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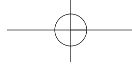
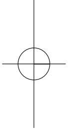
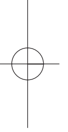
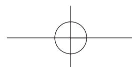


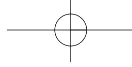
PART I

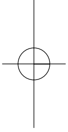
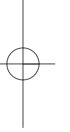
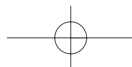
THE STRUCTURE OF THE INDUSTRY

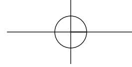










CHAPTER 1

THE STUDIO SYSTEM AND CONGLOMERATE HOLLYWOOD

TOM SCHATZ

Introduction

In August 1995 Neal Gabler, an astute Hollywood observer, wrote an op-ed piece for *The New York Times* entitled "Revenge of the Studio System" in response to recent events that, in his view, signaled an industry-wide transformation (Gabler 1995). The previous year had seen the Seagram buyout of MCA-Universal, Time Warner's purchase of the massive Turner Broadcasting System, and the launch of DreamWorks, the first new movie studio since the classical era. Then on August 1 came the bombshell that provoked Gabler's editorial. Disney announced the acquisition of ABC and its parent conglomerate, Cap Cities, in a $19 billion deal – the second-largest merger in US history, which created the world's largest media company. Disney CEO Michael Eisner also disclosed a quarter-billion-dollar deal with Mike Ovitz of Hollywood's top talent agency, Creative Artists, to leave CAA and run the Disney empire.

For Gabler, the Disney deals confirmed "a fundamental shift in the balance of power in Hollywood – really the third revolution in the relationship between industry forces." Revolution I occurred nearly a century before with the formation of the Hollywood studios and the creation of a "system" that enabled them to control the movie industry from the 1920s through the 1940s. Revolution II came with the postwar rise of television and the dismantling of the studio system by the courts, which allowed a new breed of talent brokers, "most notably Lew Wasserman of the Music Corporation of America [MCA]," to usurp control of the film industry. In the early 1960s, MCA dissolved its talent agency and purchased Universal Pictures, creating a precursor of sorts to the modern media conglomerate. MCA-Universal spearheaded an industry-wide recovery in the 1970s and 1980s, spurred by the deft integration of its film and television divisions and by a new breed of blockbuster films. Leading stars and independent filmmakers still enjoyed unprecedented power and freedom, and so the studios had to share their power with top talent and their agents – most notably the powerhouse agencies like William Morris and Ovitz's CAA, which not only represented talent, but actively "packaged" many of Hollywood's biggest films.

TCHC01 6/22/07 02:16 PM Page 14

By the 1990s, however, the combined forces of media deregulation, globalization, and new digital technologies were tipping the balance of power back to the studios, thus auguring Revolution III. Disney and the other studios "may have finally found the holy grail," wrote Gabler. "By combining movies, broadcast television, video, foreign video, foreign television, merchandizing, theme parks, soundtrack albums, books and heaven knows what else, Mr. Eisner has devised a new form of vertical integration that takes virtually all of the risk out of movie software." This meant huge paydays for top talent in the short term, but the long-term prognosis for both filmmaking talent and films themselves was bleak. "When risk is vanquished, when even awful movies can be profitable, the stars lose their leverage," opined Gabler, and he closed with a bold assessment of Ovitz's jump to Disney: "The agencies and their clients are no longer the 800-pound gorillas. The studios are back in power. Why else would the greatest agent of them all defect to the enemy?"

In the years that followed, it became obvious that Gabler got it only half-right. There had been a significant power shift in Hollywood, and the Powers That Be were indeed devising new modes of vertical (and horizontal) integration to minimize risk and maximize profits. But the power scarcely resided with the studios of old. The new rulers of Hollywood – and of the global entertainment industry at large – were not the studios but their parent companies, the media giants like Viacom (owner of Paramount Pictures), Sony (Columbia), Time Warner (Warner Bros.), and News Corp. (20th Century Fox), which controlled not only the movie industry but the US television industry as well. Disney, the one studio that had not merged with or been swallowed by a media giant, had in fact become one. "Disney isn't as much a company as it is a nation-state," said Ovitz of his new employer, in an apt analogy that applied to all of the new global media powers (Bart, 1996).

This tectonic shift in the structure and economics of Hollywood actually began a decade earlier when News Corp. bought 20th Century Fox and launched the Fox Broadcasting network. That created a paradigm for the global media giants to come, as the burgeoning New Hollywood steadily morphed into Conglomerate Hollywood, and as the studios' role in the industry drastically changed. The studios were vital to their parent companies' media empires, of course, since Hollywood-produced blockbusters have been the driving force in the global entertainment industry. But the movie studios, along with the conglomerates' "indie film" divisions, television and cable networks, and myriad other holdings, have become players a game they no longer control.

The Rise and Fall of the Classical Hollywood Studio System

To understand and assess the state of the studio system in contemporary Hollywood, we need to trace its earlier development, along with the complex evolution of the studios themselves and their singular product, the feature-length motion picture. During the classical era, from the 1920s through the 1940s, the "studio system" referred both to a factory-based mode of film production and also, crucially, to the vertical

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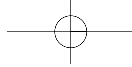


integration of production, distribution, and exhibition. The studio system coalesced in the 1910s and early 1920s via expansion, merger, and acquisition, and by the 1930s the film industry had evolved into what economists term a "mature oligopoly" – that is, an industry effectively controlled by a cartel of companies (Balio, 1976/1985; Bordwell, Staiger, and Thompson, 1986; Gomery, 1986; Finler, 1988; Schatz, 1988).

Control of the movie industry was exercised by the so-called Big Eight studios, whose filmmaking factories in Hollywood fed their nationwide distribution operations. The most powerful of these firms were the fully integrated Big Five studios – MGM, Warner Bros., 20th Century Fox, Paramount, and RKO – which not only produced and distributed films but operated their own theater chains as well. Meanwhile, the Little Three "major minor" studios – Universal, Columbia, and United Artists (UA) – produced and distributed top feature films but did not own their own theaters. Universal and Columbia were full-fledged movie factories but produced fewer A-class features because they lacked the financial leverage and filmmaking resources of the Big Five. UA was an anomaly among the studios in that it simply provided financing and distribution to top independent producers like Sam Goldwyn and David Selznick. The 1930s also saw the emergence of several "poverty row" B-movie mills like Monogram and Republic, which were incidental to the studio system since they did not produce A-class features and did not distribute their own films.

The studio system flourished during the Depression and World War II, two national crises that induced the government to sanction (or at least tolerate) the studios' monopolistic control of the film industry. This enabled the studios to maintain their factory operations as well as a "contract system" that kept filmmaking talent at all levels, from top stars to stagehands, directly tied to the company. Studio management was a classic top-down affair, with the primary power emanating from the home office in New York, which controlled distribution and exhibition (i.e., sales), and passing on to the studio on the West Coast, whose top executives supervised the overall operation of the plant while a corps of supervisors (eventually dubbed "producers") oversaw the production of individual films. The mainstay of the studio system was the A-class feature film, invariably a formulaic "star vehicle" with solid production values and a virtually guaranteed market. The studios also turned out occasional big-budget "prestige pictures" as well as a steady supply of low-cost B-movie fare that comprised up to half their output in the 1930s, which totaled roughly 50 pictures per week and was sold in entire "blocks" to the nation's exhibitors. But it was A-class star-genre films that drove the entire studios system as it reached full maturity during the 1930s and Hollywood entered its legendary Golden Age. Moreover, these star-genre cycles were the basis for each studio's distinctive "house style," which was fundamentally geared to its internal resources, its stables of contract talent, and its overall market strategy.

The 1940s proved to be a watershed era for Hollywood, with an unprecedented boom due to war-related social and economic conditions early in the decade, followed by a drastic industry decline and an abrupt end to the studios' long-standing

TCHC01 6/22/07 02:16 PM Page 16

hegemony. The war boom peaked in 1946, the studios' best year ever in terms of revenues and profits, but by 1947–8 the industry was in a veritable free-fall due to a succession of devastating blows. Foremost among these was the Supreme Court's 1948 *Paramount* decree, an antitrust ruling that resulted from persistent legal challenges by independent exhibitors, which forced the Big Five studios to sell their theater chains and prohibited the collusive trade practices that were crucial to the studios' control of the motion-picture marketplace. Another was the rapid growth of television, which was propelled by sustained economic prosperity and wholesale changes in postwar American lifestyles – most notably suburban migration and the so-called baby boom. In the span of a decade, "watching TV" replaced "going to the movies" as America's dominant form of habituated, mass-mediated narrative entertainment.

The studios responded – and ultimately survived – by fundamentally changing the way they made movies and did business, thus establishing a modus operandi that still prevails today. Adopting and modifying the UA model, the studios concentrated on financing and distribution rather than production. Lacking the financial resources and contract talent to mass-produce movies for a declining market they no longer controlled, the studios now relied on independent producers to supply "packaged" projects that the studios would "green light" for production, putting up some portion of the budget in exchange for the distribution rights, and often leasing out their production facilities as well. This meant ceding creative control to independent producers and freelance directors, and also to top stars whose "marquee value" gave them tremendous leverage and frequently a share of the profits. This also gave considerable power to the leading talent agencies like William Morris and MCA, with the latter becoming particularly adept at setting up independent companies for its clients. The studios still generated their own films, but they produced fewer, "bigger" pictures – biblical epics and wide-screen Westerns during the 1950s, for instance – which made more sense economically and laid the groundwork for the blockbuster mentality that now prevails.

The Television Era and the New American Cinema

By the mid-1950s all of the studios had weathered the postwar storm except RKO, which was bought by Howard Hughes in 1948 and subsequently mismanaged and dismantled. RKO was essentially defunct by 1957, when the lot itself was purchased by Desilu, the independent television production powerhouse owned by Desi Arnaz and Lucille Ball (of *I Love Lucy* fame), two former RKO contract players. The rise of Desilu had considerable impact on the Hollywood studio system, in that it pioneered "telefilm" series production based on the West Coast, providing a model of sorts for the studios' profitable pursuit of TV series production. The surviving major studios – MGM, Paramount, Warner Bros., and 20th Century Fox – actively resisted telefilm production until 1954–5, when both Columbia (via its Screen Gems subsidiary) and Disney (via its hugely successful "Disneyland" series) had hit series

TCHC01 6/22/07 02:16 PM Page 17

on prime-time network television. RKO also began selling its old films to TV syndication companies in 1955, providing further impetus for the majors' reconciliation with the upstart industry. In 1955–6 the major studios finally acquiesced, as they began reissuing older films for syndication and, even more importantly, moved headlong into telefilm series production. By 1960 the center of television production in the US had shifted from New York to Hollywood and the studios were turning out far more hours of TV series programming than feature films, having reactivated their B-movie operations to feed TV's voracious appetite for programming. In 1960 the networks also started running Hollywood movies during prime time, which added enormous value to the studios' "libraries" of theatrically released films (Schatz, 1990; Anderson, 1994; Hilmes, 1999).

Despite their growing rapport with the TV industry, the studios struggled during the 1960s due mainly to the continued erosion of the mainstream audience and the over-production of big-budget epics and musicals (in an effort to retain that audience), resulting in a decade-long run of spectacular hits and misses. 20th Century Fox, for instance, careened from financial desperation with *Cleopatra* (Joseph Mankiewicz, 1963, US) to monumental success with *The Sound of Music* (Robert Wise, 1965, US), then saw costly failures like *Doctor Dolittle* (Richard Fleischer, 1967, US), *Star!* (Robert Wise, 1968, US), *Hello, Dolly!* (Gene Kelly, 1969, US), and *Tora! Tora! Tora!* (Richard Fleischer, Kinji Fukasaku, 1970, US) generate net losses of over $100 million in 1969–70, driving the company to the brink of bankruptcy (Finler, 1988: 100). The 1960s also saw an unprecedented surge in film imports and international co-productions, a trend that had been growing throughout the postwar era, and one which threatened the studios' control of the marketplace as well as their narrative and stylistic traditions. These imports ranged from high-cost prestige pictures and art films to low-budget exploitation films, many of them co-financed, co-produced, or simply released by one of the studios. UA was by far the most aggressive and successful in pursuing such deals, which included prestige films like *Tom*

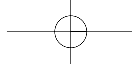
FIGURE 1.1 *Cleopatra* (1963), an expensive failure for Fox. Produced by Walter Wanger; distributed by 20th Century Fox; directed by Joseph L. Mankiewicz

TCHC01 6/22/07 02:16 PM Page 18

Jones (Tony Richardson, 1963, UK), the Beatles-starring *A Hard Day's Night* (Richard Lester, 1964, UK) and *Help!* (Lester, 1965, UK), the enormously successful James Bond cycle, and the Sergio Leone-directed "spaghetti Westerns" starring Clint Eastwood (Balio, 1987).

During the late 1960s Hollywood began generating an art cinema of its own, spurred by the wave of imports, the demise of the Production Code in 1966–7, and the coming of age of the postwar "baby boom" generation – not only as a distinctive (and distinctly counter-cultural) moviegoing market, but a new generation of filmmaking talent and studio executives as well. Propelled by the success of *Bonnie and Clyde* (Arthur Penn, 1967, US) and *The Graduate* (Mike Nichols, 1967, US), and aptly termed the New American Cinema by critics and historians, the late 1960s and early 1970s saw the rapid emergence of a director-driven, youth-oriented, art-cinema movement that defied the conventions of classical Hollywood narrative, subverted its genre traditions, and openly challenged that studio-controlled mode of production. All of the studios supported the movement, mainly due to the reliability of the youth market, with Paramount, Columbia, and Warner Bros. taking the most aggressive tack. Paramount's releases included *Rosemary's Baby* (Roman Polanski, 1968, US), *Love Story* (Arthur Hiller, 1970, US), and *The Godfather* (Francis Ford Coppola, 1972, US). Columbia's included *Easy Rider* (Dennis Hopper, 1969, US), *Five Easy Pieces* (Bob Rafelson, 1970, US), and *The Last Picture Show* (Peter Bogdanovich, 1971, US). Warner Bros., under the leadership of John Calley, was the most significant contributor to the New American Cinema, producing *Bonnie and Clyde* and *Bullitt* (Peter Yates, 1968, US), *The Wild Bunch* (Sam Peckinpah, 1969, US), *Woodstock* (Michael Wadleigh, 1970, US), *A Clockwork Orange* (Stanley Kubrick, 1971, UK), *Dirty Harry* (Don Seigel, 1971, US), *McCabe and Mrs. Miller* (Robert Altman, 1971, US), *Klute* (Alan Pakula, 1971, US), *Deliverance* (John Boorman, 1972, US), *Mean Streets* (Martin Scorsese, 1973, US), *Badlands* (Terrence Malick, 1973, US), and *The Exorcist* (William Friedkin, 1973, US). This Hollywood new wave proved to be a decidedly mixed blessing for the studios, however, since these films enjoyed the allegiance of the youth market and the adulation of critics but rarely enjoyed cross-over success with mainstream moviegoers and tended to be unsuitable for network television.

While the New American Cinema was geared to a new generation of filmmakers and moviegoers, the industry at large underwent significant changes due to a new breed of studio owner. In the course of the 1960s, five of the seven Hollywood studios – Universal, Paramount, Warner Bros., UA, and MGM – changed ownership in a merger-and-acquisition wave unlike any since the formation of the studio system a half-century earlier. Spurred mainly by the studios' depressed stock value, this wave was quite distinctive in that all of these were straight buyouts (acquisitions, not mergers), and four of the five purchasing companies had no experience of – and little interest in – media entertainment. The only studio acquisition involving a media-savvy buyer was the first of the five buyouts: the 1962 purchase of Universal Pictures and parent company Decca Records by MCA, Hollywood's top talent agency and also its leading television program supplier through its



Revue division. When it bought Universal, MCA dissolved its talent agency (at the insistence of the Justice Department) to concentrate on film and television production, distribution, and syndication. MCA-Universal weathered the industry's 1960s downturn thanks to its successful integration of film and television production, which included the launch of the made-for-TV movie format in a historic pact with NBC, and its continued dominance in telefilm series production (Thompson, 1960; Bruck, 2003).

While the MCA–Universal union was a model of "synergy" – i.e., the coordination of its various media divisions – the other 1960s buyouts involved studio acquisitions by large non-media conglomerates: Paramount by Gulf + Western in 1966; UA by Transamerica in 1967; Warner Bros. by Seven Arts in 1967 and then by Kinney Corporation in 1969; and MGM by Las Vegas mega-developer Kirk Kerkorian in 1969. The Paramount, UA, and Warner Bros. deals involved diversified, deep-pocketed parent companies that enabled the studios to continue operations despite the industry-wide recession. Kerkorian, however, was a financier and real-estate tycoon interested in MGM for its brand name and its library, and with no inclination to underwrite its failing movie production-distribution operation. Kerkorian installed former CBS president James Aubrey as studio head, who began dismantling the studio in the early 1970s. In 1973, the year that Kerkorian opened his MGM Grand Hotel and Casino in Las Vegas (then the largest hotel in the world), Aubrey sold MGM's distribution operation to UA and cut production to only a half-dozen films per year (Bart, 1990a).

The Rise of the New Hollywood

Kerkorian's demolition of the once mighty MGM indicated a widespread loss of confidence in the movie industry at the time, as the combined effects of youth-marketed art cinema and a glut of big-budget flops led to a severe industry recession from 1969 to 1971, with 20th Century Fox, UA, Warner Bros., and MGM all suffering record losses. Feature film production was increasingly perceived as a "loss leader" for the studios, which were valued primarily for their movie libraries and TV divisions. But the historically cyclical movie business soon began an upturn, as films like *Love Story*, *The French Connection* (William Friedkin, 1971, US), *The Godfather* (1972, US), and *The Exorcist* (1973, US) scored with mainstream moviegoers as well as the youth market. Again MCA-Universal was a major force, vaulting to the top of the movie industry with a string of hits including *American Graffiti* (George Lucas, 1973, US), *The Sting* (George Roy Hill, 1973, US), *Earthquake* (Mark Robson, 1974, US), and *Jaws* (Steven Spielberg, 1975, US). *Jaws* proved to be a genuine industry watershed, marking the birth of the New Hollywood in several crucial ways. Besides putting Steven Spielberg on the industry map (it was his second feature), *Jaws* provided a prototype for the modern blockbuster: a high-cost, high-speed, high-concept entertainment machine propelled by a nationwide "saturation" release campaign, with bookings in a then record 400-plus theaters

TCHC01 6/22/07 02:16 PM Page 20

FIGURE 1.2 Monster hit, *Jaws* (1975). Produced by David Brown and Richard D. Zanuck; distributed by Universal; directed by Steven Spielberg

supported by an unprecedented network TV ad campaign. *Jaws* was the breakthrough "summer blockbuster," and the first film to gross over $200 million at the box office and to return over $100 million in rental receipts to its distributor – still the measure of a blockbuster hit. The film enjoyed further success via theatrical re-release and multiple sequels, as well as an aggressive licensing and merchandising campaign that spawned video games, theme-park rides, and myriad other tie-ins (Schatz, 1993).

Jaws sparked a widespread industry recovery that was fueled primarily by a new breed of blockbuster. Domestic grosses totaled $2 billion for the first time in 1975 and rose 40 percent over the next three years, driven by huge hits like *Rocky* (John G. Avildson, 1976, US), *Star Wars* (Lucas, 1977, US), *Close Encounters of the Third Kind* (Spielberg, 1977, US), *Saturday Night Fever* (John Badham, 1977, US), *Grease* (Randal Kleiser, 1978, US), and *Superman* (Richard Donner, 1978, US). The most significant of these films was *Star Wars*, the ultimate New Hollywood commodity – a hip-ironic, genre-blending, male action movie whose characters are essentially plot functions, and whose plot was strategically "open" to reiteration, licensing, and serialization. *Star Wars* surpassed *Jaws* as Hollywood's top all-time box-office hit and quickly evolved into the model New Hollywood "franchise" – i.e., the blockbuster-spawning entertainment machine that exploited and expanded the original hit in an ever-widening range of entertainment products. This was a painful lesson for 20th Century Fox, which granted writer-director George Lucas the sequel rights to *Star Wars* in lieu of his final paycheck. As a result Fox collected only the distribution fees on the subsequent series installments (in 1980, 1983, 1999, 2003, and 2005), while Lucas parlayed his ownership of Hollywood's first billion-dollar franchise into a vast media empire of his own (Pollock, 1999).

The industry recovery accelerated in early 1980s, fueled by mega-hits like *The Empire Strikes Back* (Irvin Kershner, 1980, US), *Raiders of the Lost Ark* (Spielberg,

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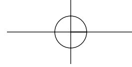


1981, US), and *E.T. The Extra-Terrestrial* (Spielberg, 1982, US), as well as the rapid emergence of the home-video and cable industries. Remarkably enough in retrospect, the studios actually resisted the introduction of the videocassette recorder (VCR) into the US market, with Universal and Disney filing a copyright infringement suit against Sony after the 1975 launch of its Betamax VCR in the US. Sony eventually prevailed in a 1984 Supreme Court ruling, but by then it was clear to all parties, especially the studio-distributors, that home-video revenues were a vital revenue source (Wasser, 2001). Meanwhile Home Box Office (HBO), which in 1975 became the nation's first pay-cable "movie channel," established itself as yet another viable "delivery system" for Hollywood movies, and it was successfully replicated by various other services like Showtime, Cinemax, and The Movie Channel as well (Prince, 2002).

As Hollywood's economic recovery continued throughout the 1980s, the stakes rose at a staggering rate. The average negative cost for studio releases (the amount spent on actual film production) climbed from $9.4 million in 1980 to $26.7 million in 1990 – roughly six time the rate of inflation – while the cost of marketing (prints and advertising, or "P&A") rose from $4.3 million to $11.6 million. The number of movie screens increased by over 50 percent, from 14,000 to 22,000, as the studios became more adept at saturation release campaigns. The studios' domestic theatrical revenues increased from $2.75 billion in 1980 to $5 billion in 1989, while their ancillary markets simply exploded. The principal growth areas throughout the 1980s were in home video and pay-cable, with the overseas markets (both theatrical and video) taking off late in the decade. By 1989 home video, an income source that was virtually nil a decade earlier, was generating more revenue for the studio-distributors than theaters – a trend that would accelerate in the coming years, along with the explosive growth of the overseas market (MPAA, 1990; MPA, 2005). But because these secondary markets were driven by blockbuster hits whose value was established via a saturation marketing campaigns in the US, the Hollywood studio-distributors continued to focus heavily on the domestic theatrical market.

The stakes were rising in terms of talent compensation as well. Top filmmaking talent was rarely if ever tied contractually to a particular studio, except through the studio's ownership of a specific franchise. The alliance of top stars with particular franchises tipped the balance of power in 1980s Hollywood toward top male stars (and their agents), as evidenced by Sylvester Stallone's record payday of $15 million in 1983 for *Rocky IV*, and Paramount's Beverly Hills Cop series starring Eddie Murphy, which was co-produced with (and controlled by) Murphy's production company (Bart, 1990b: 1; Cohn, 1990: 3; Landro, 1990: A1). Equally important were top producer-directors like Lucas and Spielberg who, through Lucasfilm and Amblin Entertainment, respectively, were the chief architects of what Variety's A. D. Murphy termed "the modern era of super-blockbuster films." With the 1989 release of their third Indiana Jones collaboration, Lucas and Spielberg were responsible for eight of the ten biggest box-office hits in movie history, all of which surpassed $100 million in domestic rentals (Murphy, 1989: 26; *Variety*, 1992: 86).

TCHC01 6/22/07 02:16 PM Page 22

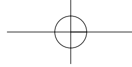
The Changing Industry Structure in the 1980s

In terms of the structure and conduct of the studios, the most significant development in the 1980s was the concerted move toward "synergy" or "tight diversification" – a key aspect of the film industry for the next two decades (Mickelthwait, 1989. p. 5). This was a function of the studios' efforts to become more efficient multi-faceted media corporations, focusing on their filmed entertainment divisions while taking full advantage of new delivery systems and revenue streams. The quest for synergy was spurred by multiple factors, notably the dramatic growth of home video and cable, the Reagan-era policies of deregulation and free-market economics, and the obvious impulse to enhance (and exploit) the value of their blockbuster hits. In some cases, the move to tight diversification involved radical downsizing, as with Warner Communications and Gulf + Western, which shed their non-media assets to focus on media and entertainment – with G+W changing its name to Paramount Communications in 1989 to underscore this new focus. Other cases involved radical expansion via acquisition, most notably Coca-Cola's purchase of Columbia Pictures in 1982, and the buyout of 20th Century Fox in 1984–5 by Rupert Murdoch's News Corp., Ltd.

While the Coke–Columbia alliance failed to click, News Corp.–Fox proved to be one of the most important mergers in industry history. The deal was orchestrated by Barry Diller, who began his career at ABC before moving to Paramount in the 1970s, and then left Paramount for Fox in 1983 after the death of G+W boss Charles Bludhorn (as did Michael Eisner, Diller's protégé at ABC and Paramount, who left for Disney in 1984). Diller convinced Murdoch to invest in and ultimately to buy Fox, thus giving the studio a deep-pocketed parent company with global media holdings ranging from newspapers and magazines to satellite and cable. He then created a fourth US broadcast network, Fox Television, which launched in 1986 and soon was competing successfully with ABC, CBS, and NBC (Block, 1990). The success of the News Corp.–Fox alliance underscored the logic of synergy when properly employed, as well as the impact of cable and the rapidly eroding the power of the Big Three TV networks – an erosion so severe, in fact, that all three changed hands in 1985–6, due to their declining market value and audience share, and to the general uncertainty in the industry (Auletta, 1992).

News Corp.–Fox also highlights the importance of the Reagan administration's free-market economic policies and media deregulation campaign, which led to the steady relaxation of both ownership restrictions and antitrust activities by the Federal Communication Commission (FCC) and the Justice Department. Several studios began buying theaters, which had been prohibited since the 1948 *Paramount* decree. But given the current industry structure and the proliferation of delivery systems, the Old Hollywood model of vertical integration – i.e., production–distribution–exhibition within the film sector – no longer made sense. Far more effective was the News Corp.–Fox strategy of multiple "pipelines" to consumers (satellite, cable, broadcast, as well as print) delivering content created and owned

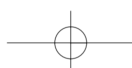
TCHC01 6/22/07 02:16 PM Page 23



by the parent company's media divisions. Another key regulatory concern was the FCC's Financing and Syndication ("Fin-Syn") Rules, passed in 1970, which prohibited the networks from owning and syndicating their own programs, as well as the cross-ownership of film studios and TV networks. These rules ensured the studios' production and ownership of TV programming, a crucial revenue source that was threatened by FCC chairman Mark Fowler's media deregulation campaign. Despite Fowler's stated intent to roll back Fin-Syn, the effort was stymied throughout the 1980s thanks to heavy lobbying by Motion Picture Association president Jack Valenti, the highest-paid lobbyist in the US, as well as Lew Wasserman's gentle pressuring of his former client and close friend, Ronald Reagan (Holt, 2001–2).

Disney also exploited new technologies and delivery systems, creating synergies that were altogether unique among the studios, and that finally enabled the perpetual "mini-major" to ascend to major studio status. Mired during the early 1980s at the very bottom of the studio heap in terms of output and market share, Disney began a dramatic surge after a fierce internal power struggle that brought in Michael Eisner, Frank Wells, and Jeffrey Katzenberg to run the company in 1984 (Taylor, 1987). The three executives concentrated on several key areas: live-action theatrical films produced for mature audiences under the new Touchstone banner, created in 1983; an innovative syndication operation geared to home video, where it planned to reissue Disney's classic films; a pay-cable operation, The Disney Channel, also launched in 1983, that focused on family fare; and an aggressive return to network television series production. Disney's fortunes quickly improved thanks to Touchstone hits like *Splash* (Ron Howard, 1984, US) and *Down and Out in Beverly Hills* (Paul Mazursky, 1986, US), along with hit network TV series and, perhaps most importantly, the successful repackaging of Disney's animated classics for both home video and theatrical reissue. By 1988 Disney enjoyed the industry's leading market share, and had revamped the animation division under Katzenberg, which was preparing *The Little Mermaid* (Ron Clements, John Musker) for release in 1989 – the same year that Disney launched a chain of retail stores to further exploit the revitalized its brand (Stewart, 2005).

While Disney flourished in the 1980s due to its successful diversification and its response to changing industry conditions, two other struggling studios, MGM and UA, fell even further due to their inability to adapt. The studios merged in 1981 to create MGM/UA, a union precipitated by the spectacular failure of UA's *Heaven's Gate* (Michael Cimino, 1980, US) – a $40 million write-off that induced UA owner Transamerica to sell the studio. Meanwhile, Kirk Kerkorian was planning to expand MGM's operations, which he had severely cut a decade earlier, and he decided to acquire UA to enhance the effort. The results were uneven at best, however, so the mercurial Kerkorian went to Ted Turner, who was sorely in need of content for his sprawling cable TV empire. In 1985 the Turner Broadcasting System (TBS) acquired MGM/UA, which Turner promptly dismantled, selling everything except for the massive library (which included some 3,650 film titles) – thus crippling MGM/UA as a viable film studio while giving TBS the world's largest film and television library (Balio, 1987; Bart, 1990a).



As these two traditional studio powers were all but obliterated during the 1980s, new studios rapidly emerged. The most important of there were Orion and TriStar, two upstart "mini-majors" that grew increasingly powerful and important in the course of the decade. Orion was an independent production company created in 1978 by several former UA executives, including Arthur Krim, who left over differences with owner Transamerica. The company enjoyed early success with mid-range auteur vehicles and comedy hits, most notably Woody Allen's films. TriStar was an explicit product of media synergy, formed in 1983 as an alliance between CBS-TV, Columbia Pictures (then owned by Coca-Cola), and HBO (owned by Time, Inc.). By 1985 both CBS and HBO had pulled out. TriStar was effectively a subsidiary of Coca-Cola, operating separately from Columbia Pictures and releasing about the number of films as Orion (Wyatt, 2000). The mid-1980s also saw the rapid emergence of a new breed of smaller companies, due to the combined effects of the booming theatrical market and the explosive growth of the home-video industry with its new class of "direct-to-video" features. A few companies like Carolco, Vestron, Cannon, DEG (DeLaurentiis Entertainment Group), and New Line enjoyed success both as independent producer-distributors and also in partnership with the major studios, which relied heavily on "negative pickups" – i.e., independent productions that the studios opted to finance and distribute – to fill out their release slates.

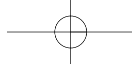
The surviving major studios along with mini-majors Disney, TriStar, and Orion all released 15 to 20 films per year during the 1980s, split fairly evenly between in-house productions and negative pickups. Meanwhile the new breed of smaller producer-distributors like Vestron and New Line evolved into a veritable sub-industry, radically increasing Hollywood's overall output of feature films (see table 1.1). As the figures in table 1.1 indicate, the majors were distributing about one-third of all theatrical releases by the late 1980s, and actually producing less than

TABLE 1.1 US film production and distribution

	1984	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Majors' in-house productions	81	70	67	72	75	73	90
Majors' indie pickups	57	36	54	75	66	76	61
TOTAL MAJORS	**138**	**106**	**121**	**147**	**141**	**149**	**151**
US indie releases	132	150	197	172	166	112	102
Direct-to-video releases	36	36	115	142	165	103	51
No US distribution	62	64	96	111	129	120	134
Total: no US theatrical release	98	100	211	253	294	223	185
Subtotal: US indie prodns	287	287	463	500	526	411	348
TOTAL US PRODUCTIONS	**368**	**357**	**530**	**572**	**601**	**484**	**438**
% with no theatrical release	27%	28%	40%	44%	49%	46%	42%

Source: *Variety*, 1991: 12.

TCHC01 6/22/07 02:16 PM Page 25



20 percent of the total feature film output. Nonetheless, the majors and mini-majors took in the lion's share of the film revenues from both the theatrical and home-video markets, with the latter proving to be as hit-driven as the nation's drivers – as the corporate moniker of the leading US video rental chain, Blockbuster, well indicated (Wasser, 1990).

Another significant challenge to studio hegemony involved top filmmaking talent and the leading agencies, most notably William Morris, CAA, and ICM, which formed a veritable cartel during the 1980s and exercised far more authority over Hollywood filmmaking than any studio. Besides representing most of the talent required to produce top features, these agencies were adept at packaging major studio productions, with the agency and its clients exercising enormous creative control and siphoning off a sizable portion of the revenues through "participation" deals. The sheer size of William Morris was awesome, with over 500 agents and literally thousands of clients, but CAA under Mike Ovitz was arguably the more powerful industry force. At least one top studio executive, Universal's Frank Price, lost his job for relying too heavily on Ovitz, but even after Price was replaced by Tom Pollock, Universal could scarcely cut its ties to Ovitz and CAA. The agency's client list of some 150 directors, 150 actors, and 300 writers included the cream of Hollywood's talent crop, and Ovitz personally handled Steven Spielberg, Martin Scorsese, Spike Lee, and Oliver Stone, all of whom had multi-picture deals with Universal (Cieply, 1989; Davis, 1989; Prince, 2000).

Ovitz's power reached a peak of sorts in 1990, when *Premiere* magazine put him atop its Hollywood "power list" – ahead of MCA-Universal's Lew Wasserman, Warner's Steve Ross, Disney's Michael Eisner, and Paramount's Barry Diller (numbers two through five, respectively) (*Premiere*, 1990). Ovitz's film-related deals were crucial to that ranking, of course, but even more important was the fact that Ovitz now brokered not only talent and package deals but actual media mergers. In 1989, Sony hired Ovitz as a consultant on its buyout of Columbia-TriStar; then in 1990 Sony's chief Japanese manufacturing rival, Matsushita Electrical, hired Ovitz to identify a studio acquisition target and to personally broker the deal. Ovitz decided on MCA-Universal, and he personally handled the negotiations between the Japanese hardware giant and the Hollywood studio (Griffin and Masters, 1996; Bruck, 2003).

The 1990s and Beyond: The Studio System in Conglomerate Hollywood

Ovitz's role in the Sony–Columbia and Matsushita–MCA deals underscored the power of Hollywood's top agents and talent agencies, but the mergers themselves were far more significant. In fact these two acquisitions, along with the 1989 merger of the US media titans Time Inc. and Warner Communications, marked a watershed in Hollywood's history, as the logic of synergy and tight diversification met the larger forces of globalization, digitization, and US media deregulation. In a five-year span from 1990 to 1995, the New Hollywood rapidly transformed into Conglomerate

TCHC01 6/22/07 02:16 PM Page 26

TABLE 1.2 Major studio merger and acquisition deals, 1989–2005

1984–5: News Corp. buys privately owned 20th Century Fox for an estimated $750 million.
1989: Time Inc. acquires Warner Communications for $9.1 billion.
1989: Sony acquires Columbia-TriStar for $4.8 billion.
1990: Matsushita buys MCA/Universal for $6.6 billion.
1990: Pathé acquires MGM/UA for $1.43 billion.
1993: Disney buys Miramax for $80 million.
1994: Viacom buys Paramount for $9.5 billion.
1994: Viacom buys Blockbuster for $8.4 billion.
1994: Spielberg, Katzenberg, and Geffen announce the creation of DreamWorks SKG.
1995: Seagram buys MCA (80% stake) from Matsushita for $5.7 billion, and renames it Universal Studios.
1995: Disney buys Cap Cities/ABC for $18.3 billion.
1995: Time Warner buys Turner Broadcasting System (TBS) for $9.1 billion. Deal includes New Line and Castle Rock, which TBS purchased in 1993.
1999: Viacom buys CBS for $35.6 billion.
2000: Vivendi buys Seagram for $34 billion, creating Vivendi Universal.
2000: AOL merges with Time Warner in a stock deal with an estimated valued of $160 billion to $183 billion. Company name reverts to Time Warner in 2003, with AOL as a subsidiary.
2003: GE buys Vivendi Universal (80% stake) in a deal valued at $14 billion, creates NBC Universal.
2005: Viacom (Paramount) buys DreamWorks for $1.6 billion.

Dates indicate announcement of deal, not the final approval(s) or effective dates (which generally occurred up to a full year later).
The announced dollar amount of each deal varies widely according to many factors – notably current stock value and assumption of debt.
An excellent source for researching and charting media mergers is the *Columbia Journalism Review*'s "Who Owns What" site, online at <http://www.cjr.org/tools/owners/>.

Hollywood, as a new breed of media giants took command of the US film and television industries and became the dominant powers in the rapidly expanding global entertainment industry (see table 1.2).

The Time–Warner merger primarily involved print and filmed entertainment interests, recalling the News Corp.–Fox union of 1984–5. Sony–Columbia and Matsushita–MCA, meanwhile, created "hardware-software" alliances prompted by technological innovation and a booming home-video market on the verge of global expansion. The two Japanese tech-manufacturing giants had battled for control of the VCR and home-video market a decade earlier, and now both were looking for Hollywood-based "content providers" as they geared up for high-definition (HD) digital television and the next-generation home-video technology, the digital video disc (DVD). The new studio owners also brought two more

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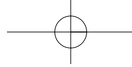


foreign-based, multi-national players into the Hollywood mix. With the 1990 acquisition of MGM/UA by the Italian conglomerate Pathé Communications, in fact, four of the eight original Hollywood studios were foreign-owned. (Australian Rupert Murdoch became an American citizen in 1985 to accommodate US media regulations when News. Corp acquired Fox, or the total would have been five.)

The merger-and-acquisition wave initiated in 1989–90 continued with Viacom's purchase of Paramount Pictures and Blockbuster Entertainment in 1994, the launch of cable networks by Warner Bros. ("The WB") and Paramount ("UPN") in 1995, and literally dozens of other media mergers. And the wave crested in 1994–5 with the deals mentioned at the outset: the launch of DreamWorks SKG by three consummate Hollywood players, Steven Spielberg, Jeff Katzenberg, and David Geffer; Seagram's acquisition of MCA-Universal from Matsushita; Time Warner's purchase of TBS; and Disney's buyout of Cap Cities/ABC. These coincided with the FCC's final phase-out of Fin-Syn in 1995 and Congress's passage of the Telecommunications Act of 1996, which culminated the media deregulation campaign begun during the Reagan era. With these two decisive strokes, the government not only sanctioned but encouraged cross-ownership of film, television, cable, music, publishing, and other media and entertainment interests – thus propelling the rise of a cadre of media giants that would integrate several once distinct media industries (movies, television, cable, music, publishing, et al.) into a worldwide entertainment industry with the film studios at the epicenter, and with "filmed entertainment" as its key commodity.

The decade ended with Viacom's 1999 purchase of its former parent company, CBS, which was spun off when the FCC's Fin-Syn rules first took effect in the 1970s. That merger was soon overshadowed by two other studio-driven deals spurred by the explosive growth of the internet, the World Wide Web, and the new-media economy. In early 2000 AOL and Time Warner announced their $180 billion merger, by far the biggest in US history and some 20 times the value of the 1989 Time–Warner merger. Months later the French water, wastewater, and energy giant Vivendi, which had been moving aggressively into telecommunications and media, announced its purchase of Universal from Seagram. By the time the AOL–Time Warner and Vivendi–Universal deals were finalized, however, the digital economy was collapsing and both mergers were effectively doomed. In 2003 AOL-Time Warner reverted to Time Warner, with AOL a mere subsidiary, and a year later Vivendi sold most of its stake in Universal to General Electric, owner of NBC, which promptly created "NBC Universal."

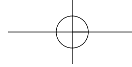
At that point all four of the US broadcast TV networks were directly aligned with a Hollywood studio, and all were owned and controlled by global media conglomerates. Indeed, Conglomerate Hollywood had attained oligopoly status by the early 2000s, with six companies – News Corp., Sony, Time Warner, Viacom, Disney, and General Electric – taking in over 85 percent of the movie revenues and supplying over 80 percent of the primetime TV programming in the US, by far the world's richest media market (Epstein, 2005a). The term "Big Six" was commonly used in the industry trade press to reference either the conglomerates or their

TCHC01 6/22/07 02:16 PM Page 28

FIGURE 1.3 *Batman* (1989), using "the whole machine of the company." Produced by David Brown and Richard D. Zanuck; distributed by Universal; directed by Steven Spielberg

studios, which were increasingly adept at coordinating their respective operations and objectives. Key to this effort, of course, was the Hollywood blockbuster, which was re-engineered to accommodate the changing – and steadily expanding – media landscape. That process began at the very outset of the conglomerate era with the "blockbuster summer" of 1989, when hit sequels to the Indiana Jones, Lethal Weapon, Back to the Future, and Ghostbusters franchises were eclipsed by *Batman* (Tim Burton), the biggest box-office hit in a record year when the domestic box office surpassed $5 billion for the first time ever. Released just as the Time Warner merger took effect, *Batman* created a new paradigm for Hollywood blockbusters. In studio head Terry Semel's words: "The first picture that blew us out [after the merger] was *Batman*. . . . It was the first time we utilized the whole machine of the company. The marketing, the tie-ins, the merchandising, the international." (Brown, 1996). Despite the huge success in 1990 of more modest films like *Pretty Woman* (Garry Marshall, US), *Home Alone* (Chris Columbus, US), and *Ghost* (Jarry Zucker, US), the studios inexorably turned their attention away from mid-range star-genre projects in favor of event films and "tentpole" pictures – i.e., mega-hits that could carry a studio's entire production slate and drive the parent company's far-flung entertainment operations as well.

This strategy view was bolstered enormously by the foreign market surge during the 1990s, as media conglomeration and globalization proved to be mutually reinforcing phenomena, with Hollywood-produced blockbusters as a principal catalyst. In fact the studios' overseas markets attained much the same status in the 1990s that the home-video market had a decade earlier – i.e., a hit-driven "secondary" or "ancillary" market that produced more revenue than the primary

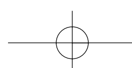


(and once sacrosanct) domestic theatrical market (Balio, 1998). A scan of the studios' worldwide box-office revenues well indicates the soaring economic stakes of the conglomerate era as the foreign markets took off. As of October 2006, 47 of the top 50 all-time worldwide box-office hits had been released after 1990 (all but *E.T.* and the first two Star Wars films), and 90 of the top 100. The majority of these were franchise films, with the Star Wars, Lord of the Rings, and Harry Potter series accounting for 10 of the top 20 all-time global hits. Moreover, the vast majority of these top hits, including 33 of the top 35, earned far more overseas than in the US (Box-Office Mojo, 2006).

The "Indie Film" Movement

While studio-produced blockbusters are the prime movers in the global movie marketplace, the domestic US market since the early 1990s has become increasingly split between these major studio releases on the one hand and low-budget "indie" films on the other. Indeed, one of the more significant and paradoxical aspects of the conglomerate era has been the emergence of an independent film movement, which also caught on in 1989–90, just as conglomeration was heating up, but was not a studio-induced phenomenon. In 1989 independent art-film distributor Miramax enjoyed a run of hit releases including *sex, lies and videotape* (Steven Soderbergh, US), *My Left Foot* (Jim Sheridan, Ireland/UK), and *Cinema Paradiso* (Nuovo Cinema Paradiso, Giuseppe Tornatore, Italy/France), that established the company as an indie powerhouse and enabled it to move aggressively into active production. Then in 1990 New Line Cinema, a well-established producer-distributor that specialized in low-end genre films, notably horror and teen pictures, enjoyed a major breakthrough with *Teenage Mutant Ninja Turtles* (Steve Barron, USA/Hong Kong) which grossed over $100 million in the US to become the most successful independent film in box-office history. These and other hits made Miramax and New Line prime acquisition targets, and soon the two independent powers were swept up in the conglomerate wave. In 1993 Disney bought Miramax Films for an undisclosed amount (well under $100 million) and in early 1994 Turner Broadcasting acquired New Line Cinema along with its "specialty" art-cinema division, Fine Line Films, and indie producer Castle Rock Entertainment in a billion-dollar deal (Wyatt, 1998: 84). The value of those acquisitions was underscored in 1994 with the release of Miramax's *Pulp Fiction* (Quentin Tarantino, US), New Line's *The Mask* (Chuck Russell, US) and *Dumb & Dumber* (Peter Farrelly, US), and Castle Rock's *The Shawshank Redemption* (Frank Darabont, US).

The acquisition of successful independents like Miramax and New Line was one of two key strategies deployed by Conglomerate Hollywood to commandeer the indie movement. The other was to launch indie divisions of their own – i.e., quasi-autonomous production-distribution operations that specialized in low-budget, "indie style," target-marketed films. The first of these conglomerate-owned indies was Sony Classics, created in 1992 (and essentially a repackaged version of the recently



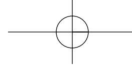
TCHC01 6/22/07 02:16 PM Page 30

folded Orion Classics), followed by Fox Searchlight in 1995, Paramount Classics in 1998, Universal's Focus Features in 2002, and Warner Independent in 2003. While these companies came to dominate the high end of the indie film market – i.e., films with stars and other name talent, and with budgets over $10 million – another (sub)species of indie filmmaker emerged that handled lower-cost (even micro-budget) films in the "genre" and "specialty" categories – horror, action, or ethnic films, for instance. This market has been dominated by genuinely independent producers, who were responsible for their own financing, although these companies invariably relied on the studios for distribution – including newly created subdivisions like Sony Screen Gems and Miramax's Dimension Pictures that were created to handle genre and specialty films.

The most visible and commercially successful films in this category have been low-budget horror hits that have spawned minor franchises – films like *Saw* (James Wan, 2004, US) and *Hostel* (Eli Roth, 2005, US). The former was co-produced by Evolution Entertainment and Twisted Pictures, and its worldwide release (in theatrical and all other media) was handled by Lionsgate (aka Lions Gate), the powerful Vancouver-based indie producer-distributor that has remained steadfastly independent but often collaborates with Conglomerate Hollywood, as it did on *Hostel.* Lionsgate handled the domestic (North American) theatrical release of that film, while Sony Screen Gems handled foreign theatrical and Sony Home Entertainment handled the DVD release – a major revenue generator for this kind of product. Cable television also has become involved in the indie movement, particularly in the lower-budget genre and specialty realm. Key here was the mid-1990s launch of the two pay-cable outfits, the Independent Film Channel (IFC) and the Sundance Channel – with the brand association of the latter further underscoring the growing importance of the Sundance Film Festival to the indie movement (Schamus, 1998; Biskind, 2004). The most prominent example of this trend has been *My Big Fat Greek Wedding* (Joel Zwick, 2002, US/Canada), which was produced by Gold Circle Films, co-financed by HBO, and distributed by IFC Films. Another is the Spanish-language production *Y tu mamá también* (Alfonso Cuarón, 2001, Mexico) which was produced by Alianza Films, released in North American (US and Canada) by 20th Century Fox, released in Mexico by IFC Films, and distributed on home video by MGM Home Entertainment.

As these trends indicate, the indie film movement by the early 2000s had developed into a highly complex industry phenomenon, due to the proliferation of new players, many of which gained instant status and leverage thanks to breakthrough hits, as well as the conglomerates' multiple indie-film divisions. Moreover, the conglomerates' studio operations grew steadily more complex as the expanding indie market led to an increase in their indie subsidiaries, most of which were effectively distinct from the parent company's major studio. Time Warner, for instance, brought New Line, Fine Line, and Castle Rock into the fold in 1995, all of which operated separately from Warner Bros. Pictures. TW added Warner Independent, HBO Films, and Picturehouse in the early 2000s, which also enjoyed complete autonomy from their major-studio counterpart.

TCHC01 6/22/07 02:16 PM Page 31



Thus by the early 2000s Hollywood was generating three fairly distinct classes of feature film via three different types of producer. The dominant products were big-budget blockbusters and high-cost star vehicles handled by the six major studio producer-distributors, with an occasional high-end film coming from another division like Time Warner's New Line, Sony's TriStar, and Disney's Touchstone Pictures. Budgets on the major studios' pictures averaged $100 million, with roughly one-third of that total spent on marketing (prints and advertising) due to their massive release campaigns. The second class of Hollywood features included art films, specialty films, and other niche-market fare handled by the conglomerates' indie subsidiaries, with the parent company providing the capacity to "go wide" in the event of a breakout hit like Focus Features' *Eternal Sunshine of a Spotless Mind* (Michel Gondry, 2004, US) or Searchlight's *Sideways* (Alexander Payne, 2005, US). Budgets on these indie-subsidiary films averaged $40 million per release in the early 2000s, with $10 million–$15 million spent on marketing (MPA, 2005: 12). The third class of film included genre and specialty films handled by independent producer-distributors with release campaigns of only a few dozen (or possibly a few hundred) screens in select urban markets. Films in this category comprised over half of the 500 or so features released in the US per annum in the early 2000s, and usually cost less than $10 million – frequently less than $5 million – with minuscule marketing budgets that increase if and when a particular film performs.

In terms of revenues and market share, the difference between the conglomerate-owned film companies and the true independents is stark indeed. Taken together, the MPAA-member companies – i.e., the conglomerates' major studios and indie subsidiaries – comprise roughly one-third to one-half of all theatrical releases, but they generally account for 75 to 85 percent of all box-office revenues. In 2005, for instance, the conglomerate's film divisions released 190 of the 535 feature films released theatrically in the US, and those 190 films took in 85.7 percent of the total domestic box office. When the major studios' tentpole releases are factored into the equation, the imbalance is even more pronounced – and the studios' blockbuster-driven "economies of scale" are even more evident. In 2005, the top five major studio releases alone earned more domestically ($1.4 billion) than *all of the 345 independent releases combined* ($1.2 billion) (MPA, 2005: 12).

Reconciling the "Two Hollywoods"

Some major fault lines have developed in Hollywood during the conglomerate era, most notably the rift between the conglomerate-owned companies and the true independents, as well as the rift between the blockbuster-driven mentality of the major studios and the indie-film ethos of all the other Hollywood producer-distributors. Some filmmakers and industry observers have argued that, as the conglomerates and major studios invade the indie realm, both the production process and the products themselves lose their indie edge. As James Schamus, the veteran independent producer and long-time partner of indie auteur Ang Lee, put it: "more and more,

TCHC01 6/22/07 02:16 PM Page 32

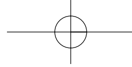
as the studios finance and distribute 'independent' films, independent producers find themselves rather dependent employees. This is because the 'independent' cinema has quickly become a victim of its own success, a success that has made the independent film game look more and more like a microcosm of the studio business" (Schamus, 1998). And industry observers have noted the emergence of an "indie blockbuster" strategy with films like Miramax's *The English Patient* (Anthony Minghella, 1996, US), *Good Will Hunting* (Gus Van Sant, 1997, US), and *Shakespeare in Love* (John Madden, 1998, US/UK) (Perren, 2003, 2004).

Despite the conglomerates' systematic efforts to annex the indie film movement, the split between the blockbuster-driven major studios and their "Indiewood" counterparts remains a key characteristic of the conglomerate era. Indeed, the rift has led to the perception of "two Hollywoods" that carries both aesthetic and economic ramifications (*New York Times Magazine*, 1997). An astute assessment of this rift from an independent filmmaker's viewpoint appeared in a *Variety* guest column by writer-director Alexander Payne, published just weeks before the release of *Sideways* (2004, US, by Fox Searchlight), which, on the heels of *Citizen Ruth* (1996, US), *Election* (1999, US), and *About Schmidt* (2002, US), confirmed Payne's stature as Hollywood's leading indie auteur (Payne, 2004). As a "Hollywood director," wrote Payne, "I resent the cleft between what we consider studio movies and independent movies." He then mounted a stinging critique of studio movies, which he deemed "not films but glorified cartoons" that "exploit banality and violence," formula fare designed for world-wide consumption "as readily and predictably as McDonald's hamburgers," commodities designed "to maximize profits . . . at the tremendous, tragic expense of our culture."

Despite the studios' "imprisonment by corporate edicts and market forces" that impel them "to feed the increasingly mercurial 'tentpole' beast," however, Payne was encouraged by "a strong trend of cinema – big and commercial as well as small and personal – aspiring to be human, intelligent, respectful of the audience and director-driven." This latter point was both the "central issue" and defining characteristic of the indie film movement for Payne: "Cinema is independent only to the degree that it reflects the voice of one person, the director (in conjunction with his or her hand-picked creative team)." Payne saw this imperative at work on several fronts: the persistent efforts of established auteurs like Scorsese and Soderbergh to make films on their own terms; the emergence of new talent like Sophia Coppola and Michael Moore; the US release that the indie subsidiaries provided to foreign auteurs like Pedro Almodóvar and Zhang Yimou; the widening conglomerate trend toward indie subsidiaries like Searchlight and Focus; and the studios' willingness to entrust blockbuster franchises to "strong and thoughtful directors." Taken together, mused Payne, these may be signs of a Hollywood renaissance. "I want and expect studios to finance personal, risky and political cinema – as they did in the much-vaunted 1970s."

There is no going back to the 1970s, of course, when Hollywood came as close to being a "director's cinema" as it likely ever to do. But it is important to note that Conglomerate Hollywood, whatever its overriding commitment to high-yield

TCHC01 6/22/07 02:16 PM Page 33



blockbusters, is also heavily invested in the indie movement itself and also, crucially, in the active cross-fertilization of the two Hollywoods. What Payne terms "the cleft between studio movies and independent movies" might also be seen as a symbiosis of sorts, a dynamic tension that has become integral to the "studio system" in its current configuration. One might argue, in fact, that the two Hollywoods could not exist without one another in structural and economic terms, and that Conglomerate Hollywood provides a remarkable range of creative opportunities for filmmakers (like Payne) with the talent, clout, inclination, and audacity to pursue them. While many successful directors clearly operate on one side of the studio/indie divide or the other, others manage to migrate constantly between them, working on blockbusters and art films, niche-market and specialty films, even cable and television projects.

In some cases top directors have crossed this divide while working with the same studio, often through corporate alliances or their association with a specific franchise. Spielberg's Amblin Entertainment has been closely allied with Universal Pictures for over two decades, and has produced a remarkable range of pictures including the back-to-back 1993 hits, *Jurassic Park* and *Schindler's List*, exemplars of the studio/indie split. The Amblin–Universal alliance has survived the launch and eventual Viacom buyout of DreamWorks as well, with Spielberg and Universal remaining veritable partners in the billion-dollar Jurassic Park franchise. Likewise Clint Eastwood's Malpaso Productions and Warner Bros., a relationship that dates back to the 1970s and has produced literally dozens of important films, ranging from Dirty Harry franchise films to Eastwood-directed conglomerate-era hits like *Unforgiven* (1992, US), *Mystic River* (2003, US), and *Million Dollar Baby* (2004, US), that have solidified Eastwood's stature as an indie auteur.

Steven Soderbergh, whose *sex, lies and videotape* catalyzed the indie movement, has had perhaps the most varied and complex career of any conglomerate-era auteur. After spending the 1990s in the indie trenches doing low-budget art films, Soderbergh enjoyed a breakout hit with *Erin Brockovich* (2000, US) for Columbia TriStar. Since then he has been prolific and eclectic in his filmmaking, successfully working "the system" at all levels. He did *Traffic* (2000, Germany/US) for USA Films (shortly before its transformation into Universal's indie division, Focus Features), an effective blend of edgy art film and political thriller that featured top stars and a budget of roughly $50 million. Soderbergh then did an unabashedly "commercial" project for Warner Bros., *Ocean's Eleven* (2001, US/Australia), a franchise-spawning entertainment machine with an all-star cast and a budget approaching $100 million. He followed that with *Full Frontal* (2002, US), a $2 million experiment in collaborative digital cinema. Soderbergh also has moonlighted as an executive producer, using his considerable clout to facilitate indie projects like *Far From Heaven* (Todd Haynes, 2002, France/US), *Good Night and Good Luck* (George Clooney, 2005, US), *Syriana* (Stephen Gaghan, 2005, US), and *A Scanner Darkly* (Richard Linklater, 2006, US).

Several Soderbergh films have starred George Clooney and Julia Roberts, who have been equally adventurous in their project selection, and who also have played

TCHC01 6/22/07 02:16 PM Page 34

FIGURE 1.4 *Good Night, and Good Luck* (2005), made through Soderbergh and Clooney's Section Eight production company. Produced by Grant Heslov; distributed by Warner Independent Pictures; directed by George Clooney

the system and helped nurture the indie movement. In fact the indie surge has relied heavily on the mobility of top stars who are willing to work on indie projects for far less than their studio rates. Clooney's career is especially telling in terms of his relationships with both Soderbergh and Warner Bros. In 1997 Clooney segued from a hit Warner Bros. TV series, "ER," to the lead in *Batman and Robin* (Joel Schumacher, 1997, US/UK), and then rose to top stardom in three subsequent Warner releases: *Three Kings* (David O. Russell, 1999, US/Australia), *The Perfect Storm* (Wolfgang Peterson, 2000, US/Germany), and *Ocean's Eleven* (2001, US/Australia). The latter marked the debut of Soderbergh–Clooney's independent production company, Section Eight Ltd., which partnered with Warner Bros. for the big-budget "Oceans" films, and on several other indie-scale projects as well – including *Syriana* for Warner Bros. and *Good Night and Good Luck* for Warner Independent, both of which featured Clooney in key supporting roles and simply could not have been made without his "marquee value," as well as his and Soderbergh's clout at Time Warner.

Soderbergh's handling the "Oceans" films also indicates a trend by the major studios to hire indie auteurs to direct high-stakes blockbuster series. Here again Warner Bros. provides an illuminating case. Warner actually started this trend with Tim Burton on the first two Batman films, but then replaced him with a more "commercial" director, Joel Schumacher, on the third and fourth installments (in 1995 and 1997). Warner also launched its high-stakes Harry Potter series with mainstream filmmaker Chris Columbus (*Home Alone* [1990, US], *Mrs. Doubtfire* [1993, US]). By then the tide was turning, however, due in part to two other Time Warner

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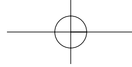


franchises. While the Columbus-directed Potter films in 2001 and 2002 were huge hits, the concurrent Lord of the Rings films from New Line enjoyed far more critical prestige and demographic reach, thanks to the talent and stature of indie auteur Peter Jackson. Warner Bros. also released but did not actively produce the Matrix trilogy (1999, 2003, 2003), which was handled by two then obscure indie filmmakers, the Wachowski brothers. At that point Warner Bros. reversed its field, replacing Columbus with indie auteurs on subsequent Potter installments – Alfonso Cuarón on the third and Mike Newell on the fourth – and then relaunched the Batman franchise under director Christopher Nolan, whose films included the indie hits *Momento* (2000, Portugal) and *Insomnia* (2001, US), as well as its Superman franchise under Brian Singer, whose earlier films included the indie hit *The Usual Suspects* (1995, US/Germany), as well as the X-Men series for Fox.

Batman Begins (2005, US) and *Superman Returns* (2006, Australia/US) were successful by any measure, and especially in terms of the parent company's all-important bottom line. Despite production costs in excess of $150 million, both returned over $350 million in their worldwide theatrical release, with literally hundreds of millions yet to come in home-video, pay-cable, et al. (Box Office Mojo, 2006). Both Warner Bros. franchises were firmly re-established with sequels immediately in the works – and with Nolan and Singer aboard, reinforcing the trend of attaching indie auteurs to high-stakes franchises, and underscoring the vital importance of directorially "re-authoring" an established narrative formula via distinctive, stylized treatment, to enhance its prospects for a successful revival.

New Millennium – New Equilibrium

Warner Bros.' franchise revivals also were significant in terms of production financing. The Batman and Superman films initiated a five-year, 25-film deal between Warner Bros. and Legendary Pictures, a co-financing and co-production pact that gave Warner a $500 million infusion and gave Legendary access to the studio's inactive properties (Foreman, 2005). The deal set off a predictable round of snickers about wolves, sheep, and Hollywood accounting, but Legendary's investors included savvy and cautious financial institutions, and the deal was one of several during 2005–6 in the $300–$500 million range between studios and other highly reputable institutions, all of them geared to the production of blockbuster-scale films (Galloway, 2006; Kelly, 2006). Besides bringing welcome new funding into the studio coffers, this massive infusion of studio production financing signaled two other key aspects of Conglomerate Hollywood's development. First of all, large investors were satisfied enough with the conglomerates' fiscal "transparency" and responsibility to tolerate the byzantine nature of motion-picture accounting and to studios' reputation for financial chicanery. Second, the worldwide movie marketplace was now so lucrative that it was difficult for Hollywood-produced blockbusters *not* to make money. Warner's star-driven, effects-laden spectacles geared for global release, such as *The Last Samurai* (2003, US) and *Troy* (2004, US/Malta/UK),

TCHC01 6/22/07 02:16 PM Page 36

may cost roughly $200 million to produce and release, but even mediocre films like these routinely returned $500 million within a year of their initial release, with cable and DVD now assuring the studio-distributor a much longer "shelf-life" than was the case even a decade earlier. Major hits and franchise installments are in another category altogether, with billion-dollar returns becoming routine when all revenue sources (including merchandising and licensing) are taken into account.

Not only were studio-produced blockbusters almost assured of turning a profit by the early 2000s; so too were the studios themselves – or rather their parent companies, thanks to their increasingly well-integrated media entertainment divisions. The film studios in 2004–5 publicly bemoaned box-office slumps and a slowdown in DVD sales, but their laments scarcely hold up if one considers their parent conglomerates' full range of production, distribution, and delivery operations. By then the Big Six conglomerates owned all of the major film studios and broadcast networks, along with over 60 cable networks, and had attained a level of synergy across their movie, television, and home entertainment sectors that resulted in unprecedented revenues and profits. In the words of Edward Jay Epstein, among the most thorough and insightful industry analysts of recent years, the "relentless marriages" between the film studios and television networks has been the defining feature and ultimate outcome of media deregulation and conglomeration, and "the union between Hollywood and TV has paid off handsomely" (Epstein, 2005d).

The payoff, in fact, has been simply astounding. According to the Motion Picture Association, industry revenues have increased nearly fourfold (in inflation-adjusted dollars) since the mid-1980s, when the conglomerate era began to coalesce. Consider the worldwide studio receipts contained in a "strictly confidential" MPA report to its members – i.e., the Big Six conglomerates' filmed entertainment divisions – which clearly indicates how the sustained economic surge of the past quarter-century has relied on all facets of these diversified media giants (Epstein, 2005a: 20) (see table 1.3).

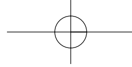
Equally impressive are the conglomerates' net revenues – i.e., profits – which may be driven by movie hits but are actually realized in the television and home

TABLE 1.3 Motion Picture Association's "All Media Revenue Report" 2003*

Year	*Theatrical*	*Video/DVD*	*Pay-TV*	*Free TV*	*TOTAL*
1948	6.90	0	0	0	6.90
1980	4.40	0.20	0.38	3.26	8.20
1985	2.96	2.34	1.04	5.59	11.9
1990	4.90	5.87	1.62	7.41	19.80
1995	5.57	10.60	2.34	7.92	26.43
2000	5.87	11.67	3.12	10.75	31.40
2003	7.48	18.90	3.36	11.40	41.10

* Inflation-adjusted to 2003 (in $ billion).

TCHC01 6/22/07 02:16 PM Page 37



entertainment sectors. By the early 2000s, despite the rise in box-office receipts, the studios' worldwide theatrical motion-picture market had become a "loss leader," due mainly to the massive marketing costs involved in launching global blockbuster films. But once those costs are absorbed and the movies' market value is established, particularly in an age when most moviegoing is done at home in front of a television screen, the "ancillary" TV and home-video markets generate enormous profits. In 2004, for instance, the MPA reported that the Big Six grossed $7.4 billion in worldwide box-office receipts, but marketing costs of $9.6 billion resulted in net losses of $2.2 billion in the worldwide theatrical sector. Meanwhile the conglomerates' collective television revenues were $17.7 billion and their home-video/DVD revenues totaled $20.9 billion, which yielded net profits of $16 billion and $14 billion, respectively, thanks to the low sales and marketing costs associated with these sectors (MPA Consolidated Television Sales Report, cited in Epstein, 2005c).

Thus Conglomerate Hollywood reached a new equilibrium in the early 2000s, whereby a balance and integration of its overall media operations generated record revenues and profits while enabling the Big Six media giants to enjoy collective dominion over an ever-expanding entertainment marketplace. This is not to say that all six companies are configured in quite the same way, nor that their conduct and performance in the global media marketplace are altogether consistent from one company to the next. What *is* consistent from one company to the next is the combination of three film-related areas of production and distribution: the major studio with its emphasis on blockbusters and big-budget start vehicles; the indie subdivisions geared to low-cost specialty and niche-market films; and the television division, focused as ever on high-volume TV series output.

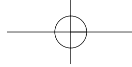
In terms of production, the exemplary Hollywood conglomerate in recent years has been News Corp., a model of tight diversification whose filmed entertainment divisions performed at optimal levels. According to a May 2006 *Fortune* profile, Fox and Warner Bros. are "the biggest and best-run of the six major Hollywood studios," with Fox's recent performance particularly impressive. Fox Filmed Entertainment was News Corp.'s biggest and most profitable division in 2005, with a $4.5 billion investment in production, marketing, and distribution yielding an operating profit of $1.2 billion. The movie division enjoyed success in all sectors, ranging from blockbuster hits like *Star Wars III* and *The Fantastic Four* from the 20th Century Fox studio to indie hits like *Sideways* and *Napoleon Dynamite* from indie subsidiary Fox Searchlight. Fox Television was the leading supplier of primetime TV shows, with franchise series like "24" scoring both in the ratings and in DVD sales (*Economist*, 2006; Gunther, 2006).

Equally important to the conglomerates' success has been their combined control not only of film and television distribution but also, crucially, media "delivery" via television and cable networks, ownership of cable systems, and so forth. The one media giant noticeably out of step in this area has been Sony Pictures Entertainment, owner of Columbia/TriStar et al., which failed to keep pace with the rest of the Big Six due largely to its lack of substantial broadcast or cable network holdings. This dearth of "pipelines" to media consumers helps explain why

Sony teamed with cable giant Comcast in the $4.5 billion purchase of MGM/UA in 2005, a deal that dramatically expanded Sony's massive film and TV series library while giving it a valuable cable ally. Even more importantly, this crucial scarcity explains why Sony would take the enormous risk of developing its own high-definition DVD format, the so-called Blu-ray Disc system. If it succeeds, this strategy definitely would offset Sony's pipeline deficiencies, giving it a stake in the entire home entertainment industry when the "next-generation" high-def DVD technology supplants the current system. The odds against success are considerable, however, considering the competing system being developed by arch-rival Toshiba that augurs a "format war" similar to the one Sony waged – and lost – against Matsushita on the VCR front three decades earlier. A format war also will prove costly to all of the Big Six as content suppliers, thus precluding the kind of rapid diffusion enjoyed by the original DVD format and the windfall profits that accompanied that historic rollout (Belson, 2005, 2006).

Although a format war over next-generation DVD technology may prove troublesome to Conglomerate Hollywood, it is not likely to upset the new equilibrium enjoyed by the media giants. A far greater threat to that equilibrium – and to the conglomerates' hegemony over the global entertainment industry at large – involves the internet and broadband delivery of media content. While media "convergence" has been a buzzword for decades, the full-scale merging of "old" media like film and television and the new digital media has been waylaid by relatively slow deployment of high-speed internet delivery of media and graphics to consumers, and particularly to the home. With high-speed internet service becoming ubiquitous, the entertainment landscape is being rapidly transformed and the established media powers are making way for – and cutting deals with – internet powers like Yahoo and Google, telecom giants like AT&T and Verizon, cable companies like Comcast, and a host of smaller online outfits like MySpace and YouTube. The key issue for Conglomerate Hollywood is not whether to pursue new media delivery, but how – and how aggressively – to do so, despite the fact that the current system is currently working so well. Time Warner is in a particularly favorable position due to its AOL division, of course, although several of the other media giants are moving aggressively into the new-media arena. In July 2005, for example, Rupert Murdoch announced News Corp.'s acquisition of three internet companies (for a total of $1.4 billion), including the phenomenally successful online social-networking site, MySpace (Siklos, 2005; *Economist*, 2006).

Other media giants have been less aggressive or have taken another tack altogether, as with Sony's Blu-ray gambit. Perhaps the most radical tack involved Viacom, whose principal owner Sumner Redstone announced in 2005 that "the age of the conglomerate is over," and that he planned to split the company into two entities, Viacom and CBS Inc., thus reverting to a pre-conglomerate mode. None of the other conglomerates followed suit, predictably enough, and the split, which took effect in early 2006, proved to be ill advised in the short term (Szalai, 2005; Fabrikant, 2006). But it did allow Viacom, now free of the stable but slow-growing television division, to aggressively pursue high-risk, fast-growth, new-media



prospects. These included YouTube, a video-sharing website that Viacom went after in a fierce bidding war with Google and Yahoo. Google prevailed, acquiring YouTube in October 2006 for $1.65 billion – the first major media acquisition for the emerging media giant. By then Google's market value had surged to a phenomenal $132 billion, roughly equal to the *combined* market value of the top two Hollywood conglomerates, Time Warner and Disney (*Fortune*, 2006; Sorkin, 2006).

The rise of Google is but one indication that Conglomerate Hollywood faces serious challenges in terms of media distribution and digital delivery, which could lead to yet another revolution of the magnitude of those described by Gabler, since distribution has always been the key to the studios' power within the film and television industries. This may bode well for the studios, if not for their parent companies. As the trinity of post-industrial forces that begat Conglomerate Hollywood – i.e., conglomeration, globalization, and digitization – continue to stoke the fires of change, and as the media giants struggle to maintain their control of the media-entertainment system at large, the creation and quality of media content is likely to become an increasingly important issue. This may force the studios, ironically enough, to concentrate more fully on media production – a focus that has steadily been lost since the classical era.

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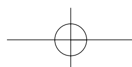

TCHC01 6/22/07 02:16 PM Page 40

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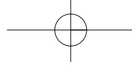

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