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CHAPTER 13 Marketing in Today's World

Can Marvel's Heroes Save the Day?

New CEO Peter Cuneo plans to treat its characters like brands—and maximize profits with savvy deals. It won't be easy

by David Shook

For a few days in June, Marvel Enterprises saw its lethargic share price jump from $4 to $7, then tumble back to $4. It's easy to see what caused the brief excitement. Marvel owns the fantasy comic-book property *The X-Men*, and anticipation of the major motion picture's premier was building. In fact, *The X-Men* film—from 20th Century Fox—was a pretty big summer hit, raking in $150 million at the box office. Too bad Marvel hasn't been able to capitalize on the runaway success of its cool mutant X-Men characters.

If *The X-Men* was so hot among moviegoers, why did Marvel Enterprises' sales decline 31%, to $94 million, for the six months ended June 30, resulting in a $27 million loss? Because Marvel isn't making money from the movie—just from the toys, apparel, and other licensing and sales deals.

So what's in store for Marvel now? Assessing its current situation is difficult because Wall Street doesn't follow the company, in part due to its stormy financial past. Throughout the '90s, a bankruptcy and ownership struggle, exacerbated by misguided management, prevented Marvel from realizing the full value of its comic-book properties. Add to that limited cinematic technology, which didn't allow movies like *X-Men* to be made until recently. The concept of adapting comic books to movies didn't begin to catch on until Warner Bros.' *Batman* in 1989. Today, even that blockbuster's special effects pale in comparison to *X-Men*'s.

SUPERLAWYER. Small wonder that management—led by new CEO Peter Cuneo—now plans to extract every possible dime from the popularity of Marvel staples such as The Fantastic Four and Spiderman. Marvel has a small town's worth of characters in its comic-book library—4,700 in all, from the Incredible Hulk and Captain America to lesser-known but equally rich creations like Daredevil. He's a blind New York lawyer who uses superhuman hearing, smell, even sonar, when he suits up in his dark costume to snag bad guys. He's also a master gymnast and martial artist. How cool is that? Marvel says it recently signed a Daredevil movie deal.

In a recent interview, Cuneo explained his vision for taking the company beyond its ugly past. His strategy is ambitious and unorthodox, and skeptics abound. Here's the plot: Cuneo's strategy involves treating the vast portfolio of characters as stars. The company is their agent.

"I view Marvel as having the potential to be the leading entertainment company in the world built around fantasy characters," says Cuneo. "I view all of our characters as brands, and what we're doing is brand management. I view our characters as celebrities—only they don't get old or misbehave. We're going to place them in as many mediums and entertainment venues as possible, and we're building the business for the long term."

SCANT PAYOFF. Marvel is currently signing dozens of its characters for major motion pictures, TV, or direct-to-video movies. Cuneo insists Marvel's invigorated licensing division will help the company turn the corner to profitability.

In the past, Marvel would sign away movie rights for up-front cash payments. It was a short-term gain that sacrificed long-term returns on Marvel properties. Case in point: *Men in Black*, a Marvel property that Cuneo says was basically given away and became a hit movie. *The X-Men*, for all its box-office success, is another example. It's a big hit for Fox, yet Marvel only got to sell action figures.

"Today, we're going for meaningful profit participation in movies," says Marvel spokesman David Collins. "In the past, this company would sign away rights to characters for cash and give up any long-term licensing revenues. We'd get $1 million or $2 million, and then we'd get to make toys."

Now, Marvel vows to hold out for much more than cash. Management says it's doing just that with deals like a recent one with Universal Pictures for a film featuring The Incredible Hulk—the cursed green monster/man whose story was the basis for a '80s television show starring bodybuilder Lou Ferrigno. "If you want to do a major movie with our characters, there are other things we will now want besides up-front license fees," says another Marvel official. "We'll be doing joint ventures with studios, and we'll be participating in the profits from dollar one."

BREAK FROM THE PAST. That would be a change from the financial turmoil that embroiled Marvel during the '90s. After a messy bankruptcy in 1996, the company emerged from Chapter 11 in October, 1998, by merging with Toy Biz, which had been a major licensing partner, and by receiving lifesaving financing from several investment banks and a private equity group.

"Today's Marvel has nothing to do with the past," says Cuneo, who joined the company just a year ago. The company recapitalized itself last year when he arrived. Now, Marvel is trying to make sure it doesn't lose control. On Sept. 1, the board adopted antitakeover provisions intended to stop dissident shareholders from buying the company.

Could this be aimed at anyone in particular? Carl Icahn still owns 1.3 million shares, but Marvel officials say they're not aware of any threats. With Marvel's total market capitalization at a tiny $160 million, however, there's probably little the company could do to fend off suitors.

WINDOW DRESSING? And it's far from clear whether Cuneo can turn Marvel's characters into gold. Right now, toys are the company's biggest revenue source, generating about $245 million of $320 million in 1999 revenues. But this year's revenues dropped substantially because the company didn't have another action-figure lineup in the pipeline to match last year's early-season launch of its World Championship Wrestling products. And last year's Spiderman movie-licensing deal wasn't matched this year, either.

And keep in mind that Cuneo is a turnaround specialist. He has worked as a senior executive or top officer for Bristol-Myers Squibb, Black & Decker, and Remington Products. Fact is, he could be aiming to make Marvel more attractive to a buyer. It certainly seems like the kind of property a Fox, Disney, or Viacom could use for the vast portfolio of fantasy characters.

There's no disputing the creative genius behind Marvel's comic books, but it's going to take more than toy sales and X-Men fast-food licensing deals to make the company a compelling story for investors.

CLASH OF THE TITANS. So far, the most interesting saga has been the long, bitter, and much publicized bankruptcy that pitted corporate predators Icahn and Ronald Perelman against each other for control of the company. Neither tycoon can declare victory. And Marvel's stock price languishes while Stan Lee, the impresario who created many of the company's characters, has left to focus on his new online comic-book venture, Stan Lee Media.

Not surprisingly, the company puts a heroic face on the current situation. "On a quarterly basis, this will always be a difficult company for investors to understand," says Collins. "We're down because we didn't have some revenue sources this year that we had last year. But next year we'll have revenues that we won't have this year." Still, shareholders want more than promises. They want consistent earnings—and Marvel has yet to deliver.

With deals signed with Sony Pictures to produce a Spiderman movie, and an X-Men television show for the WB network, can Marvel become a major player in the entertainment world? It's possible, but the company's stock price suggests that so far investors are unconvinced. Cuneo will have to turn major movie deals into reliable profits before investors do anything more with their money than buy tickets to flicks starring Marvel characters.

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