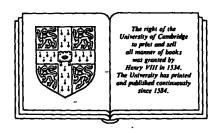
Entertainment industry economics

A guide for financial analysis

HAROLD L. VOGEL

Vice-President, Merrill Lynch Capital Markets



CAMBRIDGE UNIVERSITY PRESS

Cambridge London New York New Rochelle Melbourne Sydney

Contents

Preface	<i>page</i> xvii
Note to the reader.	xx
Part I Introduction	1
Chapter 1 Economic perspectives	3
1.1 Take-it-easy time	3
Leisure and work	3
Recreation and entertainment	4
Time	5
Expansion of leisure time	5
1.2 Supply and demand factors	10
Productivity	. 10
Demand for leisure	. 10
Expected-utility comparisons	13
Demographics	14
	vii

viii	Contents
1.3 Personal-consumption expenditure relationships	14
1.4 Overview of industry segments	16
1.5 Concluding remarks	18
Selected additional reading	25
Appendix: sources of information	25
Part II Nonelectronic-media entertainment	27
Chapter 2 Movie macroeconomics	29
2.1 Flickering images	30
2.2 May the forces be with you	33
Evolutionary elements	33
Technology Capital	33 34
Pecking orders	34
Exhibition	34
Production and distribution	35
2.3 Ups and downs	37
Admissions cycles	37
Prices and elasticities	39
Production starts and capital Releases and inventories	39 41
Market-share factors	41
Exchange-rate effects	43
Financial aggregates	48
2.4 Markets primary and secondary	50
2.5 Assets	55
Film libraries	55
Technology Interest, inflation, and utilization rates	55 57
Collections and contracts	58
Library transfers	59
Real estate	60
2.6 Concluding remarks	62
Selected additional reading	62
Chapter 3 Making and marketing movies	63
3.1 Properties physical and mental	63
3.2 Financing permutations and combinations Common-stock offerings	65 65

Conte	ents	ix
	Combination deals Limited partnerships and tax-shelter aspects	60 61
3.3	Production-related costs	70
3.4	Labor unions	73
3.5	Distributors and exhibitors Sequencing Distributor-exhibitor contracts Release strategies, bidding, and other related practices Exhibition industry characteristics Capacity and competition Rental percentages	75 75 77 78 80 80 80
3.6	Marketing costs	84
3.7	Profitability synopsis	84
3.8	Concluding remarks	88
Selec	cted additional reading	89
Chap	oter 4 Financial accounting in movies and television	91
4.1	Bowling for dollars	91
4.2	Orchestrating the numbers	92
4.3	Corporate overview Revenue-recognition factors Inventories Amortization of inventory Unamortized residuals Interest expense and other costs Investment tax credits Inside issues	92 93 94 95 98 99 99
4.4	Big-picture accounting Financial overview Participation deals Pickups Coproduction-distribution Talent participations and break-even Producers' participations and cross-collateralizations Distributor-exhibitor computations Distribution deals and expenses Studio overhead and other production costs Truth and consequences	101 103 105 106 106 107 108 109 111
4.5	Television-programming accounting Feature licensing	115 115

X	Conten
	Conten

Program production and distribution Development and financing processes	116 116
Syndication agreements	119
Costs of production	. 120
Costs and problems of distribution	121
Revenue-recognition timing and associated controversies	123
4.6 Weak links in the chain	125
Exhibitors: the beginning and the end	125
Distributor-producer problems	128
4.7 Concluding remarks	129
Selected additional reading	130
Chapter 5 The music business	131
5.1 Strike up the band	131
5.2 Inside out	133
Composing, publishing, and management	133
Royalty streams	135
Performances	135
Mechanical royalties	136
Synchronization fees	136
Copyright	137
Guilds and unions Concerts, theaters, and "serious" music	·138
·	
5.3 Making and marketing records	141
Record markets	141 145
Deal maker's delight Production agreements	143
Talent deals	146
Production costs	146
Marketing costs	147
Distribution and pricing	149
Organization	149
Pricing	151
5.4 New developments	151
5.5 Financial accounting	153
Artist's perspective	153
Company perspective	154
Tax treatments	156
5.6 Concluding remarks	156
Selected additional reading	156

Contents xi

÷

Part III Electron	ic-media entertainment	159
Chapter 6 Broad	casting	161
6.1 Going on the	he air	161
_	and history	161
Basic opera	itions	163
Regulation	and technology	165
Organizatio	onal patterns and priorities	169
Networks	s and affiliates	169
	ice of ratings	170
Inventori		171
Kaleidos	•	172
Independ	lent and public broadcasting stations	172
6.2 Economic f		174
	ps to macroeconomic aggregates	174
Microecono	omic considerations	177
6.3 Financial-p	erformance indicators	178
Aggregate	figures	178
Program co	osts by type	179
Financial-a	ccounting practices	183
6.4 Valuing bro	padcast properties	184
6.5 Concluding	remarks	187
Selected addition	nal reading	190
Chapter 7 Cable	and other new media	193
7.1 From faint	signals	193
Pay service		194
Developme	ent directions	196
7.2 Cable indu	stry structure	197
Operationa	l aspects	197
	haracteristics	198
Pay-cable		198
	on investment	202
Franchising		204
	ources and program support	206
Accounting	g conventions	207
•	em evaluation criteria	209
	and multiples	209
Pay-per-vie	ew potential	212

xii	Contents

7.4 Cable's competition Subscription television Direct-broadcast satellite Other distribution media	213 213 214 215
7.5 Video storage media	216
7.6 Concluding remarks	219
Selected additional reading	220
Chapter 8 Computerized entertainment	221
8.1 Roots Slots and pins Pong: pre and après 8.2 Industry structure	221 222 222 226
Home video Coin-op Game design and licensing Components Distributors Operators	226 228 229 229 229 230
8.3 Profit dynamics Coin op Home video	230 230 233
8.4 Concluding remarks	234
Selected additional reading	235
Part IV Live entertainment	237
Chapter 9 Gaming and wagering	239
9.1 From ancient history At first Gaming in America Preliminaries The Nevada experience Enter New Jersey Horse racing Lotteries Other wagering Funding pressures Orders of magnitude 9.2 Economic sensitivities	239 239 240 240 241 244 244 246 248 248 248
7.2 Leonomic scusitivities	233

9.3 Financial and operating characteristics Regulation Cash flows and returns on investment Companies Hotel-casinos Pari-mutuel betting Lotteries and bingo	253 253 255 256 257 258 259
9.4 Underlying profit principles and terminology Principles Terminology and performance standards Advanced analysis	259 259 261 263
9.5 Casino management and accounting policies Cash, credit, and bad debts Marketing considerations Some key procedural details	266 266 268 270
9.6 Gambling and economics Utility functions Other aspects	274 274 275
9.7 Concluding remarks	276
Selected additional reading	276
Appendix: major games of chance Blackjack Craps Roulette Baccarat Slots Other casino games Poker Keno Big Six wheel Bingo Pai Gow, Fan Tan, Sic Bo Pan Trente-et-quarante (Rouge et Noir) Lotteries Tracks Sports book	277 278 279 283 285 288 288 289 289 289 290 290 290 293 296 297
Chapter 10 Sports	298
10.1 Spice is nice Economic characteristics The broadcast and cable connection	298 298 290

KÍV	Contents	

The wagering connection Directions for microanalysis	299 302
10.2 Operating characteristics Revenue sources and divisions Unions and labor contracts Free agency Unions and strikes Tax and accounting treatments Historical development Current treatments Asset-evaluation factors	304 308 308 309 310 310 313
10.3 Concluding remarks	313
Selected additional reading	314
Chapter 11 Performing arts	316
11.1 Audiences and offerings Commercial theater On and off-Broadway Circus Orchestras Opera Dance	316 317 317 320 321 321 321
11.2 Funding sources and the economic dilemma	324
11.3 The play's the thing Production financing and participations Operational characteristics Running costs Labor unions	328 328 331 331 333
11.4 The role of new technology	333
11.5 Samples from economic literature	334
11.6 Concluding remarks	334
Selected additional reading	335
Chapter 12 Amusement/theme parks	336
12.1 Flower power Gardens and groves Modern times State fairs	336 336 337 339
12.2 Financial operating characteristics	339

Contents	хv
12.3 Economic comparisons and sensitivities	344
12.4 Asset values and investment trends	346
12.5 Concluding remarks	348
•	
Selected additional reading	348
Part V Roundup	349
Chapter 13 Epilogue	351
13.1 Common elements	351
13.2 Evaluating entertainment securities: some guidelines Filmed entertainment Music Broadcasting Cable Computerized entertainment Gaming Sports Theme parks 13.3 Final remarks	353 354 354 357 357 357 357 357 358
Supplementary data	359
Notes	408
Glossary	419
References	441
Index	449