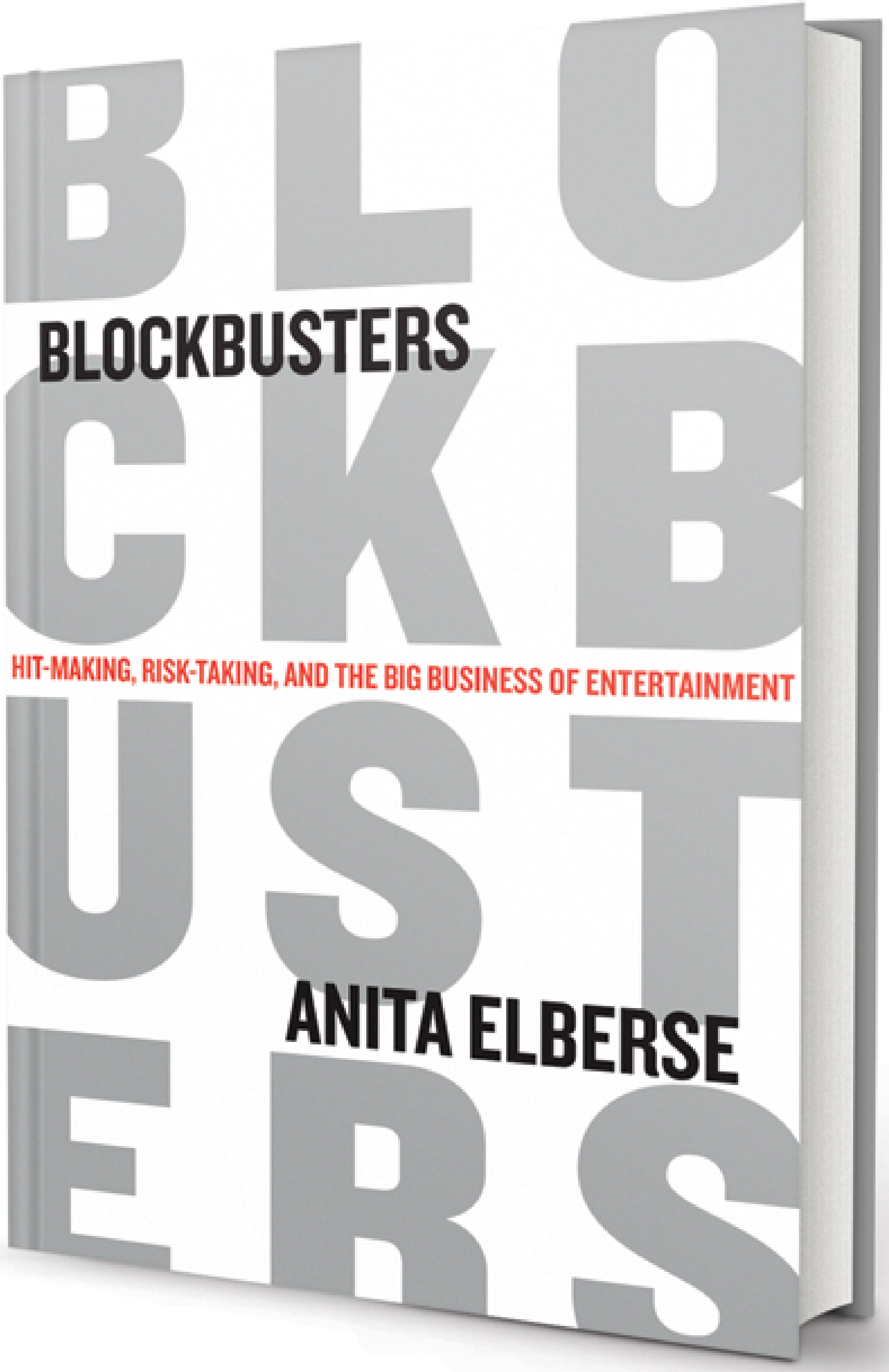
BLOCKBUSTERS
HIT-MAKING, RISK-TAKING, AND THE BIG BUSINESS OF ENTERTAINMENT
ANITA ELBERSE

CONTENTS

Prologue

SHOW BUSINESS—A BUSINESS OF BLOCKBUSTERS

In 1999, Alan Horn, new in his role as president and chief operating officer of the film and television studio Warner Bros., embarked on a high-stakes strategy. Entrusted with the power to decide which movies the studio would make—the coveted "greenlighting" decision—he chose to single out four or five so-called tent-pole or event films—those thought to have the broadest appeal—among its annual output of around twenty-five movies, and support those picks with a disproportionately large chunk of its total production and marketing budget. Other studio heads had produced daring, big-budget movies before, of course, but no one had, as Horn put it, "really pursued it as a strategy"—none had, in other words, dared to make a handful of such big bets each year, at the expense of the attention lavished on a larger number of smaller movies. "In the movie business, the product is the same price to the consumer regardless of the cost of manufacturing it—whether its production budget is $15 million or $150 million. So it may be counterintuitive to spend more money," Horn told me. "But in the end, it is all about getting people to come to the theater. The idea was that movies with greater production value should be more appealing to prospective moviegoers. Audiences respond to movie stars, but those lead to higher costs. Audiences respond to special effects, but those lead to higher costs, too. And you have to let audiences know you are there with your movie—really market it as an event—but that of course further adds to the costs. You can only do so many of those big films in a given year."

Over the next few years, as Horn's strategy played out at Warner Bros., another executive was quickly moving up the ranks at a rival media conglomerate. Jeff Zucker, a former field and executive producer of *The Today Show*, climbed up to president and later chief executive officer of NBC's Television Group, overseeing what was then the number-one-rated television network in the United States. In 2007, after taking the reins at parent company NBC Universal, he led a push to cut the rising costs of programming at the television network—in many ways the exact opposite of Horn's strategy at Warner. "We're managing for margins instead of ratings," asserted Ben Silverman, whom Zucker had appointed as co-chair of NBC Entertainment. Fresh off a career as a high-flying television producer in his own right, Silverman was seemingly taking all the right measures to increase profits and reduce risk in his new role as a network executive: betting less on the most expensive dramatic content and instead focusing on intellectual property and formats that could be acquired at more reasonable prices; relying less on A-list actors and producers who could command fees of sometimes hundreds of thousands of dollars per episode; and cutting back on pilots that often came with a price tag several times that of a regular episode but generally did little to gauge true demand for a new series.

By 2011, Horn could look back on an unparalleled winning streak: under his leadership, Warner Bros. became the only studio in history to surpass $1 billion at the domestic box office for eleven years in a row. All indications are that profits had seen a strong upward trajectory as well, helped by smash hits such as the *Harry Potter* movies, *The Dark Knight*, *The Hangover* and its sequel, *Happy Feet*, *Million Dollar Baby*, *Ocean's 11* and its two sequels, and *Sherlock Holmes*. Alan Horn's stock had risen so high that when Walt Disney in 2012 was looking for a new executive to bring the magic back to its troubled studio, it recruited Horn—only a year after his retirement from Warner Bros.—to take over as Walt Disney Studios' chairman. "He's earned the respect of the industry for driving tremendous, sustained creative and financial success," Disney's chief executive officer Bob Iger said.

And Zucker? His strategy failed miserably, and in 2010 he was asked to leave his high-profile job. But the damage had been done: NBC was farther behind on all the metrics that mattered—including, by all accounts, the profit margins Zucker and Silverman sought most. During Zucker's tenure, NBC fell from its perch as the highest-rated television network to fourth place, behind its three broadcast rivals—ABC, CBS, and FOX—a demise once unthinkable for the network that built its reputation on its "must-see" prime-time lineup. One rival executive labeled Zucker "a case study in the most destructive media executive ever to exist." While that may be too strong a statement, it is clear that his "managing for margins" strategy had disastrous results.

Warner's approach, which is the very strategy that NBC sought to escape, seems to fly in the face of conventional business rules. Why would film or television executives choose to put themselves in a position where their company's overall performance—or even survival—rests on a few big product launches each year, and let spending on those products reach levels that make recovering costs appear almost impossible? Especially in an industry in which audience demand is fickle and the failure rate is so high, would it not be more sensible in the long run to forgo these kinds of outsize investments and instead place a larger number of smaller bets, closely guard costs, and "manage for margins"?

Quite the contrary: what Warner Bros., NBC, and many other entertainment businesses have found out—often the hard way—is that a "blockbuster strategy" works. The leading television networks, film studios, book publishers, music labels, video game publishers, and producers in other sectors of the entertainment industry thrive on making huge investments to acquire, develop, and market concepts with strong hit potential, and they bank on the sales of those to make up for the middling performance of their other content. That is one of the essential lessons I have learned from studying these businesses: rather than spreading resources evenly across product lines (which might seem to be the most effective approach when no one knows for sure which products will catch on) and vigorously trying to save costs in an effort to increase profits, betting heavily on likely blockbusters and spending considerably less on the "also rans" is the surest way to lasting success in show business.

Blockbuster strategies are certainly not free of risk—even the biggest productions supported by the highest advertising budgets can, and sometimes will, fail to create a splash in the market. Just ask the people who thought investing in the 2012 movie *John Carter* was a great idea, or those who felt the television show *Lone Star* would make audiences tune in en masse that same year. In today's fragile economy, a world in which a high-profile business executive's every move is scrutinized by traditional news media and bloggers alike, appearing to play it safe may be a top priority. But content producers can't afford to walk away from big bets—doing so would actually *increase* their chance of failure in the long run. The highest-performing entertainment businesses take their chances on a small group of titles and turn those choices into successes by investing heavily in their development, supporting them with a high level of promotional spending, often well in advance of their release into the marketplace ("coming soon to a theater near you"), and distributing them as widely as possible. It may not look anything like the way products in other sectors of the economy are introduced, but it works.

In this book, I will do more than simply present evidence of the higher returns of blockbuster strategies. I will also try to explain *why* they are so effective and describe what is likely to go wrong when entertainment companies stop playing the blockbuster game and instead shift their focus to what may appear to be more risk-averse strategies, much like NBC did. As a professor at the Harvard Business School, I have studied media, sports, and other entertainment sectors for a decade. Over the years, I have heard all kinds of theories about why the entertainment industry is organized the way it is, or how it can be run better. And with the advent of digital technology that makes it possible for virtually everyone to become a content producer and share their creations with the world, there is much speculation about how the entertainment landscape might change, for the better or for the worse. "Old media" are dead in the water, some say. Studios will learn to stop betting on expensive projects and overpaid actors, instead taking "more shots at goal" with inexpensive ideas. Musicians will be freed from the shackles of record labels. Sports leagues will no longer need the likes of ESPN and will go directly to consumers via the Web. Once consumers are able to consume whatever they want, whenever they want it, they will migrate away from the hits. Or they will opt for the lowest-common-denominator content, ruining our culture. Paying for content is old-fashioned—free is the future. The list goes on and on.

My goal in this book is to separate fact from fiction—to describe how the entertainment industry really works, based on an understanding of why entertainment executives make the decisions they make and on actual data about how those decisions play out in the marketplace. In my role at the Harvard Business School, I am in the fortunate position to have been granted rare access to executives who make these kinds of decisions on a regular basis—sometimes while they are in the process of making them. I have worked on dozens of case studies of companies and people in film, television, music, publishing, sports, and other sectors of entertainment, and have conducted numerous one-on-one interviews and other conversations with practitioners (and spent an inordinate amount of time visiting film premieres, sports events, and other celebrity get-togethers—the kinds of sacrifices one has to make in the name of research). Drawing on my observations from the field, as well as on an expansive body of scholarly research, I will use these pages to try to get to the bottom of why media executives do what they do and how their strategies pan out. (If the word *scholarly* scared you in this last sentence, please don't worry—I promise to avoid all mentions of the fancy econometric and statistical techniques that were used to analyze sales patterns, and to concentrate squarely on the results that matter.)

As it turns out, how executives can best deal with risk is similar across the worlds of film, television, music, book publishing, sports, and other entertainment sectors. The lessons learned about blockbusters in film and television also apply to the rest of the entertainment industry. For instance, as I will show, many of the principles that underlie Warner Bros.' winning streak also explain why Grand Central Publishing could seriously consider making what some dismissed as an outrageously high bid for the rights to a manuscript about a fluffy creature, seemingly giving the publisher little more than an outside shot at recovering its investment. Or how Marvel Entertainment's Spider-Man, The Avengers, and other superheroes could turn into Hollywood executives' safest bets, leading to great riches for the company. And the same lessons capture how a certain Stefani Germanotta, also known as Lady Gaga, could catapult into the public's consciousness and, in just a couple of short years, become one of the planet's biggest celebrities. Or how a small New York–based record label could give rise to best-selling band Maroon 5, scoring one hit after another. Across these case studies, a consistent picture emerges of how businesses that want to maximize revenues and profits can best approach the production and marketing of entertainment products. And even though some cases go back a few years, the underlying issues are as true today as they were then. Anyone who works in show business should take note of these lessons—or, as NBC under Zucker did, ignore them at their peril.

Those who follow the world of entertainment as fans may find learning about these principles worthwhile, too, for they will determine what tomorrow's entertainment offerings will look like. Some of the lessons may be a bit disheartening to consumers who dislike the blockbuster mind-set of established entertainment companies and would rather see them invest in more niche offerings or unproven talent. But the purpose of this book is not to pass judgment on what makes for "good" or "bad" products, or to question purely creative decisions; there's no arguing about taste, after all.

Instead, the focus here is on explaining why entertainment markets work the way they do and what strategies will help build thriving, lasting businesses—the kinds of businesses, in other words, that deliver the types of products that vast numbers of people enjoy.

Zucker and Silverman are long gone at NBC, but the network is still recovering. It has dramatically changed its approach. After Zucker's departure, NBC Universal Television's new chairman, Jeff Gaspin, acknowledged that the "managing-for-margins" strategy had run its course and promised agents, producers, and other television industry insiders that the network would be back in the hunt for the next blockbuster hit. Now "in it to win it," as Gaspin put it, NBC's new goal was to put the best possible programs on the air. The network has been breaking the bank to do so. For the fall 2010 television season, it ordered an almost-unheard-of thirteen new series, including big-budget series from A-list producers like J. J. Abrams, Jerry Bruckheimer, and David E. Kelley. The network spent a rumored $150 million in development costs for that season alone and significantly increased its marketing costs in an effort to win back viewers. The next season, it further upped the ante. Taking cues from FOX and its blockbuster hit *American Idol*, NBC bet big on the talent show *The Voice*, paying more than $2 million per episode—and found a genuine hit of its own. In fact, helped by a favorable placement immediately after the 2012 Super Bowl, in February 2012 *The Voice* displaced *American Idol* as America's top-rated television series, causing NBC executives to crow about "an electricity in the building" at the company's headquarters at Rockefeller Center. One top rating for the network does not mean it has returned to its glory days, but it does appear that NBC's new executives have a better idea of what it might take to get there.

At Warner Bros., NBC, and many other entertainment companies, blockbuster strategies often go hand in hand with huge investments in top creative talent. Movie studios handsomely reward superstar actors such as Johnny Depp, Jennifer Lawrence, Will Smith, Kristen Stewart, and Robert Downey Jr. in hopes of converting fans of those stars into audiences for the studios' productions.

The same goes for television networks, with lead actors on the most successful series earning high six-figure salaries for each episode filmed. *The Voice*, for instance, was stacked with A-listers when it launched: the four judges—Christina Aguilera, CeeLo Green, Maroon 5's Adam Levine, and Blake Shelton—were all established stars in the world of music and could command sizable salaries.

The focus on star talent now extends into virtually all sectors of the entertainment industry. Openly admitting that he was taking a page from the book written by major Hollywood studios a year after Alan Horn started his event-film strategy, a Spanish businessman single-handedly raised the bar for investments in A-list talent in the world of soccer. Bringing a show-business mentality to his renowned soccer club, Real Madrid's president, Florentino Pérez, started pursuing what he called his *Galácticos* strategy, a reference to the star power of the players he sought to recruit. At the height of Galacticism, Englishman David Beckham, one of the sport's biggest icons, joined a team that was already brimming with stars from all over the globe. A marketer's dream, for sure, but also a very expensive dream. Are the high fees paid for star talent justified?

A close look at the market for creative talent and the ways in which studio heads, soccer-club presidents, and other entertainment managers decide on these matters reveals that there are good reasons to pay top dollar for star talent (and, admittedly, some not-so-good reasons). Betting on star talent creates important marketing advantages, drawing audiences and sponsors alike. But the competition for the few stars at the top is so severe that the pressure on entertainment businesses is getting pretty intense: the truth is that often they can barely afford to compete for the most sought-after performers, but at the same time they cannot afford *not* to do so. The tug-of-war between stars and entertainment companies, with each party vying for a bigger piece of the revenues and profits generated by blockbuster products, is one of the most fascinating aspects of today's entertainment economy—and one with great consequences for the future of show business.

As with any tug-of-war, offering accurate predictions about who ultimately will be victorious requires a thorough understanding of each side's strengths and weaknesses as well as its strategies. Providing such insights is another major objective of this book, which is why I take a close look at the business models of star-focused enterprises like the major Hollywood studios and Real Madrid. I also give considerable attention to companies that take a different approach and instead specialize in developing promising talent into stars. Argentine soccer club Boca Juniors and Real Madrid's archrival FC Barcelona, for example, are both famous for fostering some of the world's best soccer players. And NBC's *Saturday Night Live*, one of television's longest-running shows, has served as a stepping-stone for dozens of A-list comedians, from Eddie Murphy and Adam Sandler to Jimmy Fallon and Tina Fey. One axiom becomes very clear: entertainment companies go to great lengths to gain the upper hand in their ongoing dealings with creative talent.

Such efforts don't come about in a vacuum, of course: superstars and the people who advise them are getting smarter about wielding their power. Recognizing their outsize value, talented actors, musicians, athletes, and other performers are pushing for ever-higher rewards. That, in turn, is putting pressure on the business models of studios, record labels, sports teams, and other content producers. Both sides have gotten ever more creative in their efforts to negotiate favorable agreements. And so it could come to be that, in 2006, even when his status as a star actor was first being challenged, the venerable studio MGM made a stunning move by offering Tom Cruise a part of a movie *studio* rather than a part in a movie—an ownership stake in MGM's United Artists, to be precise. Or that Russian tennis player Maria Sharapova forged lucrative endorsement partnerships with an impressive set of brands, leading her to become the highest-paid female athlete in the world (and beating out a stellar cast of male athletes, too). And that, to the astonishment of many sports-industry insiders (even before his much-debated decision to "take his talents to South Beach," as he described his move to the Miami Heat), basketball superstar LeBron James established his own firm to handle all aspects of his business ventures and marketing activities, taking a highly innovative approach to sports marketing.

My research shows that there is a clear logic to these developments, one that can be grasped by closely studying the characteristics of the market for creative talent as well as the talent's appetite for risk at different stages of their career. It is a logic that those who work in entertainment should be intimately aware of, as it yields lessons about how businesses can best recruit, manage, and reward talent—even if not every decision turns out as well as those involved might have hoped. It also offers important clues to any aspiring musician, actor, author, or athlete who wants to discover the best approach to his or her creative career. For superstars and lesser-known talent alike, knowing when to pursue which opportunities is critical, especially because the careers of most creative people are so short-lived.

All of this now transpires in a media environment that, with the arrival of the YouTube, Twitter, and Facebook era, is of course vastly different from what it was when Alan Horn and Jeff Zucker first dreamed up their strategies, and when Lady Gaga and LeBron James first emerged on the scene. Undoubtedly, the biggest question currently facing entertainment companies is how the rapid rise of digital technology will affect their bets on blockbusters and superstars. Because advances in digital technology substantially lower the cost of doing business, there are good reasons to suspect that far-reaching changes are on the horizon. New technologies, after all, make it easier and cheaper for content producers to offer entertainment goods—just think of the savings that result from distributing a movie online rather than having to transport physical prints to theaters all over the world. At the same time, new technologies, such as sophisticated recommendation engines, make it less of a hassle for consumers to find and purchase the goods they want. These effects are especially apparent in the entertainment sector, where goods like films, television shows, books, and music can be fully digitized.

Some industry insiders have suggested that digital technology will spell the end of blockbusters—and, with that, the effectiveness of blockbuster strategies. Is the rise of online distribution channels a sign that soon the "old" rules of the entertainment business will no longer apply? Looking at the popularity of sites such as YouTube that democratize content production and distribution, one might be tempted to conclude that a "yes" is the only right answer. But a closer look reveals that the reality isn't quite so simple. In fact, in today's markets where, thanks to the Internet, buyers have easy access to millions and millions of titles, the principles of the blockbuster strategy may be more applicable than ever before. As I will describe in the latter half of this book, there are fundamental laws of consumer behavior that explain the strategy's enduring appeal—the kinds of laws everyone with an interest in the entertainment industry should be aware of, in other words. The blockbuster strategy's continuing importance to the success of entertainment companies is made abundantly clear in the enormous amounts of data that online channels generate.

Armed with an understanding of the ways in which digital technology is transforming the markets for entertainment goods, one can easily see why YouTube has struggled to turn its immense popularity into a lucrative and sustainable business, and one can begin to make sense of parent company Google's push into Original Channels. It also becomes evident that NBC's decision to co-fund Hulu, a site focused on offering premium, professionally produced online video, may have been one of the broadcaster's smartest moves in recent years—Zucker deserves some credit for that. (Yes, it may come as a surprise, but this is not one of those black-and-white, heroes-and-villains books. Most entertainment executives have their fair share of successes and failures, and Zucker is no different.) These same underlying principles even help us see how the innovative foray into digital distribution of New York City's Metropolitan Opera—specifically, its decision to simulcast live opera to movie theaters around the world—will affect the market for opera. One critical lesson here becomes clear: blockbusters will become more—not less—relevant to popular culture, and blockbuster strategies will thrive.

A second question triggered by the emergence of online channels is whether these channels will ultimately undercut the role of established content producers and distributors. British band Radiohead made a splash a few years ago with an album they self-released, without the help of a record label or retailer, prompting many industry observers to suggest that other bands could and should release their work on their own, too. Previously unheralded musicians have on occasion developed vast fan bases on YouTube and through social networks, and some self-publishing authors have created huge demand for their writings online. As digital technologies become ever more sophisticated and ubiquitous, will creative talent increasingly seize the opportunity to market their creations directly to consumers? If so, the demise of many established entertainment companies may not be far off. According to my research, however, such an extreme scenario is unlikely: it's virtually impossible for most creative people to thrive without the benefits that these enterprises provide. Still, the rise of do-it-yourself production and distribution raises critical issues for even the largest entertainment businesses.

We can learn a lot from content creators and owners who have used digital channels to deliver their content directly to the consumer. Hulu—co-owned by NBC Universal, News Corp.'s FOX, and Disney's ABC—is an example here, too. But the world of sports has perhaps made even bigger waves. Major League Baseball's digital arm stands out: MLB's executives have embraced the opportunities that digital channels afford the league to interact directly with its fans, scoring with products for a host of different platforms and operating systems. The National Football League has taken a strikingly different approach to digital media, but its strategy has proven just as successful, and the resulting lessons for how markets for entertainment goods are evolving are remarkably consistent. All three cases—Hulu, MLB, and the NFL—show how content producers can use new digital distribution channels to their advantage. And all three again underline the benefits that blockbusters provide in that context.

None of this is to deny how disruptive the advances in technology can be to the world of entertainment. Piracy, fueled by the same low costs of reproduction and distribution that explain digital technology's other effects, is often seen as the main culprit. But other forces—such as consumers' expectations that prices will inevitably come down in digital channels—may be more threatening. The so-called unbundling of goods in digital channels also causes headaches for entertainment businesses. For example, now that all the songs on an album are made available for individual purchase online, the album bundle is increasingly playing second fiddle to the individual song. This inversion was unthinkable in a fully analog world, if only because the costs of separately packaging and shipping songs were prohibitive. Meanwhile, the rise of massive online retailers and content aggregators with ultrathin margins has also put tremendous pressure on entertainment companies' business models.

As a result of all these tumultuous changes, blockbuster strategies will undoubtedly evolve—and what is fascinating is that some superstars seem to be leading the way. In 2010, in an award-winning campaign dreamed up by advertising agency Droga5, hip-hop mogul Jay-Z and his manager explored a partnership with Microsoft for the launch of his memoir, *Decoded*. A year later, Lady Gaga, never afraid to innovate, redefined the concept of a major launch with her *Born This Way* album. In the years to come, many more entertainers will surely follow in their footsteps. That's not a blind guess—as we'll see, it is a logical conclusion if one considers both the disruptive effects of digital technology and the factors that explain the effectiveness of blockbuster bets. Blockbuster strategies may become more difficult to execute in a digital world, but, as counterintuitive as it may sound, their relevance only increases. The future of blockbusters in the entertainment economy shines bright.

And, in fact, blockbuster strategies may increasingly pervade other sectors of the economy, along with other marketing practices borrowed from the world of entertainment. So, to conclude the road map of what's to come, I will end the book by pointing to particularly noteworthy examples I have come across in my research over the years. The nightlife business is a focus here: two of the sector's most successful impresarios are leading a revolution, transforming the business from one that is all about selling bottles—high-priced alcohol delivered to "table customers" seated at hot spots in the club—to one that is just as much about selling tickets to heavily marketed events featuring superstar DJs. But I'll also point to other examples, from Apple and its big bets in consumer electronics, to Victoria's Secret with its angelic-superstar-studded fashion shows, and to Burberry's success in taking the trench coat digital. As these will show, many of the lessons to be learned about blockbusters not only apply across the entertainment industry—they even extend to the business world at large.