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ENTERTAINMENT

The \$600 Million Circus Maximus

How Cirque du Soleil keeps the blockbusters coming

It's one week before the opening night for a new Cirque du Soleil show at the MGM Grand Hotel & Casino in Las Vegas. A dozen acrobats are in rehearsal, hanging from a giant metal stage that rotates up at an angle to simulate an icy cliff. One by one, the spikes they cling to will disappear into the stage, sending the performers sliding into a 50-foot pit below. Spontaneously, the acrobats begin crying out, not for mercy, but for a steeper incline. "We want danger!" they quip.

It's just another day in the bizarre world of Cirque du Soleil, the French-Canadian acrobatic troupe that has built a \$600 million-a-year entertainment empire combining daredevil stunts with cutting-edge technology -- and a devoted public that will pay almost any ticket price (from \$40 to \$195) to see the elaborate shows. On Nov. 26, Cirque opened its latest production, *Kà*, at the MGM Grand. The extravaganza -- complete with giant puppets, archers shooting flaming arrows, and a spinning contraption called the "Wheel of Death" -- cost \$165 million to stage, more than all 36 Broadway productions last year.

Kà could well be a turning point for Cirque. It's the first of its productions to have a cohesive story line as well as the first to include simulated battles and martial arts. Four years in the making, *Kà* also highlights the elements, from sparkling costumes to hypnotic original music scores, that keep the 20-year-old company packing the house.

Yet even with its huge successes and distinctive style, a growing flock of competitors in the world of entertainment spectaculars has Cirque creators spending heavily to stay ahead of the pack. Indeed, *Kà* represents a risk that Cirque, with five touring productions and five more in residence in Las Vegas and Orlando, will saturate the market for its ethereal brand of entertainment. "There are only so many touring shows and productions they can stage," says Robert David, a professor of business strategy at Montreal's McGill University. "There is a limit, and they're getting pretty close."

Like most other Cirque shows, *Kà*, which means "fire" in Japanese, has been a group process. The project began in 2000 when casino giant MGM Mirage told Cirque founder Guy Laliberté that it wanted a new attraction for the MGM Grand, which was launching an upgrade of its restaurant and entertainment offerings. The casino giant agreed to foot the entire bill for a \$135 million, 1,900-seat theater built according to specs just for *Kà*. Some \$30 million more in costumes and other production costs are split evenly between Cirque and MGM. So are the profits. Like the three other Cirque shows playing at MGM casinos in Las Vegas -- *Mystère*, *O*, and *Zumanity* -- this production will never tour, creating an only-in-Las Vegas mystique that is part of the draw -- and which also assures MGM its steady cut.

STILT-WALKER

The 45-year-old Laliberté has always thought big and looked for wealthy backers to help him realize his visions. The son of an Alcan Aluminum Corp. (AL) public relations executive and a nurse, the Montreal native quit college and toured the world as a fire-breather and stilt-walker before helping organize a summer fair at a local artist colony near his hometown. After the community encouraged his team of scruffy acrobats to hit the road, Laliberté pitched a touring version of the show to the provincial government of Quebec in 1984, eventually scoring \$1.6 million in funding tied to a celebration of the 450th anniversary of Canada's discovery by explorer Jacques Cartier.

Laliberté early on devised the formula that would launch his quirky circus into international prominence: Promote the show and not the more easily replaced performers; eliminate spoken dialogue so that the productions appeal to diverse audiences; and most important, cut out expensive and controversial animal acts. "I'd rather feed three acrobats than one elephant," he said at the time. Laliberté bought out his longtime business partner, Daniel Gauthier, three years ago for an undisclosed sum. With the opening of *Kà*, Cirque expects to generate \$600 million in sales next year. The company does not disclose profits.

Laliberté relies on an international staff to help run his empire. Three years ago he hired Daniel Lamarre, a Canadian executive with a background in broadcasting and public relations, to serve as Cirque's president and COO. That freed Laliberté, who is referred to in show credits as Cirque's "guide," to serve as chief critic for the productions. After watching *Kà* for the first time, he delivered three hours' worth of notes on everything from the color of the costumes to the use of projected images. "He's the most fantastic audience you can have," says Lyn Heward, president of Cirque's live shows division. "He has an incredible feel for how the public will react."

Cirque executives are betting that Laliberté is right again and that folks will shell out big bucks to see *Kà* -- seats range from \$99 to \$150. Cirque generates about 80% of its revenues at the box office; the rest from show-related merchandise, including custom clothing and \$39 DVDs of Cirque touring productions such as *Quidam* and *Varekai*. And Cirque gets plenty of help from MGM Mirage, its deep-pocketed partner. MGM's three existing Cirque shows bring more than two million visitors a year into its casinos. Only 20% of them actually stay at the casino hotel that hosts the show, but showgoers drop an average of \$30 apiece on dinner or drinks at the property. Based on ticket and merchandise sales alone, MGM figures it earns a return on its total investment in the mid-teens, only slightly below the 18% return it shoots for with its casinos overall. And the Cirque shows expose the casinos to a desirable base of consumers. "They're sophisticated, and they have high incomes," says Robert Baldwin, president of MGM's Mirage Resorts division.

"MOVING TARGET"

Cirque's success has spawned imitators, many of them from the troupe's own ranks. Former Cirque executive Normand Latourelle is touring the U.S. with an equestrian-themed show called *Cavalia*. Longtime Cirque director Franco Dragone will open a Cirque-like water show in April at the new Wynn resort down the strip. Even so, "they're very clever business people," says Paul Binder, founder of the nonprofit Big Apple Circus, which will put on its show in nine cities next year. "It makes it very difficult for those of us who have limited budgets to compete."

All of which explains why Laliberté and MGM spend lavishly to keep the audience wowed and competitors trying to play catch-up. In 2006 the pair will

launch a \$140 million Beatles tribute show at the Mirage casino in Las Vegas, done with the permission of Paul McCartney, Ringo Starr, Yoko Ono, and George Harrison's widow, Olivia. The Fab Four's legendary producer, George Martin, is part of the creative team. "We're constantly challenging ourselves," Laliberté says. "The entertainment business is a big jungle and we have to stay alert."

"They're a moving target for competitors," says W. Chan Kim, a professor at France's INSEAD business school who has written about Cirque. Marvels Kenneth Feld, owner of the Ringling Bros. and Barnum & Bailey circus: "If you think about spending \$165 million on a show that seats 1,900 people, the economics are just staggering." It's enough to take even an acrobat's breath away.

By Christopher Palmeri in Las Vegas

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