THE FUTURE AIN'T WHAT IT USED TO BE[1]

U.S. Entertainment: Where are We and Where Might We Go?[*]

By Bruce Ramer

INTRODUCTION

"NOBODY KNOWS ANYTHING."[2] Nowhere is this aphorism more true than in the business for which it was invented, the entertainment business, where innovations in technology continue to create new platforms, with a ripple effect that leads to new forms of content and new consumer preferences and demands. That process has only accelerated as the relevant technology changed from tubes and celluloid to chips and bits and from movie palaces and boxy TVs to cellphones and the Internet.

The best way to think about the future is to start with the past: to look back and see what has been developing, and try to discern trends that inform the direction of things to come — however, "history is not necessarily destiny."[3] Most of the borders and boundaries that have existed over the recent history of the US[4] entertainment and media business have already begun to erode and will continue to drastically change or substantially disappear. So we consider briefly the who, what, where, when, why and how of this shape-shifting business.

Forty or fifty years ago most Hollywood studios were in two discrete businesses: making motion pictures and producing television shows. Economically it could be entirely asymmetrical, as one unusually expensive feature failure could cause a studio to go bankrupt or lead to a takeover by new owners. A few examples might help jar the memory: 1963's *Cleopatra*, which quite famously nearly sunk a studio (Fox) and resulted in the creation of Century City when the backlot was sold off; *Heaven's Gate* (United Artists, 1980); *Ishtar* (Columbia, 1987); and *Waterworld* (Universal, 1995), among others.

Over time, most studios became part of larger conglomerates where an expensive flop did not significantly affect the acquiring company. In earlier waves of acquisitions, the studio acquirers moved from those who were not part of the industry — Coca Cola (Columbia), Seagrams (Universal), GE (Universal) — to those with tangential links, such as Sony (Columbia) and Matsushita (Universal).

Now we see acquirers coming with even stronger links to the media industries. Studio mergers and acquisitions are led by companies that have massive scale and control significant distribution channels, notably in the U.S. and China. Thus, Comcast acquired NBC Universal, Dalian Wanda acquired AMC Theaters and AT&T proposed a merger deal with Time-Warner. Whether or not the AT&T deal closes — and it appears it will — a new round of proposed studio acquisitions is likely, with some of the potential domestic suitors including Google, Amazon (which is already heavily in the content business), Apple,(which recently announced expanded entry into the content business)[5] Facebook, Verizon and others. With pockets like that and pockets like Alibaba and Tencent, the industry will change.

Among the boundaries which have disappeared, diminished or eroded include the formerly bright line between features and television. "A" talent once sought only feature careers, whether they began there or in television. Most television actors wanted to move into features as soon as they could. This is no longer the case. Talent from features now and will in the future actively seek television projects. Some of this is due to the growth and success of over the top (OTT) services such as Netflix, Amazon Prime and Hulu, which have branded themselves with prestige product, and often offer more creative freedom than feature films do. Talent is also drawn to certain OTT business practices, such as the certainty of "straight to series" orders and the generally shorter production schedules.

Indeed, production schedules may explain more than anything else the attraction for talent. For example, Larry David quit *Seinfeld* after seven seasons and moved to HBO with *Curb Your Enthusiasm* and ten episodes at a time, shot whenever he wanted. Jon Stewart moved from thirty minutes a night, four times a week, to HBO as well, making programming when he wants to.

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The migration of talent to television is also a reflection of two larger trends: the expansion of television businesses and the leveling off of the feature film businesses. As to features, despite the new 2016 theatrical box office record in North America of some $11.4 billion which surpassed 2015's $11.1 billion (the prior record), the recent increases in box office receipts are due to ticket price increases, not increased attendance, which in fact is diminishing although not precipitously. Admissions in North America in 2009 were 1.42 billion, down to 1.27 billion in 2014 and slightly up in 2015 to 1.32 billion. That latter figure exceeded theme parks (388,000,000) and the four major US sports (134,000,000) combined in 2015.[6]

As good as that sounds, think about this: In 1946, 4.3 billion tickets were sold versus last year's 1.3 billion, although the population more than doubled.[7] That means moviegoing per capita is about one-sixth of what it was in the peak days seventy years ago.

At the same time, the number of feature films produced is at best holding steady, if not trending down. According to the MPAA, the number of films produced with an estimated budget of $1 million or higher 2011 (499) and in 2015 (501) were flat, but in fact dipped down in the intervening years to as few as 455 films.[8] Not quite a trend, but these numbers suggest that in the long run, feature film production will plateau or gradually decline.

Again, some history. In 1937, eight major studios made 403 motion pictures and in 2016, the six majors made a little over a third of that figure (176 films).[9] The balance of four hundred or so films that year were made by non-majors, but most of them were not economically significant.

TIMES CHANGE

In contrast to features, US television production is definitely trending up. At least 455 scripted original programs aired on American television in 2016 and the expectation is that it will hit 500 in 2017. Rewind ten years to 2006, and the number of original programs was 192, which reflects an increase of 137 percent in the decade, and the trend was steadily up each year.[10]

Perhaps as significant as the number of programs is the way we watch programs. For example, OTT producers often offer only 10 episodes of a series in any season — rather than 13 to 20 or 22 on the networks — which become quickly available to binge watch, usually ad-free, and at relatively low cost to the consumer.[11] The principal internet-based digital OTT providers have grown rapidly, now representing approximately ten percent of the total of US video industry[12] and Netflix alone accounts for about 37 percent of all Internet bandwidth during primetime hours.[13] OTT is expected to reach about twenty percent in a few years, or more than $30 billion in revenues[14] But then where?

Equally significant are changes in the way we pay for content. Broadcast and basic cable ad revenue has declined by $1.3 billion since 2013,[15] while subscription fees paid by cable and satellite operators have increased over the same period,[16] driving an increase in average cable and satellite television bills[17] and a decline in cable subscriptions over recent years.[18]

Audience boundaries are also changing. Over the last seventy years, the strongest film demographic was ages 12-24 and television demographic, 18-49. Yes, there were a few films a year for the older audiences, but today, and no doubt demonstrating the future trend, 18-24s are watching on digital screens and the over 50s or 60s are the fastest growing audience in theaters.[19] Broadcast networks have seen the 18-49s going to the OTT services and smaller screens and are now targeting older audiences.[20]

With a change in the "who" is watching, it is not surprising to see a change in the "where" they are watching. Another fading boundary is thus where creative product is exhibited: yes, theaters and yes, television but there are new screens beyond those two and no doubt more to come. We now have smart phones, tablets and laptop computers. We are also growing a generation of consumers whose "go to" screen is the one they carry in their back pocket, and who have almost never gathered around a TV set in the family living room to watch at the scheduled time.

These digital consumers are not all cable cord-cutters; many are cord-nevers, who have never bought a conventional cable subscription and probably never will. New experiments with skinny bundles may portend a movement to an a la carte world or something similar.

Will the portable on demand platform drive the creation of different and perhaps customized content? If would be folly to think not. Add to this the new forms of entertainment that are just emerging — virtual reality (VR) and augmented reality (AR). Whether the "platforms" are goggles or headsets, the immersive experience offered by the new technologies, paired with the long tradition of storytelling, has many people thinking that this will be a platform of significant growth and cultural impact.

"When" is yet another crumbling boundary in the entertainment business. In the recent past and generally still today, features progress sequentially from theaters to other media, such as network television and now pay-per-view or subscription television. Yet, ever shortening "windows" between theatrical and downstream exhibitions are already upon us, and indeed, several studios are considering making films available in the home much sooner than present custom, at a premium price such as $30, with the revenue shared in some measure with theatrical exhibitors.[21]

Moreover, the concept of day and date release — the simultaneous release in theaters and television or other forms of exhibition — will be expanding and will likely become common, if not the norm, although the theater experience will not disappear.

Music, Sports and Video Games

If film and television are in flux, so too are several other key forms of entertainment: music, sports and video games.[22]

In music, streaming platforms (such as Spotify, Apple Music, Pandora and others) and live touring are surging, while physical record sales and downloads are declining, other than an upsurge in vinyl, a sliver of the market. All told, US music industry revenues declined from almost $14 billion in 2000 to $7 billion in 2010, then held fairly steady for the next three years.[23] Steady sailing seems likely for a while. As streaming continues to build, the industry is hoping to see gains in the years ahead, as for the first time digital revenue is growing faster than the declining revenue from physical sales.[24]

In sports, enthusiasm has become ubiquitous: nearly all Americans (86 percent) — both male (92 percent) and female (80 percent) — consider themselves sports fans.[25] What do they watch?

Football, of course. NFL is king today,[26] but will it be in ten or twenty years? This past season has shown a softening of pro football ratings,[27] perhaps due to oversaturation, perhaps to concerns about embracing a sport that could risk the long term health of children in the household and young adults playing in college and professionally.

So the breakdown between various major league sports in the United States may well change dramatically over the next number of years, thus demolishing another boundary. Will soccer in the United States continue to shoot up and perhaps even prevail as it does in virtually every other part of the world? And whatever the composition of sports viewing might be — including at the stadium or live via one form or another of television (broadly construed) — it is and will likely remain one of the last bastions of live television viewing by large audiences.[28]

Moving from games on the field to those on the screen brings us to the US video game industry, whose growth has been quite significant. In 1993, arcade games, plus home versions of Nintendo and Sega generated some $13 billion,[29] nearly two and a half times the-then $5 billion film box office revenues.[30] In 2011, video game revenue was some $14.9 billion, growing to an estimated $16.9 billion in 2016 and anticipated to grow to $20.3 billion by 2020.[31] That figure is almost double the forecast for motion picture box office in 2020.[32]

Consider this: The largest domestic film opening, 2015's *Star Wars: The Force Awakens*, was around $247 million (unadjusted for inflation),[33] while the *Grand Theft Auto* video game had an opening day of about $800 million, and $1 billion in its first three days.[34]

In addition, the industry has grown incrementally with the transition from console-only to a diversity of platforms, including notably those on mobile devices. Video games are not the sole province of boys. The average age of US video game players is 35, and 41 percent are female.[35] The state of the economy, a subject we won't assay here, obviously can have a great impact on the future of the entertainment industry where the dollars spent are usually marginal dollars.[36] Similarly, consumer tastes may well change both with the mere passage of time, and changing age and ethnic demographics.

The most dramatic news lately has been the political changes exemplified by the presidential election as well as Brexit and other changes abroad, but gauging the effect of these developments is difficult, whether one considers content (what types of movies and shows get made, and for what audiences), distribution (will international revenues decline in the event of a trade war?) and platforms (will iPhones cost more if free trade is inhibited?).

As change piles on change and begets more change, "nobody knows anything" seems more apt than ever. With all these cross-currents at the most fundamental levels of evolving platforms and shifting audiences, nobody can predict what the entertainment industry will look like with any precision in ten years. But it'll be interesting to see.[37]

[1] Attributed to Yogi Berra. *See The Future Is Not What It Used To Be*, Quote Investigator, http://quoteinvestigator.com/2012/12/06/future-not-used/ (last visited Jan. 27, 2017). Berra also said, "You can observe a lot by just watching." That aphorism also applies here. *See* BrainyQuote, https://www.brainyquote.com/quotes/quotes/y/yogiberra125285.html.

[2] WILLIAM GOLDMAN, ADVENTURES IN THE SCREEN TRADE: A PERSONAL VIEW OF HOLLYWOOD AND SCREENWRITING (1989).

[3] Kate Murphy, *Yes, It's Your Parents' Fault*, N.Y. TIMES (Jan. 7, 2017), http://www.nytimes.com/2017/01/07/opinion/sunday/yes-its-your-parents-fault.html.

[4] This brief survey is focused on the US, but international has become increasingly significant in virtually every area of entertainment.

[5] Andrew Wallenstein, "Apple Hires Sony Pictures TV Chiefs Jamie Erlicht, Zach Van Amburg for Top Videos," *Variety* June 16, 2017.

[6] MOTION PICTURE ASSOC. OF AM., THEATRICAL MARKET STATISTICS (2015), http://www.mpaa.org/wp-content/uploads/2016/04/MPAA-Theatrical-Market-Statistics-2015_Final.pdf.

[7] *Creative destruction in the digital media age*, INSEAD: THE BUSINESS SCHOOL FOR THE WORLD (Nov. 26, 2008), http://knowledge.insead.edu/entrepreneurship-innovation/creative-destruction-in-the-digital-media-age-1826 (citing research by Jeffrey Cole).

[8] The MPAA tracks member studios and non-members full-length feature films in the English language with estimated budgets greater than $1 million; lower-budgeted films are more difficult to track but evidently increased in 2015 over the prior three years but all four years were each less than 2011. MOTION PICTURE ASS'N OF AM., THEATRICAL MARKET STATISTICS 20 (2015), http://www.mpaa.org/wp-content/uploads/2016/04/MPAA-Theatrical-Market-Statistics-2015_Final.pdf.

[9] MOTION PICTURE ASS'N OF AM., THEATRICAL MARKET STATISTICS 21 (2016), http://www.mpaa.org/wp-content/uploads/2017/03/MPAA-Theatrical-Market-Statistics-2016_Final-1.pdf.

[10] John Landgraf, President, FX Networks said at the 2015 Summer Television Critics Association's Press Tour: "There is simply too much television." Time will tell. Maureen Ryan, *TV Peaks Again in 2016: Could It Hit 500 Shows in 2017?*, VARIETY (Dec. 21, 2016, 11:00 AM), http://variety.com/2016/tv/news/peak-tv-2016-scripted-tv-programs-1201944237/ (citing FX research).

[11] Jeff Cole has observed that Amazon Prime is considered "free" by many because they have purchased Amazon Prime for other reasons (such as free shipping) and feel that they pay nothing extra for the added bonus (comment from Cole to author). Netflix's monthly charge ranges from $7.99 (standard definition) to $9.99 (high def) and $11.99 (ultra high def). *See* http://www.netflix.com/getStarted.

[12] Frank Arthofer & John Rose, *The Future of Television: Where the US Industry is Heading*, BCG PERSPECTIVES (June 9, 2016), http://www.bcgperspectives.com/content/articles/media-entertainment-technology-digital-future-television-where-us-industry-is-heading/.

[13] Todd Spangler, *Netflix Bandwidth Usage Climbs to Nearly 37% of Internet Traffic at Peak Hours*, VARIETY (May 28, 2015, 4:02 AM), http://variety.com/2015/digital/news/netflix-bandwidth-usage-internet-traffic-1201507187/.

[14] Arthofer & Rose, *supra* note 12.

[15] Stephen Battaglio, *After two years of decline, TV could see an ad comeback*, L.A. TIMES (Apr. 28, 2016, 3:15 AM), http://www.latimes.com/entertainment/envelope/cotown/la-et-0428-ct-upfront-networks-20160429-story.html (showing that upfront ad spending on broadcast and cable television declined from $19.1 billion in 2013-14 to $17.8 billion in 2015-16).

[16] *See* Gerry Smith, *Cable Bills Are Rising Again (Those of You Who Still Have Cable)*, BLOOMBERG TECH. (Dec. 23, 2015, 3:00 AM), http://www.bloomberg.com/news/articles/2015-12-23/cable-bills-are-rising-again-those-of-you-who-still-have-cable- (Time Warner Cable said its fees for local broadcast channels rose 85 percent from 2013-15, while its fees for sports networks increased 116 percent from 2008-15.).

[17] Gerry Smith, *Cable Bills Are Rising Again (Those of You Who Still Have Cable)*, BLOOMBERG TECH. (Dec. 23, 2015, 3:00 AM), http://www.bloomberg.com/news/articles/2015-12-23/cable-bills-are-rising-again-those-of-you-who-still-have-cable- (graph showing a 5.9 percent annual increase in price of expanded basic cable service from 1995 to 2014); Gerry Smith, *Why Your Cable Bill is Going Up Again in 2015 – Sports*, BLOOMBERG TECH. (Jan. 7, 2015, 9:34 AM), http://www.bloomberg.com/news/articles/2015-01-07/why-your-cable-bill-is-going-up-again-in-2015-sports (noting that in 2015, DirectTV bills increased an average of 5.7 percent and Dish bills increased between $2 to $5 per month).

[18] Andrew Meola, *Broadband subscribers continue to climb, while cable sees mixed subscriber trends*, BUSINESS INSIDER (May 23, 2016, 10:56 AM), http://www.businessinsider.com/cable-companies-lose-more-subscribers-as-cord-cutters-grow-2016-5 (chart showing a 3% decline in cable television subscribers from 2014 to 2016); Brad Tuttle, *A Record Number of People Jus Cancelled Their Pay TV Subscriptions*, TIME (Aug. 31, 2016), http://time.com/money/4473996/cutting-the-cord-cable-tv-alternatives/ ("[T]he total number of pay TV subscribers in America dropped by 1.1 million in 2015, which is four times the decline seen in 2014.").

[19] MOTION PICTURE ASSOC. OF AM., THEATRICAL MARKET STATISTICS (2014), http://www.mpaa.org/wp-content/uploads/2015/03/MPAA-Theatrical-Market-Statistics-2014.pdf ("In 2014 the share of tickets sold to 40-49 and 50-59 year olds were at all-time highs, while the share of tickets sold to 60+ year olds (13%) was at its highest level since 2011.").

[20] John Consoli, *Upfronts 2016: Numbers Show Millennials Abandoning Broadcast Networks*, BROADCASTING CABLE (May 9, 2016, 11:03 AM), http://www.broadcastingcable.com/news/currency/upfronts-2016-numbers-show-millennials-abandoning-broadcast-networks/156297 (YouTube research shows that YouTube "reaches more 18-49s on mobile alone than does any broadcast or cable network.").

[21] Brent Lang, *Studios Flirt With Offering Movies Early in Home for $30,* VARIETY (Mar. 21, 2017), http://variety.com/2017/film/news/studios-premium-vod-early-1202013205/.

[22] We do not touch upon theme parks, radio or Broadway and other live stage.

[23] David Goldman, *Music's lost decade: Sales cut in half*, CNN MONEY (Feb. 3, 2010), http://money.cnn.com/2010/02/02/news/companies/napster_music_industry/.

[24] *Facts and Stats*, INT'L FED'N OF THE PHONOGRAPHIC INDUS., http://www.ifpi.org/facts-and-stats.php (last visited Jan. 27, 2017) ("The global music market achieved a key milestone in 2015 as digital became the primary revenue stream for recorded music, overtaking sales of physical formats. Digital revenues now account for 45 percent of total revenues, compared to 39 per cent [sic] for physical sales.").

[25] According to one study, 24% of Americans consider themselves "intense" sports fans; older millennials with children and their household tend to consume sports content; ethnicity can affect preference (NBA is the most followed sport by African-Americans while the NFL is first across every other demographic); and sometimes geography matters (ice hockey in the North East over college basketball). It also concludes that Americans have a broad interest in sports, with some twenty-two sports being followed by 10% or more of Americans in 2016. THE CTR. FOR THE DIGITAL FUTURE & THEPOSTGAME, #SCORE 2016: THE IMPACT OF CHANGING SPORTS FAN BEHAVIOR ON MEDIA, ADVERTISING AND SPENDING (2016), http://www.thepostgame.com/center-digital-future-usc-annenberg-changing-sports-fan-behavior-media-advertising.

[26] *See* John A. Tures, *The NFL Is King Once More Of The Ratings, Despite Kaepernick Controversy*, The Huffington Post (Jan. 21, 2017, 12:26 AM), http://www.huffingtonpost.com/john-a-tures/the-nfl-is-king-once-more_b_14295824.html (The Packers-Cowboys divisional playoff game on January 15 was "the most-viewed NFL divisional playoff game in pro football history.").

[27] Drew Harwell, *NFL ratings plunge could spell doom for traditional TV*, WASH. POST (Oct. 14, 2016), http://www.washingtonpost.com/business/economy/nfl-ratings-plunge-could-spell-doom-for-traditional-tv/2016/10/14/a7a23dc2-915f-11e6-9c85-ac42097b8cc0_story.html (NFL ratings in the first five weeks of the 2016 season were 10% lower than the first five weeks of the 2015 season).

[28] *See Catch it Live: Sports Viewing Scores a Programming Goal*, NIELSEN (Feb. 22, 2016), http://www.nielsen.com/us/en/insights/news/2016/catch-it-live-sports-viewing-scores-a-programming-goal.html ("According to TV data from fourth-quarter 2015, 95% of total sports viewing happens live. In comparison, only 66% of general drama viewers watch live.").

[29] MICHAEL R. REAL, EXPLORING MEDIA CULTURE: A GUIDE (1996),http://goo.gl/ULZ9vJ.

[30] *1994 Domestic Grosses*, BOX OFFICE MOJO, http://www.boxofficemojo.com/yearly/chart/?yr=1994 (last visited Jan. 27, 2017) (showing total domestic box office revenue of $5,082,449,306).

[31] Dean Takahashi, *PwC: Game industry to grow nearly 5% annually through 2020*, VENTURE BEAT (June 8, 2016, 5:00 AM), http://venturebeat.com/2016/06/08/the-u-s-and-global-game-industries-will-grow-a-healthy-amount-by-2020-pwc-forecasts/ (citing PwC research). Figures vary widely between various market researchers, as each firm has its own methodology.

[32] *Id.*

[33]*Star Wars: The Force Awakens*, BOX OFFICE MOJO, http://www.boxofficemojo.com/movies/?id=starwars7.htm (last visited Jan. 27, 2017).

[34] Eddie Makuch, *GTAV generates $800 million in 24 hours*, GAMESPOT (Sept. 18, 2013, 5:15 PM), http://www.gamespot.com/articles/gtav-generates-800-million-in-24-hours/1100-6414611/.

[35] *Industry Facts*, ENTM'T SOFTWARE ASSOC., http://www.theesa.com/about-esa/industry-facts/ (last visited Jan. 27, 2017).

[36] *See* HAROLD L. VOGEL, ENTERTAINMENT INDUSTRY ECONOMICS: A GUIDE FOR FINANCIAL ANALYSIS (9th ed. 2014).

[37] "The only way to make sense of change is to plunge into it, move with it, and join the dance." Alan W. fappleWatts. *Alan Watts Quotes*, BrainyQuote, http://www.brainyquote.com/quotes/quotes/a/alanwatts386511.html (last visited Jan. 27, 2017). "You can't stop the future. You can't rewind the past. The only way to learn the secret…is to press play.". JAY ASHER, THIRTEEN REASONS WHY (2007).

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