Entertainment Industry Economics

A Guide for Financial Analysis, Ninth Edition

The entertainment and media industries, already important sectors of the U.S. economy, continue to grow rapidly in other countries around the world. This ninth edition of *Entertainment Industry Economics*, like previous editions, is the definitive source on the economics of film, music, television, advertising, broadcasting, cable, casinos, publishing, performing arts and culture, toys and games, sports, and theme parks. It synthesizes a vast amount of data to provide a clear, comprehensive, and up-to-date reference guide on the economics, financing, accounting, production, and marketing of entertainment in the United States and overseas. Completely updated, it includes new sections on price effects, art markets, and Asian gaming. Financial analysts and investors, economists, industry executives, accountants, lawyers, regulators and legislators, and journalists, as well as students preparing to join these professions, will benefit from this invaluable guide on how the entertainment and media industries operate.

Harold L. Vogel was senior entertainment industry analyst at Merrill Lynch & Co., Inc., for seventeen years and was ranked the top entertainment industry analyst for ten years by *Institutional Investor* magazine. Holder of a PhD in financial economics and also a chartered financial analyst (CFA), he writes and speaks frequently on investment topics related to entertainment and media, leisure and travel, and extreme market events while heading an independent investment and consulting firm in New York City. His books include *Financial Market Bubbles and Crashes* (Cambridge University Press, 2010) and *Travel Industry Economics: A Guide for Financial Analysis*, second edition (Cambridge University Press, 2012), a companion to this volume.

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NINTH EDITION

Harold L. Vogel

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TO MY DEAR FATHER
– WHO WOULD HAVE BEEN SO PROUD

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Preface

en·ter·tain·ment – an activity that is diverting, amusing, or pleasing and that agreeably occupies the viewer's time and attention;

in·dus·try – a specific branch of a craft, art, business, or trade that involves a division of labor and that requires significant investment capital and employs many people in organizations with similar technological and organizational structures used to provide goods and services that are largely substitutable;

ec·o·nom·ics – a social science that studies how wealth is created, distributed, used, and consumed and that considers costs and returns.

Each year, Americans cumulatively spend at least 160 billion hours and more than $320 billion on legal forms of entertainment. And globally, total annual spending is approaching one trillion dollars. So we might begin by asking: What is entertainment, why is there so much interest in it, and what do its many forms have in common?

At the most fundamental level, anything that stimulates, encourages, or otherwise generates a condition of pleasurable diversion could be called entertainment. The French word *divertissement* perhaps best captures this essence.

But entertainment can be much more than mere diversion. It is something that is universally interesting and appealing because, when it does what it is intended to do, it moves you emotionally. As the Latin root verb *tenare* suggests, it grabs you: It touches your soul.

Although life is full of constraints and disciplines, responsibilities and chores, and a host of things disagreeable, entertainment, in contrast, encompasses activities that people enjoy and look forward to doing, hearing, or seeing. This is the basis of the demand for – or the consumption of – entertainment products and services; this is the primary attribute shared by the many distinct topics – from cinema to sports, from theme parks to theater – that are discussed in the pages that follow.

Entertainment – the cause – is thus obversely defined through its effect: a satisfied and happy psychological state. Yet, somehow, it matters not whether the effect is achieved through active or passive means. Playing the piano can be just as pleasurable as playing the stereo.

Entertainment indeed means so many different things to so many people that a manageable analysis requires that sharper boundaries be drawn. Such boundaries are here established by classifying entertainment activities into industry segments; that is, enterprises or organizations of significant size that have similar technological structures of production and that produce or supply goods, services, or sources of income that are largely substitutable.

Classification along those lines facilitates contiguous discussion of entertainment *software*, as we might more generically label films, recordings, and video games, and of *hardware* – the physical appurtenances and equipment on which or in which the software's instruction sets are executed. Such classification also allows us to trace more easily the effects of technological developments in this field.

So accustomed are we now to continuous improvements in the performance of entertainment hardware and software that we have trouble remembering that, early in the twentieth century, moving pictures and music recordings were novelties, radio was regarded as a modern-day miracle, and television was a laboratory curiosity. Simple transistors and lasers had yet to be invented and electronic computers and earth-orbiting communications satellites were still in the realm of science fiction.

These fruits of applied technology have nevertheless spawned new art forms and vistas of human expression and have brought to millions of people around the world, virtually at the flick of a switch, a much more varied and higher-quality mix of entertainment than had ever before been imagined feasible.

Little or none of this, however, has happened because of *ars gratia artis* (art for art's sake) – in itself a noble but ineffectual stimulus for technological development. Rather, it is *economic forces* – profit motives, if you will – that are always behind the scenes, regulating the flows and rates of implementation. Those are the forces that shape the relative popularity and growth patterns of competing, usually interdependent, entertainment activities and products. And those are the forces that ultimately make available to the masses what was previously affordable only to upper income classes.

It is therefore surprising to find that most serious examinations of the economics of entertainment are desultory and scattered among various pamphlets, trade publications and journals, stockbrokers' reports, and incidental chapters in books on other topics. The widely available popular magazines and newspapers, biographies, histories, and technical manuals do not generally provide in-depth treatments of the subject.

This book, then, is a direct outgrowth of my search for a single comprehensive source. It attempts to present information in a style accessible and interesting to general readers. As such, it should prove to be a handy reference for executives, financial analysts and investors, agents and legal advisors, accountants, economists, and journalists. The approach is holistic; executives and analysts in any one sector increasingly need to also understand how related and adjacent sectors operate.

Entertainment Industry Economics will, however, most likely be used as a text for graduate or advanced undergraduate students in applied media economics and management/administration courses in film and television, music, communications, publishing, sports, performing arts, and hotel–casino operations. Instructors should find it easy to design one-semester courses focused on one or two areas. A minimal grasp of what entertainment and media economics is all about would require that most students read at least the first sections of Chapters 1 and 2 and, at the end of the course, the first section of Chapter 15.

But many different modules can readily be assembled and tailored. Among the most popular would be concentrations on film, television, and music (Chapters 2 through 8); gaming and sports (Chapters 7, 8, 11, and 12); arts and popular culture (Chapters 6, 7, 9, 10, and 13); or entertainment merchandising and marketing (Chapters 2, 7, 9, 10, and 14).

The topics covered in the book have been chosen on the basis of industry size measured in terms of consumer spending and employment, length of time in existence as a distinct subset, and availability of reliable data. In a larger sense, however, topics have been selected with the aim of providing no more and no less than would be required by a "compleat" entertainment and media industry investor. The perspectives are thus inevitably those of an investment analyst, portfolio manager, and economist. Although this decision-oriented background leads naturally to an approach that is more practical and factual than highly theoretical, it nevertheless assumes some familiarity, supported by the appended glossary, with the language of economics and finance.

This ninth edition has been further revised and updated and differs from its predecessors through inclusion of new sections relating to price effects, Asian gaming, and art markets, and through expanded coverage of oil production and consumption. (A companion text, *Travel Industry Economics*, 2nd edition, uses a similar approach in reviewing the airline, hotel, and tourism industries.)

I am especially grateful to Elizabeth Maguire, former editor at Cambridge University Press, for her early interest and confidence in this project. Thanks are also owed to Cambridge's Rhona Johnson, who worked on the first edition, to Scott Parris, former longtime Cambridge economics editor, for the third through eighth, and to Karen Maloney for the ninth.

I am further indebted to those writers who earlier cut a path through the statistical forests and made the task of exposition easier than it otherwise would have been. Particularly noteworthy are the books of John Owen on demand for leisure; Paul Baumgarten and Donald Farber on the contractual aspects of filmmaking (first edition; and second with Mark Fleischer); David Leedy on movie industry accounting; David Baskerville and Sidney Shemel, and M. William Krasilovsky and Donald Passman, on the music business; John Scarne and Bill Friedman on the gaming field; Gerald W. Scully and Andrew Zimbalist on sports; and William Baumol and William Bowen on the performing arts. Extensive film industry commentaries and data collections by A. D. Murphy of *Variety* (and later, *The Hollywood Reporter* and the University of Southern California) were important additional sources.

My thanks also extend to the following present and former senior industry executives who generously took time from their busy schedules to review and to advise on sections of the first edition draft. They and their company affiliations at that time were Michael L. Bagnall (The Walt Disney Company), Jeffrey Barbakow (Merrill Lynch), J. Garrett Blowers (CBS Inc.), Erroll M. Cook (Arthur Young & Co.), Michael E. Garstin (Orion Pictures Corp.), Kenneth F. Gorman (Viacom), Harold M. Haas (MCA Inc.), Howard J. Klein (Caesars New Jersey), Donald B. Romans (Bally Mfg.), and James R. Wolford (The Walt Disney Company). Greatly appreciated, too, was the comprehensive critique provided by my sister, Gloria. Acknowledgments for data in the second edition are also owed to Arnold W. Messer (Columbia Pictures Entertainment) and Angela B. Gerken (Viacom). Many thanks for improvements and updates of ninth edition music figures are also owed to Jonathan Handel and for advertising estimates to Brian Wieser.

Although every possible precaution against error has been taken, for any mistakes that may inadvertently remain the responsibility is mine alone.

I've been most gratified by the success of the previous editions and, as before, my hopes and expectations are that this work will provide valuable insights and a thoroughly enjoyable adventure.

Now . . . on with the show.

Harold L. Vogel
New York City
September 2014