Hollywood

Paramount's paramours

Would-be suitors woo a Hollywood studio in distress

FROM "GREASE" to "Breakfast at Tiffany's", Paramount Pictures has produced plenty of good romances during its 112-year history. Now the Hollywood studio is itself the subject of a courtship drama involving streaming rivals, private-equity buccaneers, a billionaire's son and the owner of the Weather Channel. The wooing of Paramount Global, the studio's parent company, has begun because Shari Redstone, president of National Amusements, which has a controlling stake in the firm, appears ready to sell. The battle to buy Paramount from the Redstones marks the fading of a Hollywood dynasty—and shows the sorry state of the entertainment industry.

Paramount, the last big studio still based in Hollywood, has seen lots of action in recent years. Ms Redstone had to wrestle control of the firm from the former girlfriends of her father, Sumner, who died in 2020 after building an empire from a chain of cinemas he had inherited from his own father. Paramount Global today comprises the film studio, the Paramount+ streaming service and old-school "linear" TV networks from CBS to MTV.

It is in trouble. Linear TV, which makes up nearly 80% of Paramount's revenue, is sinking as cable subscribers cancel their contracts. Streaming is supposed to provide the company with a lifeboat. Paramount+ has more than 60m subscribers and plenty of hits, including a series of "Yellowstone" spin-offs. But it lost $1.2bn in the first nine months of 2023 and appears to be years away from breaking even. Paramount's market value has fallen by half in the past two years, to under $9bn.

In recent weeks Ms Redstone has been mulling various proposals. David Zaslav, head of Warner Bros Discovery (WBD), went to Paramount just before Christmas to sound out a possible takeover. In January Apollo, a private-equity firm, was reported to be circling. David Ellison, head of Skydance, a production company, made an offer later that month. Then Byron Allen, who owns the Weather Channel and other media assets, said he too had made a bid.

Mr Ellison's deal is said to have progressed farthest. His partners include KKR and RedBird Capital, a pair of private-equity firms; his father, Larry, who co-founded Oracle, also has a fortune of $130bn handy. The main attraction for Skydance seems to be Paramount's film studio. The linear-television assets, meanwhile, might be sold on—perhaps to Mr Byron, who says he is more interested in the waning TV networks, which at least still make money, than the studio or streamer.

The possible carve-up points to wider disruption in Hollywood. All of the "legacy" studios—that is, ones that began in the era of celluloid rather than streaming—share at least some of Paramount's problems. As linear TV declines, they have spent a fortune on trying to make streaming work, collectively losing $25bn on the enterprise between 2020 and 2023, according to Bernstein, a broker. WBD's streaming business broke even last year, after ruthless cost-cutting. Disney says it will get there this year. But for smaller streamers like Paramount+, NBCUniversal's Peacock and Fox's Tubi, there is "no clear sight of profitability", Bernstein believes. Even those no longer losing money are nowhere close to the profit margins of the linear era.

The best hope of competing with the bigger streamers, like Netflix, may be to partner up. There are already signs that is happening. On February 6th Disney, Fox and WBD unveiled a plan to bring their most valuable sports content together onto a new streaming platform. Bigger tie-ups may still be to come.

Yet by pooling their resources the media giants would also be pooling their problems. A marriage between WBD and NBCUniversal, perhaps the most likely new combination, would result in a company that made nearly half its revenue and nearly two-thirds of its profit from linear TV, points out MoffettNathanson, a firm of analysts. "The situation in US media has increasingly progressed from challenged to desperate," MoffettNathanson argues. Time for Ms Redstone to make a match. ■

You belong to me, Holly

Retail

The super store

Why Costco is so loved

IN THE NEARLY 40 years that *The Economist* has served up its Big Mac index, the price of the McDonald's burger in America has more than tripled. In that same period the cost of another meaty treat—a hot-dog-and-drink combo at Costco—has remained steady at $1.50. Last year customers of the American big-box retailer devoured 200m of them. Richard Galanti, Costco's long-time finance boss, once promised to keep the price frozen "for ever".

Customers are not the only fans of Costco, as the outpouring of affection from Wall Street analysts after Mr Galanti announced his retirement on February 6th made clear. The firm's share price is 430 times what it was when he took the job nearly four decades ago, compared with 25 times for the S&P 500 index of large companies. It has continued to outperform the market in recent years. What lies behind its enduring success?

Costco is the world's third-biggest retailer, behind Walmart and Amazon. Though its sales are less than half of Walmart's, its return on capital, at nearly 20%, is more than twice as high. Charlie Munger, a famed investor who served on Costco's board from 1997 until his death last year, called it a "perfect damn company". Mr Galanti, who describes Costco's business model as "arrogantly simple", says the company is guided by a simple idea—hook shoppers by offering high-quality products at the lowest prices. It does this by keeping markups low while charging a fixed membership fee and stocking fewer distinct products, all while treating its employees generously.

Start with margins. Most retailers boost profits by marking up prices. Not Costco. Its gross margins hover around 12%, compared with Walmart's 24%. The company makes up the shortfall through its membership fees: customers pay $60 or more a year to shop at its stores. In 2023 fees from its 129m members netted $4.6bn, more than half of Costco's operating profits.

Joe Feldman, an analyst at Telsey Advisory Group, a research firm, argues that the membership model creates a virtuous circle. The more members the company has, the greater its buying power, leading to better deals with suppliers, most of which are then passed on to its members. The fee also encourages customers to focus their spending at Costco, rather than shopping around. That seems to work; membership- ▸▸

renewal rates are upwards of 90%.

Next, consider the way the company manages its product lineup. Costco stores stock a limited selection of about 3,800 distinct items. Sam's Club, Walmart's Costco-like competitor, carries about 7,000. A Walmart superstore has around 120,000. Buying more from fewer suppliers gives the company even greater bargaining heft, lowering prices further. By limiting its range, Costco can better focus on maintaining quality. Less variety in stores helps it use space more efficiently: its sales per square foot are three times that of Walmart. And with fewer products, Costco turns over its wares almost twice as fast as usual for retailers, meaning less capital gets tied up in inventory. It has also expanded its own brand, Kirkland Signature, which now accounts for over a quarter of its sales, well above average for a retailer. Its margins on its own-brand products are about six percentage points higher than for brands such as Hershey or Kellogg's.

Last, Costco stands out among retailers for how it treats its employees. Some 60% of retail employees leave their jobs each year. Staff turnover at Costco is just 8%; over a third of workers have been there for more than ten years. One reason for low attrition is pay. Its wages are higher than the industry average and it offers generous medical and retirement benefits. Another is career prospects. The company prefers to promote leaders from within. Although Mr Galanti's successor has come from outside, the rest of Costco's executive team has been with the company for more than 20 years. The late Mr Munger was confident that Costco had "a marvellous future". Its customers could be enjoying $1.50 hot dogs for many years to come. ■

Bartleby The science of conversation

Stop thinking about your next point and listen to the one being made

SUCCESSFUL WORKPLACES are usually characterised by good communication. Bosses provide a clear sense of where they want the firm to go; employees feel able to voice disagreements; colleagues share information rather than hoarding it. But being a good communicator is too often conflated with one particular skill: speaking persuasively.

In a paper published in 2015, Kyle Brink of Western Michigan University and Robert Costigan of St John Fisher College found that 76% of undergraduate business degrees in America had a learning goal for presentation skills, but only 11% had a goal related to listening. Business students were being schooled to give TED talks rather than have conversations. That may have costs. Another study, conducted by Dotan Castro of the Hebrew University of Jerusalem and his co-authors, found that when people felt listened to by those in supervisory roles their creativity and sense of psychological safety improved.

A focus on talking is understandable. The set-piece moments of careers, like job interviews and big presentations, are about transmitting information. The boss gets to be at the podium, the minions get to be in the audience. Videos of someone giving a speech are much more shareable than someone silently nodding. But interest in what makes everyday communication tick has also risen, as the importance of teams grows and as conceptions of leadership increasingly emphasise softer skills.

Recent research by Beau Sievers of Stanford University and his co-authors asked groups of MBA students to discuss the meaning of ambiguous film clips. The presence of people perceived to be of high status seemed to impede consensus: these folk spoke more and were readier to reject the explanations of others. Groups that reached consensus were more likely to have a different character in them: people who were well-connected but not dominant, who asked lots of questions and who encouraged interaction. They made everything align—even the neural activity of their groups.

Mr Sievers's research features in "Supercommunicators", a new book by Charles Duhigg, a journalist at the *New Yorker*. Mr Duhigg looks at how some people forge stronger connections with others and at the techniques for having better conversations. His canvas ranges more widely than the workplace but some of its lessons are applicable there.

One chapter tells the story of the Fast Friends Procedure, a set of 36 increasingly intimate questions that are particularly effective at turning strangers into friends. The questions were first put together in the 1990s by Elaine and Arthur Aron, two psychologists at the State University of New York at Stony Brook. Their survey was designed for the lab, not the workplace. You should not suddenly start asking new colleagues what their most terrible memory is or how they feel about their mother. But if it is important to build team connections fast, then—Britain, look away now—reciprocal moments of vulnerability do seem to help.

Another chapter looks at ways to bring together people with diametrically opposed views, in this case Americans on either side of the debate over gun control. The difficulty here was in persuading people that they were genuinely being listened to, not dismissed as gun-toting loons or lily-livered liberals. Mr Duhigg describes an approach called "looping for understanding", in which people ask questions and then repeatedly distil their understanding of what they have heard back to their interlocutor.

Polarised beliefs of this sort are rare inside firms. But looping techniques still have their place: when there are long-running conflicts between individual employees, say, or in negotiations and mediation processes.

Mr Duhigg's advice can seem obvious at times. And his examples do not always translate to the workplace. Sometimes it is more important to make a decision than to excavate everyone's point of view. Reaching consensus is vital on a jury but less necessary in a corporate hierarchy. There really is a limit to how much vulnerability you want from a leader.

But his book is a useful reminder that demonstrable curiosity about other people's experiences and ideas can benefit everyone. Asking questions, not cutting people off, pausing to digest what someone has said rather than pouncing on breaks in a discussion to make your own point: these are not enough to qualify someone as a supercommunicator. But in plenty of organisations they would still represent good progress.