

Hands-On Value Investors

An Interview with
Strauss Zelnick, ZelnickMedia Corp.

EDITORS' NOTE Strauss Zelnick co-founded ZelnickMedia in 2001. He also serves as Chief Executive Officer and Chairman of the board of directors of Take-Two Interactive Software, Inc. Prior to forming ZelnickMedia, Zelnick was President and Chief Executive Officer of BMG. Before joining BMG Entertainment, Zelnick was President and Chief Executive Officer of Crystal Dynamics. Prior to that, he spent four years as President and Chief Operating Officer of 20th Century Fox. Previously, he spent three years at Vestron Inc., two as the company's President and Chief Operating Officer, and served as Vice President, International Television Sales at Columbia Pictures. Zelnick is also a director of Starwood Property Group. He is a Trustee Emeritus of Wesleyan University and holds a B.A. from Wesleyan University, an M.B.A. from Harvard Business School, and a J.D. from Harvard Law School



Strauss Zelnick

COMPANY BRIEF ZelnickMedia (zelnickmedia.com) manages and owns interests in an array of media enterprises including interactive entertainment, television, production and advertising, and media-related business services in the U.S., Europe, Asia, and Australia. Current portfolio companies include Take-Two Interactive Software, Airvana, Cannella Response Television, ITN Networks, Arkadium, Alloy, Defy Network, Cast & Crew, and 9 Story. The partnership is currently investing from ZM Capital II, its media-focused private equity fund.

What has made ZelnickMedia work so well?

We focus on what we know, which is the media and communications sector, and we don't stray from it. Our team and I have spent our entire lives working only in media and communications, so we see ourselves as sector specialists.

We're value investors, and we're highly disciplined, so we're looking for companies that have strong growth prospects that so far are not fully realized, or for turnarounds.

We're also hands-on managers of our assets; often, one of the partners at our firm will act as Chairman, and ZelnickMedia serves on a day-to-day basis as an outsourced business development department. So we're responsible for building revenues and creating value daily.

Finally, we're risk-averse so we tend to structure our deals for downside protection, even if that costs us money. We under-leverage compared to our peers so that in tough times like 2008, we didn't lose money.

Where does digital stand today?

Digital technology addresses pretty much everything that is going on and will go on in media and communications for the foreseeable future, and one ignores it at one's peril.

We were fortunate in that we had a sense of that when we started our firm in 2001 and it has helped us greatly to avoid losses and to create profits.

What excited you about Take-Two and why was that where you wanted to focus?

This is the third time I've gotten involved in the video game business; it is an area of great passion. It's the most exciting growth area in the entertainment business and statistics reflect that.

When we took it over in 2007, Take-Two was a rather challenged company. The intersection of entertainment, digital technology, and corporate challenges made it fascinating.

Now that Take-Two has become successful, it's a pleasure to work with an A-plus team there and to have the wind at our backs.

Where are the opportunities within that industry?

There will continue to be interactive entertainment innovation that appeals to audiences other than what we think of as a core video game audience. Equally, the games that we make at Take-Two – AAA titles that are quite intense and typically mature-themed – will continue to grow in complexity.

You will see a broadening of the audience with casual games and a deepening of core audiences with better AAA titles. What we're doing is more the latter than the former.

Did you ever question early on whether you would have your own company?

I suppose I wasn't a born entrepreneur – I worked for big enterprises happily for many years. I knew that I wanted to learn from people like Barry Diller and Rupert Murdoch before I ventured out.

When I formed ZelnickMedia with Ben Feder in 2001, I had experience in film, television, home entertainment, interactive entertainment, and music, and I felt, if not now, when?

I set out to build an experience base that would allow me to be an entrepreneur and build a diversified media enterprise, but had I just been employed by someone else doing that, it would have been okay.

What do you say to those that suggest traditional media is dead?

Content is really important and there is no substitute for that.

Equally, distribution can be interesting and a lot of money has been made in distribution over the past 15 years, and money will continue to be made there.

We look at technology, distribution, and content – it's not any one thing.

What is your approach to developing the team of talent you have assembled?

The fit from a cultural point of view is necessary to being part of our team. But after we establish culture fit, we're also looking for education, expertise, and experience.

Is the U.S. still a global leader and what would keep it so?

There are certain things the U.S. ought to do to remain competitive. Our immigration policies aren't especially intelligent – most thoughtful Republicans and Democrats feel that way. It seems insane that we invite people from outside our country to go to school here and then insist they leave upon graduation. In my view, we ought to insist they stay to add value to this country.

We remain as a country xenophobic to the extreme and yet we're an unpopulated landmass. A thoughtful approach to immigration policy that reflects where we all came from and what we're trying to achieve here seems terribly important.

Are you surprised by how well the business community in New York City works together?

It's a testament to organizations like the Partnership led by people like Kathy Wylde (President and CEO). The value comes down to who leads and who is engaged. The fact that very busy and successful people are prepared to engage with the Partnership is what gives it its clout. There are many other cities in America where local leaders play an enormous role in their communities. New York City is a very small town in many ways, and this is an example of that. I do attribute it to the leadership at the core. The successful people I know in New York are intent on helping others more so than themselves. ●