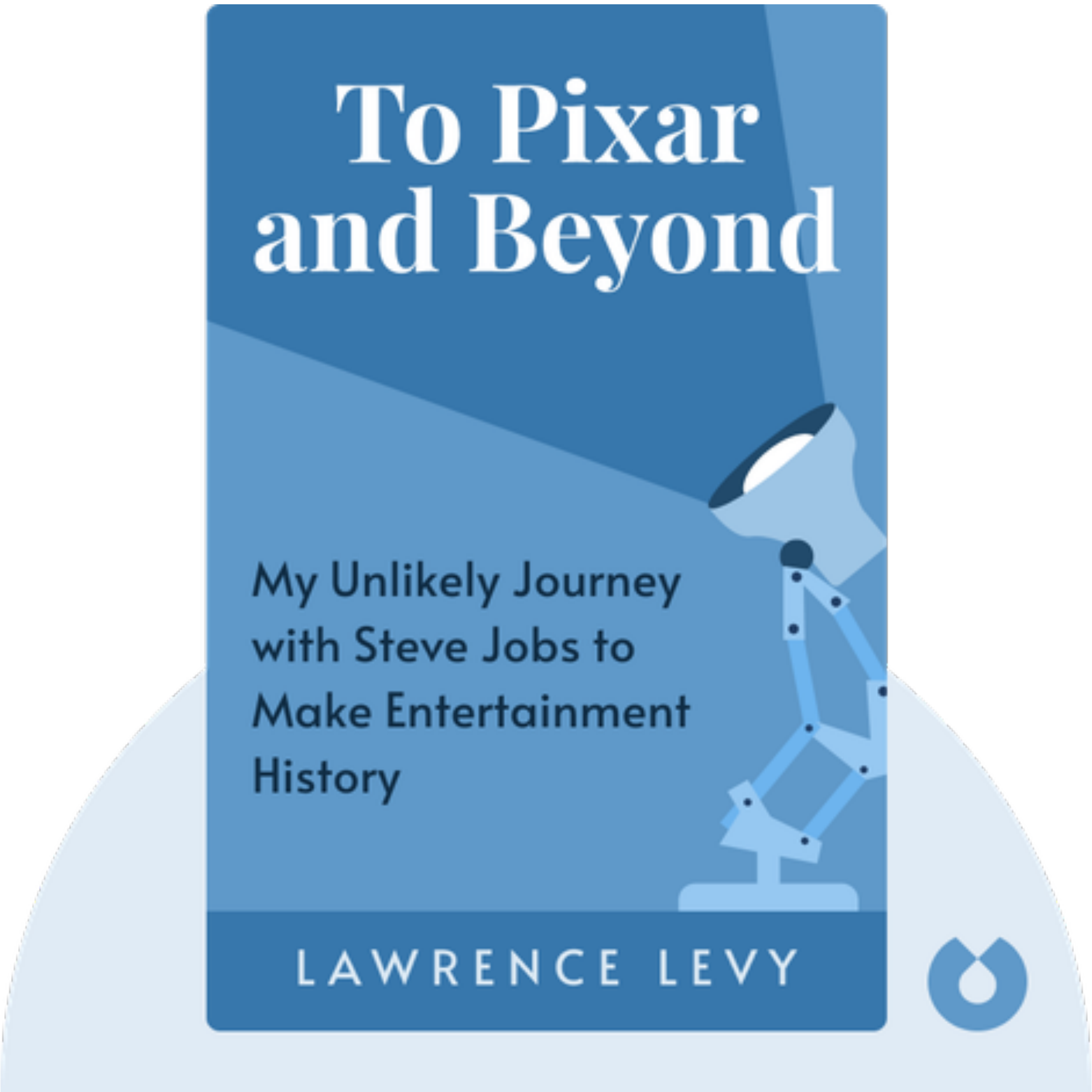

To Pixar and Beyond

My Unlikely Journey with Steve Jobs to Make Entertainment History

By Lawrence Levy

15-minute read

Synopsis

To Pixar and Beyond (2016) tells the story of how Lawrence Levy and Steve Jobs turned an unknown and struggling computer imaging company – Pixar – into an animation studio worth billions of dollars. Along the way, the company faced numerous internal and external challenges, tackling each with creative and strategic decisions that ultimately led to its success.

Who is it for?

- Leaders of organizations or start-ups
- Animation fans inspired by Pixar's work
- Entertainment buffs interested in the business side of things

About the author

Lawrence Levy is a Harvard Law School graduate who started his career at Silicon Valley's largest law firm, Wilson Sonsini Goodrich & Rosati. He later became an executive at Electronics for Imaging, a color desktop publishing start-up, and in 1994, he joined Pixar as its executive vice president and chief financial officer. In 2003, Levy cofounded Juniper Foundation, an organization that promotes traditional meditation practices for the modern world.

What's in it for me? Learn how Pixar succeeded against overwhelming odds.

Way back in 1995, Pixar released a little film called *Toy Story*. It was an immediate hit with audiences and critics alike, and, since then, the studio has built and maintained a reputation for producing magical and inspiring entertainment. Pixar continues to release hit after hit – to the tune of $14 billion in box office sales worldwide.

But let's rewind. When Lawrence Levy joined Pixar in 1994, its current success was unimaginable. The company had already lost Steve Jobs $50 million, and it was surviving on monthly checks from his personal account. These blinks tell the story of how, in the face of numerous challenges, Levy and Jobs developed and implemented the strategy that would turn Pixar around.

In these blinks, you'll discover

- why Lawrence Levy had doubts about joining Pixar;
- what Mozart and blockbusters have in common; and
- the link between Pixar and Buddhism.

The prospect of working in an inspirational environment lured Lawrence Levy to Pixar.

In November 1994, Lawrence Levy received a life-changing phone call. At the time, Levy was CFO at a desktop publishing start-up called Electronics for Imaging. One day, he was told that none other than *Steve Jobs*, the cofounder of Apple, was on the line. Although Jobs had left Apple ten years prior, he was still a notable figure in Silicon Valley – a call from him was a big deal.

Jobs wanted to talk about Pixar, a small imaging computer and software company he owned. He wanted Levy to help run it, develop its strategy, and eventually take it to the stock market. After all, Levy had done the same for other Silicon Valley start-ups.

The catch? Pixar wasn't doing well. But despite that, it still looked like an incredible opportunity to Levy.

The key message here is: The prospect of working in an inspirational environment lured Lawrence Levy to Pixar.

To get a better sense of what lay ahead of him, Levy did some research on Pixar. No one he asked knew how the company was staying afloat. As it turned out, Jobs was writing monthly checks to keep it running. At that point, he'd already poured $50 million into the company.

Pixar's future definitely looked bleak, and Levy worried he'd be risking his career by jumping on board. But a tour of the company's facilities made him reconsider.

Levy met Pixar's cofounder, Ed Catmull, who showed him a scene from a new film project: *Toy Story*. Levy was blown away. *Toy Story* would go on to become the world's first feature-length computer-animated film, but it wasn't just technically impressive. The storytelling transported Levy, to the point where he found himself empathizing with the toys on the screen!

Afterward, Levy got a glimpse into how the film was created. He met John Lasseter, Pixar's creative lead, and saw some of the company's tools. There was a hand-built machine that transferred computer images onto film, thousands of highly detailed storyboards, and computers that produced each frame of the movie. Everything Levy saw convinced him that Catmull and Lasseter were destined to succeed and that it would be an honor to work with them.

Nonetheless, he still had doubts about joining Pixar. He wasn't sure how the company could become viable. And while he'd easily connected with Jobs, Levy was wary of the man's reputation for being difficult. Ultimately, the opportunity was simply too intriguing to pass up. Levy accepted the role of executive vice president and chief financial officer at Pixar.

When Levy joined Pixar, none of the company's projects looked like winners.

When Levy joined Pixar in February 1995, everyone was polite but something seemed off. People were keeping him at a distance, and he soon discovered why.

Pixar employees weren't exactly fond of Steve Jobs. They felt he wasn't one of them and feared he would ruin the company culture. Plus, he hadn't delivered on a promise to give them stock options. Levy had been hired by Jobs, so he inherited employees' distrust.

It wasn't the welcome Levy might have hoped for, but rather than dwelling on it, he decided to take advantage of the situation. If people weren't going to invite him to meetings or social events, he'd have more time to understand Pixar's work and find a way for the company to make money. Unfortunately, that's not what happened.

The key message here is: When Levy joined Pixar, none of the company's projects looked like winners.

To familiarize himself with Pixar's work, Levy considered all the major projects one by one. First up was a software program called RenderMan, which created photo-realistic computer images. The market for these wasn't big enough to generate a substantial profit. However, Levy saw an opportunity in RenderMan's main feature, *motion blur*, which made computer images look like live-action film.

Pixar owned the patent to motion blur, making it difficult for anyone else to legally create their own rendering technology. This was a chance to make money. Pixar signed licensing agreements with Microsoft and Silicon Graphics, which put a few million dollars into its accounts.

The injection of cash was a great short-term win. But Levy wasn't as lucky with Pixar's other projects.

Take the company's animated commercials and short films, for example. Its commercials were high-quality, but producing them was expensive and labor-intensive. Similarly, Pixar's short films were groundbreaking but far from cost-effective. They were only made as passion projects, or to test and showcase Pixar's capabilities.

This left just one project: *Toy Story*. The feature-length film was part of a production agreement with Disney. Under this agreement, Pixar would make three movies that Disney would fund and market. But even if Pixar's films did as well as some of Disney's blockbusters, the terms of the contract would limit Pixar's share of annual profits to around $4 million – hardly enough to grow a company.

Moreover, Pixar couldn't make films with anyone else until the Disney agreement was fulfilled. This would take nearly *ten years*. As far as Levy was concerned, making the money Pixar desperately needed seemed impossible.

The entertainment industry was Pixar's best hope of becoming profitable – but it was risky.

Ever heard the saying, "Where there's a will, there's a way?" Well, Levy's quest to make Pixar profitable is a great example of just how true that is. Though the financial situation seemed hopeless, Levy continued to research options. Eventually, he stumbled onto something that seemed to lead the way to a solution: home video.

According to Levy's research, most of Disney's profits from films such as *The Lion King* and *Aladdin* came from home video sales. The lesson was clear – families around the world wanted to watch great animated films at home. That made home entertainment big business, and Pixar could get a piece of it by becoming a dedicated animated film studio.

The key message here is: The entertainment industry was Pixar's best hope of becoming profitable – but it was risky.

Going all-in on entertainment was an exciting prospect, but it came with its own challenges. A little research showed Levy that even Disney, "the undisputed king of animation," had struggled financially at first. The company had stayed afloat by diversifying; by the time Levy arrived at Pixar, Disney was involved in film distribution, theme parks, and even live-action films like *Mary Poppins*. To Levy, this indicated that a sole focus on animation was a gamble. And Pixar didn't have Disney's safety net of billions of dollars – there'd be no theme park, distribution deals, or live-action films to save the day if things went south.

Then there was the matter of eventually taking Pixar to the stock market through an *Initial Public Offering*, or *IPO*. This was high on Levy's list of priorities and Pixar's only real hope of raising funds. But for entertainment companies, IPOs were especially difficult. In fact, at the time, no modern animation company had had a successful one.

According to Levy's research, only two out of ten films were profitable. Such stats wouldn't encourage Wall Street investors to buy stock in Pixar, and without the investors, there would be no IPO. That led to another difficult question: How exactly would Pixar's films make money? When he finally had a financial model, Levy realized that generating the kind of profit growth investors preferred was going to be a challenge. If Pixar was going to stand a chance as an animation-focused entertainment company, it needed a solid business plan. Developing this was the next task.

Pixar's success rested on a four-pillar business plan.

Anything you build, whether it's a house, a relationship, or a business, has to have a solid foundation in order to stand the test of time.

By the summer of 1995, Lawrence Levy, Steve Jobs, and Ed Catmull had concluded that making animated feature films wasn't going to be easy – but it was Pixar's only real shot at success. To maximize its chance of succeeding, they developed a business plan consisting of four strong pillars.

The key message here is: Pixar's success rested on a four-pillar business plan.

The four pillars that Pixar's future success rested on represented the steps the company would have to take in order to become a viable business. The first? Getting Pixar a larger share of its film profits. Under the terms of the Disney agreement, Pixar would receive less than 10 percent of the profits from each film. After many calculations, the team determined that they needed to increase this number to at least 50 percent.

But simply asking Disney wouldn't get them there. In Hollywood at the time, two things gave people the power to negotiate better terms: status and money. Raising the latter through an IPO was Pixar's second pillar. Having enough funds would allow Pixar to cover some of its production costs, enabling it to credibly start a conversation about larger profit shares with Disney. Levy and Jobs estimated that the magic number was $75 million – enough to chip in for two films.

Further calculations informed the third pillar. Pixar was making just one film at a time, meaning it could only release a new film every four or five years. This was far from the one film a year that it needed. The solution? Growing the company so that it could develop a number of films at once.

The fourth pillar dictated that those films had to have the Pixar name on them. As per the agreement, Disney got the credit for Pixar's productions. *Toy Story* posters, for example, presented the film as "Disney's *Toy Story*," not Pixar's. If Pixar was going to be an established animation company, people needed to know that it was behind its own films.

Backed by a stellar team of investment banks, Pixar's IPO journey ended with a billion-dollar valuation.

In the middle of 1995, Lawrence Levy and the rest of the team turned to the most critical of Pixar's four pillars – raising money through an IPO. To get into the IPO game, Pixar needed investment banks to connect it with investors who'd be interested in buying stock in the company. Although Steve Jobs wanted to work with industry leaders Goldman Sachs and Morgan Stanley, both banks declined. They didn't like the unpredictability of the film business, or the idea of potentially waiting years for a better deal with Disney.

Fortunately, this wasn't the end of the story.

The key message here is: Backed by a stellar team of investment banks, Pixar's IPO journey ended with a billion-dollar valuation.

With *Toy Story* due for release at the end of 1995, Pixar was building momentum. That made it the ideal moment to bring investment banks on board. The next window of opportunity wouldn't be until another film was completed – in several years' time.

It was a long shot, but Levy thought that getting two investment banks, one familiar with the tech industry and another with Hollywood credibility, was the best strategy. To this end, he approached Robertson Stephens, a Silicon Valley investment bank with a great reputation. The bank surprised Levy by coming on board.

The next to join was Cowen and Company, a boutique bank that understood entertainment and had credibility in the industry. It even had a prominent entertainment analyst, Hal Vogel, on its team. After that, Pixar scored a bonus backer – Hambrecht and Quist, an investment bank that had worked on Apple's IPO.

With that, Pixar went from no investment bank to three! From that point forward, its future depended on its valuation in the IPO – and on *Toy Story*'s opening weekend.

The investment banks predicted that Pixar would be valued at $700 million on the stock market. Jobs, however, had grander ambitions; he hoped for a valuation of $2 billion. As for *Toy Story*, Levy and Jobs speculated that the film might make $100 million, but this required opening weekend sales of at least $15 million – three times the average for animated feature films.

In November 1995, when the film was finally released, the numbers exceeded expectations. *Toy Story*'s weekend box office sales hit almost $30 million, and the movie eventually brought in over $190 million! Pixar's valuation rocketed to $1.5 billion on the day of its IPO. While that number fell short of Jobs's expectations, it still made him a billionaire.

Producing more great films meant investing in, and trusting, Pixar's story team.

After Pixar's billion-dollar IPO, and *Toy Story*'s triumph at the box office, the team still had work to do. The IPO had given them $140 million to pump into the business; in order to make the most of it, they had to create more hit movies.

But making another blockbuster was, as Levy put it, like attempting to clone Mozart. And Pixar didn't just need more great movies. Based on one of the business pillars, it needed them more often. This was the next challenge, and the story team was front and center.

The key message here is: Producing more great films meant investing in, and trusting, Pixar's story team.

For Pixar, churning out more films wasn't a simple matter – the story team's capacity had to be factored in. Ideally, the company needed to release at least one film a year. However, the story team was made up of just five people. Creating a film a year would be an enormous task, and would likely jeopardize the quality of the films. As a compromise, the decision was made to space film releases 18 months apart instead. But this was risky. Every film would have to be a big hit if Pixar was going to remain financially viable.

Even with this new time frame, Pixar needed a bigger story team – three to four times bigger, to be exact. The company had to recruit the most talented artists and technical wizards, and train them to hit the ground running. To achieve this, Ed Catmull created Pixar University, a school dedicated to training employees, developing their skills, and fostering their creativity. To lead the production staff, Pixar hired Sarah McArthur, a former Disney executive who'd worked on movies like *The Lion King*.

Having the right recruitment and training process was essential, but something else was equally important: determining who would make creative decisions.

Someone had to give story pitches the go-ahead. The same went for storyboards, dialogue, how characters looked, who voiced them, and even the length of the movie. A wrong call on any of these matters could easily cost tens of millions of dollars or lead to a flop. So, naturally, giving the story team too much freedom was a concern.

Levy, Jobs, and Catmull were tempted to give themselves the final say on creative issues, but an appeal from John Lasseter, Pixar's creative lead, changed their minds. Lasseter argued that full creative control for him and his story team was the only way to make heartfelt movies that would connect with audiences.

Success allowed Pixar to dictate better terms in its new deal with Disney.

By the end of 1996, Pixar had raised more money than anyone had anticipated. And it was on its way to making more great animated films.

This left two pillars of the business strategy to tackle – namely, increasing Pixar's share of film profits and establishing the brand. The company's three-film agreement with Disney covered both these pillars. Pixar had two options: try to negotiate new terms immediately, or wait years for a better deal.

Levy and Jobs decided to renegotiate. After all, *Toy Story* had been a huge success and Pixar now had enough money to contribute to film production costs. The company finally found itself bargaining from a position of strength.

The key message here is: Success allowed Pixar to dictate better terms in its new deal with Disney.

Pixar's success gave Levy and Jobs leverage for negotiation, and they knew it. Keeping in mind the final two pillars, they began listing the company's needs. To begin with, Pixar's share of profits needed to increase to 50 percent, and all films had to carry Pixar's branding. The company also wanted its story team to be able to work without any interference from Disney. Lastly, Pixar wanted summer and holiday release dates for its movies. This would give them the best shot at box office success. If Disney said no to even one of these demands, Pixar was prepared to walk away from negotiations.

Six months into talks with Disney, that's precisely what happened.

When it came to branding, Disney CEO Michael Eisner simply wasn't willing to give Pixar equal billing. For Pixar, this wasn't just business. It was a matter of principle. Pixar viewed its creations as its children; having another company's name on them just didn't feel right.

Things didn't end there, though. Months later, Eisner approached Jobs and Levy with a proposal. Disney would give Pixar equal billing in exchange for the right to buy Pixar stock. This would enable Disney to benefit financially from promoting the Pixar brand. So long as Disney couldn't control Pixar through the stock it bought, Levy and Jobs were happy with this arrangement.

Just like that, the negotiations were back on. Over a few weeks, the two companies hashed out the terms of the new deal. And on February 24, 1997, they signed an agreement that gave Pixar everything it had asked for. Equal share of the profits, credit for its hard work – the four pillars of its business strategy were complete.

Levy and Jobs learned a lot about life on their journey with Pixar.

Pixar signed its new deal with Disney in February 1997. It was a big month for the company, one that would kick off years of incredible success. Pixar went on to release *five* award-winning blockbusters plus a hugely popular *Toy Story* sequel. On average, each of these films made more than $250 million at the box office. By 2005, Pixar's winning streak had pushed its stock market value to a whopping $6 billion! But Levy and Jobs feared the value would plummet if Pixar's growth slowed down even slightly. To reduce the risk, they sold Pixar to Disney in a massive $7.4 billion deal.

February 1997 was also a big month for Steve Jobs personally. That month, Apple bought NeXT Computer from him; months later, he returned to Apple himself.

The key message here is: Levy and Jobs learned a lot about life on their journey with Pixar.

Levy believed that Jobs learned invaluable lessons from his time at Pixar. Years later, after Pixar was sold to Disney, he discovered that this was true for him, too.

According to Levy, Pixar was where Jobs learned about the entertainment industry – and how to balance creativity and practical business decisions. This knowledge, combined with Jobs's eye for aesthetics and product expertise, enabled him to become a creative force at Apple.

As for Levy himself, the lessons from his time at Pixar became clear while exploring a fascination with philosophies of human experience.

He discovered the *Middle Way*, a Buddhist philosophy that teaches the importance of balancing structure and fluidity. One way to think about the Middle Way is by imagining there are two sides to a person. One side is the artist, who values creativity and adventure. The other side is a bureaucrat concerned with practical things like paying bills. Both sides have to be in harmony for a person to thrive.

And the same is true for a business. Levy saw Pixar as a metaphor for the Middle Way. Focusing the company on animation entertainment gave it much-needed direction, while the four-pillar business strategy provided a means to achieving its goal. With these two components in balance, Pixar gained momentum.

When creative freedom was added to the mix, it found its sweet spot and became the successful company it is today.

Final summary

The key message in these blinks:

Pixar's success wasn't easy to achieve. The company was losing money and didn't have a business strategy to speak of. Although it was a long shot, becoming an entertainment business emerged as the only path to viability. To do this, Pixar focused on four pillars: getting a bigger portion of its film profits, raising funds through an IPO, making more movies, and becoming a well-known brand. While navigating doubts, rejections, and the needs of the creative team, Pixar managed to achieve the impossible – arming the author with invaluable life lessons along the way.

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What to read next: *Creativity, Inc.*, by Ed Catmull and Amy Wallace

Now that you've learned how Pixar transformed the business side of things, why not take a deep dive into its approach to creativity? In *Creativity, Inc.*, Pixar cofounder Ed Catmull takes you into Pixar's meeting rooms and workspaces, revealing ideals and methods that resulted in smash hits like *Toy Story*, *Finding Nemo,* and *Inside Out*. To pick up some of these tips and tricks, and perhaps make them a part of your own work, head over to the blinks to *Creativity, Inc.*