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New CEO is no Iger but he speaks fluent Disney

Chapek is steeped in the culture and seen as focused, driven

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Walt Disney Co.'s appointment of theme parks boss Bob Chapek as its new chief executive, replacing Bob Iger, took Hollywood and Wall Street by surprise. The decision, announced Tuesday, ended nagging speculation about the succession plan for Iger.

But the sudden move also raised new questions — why now, and why Chapek?

Many analysts and Hollywood insiders had thought the job would go to Disney's hard-charging direct-to-consumer chairman, Kevin Mayer, who oversees the company's streaming efforts, including Disney+, ESPN+ and Hulu.

Bob Chapek, right, is Chief Executive Officer of Walt Disney Co., replacing Bob Iger, left. (Business Wire)

But the Disney board instead chose Chapek, a 27-year veteran of the Burbank-based company, who brings a straightforward managerial style and deep operational experience across key Disney businesses, including theme parks, consumer products, home entertainment and film distribution.

People who have worked with Chapek said that he is focused, driven and passionate about Disney's products and culture.

As head of Disney's parks, experiences and products segment, Chapek (pronounced Chay-peck) oversaw 170,000 employees and led massive expansions with Star Wars attractions in Anaheim and Orlando. His portfolio also included a global cruise ship business and toys. He speaks fluent Disney, having spent three decades immersed in the company's brands and iconic culture.

In a call with analysts, Chapek said his parents, a World War II veteran and a working mother in Hammond, Ind., took him to Walt Disney World in Orlando every year. "That's where I first developed a deep love for Disney and all that it stands for," he said. He's now become only the seventh chief executive in the 100-year history of the company.

Despite the surprise of the announcement, analysts praised Chapek as a logical choice.

"He understands the business from an international perspective, an operating perspective, the development side, and from a business perspective," said Bill Coan, chief executive of Itec Entertainment, a developer of theme park attractions and a former Walt Disney Imagineering employee. "It's been his job to take the Pixar brand, the Marvel brand and the "Star Wars" brand, and make it function across all these businesses, and we think he's been very successful at that."

Yet, the 60-year-old executive, who studied microbiology in college and got an MBA from Michigan State University, lacks direct experience with two of the company's most important segments: television and streaming. Chapek faces several immediate challenges on both fronts, including the expansion of its streaming services and the continued erosion of the traditional television business, long fueled by ESPN profits.

And while he's held major roles on the business end of the company's film studio, he has not overseen the creative parts of moviemaking. On the parks side, the coronavirus is expected to hit profits at Disney's parks in Shanghai and Hong Kong, Disney has said. The outbreak also has raised questions about next month's release of the much-anticipated live action remake of "Mulan."

Additionally, Chapek will have to deal with the pressure of living up to Iger, who is leaving on a high note. Disney's movie studio posted a record year at the box office. Iger transformed the company through acquisitions of Pixar, Marvel, Lucasfilm and 21st Century Fox.

Iger, 69, will remain at the company for nearly two years, overseeing creative endeavors as newly appointed executive chairman, meaning he'll be very much still in the picture. Iger will also guide the transition to Chapek, who will report to him and the board.

"Bob's leaving on top, with his legacy intact. What happens from here is on Bob Chapek's watch," said Los Angeles investment banker Lloyd Greif. "And he's facing a tall order, with all of the challenges barreling down the track at Disney. Iger's a tough act to follow any way you cut it."

Iger, in an interview with CNBC, downplayed any confusion or tension that may come from the new structure, saying: "We're not really concerned about that. Bob is going to be running the company and running the day-to-day businesses."

There is a long list of companies that struggled when a larger-than-life leader hovered around. Starbucks' founder, Howard Schultz, famously came back multiple times to lead the company. Michael Dell found it difficult to give up his role at the computer company that bears his name, and Phil Knight continued to stay involved at Nike.

"Some of these guys acted more like a returning general. If there was a minor misstep, they made a triumphant return to power and glory," said Jeffrey Sonnenfeld, an associate dean at the Yale School of Management. "Ideally, they should be more of an ambassador, and work as an elder statesman."

Sonnenfeld said he thought Iger would give Chapek the space he needs. "I think Iger will do quite well because he has other interests," Sonnenfeld said, noting that similar structures have worked well at computer chip maker Intel and when Bill Gates turned the reins over to Steve Ballmer at Microsoft.

Iger, in the analyst call, said the company has been involved in succession planning for several years and that the board felt comfortable with Chapek.

By announcing the transition in February, Iger blunted questions about succession — and his large pay package — that were likely to become topics at the company's annual shareholders meeting on March 11.

Still, the sudden shift underscores what Iger believes is the most pressing need for Disney: shoring up its programming pipeline so that Disney's trio of streaming services will succeed. He also mentioned that he wanted to spend more time working with TV and movie studio executives growing Hulu and ESPN+.

"In thinking about what I want to accomplish before I leave the company the end of 2021, getting everything right creatively will be the No. 1 — my No. 1 — goal," Iger told analysts.

The company is not just relying on Disney+, which has found its niche with children's programming and satisfying fans who crave new "Star Wars" and Marvel content. Instead, Disney recognizes the best way to take on Netflix is to build Hulu into a more formidable competitor, according to knowledgeable people. Disney already is steering new shows from the FX cable channel to Hulu.

"Even FX, Disney's strongest cable network that owns its content, is now producing its most compelling content exclusively for Hulu," Richard Greenfield, media analyst and partner at Lightshed Partners, wrote Wednesday. "That, honestly, says it all. Cable is in the rear-view mirror."

Disney+ has gotten off to a roaring start, reaching 28.6 million paying subscribers since its November launch. Growing its subscriber counts has become critically important, and already some analysts and consumers have complained that they canceled Disney+ after watching the eight episodes of "The Mandalorian." The next huge marquee series for Disney+ comes this summer with "The Falcon and the Winter Soldier."

Chapek is not viewed to be as charismatic as Iger, who has toyed with the idea of going into politics. People who know Chapek describe him as a straightforward manager who is not one to sugarcoat.

"If you're not doing well, you're going to hear about it, and if you're doing well, you're going to hear about it," said Jim Cora, former chairman of Disneyland International, who retired in 2001. "He's creative, he's industrious, he cares about the show, and he listens, and that says a lot."

Chapek joined Disney in 1993 after stints in packaged goods with H.J. Heinz and the advertising industry with J. Walter Thompson.

As president of home entertainment, Chapek spearheaded the company's "vault" strategy — a controversial but effective tactic that kept classic animated titles off video store shelves for long periods of time.

Amid a restructuring, he was promoted to president of distribution for Walt Disney Studios in 2009, putting him in charge of distributing movies through theatrical exhibition, home entertainment, pay TV and digital platforms. Two years later, he became head of consumer products, focusing on building strategies around popular brands.

"Chapek was running Disney's home video when it was VHS tapes — now he will be overseeing the formation of Disney's streaming era," Bernstein Co. analyst Todd Juenger said in a research report.

As president of parks and resorts, he oversaw a massive expansion, including the opening of Shanghai Disney Resort in 2016.

In Iger's 2019 book, "The Ride of a Lifetime," he describes relying on Chapek during a confluence of crises involving Disney parks when they were in China for the debut: the shooting at the Pulse nightclub that killed two Disney employees, and an alligator attack at a Disney resort that killed a young boy. Iger wrote that he told Chapek to make sure that an animal attack like that would never happen again. "We're on it," Chapek said, according to Iger's book.

The parks job has come with some difficulties. The opening of the Star Wars: Galaxy's Edge attractions were well-received because of their immersive fantasy realism. However, the company was criticized for its early efforts to manage the expected influx of crowds, and initial attendance fell short of expectations.

Nonetheless, said Coan, the company has shown an ability to recover quickly from such stumbles. Indeed, reviews of the new Rise of the Resistance ride have been stellar.

"While there may have been hiccups, they are aggressively overcoming those problems," Coan said. "I would suspect [Chapek] learned from those challenges."