Chapter 4

'A major presence in all of the world's important markets'

The globalization of Hollywood in the 1990s

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Introduction

During the 1980s, the worldwide demand for films increased at an unprecedented rate, the result of such factors as economic growth in Western Europe, the Pacific Rim, and Latin America, the end of the Cold War, the commercialization of state broadcasting systems, and the development of new distribution technologies. To capitalize on these conditions, Hollywood entered the age of 'globalization'. As described by Time Warner, globalization dictated that the top players in the business develop long-term strategies to build on a strong base of operations at home while achieving 'a major presence in all of the world's important markets'.[1] In practice, this meant that companies upgraded international operations to a privileged position by expanding 'horizontally' to tap emerging markets worldwide, by expanding 'vertically' to form alliances with independent producers to enlarge their rosters, and by 'partnering' with foreign investors to secure new sources of financing. Achieving these goals led to a merger movement in Hollywood that has yet to run its course.

The domestic market

Home video, a fledgling technology early in the 1980s, became the fastest growing revenue stream in the business. In 1980, only around two of every 100 American homes owned a VCR; ten years later, about two-thirds did.[2] Although the theatrical box office reached a new high of $5 billion in 1989, retail video sales and rentals had surpassed that figure by a factor of two.[3] Capitalizing on the appeal of their hit pictures and film libraries, the majors were able to extract the lions' share of the revenues from the home video market; today, home video can account for up to one-third of the total revenue of a major studio.[4]

Home video naturally stimulated demand for product. Domestic feature film production jumped from around 350 pictures a year in 1983 to nearly 600 in

1988. Surprisingly, the majors played a small role in the matter; in fact, the number of in-house productions of the majors held steady during this period, between seventy and eighty films a year.[5] The influx came from the so-called 'mini-majors' – Orion Pictures, Cannon Films and Dino De Laurentiis Entertainment – and from independents like Atlantic Release, Carolco, New World, Hemdale, Troma, Island Alive, Vestron and New Line who were eager to fill the void. These companies entered the business knowing that even a modest picture could recoup most of its costs from the pre-sale of distribution rights to pay-cable and home video.

Rather than producing more pictures, the majors exploited a new feature film format, the 'ultra-high-budget' film.[6] Popularized by Carolco Pictures, the independent production company that invested $100 million in Arnold Schwarzenegger's *Terminator 2: Judgment Day* (1991) to create a vehicle that grossed $204 million domestic and $310 million foreign, ultra-high-budget pictures started a spending spree which boosted average production budgets to new highs.[7] Contrary to common sense, pictures costing upwards of $75 million became conservative investments. Containing such elements as high concepts, big-name stars, and visual and special effects, such pictures reduced the risk of financing because (1) they constituted media events; (2) they lent themselves to promotional tie-ins; (3) they became massive engines for profits in ancillary divisions like theme parks and video; (4) they stood to make a profit in foreign markets; and (5) they were easy to distribute.

Ease of distribution was linked to saturation booking. Defined as the practice of releasing new films simultaneously in every market of the country accompanied by a massive national advertising campaign, saturation booking was designed to recoup production costs quickly. Standard practice at least since Universal's release of *Jaws* in 1975, saturation booking boosted print and advertising costs to over $12 million per film on the average during the 1980s; during the 1990s, studios were spending $35 million and more to promote new films.[8] The strategy generated 'ultra-high' grosses; for example, in 1989, six pictures grossed over $100 million in the US, among them *Batman* (Warner, $250 million), *Indiana Jones and The Last Crusade* (Paramount, $195 million), *Lethal Weapon 2* (Warner, $147 million) and *Honey, I Shrunk the Kids* (Disney, $130 million).[9] As *Variety* remarked, the majors 'want to knock off a bank, not a candy store'.[10]

The foreign market

The growth of the overseas market during the 1980s resulted from the upgrading of motion picture cinemas, the emancipation of state-controlled broadcasting, the spread of cable and satellite services, and the pent-up demand for entertainment of all types. At one time, theatrical rentals constituted nearly all of the foreign

revenues of American film companies, but by 1989 they accounted for little more than a quarter. The major sources of revenue overseas for Hollywood product had become home video, theatrical exhibition and television, in that order.[11]

The largest influx came from Western European television following the liberation of the broadcast spectrum and the growth of privately owned commercial television stations and cable and satellite services. But the largest single source of overseas revenue for Hollywood was from home video. In Western Europe, the number of VCRs sold rose from around 500,000 in 1978 to 40 million, or nearly one-third of all households, ten years later. By 1990, video sales in Western Europe reached nearly $4.5 billion, with the lion's share generated by Hollywood movies.[12] More recently, the international home video market was fuelled by a surge in revenues from the Asia-Pacific region, which grew by more than 20 per cent in 1994 alone.[13]

Like the United States, Europe's video business was fuelled by hits. Europe's theatrical market improved steadily over the decade and by 1990 yielded around $830 million in film rentals for American distributors – about half of the film rentals they collected at home.[14] The overseas market as a whole had also improved and by 1990 nearly reached parity with the US domestic market.[15] By 1994, the overseas market surpassed the domestic in film rentals for the first time.[16]

Two factors boosted the foreign box office: better cinemas and more effective marketing. Outside the US, nearly every market was under-screened. Western Europe, for example, had about one-third the number of screens per capita as the United States, despite having about the same population.[17] And most of its theatres were old and worn. To resuscitate moviegoing, the American majors and their European partners launched a campaign during the 1980s to rebuild and renovate exhibition in Great Britain, Germany, Italy, Spain and other countries.

Taking advantage of the advertising opportunities created by commercial television, Hollywood pitched its wares as never before. Whole markets, such as West Germany, were opened up to television advertising. And new channels, such as MTV Europe which reached 15–20 million homes, offered opportunities for niche marketing.[18] Spending lavishly on advertising, the majors were able to bolster their ultra-high-budget pictures in theatrical and in ancillary markets and overwhelm smaller, indigenous films that could not compete in such a high-stakes environment.

Hollywood's response to globalization

The first wave of mergers

Hollywood maintained its dominant position in the worldwide entertainment market by engaging in another round of business combinations beginning in the 1980s. The new urge to merge departed significantly from the merger movement of the 1960s, which ushered the American film industry into the age of conglomerates. During the 1960s, motion picture companies were either taken over by large multifaceted corporations, absorbed into burgeoning entertainment conglomerates, or became conglomerates through diversification. The impetus behind this merger movement was to stabilize operations by creating numerous 'profit centers' as a hedge against a business downturn in any one area.[19] The quintessential sixties conglomerate was Gulf + Western. The parent company of Paramount Pictures as of 1966, Gulf + Western owned or had interests in a range of unrelated industries such as sugar, zinc, fertilizer, wire and cable, musical instruments, real estate and scores of others.

The merger movement of the 1980s was characterized in part by vertical integration, the desire to control the production of programming, the distribution of programming, and even the exhibition of programming. Although the trend seemed a throwback to the glorious days of the studio system, the rationale for merging was 'a faith in synergy, a belief that one plus one could equal three'. Described another way, synergy was supposed to function like a good marriage, in which 'each partner would bring qualities that when combined would magically create something better than either could achieve alone'.[20]

A prime example of the vertical integration trend was the move by film companies into exhibition. The revival of the US theatrical market, coupled with the laissez-faire attitude of Ronald Reagan's administration towards anti-trust issues, prompted the majors to test the terms of the Paramount decrees and 'take another fling with vertical integration'.[21] The logic seemed to be this: since only a few movies do most of the business at the box office, why not go into exhibition and profit from the hits? Columbia Pictures started the trend in 1986 by purchasing a small group of theatres in New York City. Within a year, MCA, Paramount and Warner Bros. bought or acquired stakes in important chains around the country.[22]

More significantly, the new merger movement was characterized by horizontal integration – a desire to strengthen distribution. Film industry analyst Harold Vogel described the benefits of controlling distribution as follows:

> Ownership of entertainment distribution capability is like ownership of a toll road or bridge. No matter how good or bad the software product (i.e., movie, record, book, magazine, tv show, or whatever) is, it must

> pass over or cross through a distribution pipeline in order to reach the consumer. And like at any toll road or bridge that cannot be circumvented, the distributor is a local monopolist who can extract a relatively high fee for use of his facility.[23]

Rupert Murdoch started this trend by acquiring Twentieth Century Fox in 1985. Murdoch was the head of News Corp., an Australian publishing conglomerate that owned newspapers and magazines in Sydney, London, New York and Chicago valued at over $1 billion. Acquiring a controlling interest in Twentieth Century Fox for $600 million, Murdoch embarked on a strategy 'to own every major form of programming – news, sports, films and children's shows – and beam them via satellite or TV stations to homes in the United States, Europe, Asia and South America'.[24]

To strengthen Fox's presence in US television, Murdoch set out to create a full-blown fourth TV network, Fox Broadcasting, to challenge the three entrenched American TV networks, ABC, CBS and NBC. And he did so with the knowledge that the US's Federal Communications Commission (FCC) wanted to foster more competition in television broadcasting. Murdoch made his first move by acquiring Metromedia Television, the largest group of independent television stations in the country, for $2 billion.[25] Murdoch then waged a costly three-year battle to assemble a network of over 100 independent stations capable of reaching nearly all TV homes. Developing counter-programming aimed at young adults to supply those stations, Fox Broadcasting lost hundreds of millions the first three years, but in 1989 it staged a turnaround with two hit series – *America's Most Wanted* and *Married . . . with Children*.[26] More recently, Fox enhanced its reputation as a programmer by backing such series as *The Simpsons* and *The X Files* and by bidding $1.6 billion to steal away the rights to broadcast National Football League games that CBS had held for four decades.[27]

Companies such as Gulf + Western (Paramount) and Warner Communications focused on distribution by 'downsizing' their businesses. For example, Warner Communications under the direction of Steven J. Ross had evolved into a diversified entertainment conglomerate involved in a wide range of 'leisure time' businesses such as film and television, recorded music, book publishing, cable communications, toys and electronic games, and other operations. In 1982, Warner decided to restructure its operations around distribution and sold such non-essential companies as Atari, Warner Cosmetics, Franklin Mint, Panavision, the New York Cosmos soccer team, and Warner's cable programming interests in MTV and Nickelodeon.

The 'downsized' Warner Communications emerged as a horizontally integrated company engaged in three areas of entertainment: (1) production and distribution of film and television programming; (2) recorded music; and (3) pub-

lishing. In addition to owning one of Hollywood's most consistently successful studios, a formidable film and television library, and the largest record company in the world, Warner had acquired the distribution systems associated with each of its product lines, including Warner Cable Communications, the nation's second biggest cable operator with 1.5 million subscribers. Warner added considerable muscle to its distribution capability when it merged with Time Inc. in 1989 to form Time Warner, the world's pre-eminent media conglomerate valued at $14 billion.[28]

Time Warner touted its merger 'as essential to the competitive survival of American enterprise in the emerging global entertainment communications marketplace'.[29] It had in mind not only the take-over of Twentieth Century Fox by Australia's News Corp., but also the anticipated acquisition of Hollywood studios by Japanese electronics giants. The first such take-over occurred in 1989, when Sony acquired Columbia Pictures Entertainment (CPE) for $3.4 billion. Sony had previously entered the US entertainment software business in 1987 when it purchased CBS Records for $2 billion. Columbia Pictures Entertainment had 'bumped along on a downhill path' and experienced frequent management turnovers under its previous owner, Coca-Cola Co. But Sony considered the CPE acquisition, which included two major studios – Columbia Pictures and TriStar Pictures – home video distribution, a theatre chain, and an extensive film library, as a means of creating synergies in its operations.[30] As *Variety* put it, 'The hardware company's strategists had concluded that all their fancy electronic machines would have souls of tin without a steady diet of software'.[31] To strengthen CPE as a producer of software, Sony spent lavishly to acquire and refurbish new studios and to hire Peter Guber and Jon Peters to set a course for the company.[32]

The second take-over of a Hollywood studio by a Japanese firm occurred in 1990, when Japan's Matsushita Electric Industrial Company, the largest consumer electronics manufacturer in the world, purchased MCA for $6.9 billion. Like its rival Sony, Matsushita 'thought the entertainment "software" business could provide higher profit margins than the intensely competitive, and now largely saturated, consumer electronics appliance business'.[33] And like Sony, Matsushita thought that synergies could exist between the hardware and the software business.

The parent of Universal pictures, MCA had embarked on an acquisitions binge in 1985 in an effort to offset its lagging film and television operations. In two years, the company spent $650 million to acquire toy companies, music companies, a major independent television station and a half interest in Cineplex Odeon Theaters. The diversification strategy was designed to strengthen MCA's existing positions and to extend the company into contiguous businesses. MCA's investments showing the greatest promise were the Universal Studios Tours located near the company headquarters outside of Los Angeles and near Disney World in Orlando, Florida.

International partnerships

Hollywood's second response to globalization was to seek an international base of motion picture financing. To reduce its debt load, Time Warner restructured its film and cable businesses and created Time Warner Entertainment as a joint venture with two of Japan's leading companies, electronics manufacturer Toshiba and trading giant C. Itoh. The deal netted Time Warner $1 billion and was unprecedented.[34] Following the lead of some independent producers, Twentieth Century Fox pre-sold the foreign rights to two high-profile 'event' films, Danny DeVito's *Hoffa* (1992) and Spike Lee's *Malcolm X* (1992), to reduce its exposure in these films.[35] Another common practice was to seek out co-production deals to take advantage of film subsidies in overseas markets. Studios chose this option mostly with 'unusual material' – which is to say a picture that was not a sequel, that did not have a major international star, or that did not have an 'unflaggingly high-concept' – such as Universal's *Fried Green Tomatoes at the Whistle Stop Cafe* (1991) and Paramount's *1492* (1992).[36]

To finance television programming, the majors invested in foreign media industries. When the European Union decided against removing trade barriers and tariffs on movies and television programmes in 1992 as anticipated, Time Warner, Turner, Disney, Viacom and NBC re-evaluated their relationship to this market. No longer did these companies think of Western Europe only as a programming outlet: instead they considered it as another investment source and formed partnerships with European television producers, broadcast stations, cable and satellite networks and telecommunications services. Time Warner, for example, invested in satellite broadcasting in Scandinavia, FM radio in the UK, and pay-TV in Germany and Hungary. And Disney formed joint ventures to produce children's programming in France, Germany, Italy and Spain.[37]

Domestic partnerships

Finally, Hollywood responded to globalization by competing for talent, projects and product for their distribution pipelines. The competition typically took the form of partnerships with the new breed of independent producers. Represented by the likes of Carolco, Castle Rock, Morgan Creek and Imagine Entertainment, these newcomers differed from the failed mini-majors of the 1980s – such as Orion, De Laurentiis and Cannon – in several important ways: (1) the newcomers ran 'lean machines' with only skeletal staffs rather than emulating the structure of the large studios; (2) most concentrated exclusively on filmed entertainment rather than branching out into TV; (3) most produced only a few high-quality productions each year rather than large rosters aimed at different segments of the market; (4) most distributed domestically through the majors rather than

organizing their own distribution arms; and (5) most raised their production financing by keeping their eyes on the burgeoning foreign market rather than on home video deals.[38]

After the breakdown of the studio system during the 1950s, the majors regularly formed alliances with independent producers to fill out their rosters and to create relationships with budding talent. A deal might involve multiple pictures, complete financing, worldwide distribution, and a fifty-fifty profit split. Deals like these are still common, but TriStar's partnership with Carolco, Columbia Pictures' with Castle Rock and Time Warner's with Morgan Creek departed from traditional film industry practice in certain key respects: they typically involved partial financing, domestic distribution and lower distribution fees. Partnerships took this form because the majors not only needed more pictures to increase market share but also a means of sharing the risks and potential benefits of distributing ultra-high-budget pictures.[39]

Take the case of TriStar's alliance with Carolco Pictures. After aligning with TriStar, Carolco delivered three big-budget blockbusters in a row, *Total Recall* (1990), *Terminator 2: Judgment Day* (1991) and *Basic Instinct* (1992). To finance its pictures, Carolco originally made a public offering of stocks but later sold stakes in the company to Japan's Pioneer Electronics, France's Canal Plus, Britain's Carlton Communications, and Italy's Rizzoli Corriere della Sera.[40] Carolco's strategy was to cover as much of the production costs for a picture as possible by pre-selling the ancillary rights piece by piece, country by country. In this manner, Carolco was able to cover nearly all the $100 million budget, including Arnold Schwarzenegger's $12 million fee, for *Terminator 2*. TriStar Pictures paid Carolco [illegible] million for domestic distribution rights and had first call on the rentals until the advance was recouped, after which it levied a smaller-than-usual distribution fee. Thus the partnership lowered the risks of production financing for Carolco and enabled TriStar to share in the profits of an ultra-high-budget picture without going out on a limb.[41]

Walt Disney and Turner Broadcasting took a different tack to acquire product by moving into the specialized art film and American independent markets. In [illegible], Disney linked up with Merchant–Ivory and Miramax Films, two of the most successful art film companies in the business. According to Peter Bart of *Variety*, Disney's strategy was 'to foster an eclectic slate of projects':

> While rival entertainment companies pursue the Time Warner model to become diversified, albeit debt-ridden, hardware-software conglomerates, Disney is determined to become the largest producer of intellectual property in the world. As such, the studio is committed to an astonishing sixty-films-a-year release schedule starting in 1994.[42]

Disney's deal with Merchant–Ivory, the producer of *A Room With a View* (1985), *Howard's End* (1992) and other British prestige films, was a conventional product development deal that provided partial financing in exchange for domestic distribution rights. Disney's deal with Miramax consisted of an $80 million buy-out in which Disney acquired Miramax's library of 200 art films and agreed to finance the development, production and marketing of Miramax's movies.

Founded as a distribution company by Harvey and Bob Weinstein in 1982, Miramax had 'become a logo that brings audiences in on its own'. Adopting a straight acquisition policy from the start, Miramax rose to the front ranks of the independent film market by releasing hits year in and year out that received prestigious film festival awards, including Oscars, and set box-office records. Miramax's roster included Steven Soderbergh's *Sex, Lies and Videotape* (1989), Neil Jordan's *The Crying Game* (1992), Alfonso Arau's *Like Water for Chocolate* (1993) and Jane Campion's *The Piano* (1993). The first two pictures became big crossover hits; *Like Water for Chocolate* grossed $21 million to become 'the all-time foreign language box-office champ' in the United States and *The Piano* received an incredible eight Academy Award nominations and three Oscars, including best original screenplay.

After becoming a fully autonomous division of Disney's distribution arm, Miramax continued to dominate the independent film market. In 1993, Miramax initiated a programme of production financing and expanded into the genre market through a subsidiary called Dimension Pictures. In 1994, Miramax had two big mainstream hits, Quentin Tarantino's *Pulp Fiction* and *The Crow*, which together grossed well over $100 million domestic. In 1996, Miramax maintained its cachet in the prestigious art house scene by releasing *Il Postino*, which surpassed the $21 million mark set earlier by *Like Water for Chocolate*. And by 1996, Miramax's overall track record enabled Disney to recoup its $80 million investment in the company.[43]

In an attempt to become a major motion picture producer, Turner Broadcasting moved into the independent film market by acquiring New Line Cinema and Castle Rock Entertainment in 1993 at a combined cost of $700 million.[44] Castle Rock made its reputation during the early 1990s producing top-shelf pictures such as *City Slickers* (1991), *A Few Good Men* (1992) and *In the Line of Fire* (1993). In contrast, New Line under the leadership of Robert Shay and Michael Lynne made its fortune during the 1980s producing and distributing genre pictures aimed at adolescents – for example, the *Nightmare on Elm Street* horror series and *Teenage Mutant Ninja Turtles* (1990). In 1990, New Line branched out from its traditional slate of inexpensive niche films and created a division called Fine Line Features to produce and distribute art films and offbeat fare. Within two years, Fine Line rose to the top independent ranks by backing such American ventures as Gus Van Sant's *My Own Private Idaho* (1991), James Foley's *Glengarry Glen Ross* (1992) and

Robert Altman's *The Player* (1992) and by releasing such English-language imports as Derek Jarman's *Edward II* (1991) and Mike Leigh's *Naked* (1993).[45]

Acquiring New Line Cinema and Castle Rock Entertainment, Turner Broadcasting manoeuvred itself into the front ranks of Hollywood and positioned itself for global expansion.

The second wave of mergers

The merger movement entered a second phase in 1993 and involved cable and network television. Pay-TV had become a mature business by 1990.[46] Home Box Office growth levelled off at around 17 million subscribers and other large pay services, including Showtime, the Movie Channel and Cinemax, showed slight declines.[47] Home video took a toll, as did the deregulation of cable in 1984. Deregulation allowed cable operators to raise the prices of basic cable services, with the result that subscribers tended to watch basic channels such as the USA Network and Turner Network Television at the expense of the pay channels. And by 1993, basic cable services themselves had hit a plateau, the result of a static pool of viewers and market fragmentation created by added channel capacity of up to 300 channels on some services.[48]

Conditions in the cable industry prompted Viacom Inc., a leading TV syndicator and cable network company, to acquire Paramount Communications for $8.2 billion in 1993. Spearheading the second largest merger ever in the media industry after Time Warner's, Viacom's 70-year-old chairman Sumner Redstone united Viacom's MTV and Nickelodeon cable channels, Showtime pay-TV service, television syndication companies, and a string of television stations with Paramount's formidable holdings in entertainment and publishing.[49] The following year, Viacom acquired Blockbuster Entertainment, the world's largest video retailer with over 3,500 video stores and various side businesses – purchase price, $7.6 billion. Like Time Warner, Viacom had become a completely integrated entertainment conglomerate.

Changes in the regulatory climate put the TV networks into play. During the 1980s, the old-line television networks – ABC, CBS and NBC – were hard hit first by independent stations, then by cable television, and then by the proliferation of cable channels. Because the number of television viewers in the country has remained static, network TV ratings declined and so did earnings.[50] Adding to the woes of the networks were restrictive FCC regulations. In place for two decades, the FCC's financial interest and syndication rules precluded ABC, CBS and NBC from producing a significant portion of the prime-time programming they broadcast, which had the effect of depriving them of the significant profits hit shows earned in syndication.

However, when the FCC voted to suspend the so-called 'finsyn' rules after

1996, the networks took on their old allure. Since the networks would likely reduce the number of programmes they ordered from outside producers and rely more on in-house projects after the expiration of the FCC rules, big suppliers like Time Warner and Disney might be hard hit. To avoid this, conventional wisdom had it that Hollywood studios would attempt to acquire the networks to 'assure themselves of a guaranteed outlet for their product'.[51]

None of the big three networks had changed hands since 1986, when the General Electric Company bought RCA, the parent company of NBC. On 31 July 1995, however, Disney announced that it would acquire Capital Cities/ABC in a deal valued at $19 billion. The merger brought together the most profitable television network and its ESPN cable service with Disney's Hollywood film and television studios, its theme parks and its vast merchandising operations.[52]

The day following the Disney deal, Westinghouse Electric, an early broadcasting pioneer, announced that it had agreed to pay $5.4 billion for CBS, the last major television network to change ownership. If the Disney deal had programme distribution as its target, the Westinghouse deal was for station market share. Michael H. Jordan, the chairman and chief executive of Westinghouse, said the deal would create a 'premiere top-notch outstanding company with 15 television stations and 39 radio stations that combined would give it direct access to more than a third of the nation's households'.[53]

The aftermath

The first mergers played themselves out with mixed results. After launching a fourth television network in the US, Rupert Murdoch's News Corp. went into direct broadcast satellite distribution. He turned his sights first on Great Britain, where he introduced Sky Television, a four-channel satellite service in 1988 at a cost of about $540 million. After spending additional millions acquiring motion picture rights to compete with his competitor, the British Satellite Corporation, Murdoch ultimately merged the two satellite services to create BSkyB that became 'the distribution gatekeeper for programmers in Britain'.[54]

Wanting to replicate his success in Britain, Murdoch bought control of Star TV, an Asian satellite business based in Hong Kong, and then either purchased or formed joint ventures to acquire or construct satellite services in Europe, Latin America and Australia. Today, Murdoch's News Corp. ranks among the world's largest communications companies with annual revenues of over $9 billion. As *The Economist* magazine put it,

> Nobody bestrides the global media business like Rupert Murdoch. His empire may not be the biggest. . . . Yet there is no doubting . . . who is the media industry's leader. What is breathtaking about News Corp is its

global reach, its sweeping ambition and the extent to which it is the creature of one man.[55]

Sony Pictures Entertainment performed reasonably well until 1993, but the following year took a $3.2 billion loss on its motion picture business, reduced the book value of its studios by $2.7 billion, and announced that 'it could never hope to recover its investment' in Hollywood.[56] Nobuyuki Idei, the Tokyo-based president of Sony Corp., took direct control of the company's Hollywood operations and installed new talent to effect a turnaround. Sony's two Hollywood studios soon returned to profitability, but not to top-tier status. The reason: Sony had neither forged connections with cable television nor had it acquired theme parks or consumer product chain stores to extend the franchises developed by its studios.[57]

The Matsushita–MCA marriage foundered as well, but for different reasons. By producing a string of hits that included two Steven Spielberg blockbusters, *Jurassic Park* (1993) and *Schindler's List* (1993), MCA become a financial bright spot in the Matsushita empire as it confronted the recession in Japan and the rising value of the yen (which would make exports more expensive). For its part, MCA hoped the merger would provide it with the financial leverage to acquire CBS and Virgin Records and the economic wherewithal to build a Universal Studios theme park in Japan. Matsushita rejected the proposals, with the result that, 'in the brave new world of vertical integration, MCA found itself alongside Sony at a competitive disadvantage compared to such rivals as News Corp. and Disney'. The rejection also created a rift with MCA's top management, chairman Lew Wasserman and president Sidney Sheinberg, who claimed that MCA's Japanese owners 'did not understand either the corporate nuances of MCA or the dynamic change of the United States media business'.[58] Admitting defeat, Matsushita agreed to sell a majority interest of MCA to Seagram, the giant Canadian liquor company, for $7 billion in April 1995.[59]

Burdened with $11 billion of debt after the merger, Time Warner lost money two years in a row and was plagued by clashing corporate styles among its top management following the death of Chairman Steven J. Ross in December 1992. Under the leadership of Gerald Levin, Ross's successor, Time Warner spent heavily to expand its cable television operations. Viewing 'cable as a crucial distribution technology for the so-called information highway', Levin wanted Time Warner's cable operations to become 'full-service networks', carrying not only television programming, but also telephone service, video-on-demand and home shopping services.[60]

Regaining its title as the largest media company in the world in September 1995, Time Warner bought out Turner Broadcasting System for $7.4 billion. The acquisition enlarged Time Warner's programming and distribution capacity. Among the synergies envisioned by the merger was the creation of a mammoth

combined film production and distribution conglomerate that might easily dominate the business. But Turner's film companies did not live up to expectations and were awash in red ink by 1996.[61] After the merger, Time Warner took drastic action and folded Turner Pictures into Warner Brothers and put New Line Cinema up for sale. Although the measures stemmed the bleeding, Time Warner has continued to struggle under a burden of debt.

Following the merger with Paramount and Blockbuster, Viacom enjoyed the extraordinary earnings of *Forrest Gump* but in 1995, Paramount's profits dropped sharply and the studio had to write off $140 million on poorly performing pictures. To lighten its burden, Viacom took drastic action. Downsizing its operations, Viacom sold its Madison Square Garden sports and entertainment empire and its cable television systems, leaving it essentially a content company, aside from its Blockbuster Entertainment video and music stores. Redstone apparently decided that 'entertainment "content" – that is, programming – drives the entertainment business – not distribution'.[62]

Conclusion

Globalization hastened the concentration of the media by emphasizing economies of scale. Every year, a few offbeat pictures and smaller art films produced either by independents or by subsidiaries of the majors win wide critical acclaim and enjoy significant box-office success – witness *Fargo*, *The English Patient* and other Oscar nominees for best picture in 1997. Hollywood, nevertheless, remains committed to megapics and saturation booking, which have the combined effect of dominating most of the important screens around the world to the detriment of national film industries.[63]

During the 1990s, companies merged, partnered and collaborated as never before to tap all the major markets of the world. Although some of the assumptions that propelled the mergers proved false – linking electronics manufacturers (hardware) and film studios (software) did not create the synergy to stimulate VCR sales – the big got bigger. Small firms both in the US and abroad have been driven out of business or have been merged with burgeoning giants, repeating a pattern all too familiar in film industry history.

Digital compression and other new technologies will permit cable systems to transmit hundreds of channels simultaneously and allow subscribers to dial up programming on demand. But where will the new programming come from to fill all these new channels? Will cable networks simply cannibalize one another in an attempt to maintain audience share? Will pay-per-view and direct broadcast satellites with 300 channels of programming simply fragment TV audiences? In short, will the synergies of merging a Disney with a Capital Cities/ABC be worth the price?

And how much untapped potential still exists abroad? As a media industry report recently said:

> The popular notion is that there is a vast wealth of untapped potential in foreign countries for the media and entertainment industry. However, relatively few countries have disposable income per capita as high as it is in the US; cultural barriers and potential local government restrictions could be a very major problem; and competition is intense for foreign markets and making foreign inroads requires sizeable amounts of capital.[64]

Answers to questions such as these will determine the outcome of Hollywood's globalization.

Notes

1 Time Warner Inc., *1989 Annual Report* (New York: Time Warner Inc., 1990), p. 1.
2 Tom Bierbaum, 'Booming '80s behind it, vid faces uncertainty', *Variety*, 10 January 1990, pp. 31, 32.
3 Marc Berman, 'Studios miss boat on vid demographics', *Variety*, 24 September 1990, p. 15.
4 Bierbaum, 'Booming '80s', pp. 31, 32.
5 Lawrence Cohn, 'Only half of indie pics shot will see the screens in '90', *Variety*, 30 May 1990, p. 7.
6 Jeffrey B. Logsdon, *Perspectives on the Filmed Entertainment Industry* (Los Angeles: Seidler Amdec Securities Inc., 1990), p. 11.
7 Ted Johnson and Anita M. Busch, 'Mega-moolah movies multiplying', *Variety*, 29 April–5 May 1996, pp. 1, 53. Only four films besides *Terminator 2* cost $100 million or more in the period 1990–6: *Last Action Hero* (1993), *True Lies* (1994), *Batman Forever* (1995) and *Waterworld* (1995). Carrying a price tag of more than $175 million, *Waterworld* became the most expensive film ever made.
8 Gary Levin, 'Studios gamble on big bucks ad buys', *Variety*, 18–24 March 1996, pp. 11, 12.
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