

While the movie industry is on track for a record summer box office, there's blood on the streets of Hollywood.

The swing-for-the-fences strategy adopted by most majors can pay off big when it works. But judging from the hundreds of millions in red ink spilled by the studios between late May and this past weekend, it can also be a blueprint for disaster.

The overcrowded summer of 2013 will likely be remembered more for its costly misfires — Sony's "After Earth" and "White House Down," Disney's "The Lone Ranger," Warner Bros./Legendary's "Pacific Rim" and Universal's new release "R.I.P.D." — than for its predictable hits, which include "Iron Man 3," "Man of Steel" and "Despicable Me 2."

Steven Spielberg and George Lucas look awfully prescient with the predictions they made last month during a panel discussion at the USC School of Cinematic Arts.

"There's eventually going to be a big meltdown," Spielberg forecast. "There's going to be an implosion where three or four or maybe even a half-dozen of these mega-budgeted movies go crashing into the ground, and that's going to change the paradigm again."

That paradigm, the filmmaker explained, is that the studios prefer spending \$250 million on a single movie and letting more quirky or personal films migrate to video-on-demand.

The tipping point of Hollywood's latest blockbuster-obsession appears to have begun in the fall of 2011, after a string of pricey tentpoles, among them "Tower Heist," "Immortals," "Jack and Jill" and "Happy Feet Two," flopped at the box office. This summer's slate was put in motion before any of the studios' could even consider a course correction, if indeed that is what they are thinking.

One studio executive pointed out that most of the movies

this summer were greenlit 18 months to two years ago, and that any less profligate strategies won't be evident until next summer at the earliest.

Today, studios routinely spend north of \$400 million to produce, market and distribute their big-event films around the world. And they're making more tentpoles each year. The 12 top-grossing films each year make up about 75% of domestic ticket sales, according to a recent analyst report from Cowen and Co. Although the international market, which now accounts for about 70% of worldwide box office revenue, is in a growth mode, the North American market has remained relatively flat over the past decade. The question: With big-budget event movies cannibalizing each other, will the overseas market grow fast enough to make up for the collateral damage?

"At some point, things have to change," said entertainment attorney Fred Bernstein, who was president of Columbia Pictures from 1994 through 1997. "I don't think the audience is necessarily as expansive as it needs to be to absorb all of the studios only making \$200 million dollar special effects-laden extravaganzas."

Even with growth regions like Asia and Latin America, and the seemingly voracious appetite for American movies in many parts of the world, the studios must figure out how to make movies more economically, and get a handle on es-

calating production and marketing costs, which continue to squeeze already thin profit margins.

Jean-Luc De Fanti, managing partner at Hemisphere Media Capital, which co-financed such big budget films as "World War Z," "The Smurfs," "Men in Black 3" and "The Adventures of Tintin," said fiscal control is imperative.

"There is a global market for big movie content, but it has to be made at more reasonable costs," maintained De Fanti. "I don't think the international marketplace is immune to the issue of overcrowding, particularly when the releases are so close together."

GLUT ON THE HORIZON

What's more, overcrowding isn't poised to get any better in the foreseeable future.

In 2015, between May and August, the studios will release just as many — if not more — high-profile sequels, reboots and tentpoles. It is expected to be one of the most pricey, loaded summers in decades, with the likes of Disney-Marvel's "The Avengers" sequel, Fox's "Independence Day 2," Disney's "Pirates of the Caribbean 5," Sony's "The Smurfs 3" and Paramount's "Terminator."

"This summer certainly showed that the summer alone cannot sustain this number of tentpoles," explained Paramount vice chairman Rob Moore. "The one thing that everybody has to re-evaluate is looking at the calendar and discussing when you have the best shot at being successful during non-peak times."

Historically, studios have turned to dates earlier in the spring to avoid overcrowding (a la the first "Hunger Games" and "Alice in Wonderland"), and some observers predict the same will happen in the next two years. But there's little wiggle room, as some months always seem to be bad for tentpoles (think January/February, September/October).

One of the most startling revelations about this summer's duds is how accurately they were predicted. Cowen and Co.'s May 3 report forecast that at least four big-budget action adventure movies would fail, and analyst Doug Creutz modeled five: "Lone Ranger," "White House Down," "World War Z," "After Earth" and "R.I.P.D." "World War Z" was the lone outlier — just by the skin of its teeth.

The summer's congestion not only resulted in some epic failures, it also stunted several of the season's more successful entries. Consider "The Hangover Part III," whose \$350 million worldwide gross was far less than its two predecessors'

respective takes of \$587 million and \$467.5 million. Even "Man of Steel" didn't live up to the grand expectations of Warner Bros.' former film chief, Jeff Robinov, who greenlit the movie and predicted that the Superman pic would be the most successful in the studio's history.

ONE FLEW OVER

"World War Z" was the only big summer film so far to kick-start an original franchise, with a second installment already in the works and potential for a third.

Studios are showing no signs of letting up on their big franchise bets. Neither are their investors.

"For me, the business of tentpoles is about generating franchises," De Fanti said. "The more tentpoles that are being made, the more risky the first installment of a potential franchise is going to be. That's why I think everybody needs to be asking hard questions about what is a real tentpole and what is a faux tentpole."

Studios in general must do a better job of weighing the commercial potential of their big bets against their cost, said De Fanti.

In Disney's view, "The Lone Ranger" was the perfect "IP" — Hollywood's overused term for intellectual property — to exploit. But some observers believe the studio grossly overestimated how today's audiences would receive it, despite Johnny Depp's role as Tonto.

Some analysts are predicting the pic, which cost more than \$250 million to make, could rival the \$200 million write-down Disney took last year on "John Carter."

Gauging the level of audience interest in a particular subject matter — be it original or not — is something studios have always been eager to nail down early in the development process.

Piedmont Media Research has begun to work with studios testing a film's concept and correlating that to its box office potential. For instance, as early as February, the new-bie company predicted "R.I.P.D." would be one of this summer's biggest flops. The film earned a composite score of just 137, according to Piedmont's consumer engagement rating system; a film needs to score at least 250 to be successful at the box office, according to Piedmont prexy Josh Lynn.

"Instead of throwing money at a film or an actor and hoping for the best, there is a better, more analytic way to determine beforehand if a film is worth making, and at what specific dollar value," Lynn said.

Summer 2013 Hits/Misses

The **Consumer Engagement Score** is a composite based on questions measuring the level of consumers' interest in a given movie concept. Big-budget summer films typically should score a minimum of 250 in order to be successful at the box office.

Film	Iron Man 3	Monsters University	Despicable Me 2	Man of Steel	Star Trek Into Darkness	Grown Ups 2	White House Down	Pacific Rim	Turbo	R.I.P.D.
Piedmont's Consumer Engagement Score	458	336	334	301	301	254	218	150	145	137
Opening three-day-weekend domestic box office in millions of \$	\$174.1	\$82.4	\$83.5	\$116.6	\$70.2	\$41.5	\$24.9	\$37.33	\$21.3	\$12.7