

It's easy to become cynical about Hollywood once you've spent much time inside it. No business is as sexy and highly scrutinized from the outside, while managing to feel so small and self-important once you're inside it, as motion pictures.

When everyone around you is constantly assessing the current heat of stars, moguls, and filmmakers and judging movies by their most recent box-office grosses, it's easy to forget that the products created here are profoundly meaningful to millions of people, whether as timeless art or fun pop-culture ephemera.

There's an antidote, however. To remember the grandeur, the tradition, and the cultural significance of an industry that has had a greater impact on imaginations than any in American history, one need only walk onto one of the six studio lots that still take up hundreds of acres in Los Angeles and its suburbs.

None is more inspiring than the forty-four-acre, 102-year-old lot in Culver City, California, that was long home to Metro-Goldwyn-Mayer and is now occupied by Sony Pictures.

The entrance features a giant rainbow that arches ninety-four feet in the air and evokes memories of *The Wizard of Oz*, which was shot here in the late 1930s. Walking down "Main Street," into the heart of the lot, you stroll through a faux downtown lined with buildings named after Cary Grant, Frank Capra, Rita Hayworth, and David Lean, the stars and filmmakers who built the legacy of Columbia Pictures, which Sony acquired in 1989.

Walking farther, past posters for unforgettable Columbia movies like *Lawrence of Arabia* and *Spider-Man*, you come upon the studio store, with T-shirts, mugs, and DVDs of Sony's biggest hits from recent years, including *21 Jump Street*, *Breaking Bad*, and the James Bond blockbuster *Skyfall*. Visit on the right day and you might see Will Smith drive by on a golf cart or Seth Rogen chowing down in the Harry Cohn commissary building, named after the larger-than-life mogul who cofounded Columbia with his brother and their friend in 1918.

All around you, meanwhile, are nearly thirty soundstages where everything from *Gone with the Wind* to *Rocky* to *Wheel of Fortune* has been shot.

Despite appearances, however, studio lots like Sony's are not what they used to be. Movies are rarely made on soundstages here, as production has fled to places like Georgia and London, in search of big government subsidies. The names of retired actors and directors may appear on the buildings, but the new generation of talent is far less powerful than the world-famous characters they bring to life, like Iron Man and Katniss Everdeen. The moguls who run the studios, meanwhile, have been brought dramatically down to earth and are increasingly indistinguishable from the MBAs who run retail chains and investment banks.

What made the movie business unique in the history of corporate capitalism is captured in the screenwriter William Goldman's maxim, true for many decades: "nobody knows anything." No other industry pumped out so many products so frequently with so little foreknowledge of whether they would be any good. The only feasible business strategy, it appeared, was to sign up the best creative talent, trust your strongest hunches about what looked likely to appeal to millions of people, and hope you ended up with *Back to the Future* instead of *Ishtar*.

Over the past few years, however, something big has happened: finally, people in Hollywood do know something. What they know is that branded franchises work. People say they want new ideas and fresh concepts, but in reality they most often go to the multiplex for familiar characters and concepts that remind them of what they already know they like. Big name brands like Marvel, Harry Potter, Fast & Furious, and Despicable Me consistently gross more than \$1 billion at the global box office, not only raking in huge profits, but justifying studios' very existence and the jobs of everyone who works on their glamorous lots.

This change has happened slowly over about a decade in Hollywood, making it hard to appreciate its magnitude. But now it is undeniable that the dawn of the franchise film era is the most meaningful revolution in the movie business since the studio system ended, in the 1950s. That shift ended studios' ability to control creative talent by essentially owning it with long-term contracts. It also increased the quality of movies Hollywood made over the next fifty years because companies had to compete to make the most influential talent happy, rather than the other way around.

The franchise film era is, in many ways, a return to the studio system. Only now the major entertainment companies don't own the most important talent — they own the most important cinematic brands. Instead of fighting for a deal at MGM or Paramount, actors and filmmakers vie for a chance to make the latest spinoff of *Star Wars* or *X-Men*. Many of those movies are satisfying crowd pleasers, but nobody is going to compare the 2010s to a standout era of Hollywood filmmaking like the 1970s.

The studios that adjusted to the implications of the franchise age with speed and a clear vision have been the most successful in recent years. Warner Bros. and Disney long ago reshaped their businesses around big-budget “event” movies that could spawn endless sequels, spinoffs, and product tie-ins. These studios are now consistently at the top of box-office and profit rankings, along with Universal, which successfully followed their lead.

A FATEFUL DAY AT SONY

Sony Pictures is a different story. It thrived in the first decade of this century by sticking to a creaky but still workable strategy of focusing on movie stars and original scripts, with the occasional superhero sequel to appeal to teenagers and audiences overseas. The studio's boss, Amy Pascal, is a larger-than-life character who ran her business on the old-fashioned premise that her job was, every year, to make the best slate of movies she could, with the most talented filmmakers and actors, and trust that profits would follow.

It worked until it didn't. Like a newspaper that made a great print product but never invested in its website, Sony succeeded in the early part of the twenty-first century, but its fortunes took a decided turn for the worse in the 2010s. As audience tastes changed, it had little to offer in the way of big-budget “events” that were part of long-popular, well-known franchises.

By 2013, it was clear that Sony could no longer close its eyes to the revolution in the movie business. On a fateful day late that year, the leaders of Hollywood's most talent-friendly studio were finally forced to face the fact that if they were going to have a future, they would have to be more franchise-friendly.

Pascal and her allies would long remember November 21, 2013, as a watershed — the day it became clear that creativity would no longer drive business at Sony Pictures. From now on, it would be the other way around.

On soundstage number eight that morning, no actors or makeup artists or production assistants were preparing to shoot a scene. Instead, dozens of top Sony executives, from Tokyo, New York, and Los Angeles, were preparing to try to impress a gathering audience more important than anyone who bought movie tickets: investors and analysts from Wall Street. The visitors wanted to learn about the studio's plans to cut costs and deliver the kind of consistently growing profits once deemed impossible in the unpredictable roller coaster that is the entertainment business.

Sony Pictures was coming off a disastrous summer in which its two biggest films, the science-fiction vehicle *After Earth*, with Will Smith and his son, and the Channing Tatum action dud *White House Down*, had together lost more than \$75 million. Their failure was directly tied to the fact that Sony had almost no popular franchises in its arsenal. To compete with the big summer movies being released by other studios, Sony took a gamble on the type of original, movie-star-driven fare that succeeded in the 2000s but had now fallen out of favor.

For Pascal, who had spent her entire adult life making movies, trying to impress a bunch of Wall Street suits was humiliating. She knew virtually nothing about earnings statements or stock charts and cared even less. As head of Sony's movie business for more than a decade, she schmoozed with stars, gave notes on scripts, and, as the top “picker,” decided which films her studio would make each year, at an annual cost of nearly \$1 billion.

She relied on others, particularly her longtime business partner Michael Lynton, to handle money issues. And Lynton had for many years done just that, confident that the right business strategy in Hollywood was

to insulate creative teams from the day-to-day business pressures. But now, with their performance floundering and pressure from shareholders on Wall Street and corporate bosses in Tokyo ratcheting up, the two were forced to defend their strategy to the financial community.

The pair put on a brave face. Lynton boasted of plans to invest more in television, and Pascal laid out a strategy to do better at the box office.

But in reality, she thought the whole thing was a joke. Once she was done putting on a song-and-dance for the Wall Street analysts, Pascal got busy telling friends in the entertainment industry to ignore everything she and Lynton had just said about financial discipline and focusing on television over film. "Oh please, it's an investor conference," she said. "U know it's bs."

To one close confidant, Pascal admitted what she really thought about the investors, corporate executives, and other suits who didn't have a creative bone in their body but thought they knew better than she did as to what a movie studio needed: "This is my fucking company," she declared. "I have outlasted everyone and always will."

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