STRATEGY CAPSULE 5.4

Resource Utilization: Revival at Walt Disney

In 1984, Michael Eisner became CEO of the Walt Disney Company. Between 1984 and 1988, Disney's net income increased from $98 million to $570 million, and its stock market valuation from $1.8 billion to $10.3 billion.

The key to the Disney turnaround was the mobilization of Disney's considerable resource base. With the acquisition of Arvida, a real estate development company, Disney's land holdings in Florida were developed into hotels, convention facilities, residential housing, and a new theme park, the Disney-MGM Studio Tour.

To exploit its huge film library, Disney began selling the Disney classics on videocassette and licensing packages of movies to TV networks. To put Disney's underutilized movie studios to work, Eisner doubled the number of movies in production and made Disney a major producer of TV programs.

Supporting the exploitation of these tangible resources was Disney's critically important intangible resource: the enduring affection of millions of people across generations and throughout the world for Disney and its characters. As a result, Disney's new management was able to boost theme park admission charges, launch a chain of Disney Stores to push sales of Disney merchandise, and replicate Disney theme parks in Europe and Asia.

of a firm's resources, encompasses three main types of resource: tangible, intangible, and human.

Tangible Resources Tangible resources are the easiest to identify and value: financial resources and physical assets are valued in the firm's balance sheet. Yet, accounting conventions—especially historic cost valuation—typically result in tangible resources being misvalued. The Walt Disney Company's annual accounts for 2014 valued its entire movie library—based on production cost less amortization—at a mere $1.4 billion and its total land assets (including its 28,000 acres in Florida) at a paltry $1.2 billion.[8]

However, the primary goal of resource analysis is not to value a company's tangible resources but to understand their potential for generating profit. This requires not just balance sheet valuation but information on their composition and characteristics. With that information we can explore two main routes to create additional value from a firm's tangible resources:

- What opportunities exist for economizing on their use? Can we use fewer resources to support the same level of business or use the existing resources to support a larger volume of business?
- Can existing assets be deployed more profitably?

Strategy Capsule 5.4 discusses how Michael Eisner's turnaround of Walt Disney during the mid-1980s used both these approaches.

Intangible Resources For most companies, intangible resources are more valuable than tangible resources. Yet, in companies' balance sheets, intangible resources tend to be either undervalued or omitted altogether. The exclusion or undervaluation of intangible resources is a major reason for the large and growing