Introducing *The Matrix: Reloaded*

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In May of 2003, the much-anticipated sequel to *The Matrix* hits theaters. Originally known only as *The Matrix 2*, Warner Brothers made the decision to release the first sequel, under the title *The Matrix: Reloaded*, in the late spring of 2003 to take advantage of the summer high season. In an unusual move, both this movie and its sequel, *The Matrix: Revolutions* have been shot simultaneously, allowing the studio to release the third movie a mere six months after the second to capitalize on the holiday season. Though the runaway success of the first movie nearly guarantees a successful outing at the box office, maximizing its profitability still requires careful management of the release.

The Matrix

Andy and Larry Wachowski drew inspiration from a variety of sources in writing and directing the original movie, *The Matrix*. The story recollects the science fiction of Philip K. Dick, whose short stories have provided the basis for several Hollywood renditions including *Blade Runner*, *Total Recall* and *Minority Report*. The visual effects brought imagery from comic books into film, practically redefining the look of action movies in the following years. The action scenes also pay homage to the choreography from the classic martial arts movies out of Hong Kong and China.

One of the trademarks of the film is the special effect known as 'bullet time'. This revolutionary technique allows the director seemingly to stop motion (or move so slowly through time that even bullets only inch across the screen) and swivel through the scene. The technique requires the synchronization of dozens, even hundreds, of cameras that either take still pictures simultaneously from slightly different angles or shoot hundredths of a second apart. This labor-intensive process did not come cheaply, but on the screen, it gave moviegoers something that they had never seen before.

Sources have estimated the budget of the production of *The Matrix* at around $63 million. An unusually large portion of the budget undoubtedly went to paying for the film's cutting edge special effects. Keanu Reeves, the male lead, also received a $10 million guarantee plus roughly 10% of the gross above $100 million.[1] Reeves, who had just come

[1] "Return of 'The Matrix': Keanu up for trilogy", *Variety*, August 24, 1999.

off *Speed*, a blockbuster ($121 million domestic box office[2]), and a solid performer, *The Devil's Advocate* ($61 million U.S. ticket sales), seemed to bring solid drawing power to the project. Relative unknowns, however, filled out the remainder of the cast. Lawrence Fishbourne (who has also appeared in credits as Larry Fishbourne) had been working regularly in Hollywood since the mid-1970s. Though the talented actor had received a Best Actor Oscar nomination for his performance in *What's Love Got to Do with It*, he had yet to appear in any blockbusters. His most recent attempt, *Event Horizon*, pulled in a disappointingly low $26 million in U.S. ticket sales and probably will never recoup its production costs of nearly $60 million. Carrie-Anne Moss had primarily done TV work (interestingly including 13 episodes in the TV series "The Matrix" – unrelated to the movies). And Hugo Weaving's most successful prior outing had been in *The Adventures of Priscilla, Queen of the Desert*, a surprise hit independent film from Australia about two drag queens and a transsexual performing a cabaret in the outback.

Above and beyond the costs of producing the negative, Warner Brothers spent roughly $24 million on advertising *The Matrix*.[3] Its total direct marketing and distribution expenses almost certainly exceeded $35 million.

The movie opened on March 31, 1999 in the middle of the pre-summer low season (**Exhibit 1** illustrates the typical seasonality in box office sales and releases), a period typically dominated by lower-budget date movies and art films. Despite this unusual timing, it opened like a summer blockbuster. In its opening weekend, it pulled in nearly $28 million in ticket receipts. Although it only held the top spot in the box office for two weeks, it continued to bring in significant audiences for more than 10 weeks, eventually earning more than $171 million in the U.S. alone (see **Exhibit 2**).

Over the course of 1999, *The Matrix* opened in theaters in nearly every country in the world. Over the summer, it earned more than $27 million in the United Kingdom. The film also netted better than $25 million in Germany. All told, the non-U.S. receipts totaled in excess of $200 million.

In addition to its success in both domestic and foreign theaters, the movie has also been a favorite in the video rental and sales market. In the months following its September 21, 1999 release to video, *The Matrix* generated more than $57 million in rentals by the end of the year.[4]

It's in DVD sales, however, that the film has set new records. The sharp, high resolution picture and CD quality sound offered by DVD seems perfectly matched to the smorgasbord of sight and sound offered by the film. *The Matrix* became the best-selling DVD of all time in its first week on the market; 1.5 million copies raced off the shelves. At one point estimates suggested that 1 in every 2 people that owned a DVD player also owned a copy of *The Matrix*. At the end of 2002, more than 15 million copies of the DVD had been sold

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[2] Box office data from the Internet Movie Database (imdb.com)

[3] "Motion picture advertising shows incremental increase" CMR, April 11, 2000

[4] Internet Movie Database

worldwide.[5] Given an average sale price of $20 (probably a low estimate given the higher prices charged outside the U.S.), one could conservatively estimate that DVD sales have generated incremental revenue in excess of $300 million. It's still making money: as of April 15, Amazon.com still lists it as a top-20 seller.

The revenue generated from the film did not end with rentals and sales of the film itself. *The Matrix* also generated licensing income from promotional tie-ins and toys. For example, a line of action figures allows fans to collect 12-inch tall replicas of their favorite characters. Regardless of whether the film has produced 'net profits', there is little doubt that *The Matrix* has been a highly profitable outing for nearly all of the parties involved.

The Matrix: Reloaded

The Wachowski brothers envisioned *The Matrix* as part of a trilogy from day one. The phenomenal success of the first installment guaranteed that they would have a chance to realize their full vision. Though the plot of the sequels has been kept a secret, people generally expect more of the same: more eye-popping special effects, more gravity-defying kung fu, and a hardcore science fiction plot.

Realizing the vision will not come cheaply though. Production costs continue to climb in Hollywood. While determining the costs of the first sequel is not easy – many of the contracts and costs have been written as though the two films represent a single project – estimates in the industry put the combined cost at (a somewhat staggering) $300 million... maybe more. Hence, one might reasonably attribute roughly $150 million in negative costs to each film.

Part of the increased expense comes from the rising salaries of the cast. Keanu Reeves initially signed for a guarantee of roughly $30 million, plus profit participation that could ultimately bring him 15% of the gross for the two pictures. In an unusual move, however, Reeves has relinquished a portion of his profit participation points to the special effects and costume design teams.[6] Though the exact deals made with other cast members remain a secret, several can probably expect guarantees in excess of $1 million per picture: Lawrence Fishbourne, Carrie-Anne Moss, Hugo Weaving and Jada Pinkett Smith.

The hefty salaries have already imposed limits on the making of the film. Though the brothers initially pursued Jet Li for one of the new characters, they could only offer him $1.5 million per film, well below his asking price of roughly $10 million a picture.

The cost of marketing films also keeps rising. In 1990, the average marketing costs for a wide release film ran around $11 million. By 1998, that had doubled to $22 million per picture.[7] Last year, the costs soared to nearly $31 million a film.[8] Marketing expenditures for the two Matrix sequels could run in excess of $100 million.[9]

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[5] "Revamped, renewed and fully loaded" Warner Home Video press release, January 30, 2003

[6] *Wall Street Journal*, September 7, 2001

[7] "Self-doubt in Hollywood" *The London Observer*, June 10, 1998

With so much on the line, studio executives feel pressure to maximize the returns from each film. As a sequel, *The Matrix: Reloaded* seems nearly guaranteed to be a box office hit (**Exhibit 3** shows the relationship between ticket sales for hit movies and their sequels).

As they enter the home stretch, executives begin to worry about a number of issues: Should they open on May 15 as originally planned? Do they need to worry about competing head-to-head with other big budget films? (**Exhibit 4** and **Exhibit 5** detail the likely competition) How aggressively should they advertise the picture? Given its strong press coverage, maybe they could save money by limiting advertising and letting critics, the press and word-of-mouth sell the picture. What if the movie flops; can they salvage the third film in any way?

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[8] "Valenti reports record-breaking box office results…" MPAA press release, March 5, 2002

[9] "Movie studios learn sharing burden can be risky business" *Los Angeles Times*, April 16, 2003

Exhibit 1: Seasonality of theater attendance, 1982-2002

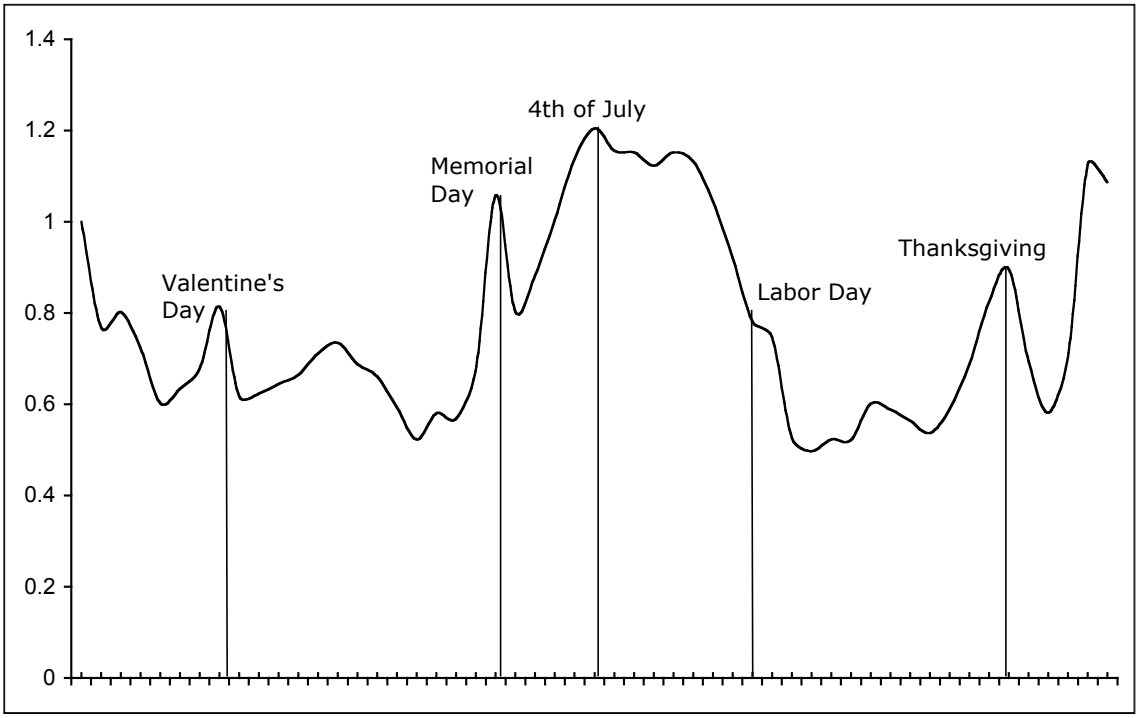


Exhibit 2: Box Office performance of *The Matrix*

Week	Cumulative Box Office	Box Office Rank	Top films (rank, genre)
April 4, 1999	$37.4 M	1	10 Things I Hate... (2, romantic comedy) Out-of-towners (3, comedy)
April 11, 1999	$73.3 M	1	Never Been Kissed (2, romantic comedy) 10 Things I Hate... (3)
April 18, 1999	$98.9 M	2	Life (1, comedy) Never Been Kissed (3)
April 25, 1999	$117.1 M	2	Entrapment (1, thriller/action) Life (3)
May 2, 1999	$129.7 M	3	Mummy (1, action) Entrapment (2)
May 9, 1999	$138.5 M	3	Mummy (1) Entrapment (2)
May 16, 1999	$145.1 M	4	Phantom Menace (1, science fiction/action) Mummy (2)
May 23, 1999	$149.5 M	6	Phantom Menace (1) Notting Hill (2, romantic comedy)
May 30, 1999	$154.8 M	6	Phantom Menace (1) Notting Hill (2)
June 6, 1999	$158.3 M	7	Austin Powers (1, comedy) Phantom Menace (2)
June 13, 1999	$161.4 M	9	Tarzan (1, children's) Austin Powers (2)
June 20, 1999	$163.9 M	10	Big Daddy (1, comedy) Tarzan (2)
Total	**$171.4 M (24 weeks)**		

Exhibit 3: Films slated for early summer 2003 release

Original	U.S. Box Office	Sequel	U.S. Box Office
Harry Potter and the Sorcerer's Stone (2001)	$317.5 million	Harry Potter and the Chamber of Secrets (2002)	$261.9 million
Lord of the Rings: The Fellowship of the Ring (2001)	$313.4 million	Lord of the Rings: The Two Towers (2002)	$336.5 million
Mummy Returns (2001)	$202 million	Scorpion King (2002)	$90.3 million
Spy Kids (2001)	$112.7 million	Spy Kids (2002)	$85.6 million
Next Friday (2000)	$57.2 million	Friday After Next (2002)	$33 million
Star Wars: Episode I (1999)	$431.1 million	Star Wars: Episode II (2002)	$310.7 million
Stuart Little (1999)	$140.0 million	Stuart Little 2 (2002)	$64.7 million
Star Trek: Insurrection (1998)	$70.1 million	Star Trek: Nemesis (2002)	$43.1 million
Men in Black	$250.1 million	Men in Black II	$190.4 million
The Santa Clause (1994)	$144.8 million	The Santa Clause 2 (2002)	$139.2 million

Exhibit 4: Films slated for early summer 2003 release

Anticipated Release	Title / Distributor	Genre / Rating
May 2, 2003	X2: X-Men United (20th Century Fox)	Science Fiction/Action (PG13)
	Lizzie McGuire Movie (Walt Disney)	Comedy (PG)
May 9, 2003	Daddy Day Care (Columbia)	Comedy (PG)
	Buffalo Soldiers (Miramax)	Crime (R)
May 16, 2003	Down with Love (20th Century Fox)	Romantic Comedy (PG13)
	Pokemon Heroes (Miramax)	Children's (G)
May 23, 2003	Bruce Almighty (Universal)	Comedy (PG13)
May 30, 2003	Finding Nemo (Walt Disney/Pixar)	Children's (G)
June 6, 2003	2 Fast, 2 Furious (Universal)	Crime/Action (R)
	Prozac Nation (Miramax)	Drama (R)
June 13, 2003	Dumb and Dumber: When Harry Met Lloyd (New Line)	Comedy (PG13)

Exhibit 5: Summaries of the early summer 2003 releases[10]

X2: X-Men United: The X-Men have opponents new and old to face this time around. Magneto is back, but there is also a threat to Professor Xavier's school for mutants led by a human named Stryker, not to mention a vicious woman named Yuriko who has it in for Wolverine. This sequel to *The X-Men* brings back Hugh Jackman, Patrick Stewart, Ian McKellen, Halle Berry and Famke Janssen to the screen.

The Lizzie McGuire Movie: Graduating from junior high school, Lizzie McGuire goes to Italy for her summer vacation. Lizzie's inner thoughts are represented on the screen in the form of an animated version of herself. Starring Hilary Duff as Lizzie McGuire.

Daddy Day Care: When a father (Eddie Murphy) loses his lucrative "dotcom" job, and finds himself in jeopardy of financial ruin, he joins his friends (Steve Zahn, Jeff Garlin) in opening a free-spirited 'guy-run' business called 'Daddy Day Care' (in his house), much to the chagrin of the owner (Angelica Huston) of a more traditionally operated rival center.

Buffalo Soldiers: Set just before the fall of the Berlin Wall in 1989, this is the story of a criminal drug culture among U.S. Army soldiers, focusing on Sgt. Ray Elwood, the clerk to the battalion commander, Colonel Berman. What Ray doesn't know is that there is an investigation working its way in his direction, even as he is falling in love with the daughter, Robyn, of the soldier, Sgt. Lee, of the man who's tipping the investigation off about Ray. The movie features Joaquin Phoenix, Scott Glenn, Ed Harris and Anna Paquin.

Down with Love: This is the story, set in New York City in 1963, of a budding romance between womanizing journalist and playboy Catcher Block (Ewan McGregor), cleverly described as a "man's man, ladies' man, man about town", and a strident feminist advice columnist, Barbara Novak (Renee Zellweger), who finds her own rules of love contradicted by her attraction to the cad.

Pokeman Heroes: Ash and Pikachu travel to the Water Capital of the world, Alto Mare, where they meet two new Pokemons, the brother/sister pair of birds called Latias and Latios who protect a treasure called the Droplet of the Heart, which is the target of a pair of thieves, Zanna and Rion. As the town gets accidentally flooded, the Droplet becomes endangered... can Ash save the day?

Bruce Almighty: Bruce Almighty stars Jim Carrey as Bruce Nolan, a "human interest" television reporter in Buffalo, New York who is discontented with almost everything in life, despite his popularity and the love of his girlfriend Grace (Jennifer Aniston). At the end of the worst day in his life, Bruce angrily ridicules God – and God responds. He appears in human form (Morgan Freeman) and, endowing Bruce with all of His divine powers, challenges Bruce to take on the big job and see if he can do it.

[10] Descriptions adapted from Yahoo! Movies

Finding Nemo: The Academy Award®-winning creators of *Toy Story*, *A Bug's Life*, and *Monsters, Inc.* dive into a whole new world with this underwater adventure. The film follows the comedic and eventful journeys of two fish - Marlin and his son Nemo - who become separated in the Great Barrier Reef when Nemo is unexpectedly taken far from home and thrust into a fish tank in a dentist's office overlooking Sydney harbor. Buoyed by the companionship of a friendly-but-forgetful fish named Dory, the overly cautious father embarks on a dangerous trek and finds himself the unlikely hero of an epic journey to rescue his son - who hatches a few daring plans of his own to return safely home.

2 Fast/2 Furious: Former cop Brian O'Conner teams up with his ex-con pal Roman Pearce to transport a shipment of "dirty" money for shady Miami-based import-export dealer Carter Verone, while actually working with undercover agent Monica Clemente to bring Verone down. Starring Paul Walker, Tyrese Gibson and Eva Mendes.

Prozac Nation: Based on the semi-autobiographical novel of Elizabeth Wurzel. Elizabeth (played by Cristina Ricci), a prize-winning student, is headed for a prestigious college. As she's packing to leave, her mother (Jessica Lange) harangues her about her choice of school, establishing the modus operandi for what will prove to be the turbulent core of their relationship: an ongoing game of emotional extortion. When Elizabeth arrives at university, she quickly befriends her roommate Ruby and almost immediately recreates the same powder keg she has just left behind. The situation is exacerbated by her visits to a rather suspicious psychiatrist. Matters deteriorate further when Elizabeth runs into her father and when she decides that her most recent boyfriend Rafe represents deliverance. Her only choice, ultimately, is Prozac – the wonder drug of the nineties. However, before long, Elizabeth is wondering whether the drug is really helping her – or running her life.

Dumb and Dumber: When Harry Met Lloyd: The prequel/sequel to the Jim Carrey films does not star Jim Carrey or Jeff Daniels, nor has it been written by the Farrelly brothers; rather newcomers have taken the reins. In 1986 when mentally challenged best friends Harry (Derek Richardson) and Lloyd (Eric Christian Olsen) were teenagers, this is the madcap comic tale of their attempt to get out of the "special needs" department and into regular high school life.