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# Money Is the Real Star in Hollywood

Celebrity matters, but the bottom line is what counts for studio chiefs. Tom Cruise's dismissal is evidence of a changing financial landscape.

By Charles Duigg, Chris Gaither and Kim Christensen Times Staff Writers, Times Staff Writers August 24, 2006

Being a big Hollywood star means getting luxury cars as gifts, visiting exotic locales on the studios' dime and cashing checks with lots of zeros.

But the traditional — and often extreme — deference shown A-listers is changing along with the economics of Hollywood, as demonstrated by Tuesday's public eviction of Tom Cruise from Paramount Pictures' back lot.

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The Internet is growing fast as an entertainment channel, and the cost of producing blockbusters is rising almost as quickly. That emboldens studio chiefs working for publicly traded companies to challenge the fickle power of the most popular stars.

To be sure, celebrity still matters, blockbusters still fill theater seats and movie stars still live like, well, movie stars. But the same shifts in technology and audience tastes that changed the music industry are starting to influence the movie business.

At the same time, media companies afraid of missing the next big thing are making big-budget bets on no-name Internet stars who draw millions of viewers.

"Celebrity is less powerful now," said Jeff Fenster, an executive at Jive Records who helped discover pop superstars Britney Spears and the Backstreet Boys. "Just because a film or album stars a big-name celebrity doesn't guarantee success anymore. And Hollywood craves making money above everything else."

Even Sumner Redstone, chairman of Paramount owner Viacom Inc., suggested in an interview Wednesday that parting with Cruise after a 14-year business relationship had more to do with the profitability of his recent films than with his off-screen antics.

"There is no question that the box office is affected by other distractions such as the Internet and video games," Redstone said. "Studios make peanuts compared to the stars, and unless they learn how to say no and demand more for less, they won't survive."

Cruise, for instance, may end up making as much as \$80 million for his role in Paramount's "Mission: Impossible III," which is expected to gross \$400 million at the box office and an additional \$200 million in DVD sales. Paramount, by contrast, is expected to make several million dollars in profit, one studio executive said.

Of course, studio accounting is notoriously difficult to decipher, and executives since Louis B. Mayer have resented their actors' big salaries and extravagant demands. As of last weekend, though, domestic box-office receipts this year totaled \$6.29 billion, up 7% from the same period last year.

Despite the rise in ticket sales, attendance is up less than 4%. Hollywood worries that younger audiences growing up with computers, TiVos and iPods would rather watch movies at home or on the go than pay for a ticket at the theater.

Cruise and Paramount's divorce came after the scuttling in recent months of projects by



Sumner and Tom (Lester Cohen / WireImage) click to enlarge



PHOTO GALLERY Tom Cruise: The Paramount Years

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such stars as Jim Carrey and Ben Stiller over cost concerns. Lindsay Lohan was reprimanded by her studio backers for a partying lifestyle that allegedly caused delays and budget overruns on her current film.

"The entertainment business is and always has been about money, and it's about, 'Does that person merit that salary?' " veteran producer Mike Medavoy said. "The fact is that that the business, in my view, has been somewhat bankrupt for years — only the new media made it viable."

Hollywood's renewed focus on how much above-the-line players contribute to the bottom line comes as profit margins tighten on DVD sales and television distribution deals. That limits how much studios can recoup big investments that miss at the box office. Studios also complain that global online piracy eats into their ability to penetrate foreign markets, where big-name stars are thought to sell more tickets.

"Most studios are cutting back on their overhead and production deals," said Rick Sands, chief operating officer at Metro-Goldwyn-Mayer Inc. "The cushions that used to be there are slimmer. Home video and television doesn't save you from a bad decision anymore. It isn't that the system is broken; it's that it now is a question of risk management."

Balancing costs against payoffs long has been a challenge for Hollywood executives.

Former Walt Disney Co. studio Chairman Jeffrey Katzenberg drew unwanted attention in 1991 when a 28-page, 11,000-word memo he sent to his top lieutenants was leaked to the media. The manifesto questioned whether big-budget star-driven movies such as "Dick Tracy" were worth the expense, saying the studio had traded its cost-conscious strategy for a blockbuster mentality.

"At some point," Katzenberg wrote, "we seemed to have replaced it with a strategy that might best be called the 'Yes, but philosophy,' as in, 'Yes, he's expensive but it's a great opportunity for us,' or 'Yes, that's a lot to spend on marketing, but we have too much at stake not to.'"

Those challenges persist and are complicated by ever more diverse choices of entertainment, such as proliferating cable channels and a seemingly inexhaustible online supply of video clips. Viacom, for instance, this month spent \$200 million to buy online film and game distributor Atom Entertainment Inc.

Today, almost anyone with a digital camera and an Internet connection can entertain the masses with clumsiness, cuteness or comedy. Fans of "e-lebrities" such as lip-syncing Chinese students have spread worldwide via e-mail, blogs and video sharing site YouTube.

For example, a clip of a man spewing Diet Coke out of his mouth after mixing it with a mint attracted more than 1 million viewers and 4,000 comments on YouTube as of Wednesday. More than 200,000 people watched a teenager solve a Rubik's Cube with one hand, and more than 400,000 cued up a pair of bunnies simply nibbling on greens.

"There are a lot of different individuals and personalities [viewers] can be interested in," said Keith Richman, chief executive of Beverly Hills-based video site Break.com. "It doesn't always have to be the people the big studios are putting in front of you."

No one argues that amateur videos will supplant slick studio productions. But they compete for time and attention in an already crowded marketplace.

In reining in costs — and starting with its stars — Hollywood is following the lead of the recording industry, which underwent a radical restructuring after the 1999 debut of the original Napster software. Napster enabled people to swap — often illegally — just the songs they wanted, instead of having to buy the whole album.

Legitimate services such as Apple Computer Inc.'s iTunes Music Store expanded that ability. But by then, the damage to the industry's traditional model had been done, and stars that might once have been forgiven for a flop record were dropped.

Throughout the 1980s, for instance, recording stars such as Michael Jackson and Madonna had requested, and received, increasingly large paydays. By 1996, when the rock group R.E.M. reportedly demanded \$80 million from Warner Music for a five-album deal, it was hailed as the most expensive music agreement ever struck.

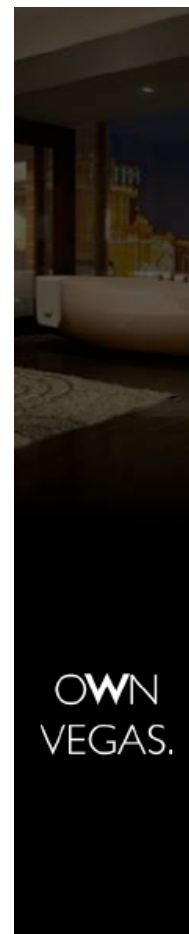
Nowadays, when music executives give in to a star's demands, the consequences may be dire. One of the reasons former Sony BMG Chief Executive Andrew Lack was forced into the less-powerful chairman's role this year, company insiders said, was that he acceded to singer Bruce Springsteen's demands for a contract reportedly worth as much as \$100 million.

"There was a time when a superstar band could get anything they wanted from a record label, including the [record label] president's wife," artist manager Andy Gould

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said. "But the ubiquity of celebrity has made it less valuable. Now, celebrity is awarded through talent shows like 'American Idol,' and it's more disposable. And the record labels love that, because it means that artists are easier to replace if they demand too much."

*Times staff writers Josh Friedman, Sallie Hofmeister, Meg James, Lorenza Muñoz and Richard Verrier contributed to this report.*

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