



Despicably Profitable

► With a 1,000 percent box office return, Chris Meledandri's movie is a new Hollywood model

► "We're not spending our money on every blade of grass and the leaves on the trees"

Comcast's Universal Pictures is Hollywood's top-grossing moviemaker so far this year. Asked at Allen & Co.'s annual media conference in Sun Valley, Idaho, in July what's behind the studio's turnaround from fourth place in 2012, Ron Meyer, the veteran executive who's now NBCUniversal's vice chairman, simply said, "We hired Chris Meledandri."

Meledandri is the producer of *Despicable Me 2*, the highest-grossing animated film this year. The picture, which features comedian Steve Carell as the voice of a supervillain named Gru, has sold more than \$840 million in tickets worldwide. In a summer marked by big-budget flops such as **Walt Disney's** \$225 million *The Lone Ranger* and **Sony's** \$150 million *White House Down*, *Despicable Me 2* cost only \$76 million. That puts it on track to be the most profitable film in Universal's 101-year history, says NBCUniversal Chief Executive Officer Steve Burke.

With Hollywood continuing to crank out pricey, special-effects-laden films designed to wow audiences from Brooklyn to Beijing, and revenue from home video off 17 percent from its

\$21.8 billion peak in 2004, studios will need to work harder at tightly managing budgets—Meledandri's forte. "What he is demonstrating today is that you can make very good movies at a reasonable cost," says Peter Chernin, the former CEO of Fox Entertainment.

The urgency to contain costs gets top billing in Hollywood these days. **DreamWorks Animation SKG** CEO Jeffrey Katzenberg says he'll lower the budgets of his animated features to an average of \$120 million each, from \$150 million. Disney said on Sept. 12 that it's capping spending on non-sequel films, after losing as much as \$190 million on *The Lone Ranger*.

Meledandri, who began as a gofer to *Footloose* executive producer Daniel Melnick, had mixed success on his own, developing films such as *Cool Runnings*, about the Jamaican Olympic bobsled team, and *Sister Act 2*, the 1993 sequel to the Whoopi Goldberg hit. In 2000, Meledandri got a sobering lesson in risk management when he supervised the release of *Titan A.E.*, an animated sci-fi feature that he says lost \$100 million for **Twentieth Century Fox**. "My early

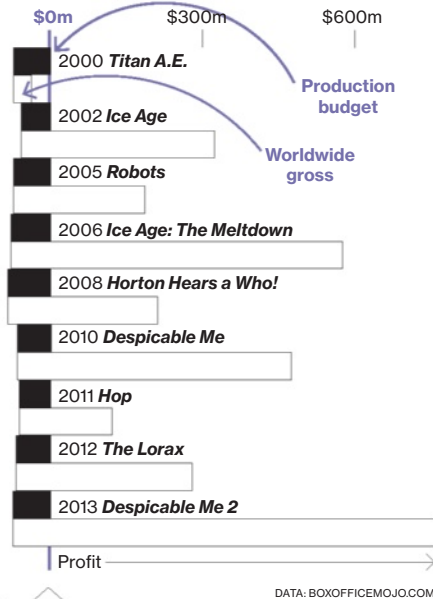
career was less strategically directed. I was just trying to get movies made," he recalls. "I didn't like having that big financial failure. I didn't want to expose myself to those catastrophic results."

He decided to shift gears, jumping into computer-generated animation, then a new technology being pioneered by DreamWorks and Pixar, now part of Disney. And he embraced family-friendly pictures with broad appeal. At Fox, Meledandri created the *Ice Age* franchise, whose four films have grossed \$2.8 billion worldwide. At Universal, his Illumination Entertainment production company has rolled out the two *Despicable Mes*, the 2011 Easter Bunny-themed *Hop*, and last year's *Dr. Seuss' The Lorax*. All had domestic box office grosses of more than \$100 million.

Meledandri's films, which typically have a PG rating for mildly risqué humor and cartoonish violence, attract an audience that's as much over age 18 as under it. "The humor is sophisticated and topical," says Paul Dergarabedian, who heads box office research at the website Hollywood.com. "They're making them not only kid-friendly, ►

Companies/Industries

Meledandri's Box Office Record



◀ but friendly for thinking adults.”

While Meledandri says he has no secret formula, studio veterans cite his discipline in selecting projects that can be done at a relatively modest cost—by Hollywood standards—and then providing plenty of oversight to hit that number while getting pictures finished on time. “At a lower budget, you don’t get to be a perfectionist,” explains Bill Mechanic, a former CEO of Fox Filmed Entertainment, “so it’s all about selecting ideas that work within your budget.” Doing that successfully has allowed Meledandri to create in *Ice Age* and *Despicable Me* “two of the most successful animation franchises in history,” Mechanic says.

That’s tough in an industry where the cost of the typical film has risen 35 percent since 2003, according to Wade Holden, a movie analyst at SNL Kagan. Other animation houses may begin development of three or four pictures for every one they ultimately make. Meledandri says his ratio is closer to 1 to 1. At other studios, teams of animators periodically show their progress to higher-ups, while at Illumination, Meledandri is involved in approvals on a daily basis. “There is never a situation where a production proceeds down a path only to discover those with ultimate creative authority aren’t in agreement,” he says.

Meledandri’s U.S. office has only about 35 employees. To bring his projects to life, however, Universal acquired the animation business of Mac Guff, a studio in Paris with a staff of almost 500.

The video by Miley Cyrus, who brought twerking to the masses, is setting online records

Making movies in France isn’t about chasing cheap labor. Animators there make slightly lower salaries than in the U.S., Meledandri says, but benefits costs are much higher. Those animators, many of whom used to make pictures solely for the French market, are pros at working on limited budgets, says Franck Priot, chief operating officer of the French Film Commission. “We can do the same thing with less people, because we have to,” he says. Universal also collects government production subsidies, which France increased from about \$5.3 million per picture to \$13.3 million in July.

Janet Healy, Meledandri’s co-producer, says the company also saves by using a lot of commercially available software and focusing on the lead character in every frame. “We’re not spending our money on every blade of grass and the leaves on the trees,” she says. Meledandri also credits a strategy CEO Burke calls “symphony,” in which all parts of NBCUniversal cross-promote big projects. *Despicable Me 2* benefited from a blimp at the Kentucky Derby (which was televised on NBC), a ride at Universal’s theme park in Orlando, and teasers on the company’s USA Network and Golf Channel.

Meledandri is working on a *Despicable Me* spinoff, due in late 2014. He’s also planning an update of a family favorite—*Dr. Seuss’ How the Grinch Stole Christmas!* “I think he’s got a vision,” Healy says of her partner. “I just don’t know what it is.” —*Christopher Palmeri*

The bottom line Chris Meledandri keeps a lid on costs, which is helping make his *Despicable Me 2* Universal’s most profitable movie ever.

Media

Vevo Takes a Wrecking Ball to MTV

▶ Helped by record labels and Google, the website rules in music videos

▶ Ads are “moving [to mobile] so fast that most people aren’t aware”

On Sept. 9, Miley Cyrus rode a wrecking ball into the record books. The new Terry Richardson-directed music video for her hit song *Wrecking Ball*—in which she swings around naked on said ball while crooning about the vicissitudes



of love and occasionally licking a sledgehammer—quickly became the most popular music video ever on Vevo. Attracting 19.3 million views in the first 24 hours, it’s since gone on to pile up more than 118 million views. And while Cyrus was gleefully swinging into the hearts of fans, Vevo, a private company based in New York, was revealing in something else: the continued demolition of its competitors.

Vevo dominates the world of online music videos to a degree that’s surprising considering the pedigrees and head starts of its rivals. In August the company racked up 49.4 million unique visitors and 609 million video views, according to researcher ComScore, crushing its nearest challengers, **MTV Music Group** (35.3 million unique visitors; 261 million video views), **Yahoo! Music** (3.8 million unique visitors; 7.5 million video views), and **AOL** (3.1 million unique visitors; 8.1 million video views).

How did a relative newcomer get so far ahead? Vevo, founded in 2009, was launched with the backing of **Universal Music Group** and **Sony Music Entertainment**. That means it gets first dibs on the music videos of two of the three largest record labels. (Vevo also had online music video rights for the fourth-largest record company, **EMI Music**, until the giant was broken up last year.)



Those relationships give the company outside clout, because any website that wants to legally distribute music videos from Universal and Sony's hefty roster of artists (Justin Bieber, Bob Dylan, Lady Gaga, Pearl Jam, Kanye West, U2, Eminem, Justin Timberlake, Metallica, Beyoncé...) must first strike a deal with Vevo. Since the company's debut, Vevo executives have signed myriad agreements, distributing its music videos far and wide across the Internet in exchange for a slice of the ad revenue the videos generate.

So far, Vevo's primary distribution point is its thriving network of channels

on Google's YouTube, which to date has accrued more than 130 billion views. Earlier this summer, Vevo and Google extended their mutually beneficial relationship. In July, Google invested \$45 million for a 7 percent stake in the company—keeping Vevo comfortably ensconced in the all-important YouTube ecosystem for years to come.

It's an increasingly lucrative position to occupy, thanks to the ongoing boom in digital video advertising. According to data from the Interactive Advertising Bureau, spending on digital video has soared, from \$324 million in 2007 to \$2.3 billion in 2012. That's just the beginning, with researcher EMarketer forecasting that video ad revenue in the U.S. will grow 41.4 percent this year and another 40 percent in 2014, making it the fastest-growing digital ad format.

Having established its popularity among music fans on YouTube, Vevo is aiming to conquer the next big thing in music videos: mobile distribution. "It's moving [to mobile] so fast that most people aren't aware," Vevo Chief Executive Officer Rio Caraeff told Bloomberg TV in June. "Last year in the U.S., 51 percent of our streaming happened off of the PC—on mobile, tablet, and television. That's really what's driving our growth." —Felix Gillette

The bottom line Vevo, which got 19.3 million views of Miley Cyrus's new music video in 24 hours, is poised to profit from mobile ads.

Airlines

Paying Extra for Whine-Free Flying

- ▶ Some carriers let passengers reserve seats in adults-only areas
- ▶ People "might not necessarily love someone else's" kids

CNN anchor Richard Quest caused a stir last year when he advocated in Britain's *Independent* newspaper that infants be banned from business class on airplanes. "A baby in business class is invariably going to wail at some point," wrote the cheeky Brit, who took his ban-the-babies campaign to Twitter in August.

Several Asian carriers have heard his cry. **AirAsia X**, an affiliate of that continent's largest discount carrier, and **Malaysian Airline System** already segregate passengers traveling with kids. **Singapore Airlines'** budget carrier, Scoot, in late August went a step further: It unveiled a child-free zone for coach passengers prepared to pay extra. Both Scoot and AirAsia X have a no-kids policy in business class. ▶

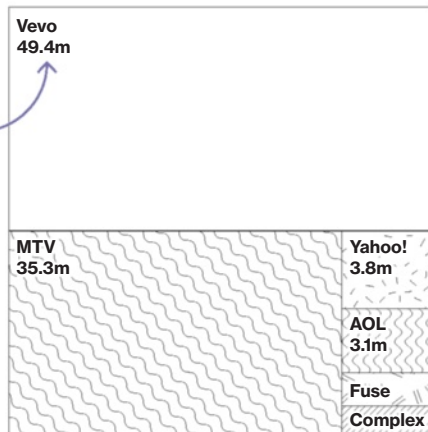
I Want My Vevo

The company's video content resonates particularly with young people. In the table below, an index value above 100 suggests more popularity within an age group.

Index to population	YouTube	Vevo
Under 12	65	21
13 to 24	114	172
25 to 34	107	129
35 to 44	103	104
45 to 54	100	83
55 to 64	96	60
65+	96	49

Unique music video viewers, August 2013

Vevo skews much younger



◀ Seat-kicking and unruly children ranked ahead of drunken passengers, rude cabin crew, and lecherous neighbors as onboard annoyances in a July survey by Gocompare, a British website that tracks financial and other services. Respondents said they'd be prepared to pay £50 (\$78.65) more on a round-trip flight if they could sit in a child-free zone.

"People love their own kids, but they might not necessarily love someone else's," says Scoot Chief Executive Officer Campbell Wilson. "Allowing someone the option of traveling with the assurance of not having young children around is simply one of the many choices you have."

Scoot charges an extra \$14.95 (\$11.85) for 41 economy-class seats directly behind business class with 3 inches of extra legroom, where children under 12 aren't allowed. There was "some very robust debate" in the office about the merits of the service, says Wilson, who doesn't have children.

Carriers that have introduced child-free zones say they haven't received significant negative feedback. "Getting choice means you are satisfying both sets of people," says Azran Osman-Rani, CEO of AirAsia X. "Even families with kids are positive, because now they are in the other zone and they feel less guilty." Scoot and AirAsia X use blocks of toilets to separate their adults-only zones from the rest of the cabin. Malaysian Airline introduced a mostly child-free upper deck on its A380 jumbos when it entered service in July 2012. The carrier said it will seat families in the 70 upper-deck economy seats only if there's no room left in the 350 economy seats on the lower level.

Some parents see the wisdom of isolating airborne tykes. Says Marcus Osborne, a father of three and a partner at branding consultant Fusion-Brand in Kuala Lumpur: "If I had the option to sit in an area where there were no kids, I would probably jump at the chance."

Other carriers are also trying to be accommodating. **Ethihad Airways** has hired consultants from Norland College, a U.K. child-care training center, to teach child psychology and sociology to about 500 cabin crew designated as "flying nannies" on the Abu Dhabi-based carrier's long-haul

"Even families with kids are positive, because now they are in the other zone and they feel less guilty."
—Azran Osman-Rani, CEO of AirAsia X

flights, a free service available in all classes. The orange-aproned nannies serve children's meals early in the flight, fill milk bottles, and offer activities ranging from magic tricks and origami to playing with sock puppets. Older children get tours of the galley. Etihad CEO James Hogan introduced a similar program in 2003 when he ran Bahrain's **Gulf Air**. "We have received fantastic feedback from guests," says Aubrey Tiedt, Etihad Airways' vice president of guest services.

That may be because an unhappy child is often a loud child. According to the American Tinnitus Association, a child's scream can be 105 decibels—louder than a chain saw or a subway train. Regardless, Andy Curr, a Web designer and mommy blogger from Sydney, says branding children as the biggest source of in-flight annoyance isn't fair. "You can't choose who you fly with," she says. "Adults are usually the worst-behaved, and drunk sometimes."
—David Fickling and Heesu Lee

The bottom line Some Asian airlines segregate children on their planes. Discounter Scoot charges \$12 extra for kid-free flying.

Autos

This Town Is Heaven For Test-Driving Cars



▶ **Marketers depend on Hell, Mich., to help auto reviews come to life**

▶ **"If somebody named a town Poopy, it would be very popular as well"**

No, it's not really paved with good intentions. But the road to Hell is a great place to test-drive cars. That's why automakers increasingly are enquiring journalists to Hell, Mich., an unincorporated community about 60 miles west of Detroit with a population of 72, to

show off their latest vehicles. While the tiny burg pales next to test-drive favorites such as Northern California's wine country, Hell has three things in its favor: winding roads that can showcase a car's handling, way lower travel costs, and a quirky name tailor-made for the purple prose often used in car reviews.

Thanks to the auto recovery, Hell is about to get a lot more crowded. A total of 376 models will be introduced in the U.S. between now and the end of 2015, according to researcher Polk, as auto sales run at the fastest pace since 2007. In 2010, the year after industry sales fell to a 27-year low, there were 91 intro-

ductions. "The economy is better, so the auto companies are doing more [test-drive] programs... to reach a wider array of media," says Michelle Krebs, a senior analyst with auto researcher Edmunds.com.

Daimler's Mercedes-Benz held three events with routes through Hell this year, including one for the new E-Class sedan, while **General Motors** had journalists drive Chevrolet Cruze sedans to the popular nearby Hell Creek Ranch camping area, where they switched from the compact cars into the full-size Chevrolet Impala. A few weeks later, journalists passed through Hell again driving GM's Buick LaCrosse.

The puns are inevitable. *WardsAuto World*, an industry publication, reviewed the Cruze in July by asking how far the diesel version can travel on a single tank of fuel: "Almost to Hell and back," was the answer. Joann Muller began a *Forbes.com* article last year by stating, "I just spent two days driving through Hell, and I promise you, it was worth the trouble."

Such fun is to the chagrin of Christopher Jensen, a freelance journalist who co-founded the North American Car and Truck of the Year awards more than 20 years ago. "It's not exactly a tribute to the human spirit or intellect, but it does appear to be irresistible," he says. "I suspect if somebody named a town Poopy, it would be very popular as well."

Jensen helped put Hell on the map when he decided the roads near the town might make a good spot to test his competition finalists. "It's close enough to Detroit that the automakers have no big problem getting their vehicles out" there, he says. "Within about two



minutes you can be on a really great selection of roads.” In some spots the narrow country roads rise and fall like a roller coaster, while other areas are flat and straight enough for a quick burst before turning into tree-covered curves.

The good roads have attracted engineers for years, says John Colone, a retiree who owned a Chrysler dealership in nearby Pinckney for more than 20 years. Part of the area’s test-drive appeal: “Our beautiful back roads—they’re lightly patrolled,” Colone says. Also: “It’s that novelty of going to Hell.”

Automakers’ sneak-peak programs often include several dozen journalists who take turns driving the vehicles and are briefed by company executives on the models’ features. Media test drives are “a vital part of any vehicle launch at any manufacturer,” says Miles Johnson, a **Hyundai Motor** public-relations executive.

That’s because about one in four new vehicle buyers claim that a car review was the most important source of information in their purchase decision, according to Maritz Research’s 2013 New Vehicle Customer Study. After *Consumer Reports* in July named the Impala as best sedan, for example, traffic to the model’s website soared 374 percent.

The test-drive programs are evolving as the nature of media changes. Now, automakers are hustling to include influential bloggers along with writers from publications aimed at car buffs and national news outlets. With so many introductions, cheaper events like those in Hell—which are a fraction of the cost of ferrying participants out west—help spread the marketing dollars. GM’s Chevrolet brand, which is introducing 13 new or redesigned vehicles this year, took advantage of Hell’s closer and less-expensive location for the diesel version of the Cruze while spending more to transport scores of journalists to California for test drives of the glitzy new Corvette sports car. “We don’t have budgets to do 13 Corvette-like launches,” says Michael Albano, director of Chevrolet communications. But getting journalists to Hell comes cheap. —*Tim Higgins*

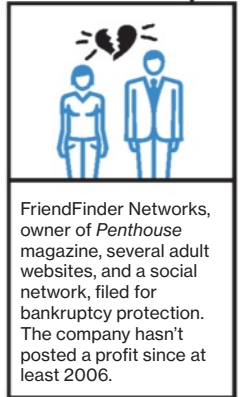
The bottom line Hell, Mich., 60 miles from Detroit, has become a popular spot for carmakers to stage test drives for journalists.

Briefs

By Kyle Stock

Boeing Dreams Bigger

✈️ A bigger version of Boeing’s new 787 jet took off for the first time on Sept. 17, the start of about nine months of flight tests. The stretched Dreamliner model can carry 40 more passengers and commands almost \$40 million more than the Dreamliner, roughly \$2 million for each additional foot. Boeing is supposed to deliver the first of the new jets to Air New Zealand in mid-2014. 🇺🇸 More American companies are sending workers to private exchanges for health care, electing



The expected one-month sales for Grand Theft Auto V, a video game that hit stores on Sept. 17. It cost about \$250 million to make and market.

to pay subsidies to employees rather than shouldering the burden of insuring them directly. Most recently, Walgreen said it will move its 160,000 workers onto a private exchange,

following similar decisions at Sears and Darden Restaurants.

🎬 The DVD business isn’t a total horror show. Outerwall, the company behind Redbox kiosks, says it rented more movies in July than in any month to date. Outerwall lowered its earnings forecast for the year, however: The same discounts that keep DVDs competitive with streaming services are hurting its profit margin. 🚗 European auto sales have sputtered to their slowest pace since at least 1990. Car registrations in August dropped 4.9 percent from the same

month last year, as Europe continues to struggle with high unemployment. The only bright spots are in the U.K. and on the books of luxury carmakers like BMW and Mercedes.

👤 The U.S. government has extended minimum-wage and overtime benefits to the almost 2 million people employed as in-home health aides. The U.S. Chamber of Commerce opposed the policy, arguing it will make home health care unaffordable for some.

CEO Wisdom



“Basically, people don’t like to buy things anymore—clothes or flats or anything. They’re much more interested, I think, in sharing.”
—Virgin Group founder Richard Branson, discussing a plan to give away cell phones