M. Kretschmer, “Review of Harold L. Vogel, Entertainment Industry Economics”, *Entertainment Law* 1: 113-115 (2001)

Harold L. Vogel, *Entertainment Industry Economics: A guide for financial analysis* (4th ed.), Cambridge University Press (2001): xx + 577 pp

The cultural industries are a strange beast. Up-front costs in content production are often high while demand remains unpredictable; creators claim a precious bond of authorship, but are prepared to sell out faced with an oversupply of creative ambitions; cultural consumption is curiously linked to the dynamics of fashion and the formation of personal identities. One of the most reliable guides in this bewildering landscape has been Harold Vogel’s *Entertainment Industry Economics* since its first publication in 1986. Now in its forth, again substantially extended edition, it is entirely appropriate that the first issue of an ambitious new journal should include a review of this standard work.

Vogel makes us almost believe that the beast can be tamed. With a wealth of figures and the full armoury of the financial analyst, industry after industry is dissected, until we know how many cents of each cinema ticket dollar end in which hands; how the terms of royalty contracts are shaped in the music industry; how the average leisure time and spent of American citizens has evolved since the 1850s; and how to gamble in Pai Gow, Fan Tan, and Sic Bo - of essential interest to the casino business.

Entertainment Economics includes an introductory chapter on some principles of business economics, an epilogue on common elements of the industries discussed and valuation principles, and a weighty appendix of aggregate statistics. The *pièce de résistance*, however, are 120 glorious pages on the film industry. Vogel’s unrivalled knowledge of the Hollywood studio system leaves no stone unturned. Here is the almost fanatically detailed exposition of distributor-exhibitor contracts (p. 85):

> [In “four-wall” contracts], the distributor in effect rents the theater (four walls) for a fixed weekly fee, pays all operating expenses, and then mounts an advertising blitz on local television to attract the maximum audience in a minimum of time. Yet another simple occasional arrangement is flat rental: The exhibitor (usually in a small, late-run situation) pays a fixed fee to the distributor for the right to show the film during a specified period.
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> Most contracts between distributors and exhibitors, however, would almost always call for a sliding percentage of the box-office gross after allowance for the exhibitor’s “nut” (house expenses, which include location rents and telephone, electricity, insurance and mortgage payments) ...
>
> For a major release, sliding-scale agreements may stipulate that 70% or (sometimes) more of the first week or two of box-office receipts after subtraction of the nut are to be remitted to the distributor, with the exhibitor retaining 30% or less. Every two weeks thereafter, the split (and also the floor) may then be adjusted by 10% as 60:40, then 50:50, and so forth in the exhibitor’s favor.

Vogel adds a few worked out examples of the exhibition arithmetics of a major release, and eventually a list of six “unscrupulous practices that can be used to skim rentals properly belonging to the distributor”, including “Bicycling (i.e., using a single print, without authorization by the exhibition contract, to generate “free” revenues by showing it at more than one location owned by the same management)” (p. 144).

The movie chapters are followed by 20-30 page chapters on Music, Broadcasting, Cable; and shorter chapters on Toys and Games, Games & Wagering [i.e. racing, casinos, lotteries], Sports, and Amusement/Theme Parks. Recently added chapters on the Internet and traditional Publishing are somewhat bland; while the chapter on Performing Arts and Culture relies heavily on Baumol and Bowen’s classic *Performing Arts* (1968), including the notorious cost disease. (Live entertainment is immune to productivity gains, thus becoming more and more expensive relative to other activities. A Mozart quartet will still take 4 players, and 20 minutes, 200 years on.)

This is a book about the US entertainment market. International developments only matter through the eyes of expansionist American conglomerates. Some of Vogel’s analytic grid may even appear misplaced in other parts of the world: as in the characterization of TV programs as “scheduled interruptions of marketing bulletins” (p. 173), of “traditional theater, opera, and dance forums” as a “training ground for performers in the mass-entertainment media” (p. 326) or in the comment that “personal-consumption expenditure (PCEs) for leisure activities are likely to be intense, frenzied, and compressed instead of evenly metered through the year” (p. 8). One almost feels the leisure rush of hard pressed American employees after an average 2000 annual hours at work (this compares to 1700 in the UK and 1500 in Germany).

For 17 years, Harold Vogel was a top analyst at New York investment bank Merrill Lynch. Perhaps surprisingly, his 577 page tome remains theoretically unambitious. Entertainment is defined as “pleasurely diverting the psyche” (p. 351), and the discussion proceeds from a “decision oriented” perspective (p. xix): i.e. in which pleasurely diversion to invest as a portfolio manager. Such hedonist psychology leaves little room for insights from the sociology of culture, nor does Vogel engage seriously with the growing scholarship in cultural economics.

This is not to diminish the pertinence, for example, of Vogel’s discussion of time and discretionary spending power as the chief limits to growth in the entertainment sector. Yet even on its own terms, as a “guide for financial analysis”, the discussion may appear to instil a false sense of certainty. While reading Vogel’s book, I wondered repeatedly how the tools provided would cope, say, with the Napster phenomenon. The first closely researched narrative of the birth of music file-sharing has just been published (*Sonic Boom: Napster, MP3, and the new pioneers of music*). The author, John Alderman, covered the explosion of on-line music as the culture editor of Wired News. Alderman’s account of the tribulations of Michael Robertson, Shawn Fanning, Lars Ulrich, Hilary Rosen, David Boies and Thomas Middelhoff is a valuable read in its own right.

In the context of Vogel’s analytical ambitions, Napster raises some startling questions:
(1) How could the established music industry so completely misjudge the consumption patterns of its main audience that it managed to alienate a generation of

music lovers? No analysis of the value chain (in the production, manufacturing, marketing and distribution of records) will help here.
(2) What is the role of the regulatory framework of copyright in the development of entertainment markets? Vogel carefully reports the growing importance of home video and merchandising to the film industry: “starting in 1986, distributors generated more in domestic wholesale gross revenues from home video (about $2 billion) than from theatrical ($1.6 billion) sources” (p. 91). By 2000, the rental business had reached the staggering figure of $18bn in US domestic sales. Yet Vogel relegates the crucial Sony decision [1984] to a footnote. In *Sony Corp. of America v. Universal City Studios Inc.* [*464 U.S. 417; 447 S.Ct. 774*] the US Supreme Court rejected only by the narrowest vote of 5:4 the attempt by the movie industry to outlaw the VCR.

Can culture be tamed into an ordinary industry? Whatever view you may take, Vogel’s pioneering book continues to command respect, and a prime spot in the libraries of all serious media researchers.

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