Media

A world of hits

Ever-increasing choice was supposed to mean the end of the blockbuster. It has had the opposite effect

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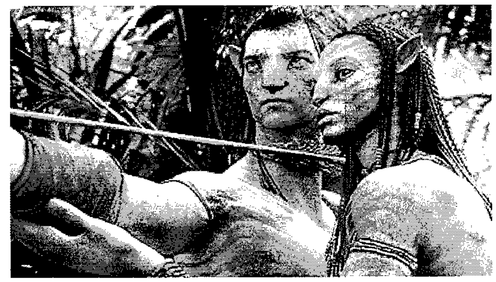


Reuters

NOVEMBER 20th saw the return of an old phenomenon: the sold-out cinema. "New Moon", a tale of vampires, werewolves and the women who love them, earned more in a single day at the American box office than any film in history. The record may not stand for long: next month "Avatar", a three-dimensional action movie thick with special effects, will be released (see picture). This film's production budget is reportedly $230m, which would make it one of the most expensive movies ever made. "Avatar" will be a great disappointment if its worldwide ticket sales fail to exceed $500m. Yet it is a reflection of how things are changing in the media business that such an outcome is unlikely.

There has never been so much choice in entertainment. Last year 610 films were released in America, up from 471 in 1999. Cable and satellite television are growing quickly, supplying more channels to more people across the world. More than half of all pay-television subscribers now live in the Asia-Pacific region. Online video is exploding: every minute about 20 hours' worth of content is added to YouTube. The internet has greatly expanded choice in music and books. Yet the ever-increasing supply of content tailored to every taste seems not to have dented the appeal of the blockbuster. Quite the opposite.

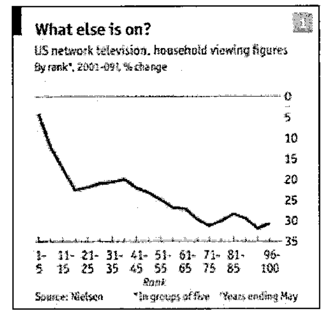
This is not what was predicted by one of the most influential business books of the past few years. In "The Long Tail", Chris Anderson, editor-in-chief of *Wired*, a technology magazine (and before that a journalist at *The Economist*), argued that demand for media was moving inexorably from the head of the distribution curve to the tail. That is, the few products that sell a lot were losing market share to the great many that sell modestly. By cutting storage and distribution costs, the internet was overturning the tyranny of the shop shelf, which had limited consumers' choices. And, by developing software that analysed and predicted consumers' tastes, companies like Amazon were encouraging people to wallow in esoterica. Such companies did not just supply niche markets—they helped create them.

"The Long Tail" set off a lively debate. Professors at Harvard Business School questioned whether many companies can profit from selling a little of a great many things. The supply of obscure films and music seems to be growing faster than people are discovering them. Harvard's Anita Elberse argued in an article last year that only a foolish firm would shift its focus away from the mass market. People in the media business, who have to back their judgments with money, have a different view. In a sense, they say, both Mr Anderson and his detractors are right. At the same time, both are missing the real story.

"Both the hits and the tail are doing well," says Jeff Bewkes, the head of Time Warner, an American media giant. Audiences are at once fragmenting into niches and consolidating around blockbusters. Of course, media consumption has not risen much over the years, so something must be losing out. That something is the almost but not quite popular content that occupies the middle ground between blockbusters and niches. The stuff that people used to watch or listen to largely because there was little else on is increasingly being ignored.

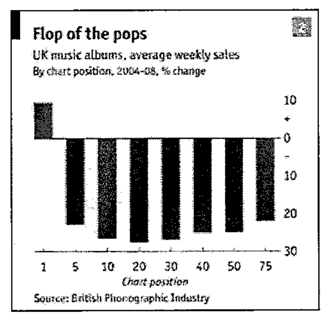
The strongest survive

Take American broadcast television. This is an industry in decline, albeit from an immensely profitable peak. The "big four" networks (ABC, CBS, NBC and Fox) have steadily lost viewers over the years as eyeballs have wandered to cable networks and, to a lesser extent, online video. Yet the top programmes are holding up well. In the 2000-01 season the most popular show on broadcast television, "Survivor", was watched by 17.8m households on average. The leader in 2008-09, the Wednesday edition of "American Idol", drew 16.5m. Less popular shows—fairly funny sitcoms and cheap reality programmes such as "COPS"—suffered far worse. Indeed, the further you look down the prime-time rankings, the more audiences have eroded (see chart 1).



The fact that the biggest shows continue to draw audiences nearly as big as their predecessors did may not sound impressive. But it has great commercial consequences. As broadcast television has lost audience share, its salesmen have convinced advertisers to pay more and more to reach a given number of viewers. They get away with this because broadcast television is still unchallenged as a mass medium. No other venue, including the internet, can guarantee an audience of many millions on a single evening. So a show that reaches 10m Americans today is worth a lot more than a show that reached 10m at the beginning of this decade. Simon Cowell, the star judge on "American Idol", reportedly renewed his contract earlier this year for more than $100m over three seasons. He is probably worth it.

Or take music. Like broadcast television, recorded music is a troubled business. Sales of CD albums are declining thanks to illegal file-sharing and the rise of digital download services such as iTunes, which allow listeners to pluck out the best tracks. Yet hit albums can still sell well. In Britain, where album sales in all formats have declined by 18% since the 2004 peak, those of albums occupying the number-one spot have increased slightly (see chart 2). A recent analysis by *Billboard*, a trade magazine, found a similar trend in America. There, sales had declined across the board, but the hits were holding up best. Albums ranked between 300 and 400 suffered the greatest proportionate losses.



One possible reason is that the profile of music buyers has changed. Young fans, who are more likely to follow up-and-coming guitar bands and dance music, are highly likely to download music illegally. In 2008 Britons in their 40s spent more on pop and rock music than teenagers or people in their 20s, according to TNS, a market-research firm. As young people with more unusual tastes abandon music shops altogether, the market becomes skewed towards safe, established pop acts. One of last year's biggest sellers was the cast recording of "Mamma Mia!", which features songs by ABBA, a fizzy 1970s pop group. But this is not the whole story.

Offer music fans a virtually infinite choice of songs free of charge, and they will still gravitate to hits. That has been the experience of We7, a music-streaming service based in London which has 2.5m users. Only 22% of We7's 4m songs are streamed in any given week, says Steve Purdham, who founded the company. The top 100 artists account for more than half of all streams. Users of Spotify, another ad-supported music service, are similarly unadventurous. Will Page of PRS for Music, which collects royalties for British songwriters, calculates that the most popular 5% of tracks on Spotify account for 80% of all streams. He is counting only the 3m tracks that were streamed at least once between February and July. Another 1.5m were not touched at all.

"People want to share the same culture," explains Roger Faxon, head of EMI Music Publishing. Music is an intensely social medium, most enjoyable when it is discussed and shared with friends. Because choice in music—and, to an extent, other media—is collective as well as individual, it is hardly surprising that people cluster around popular products. And Mr Faxon cites another reason, having to do with the advent of online piracy. File-sharing has made virtually all music available for nothing. Yet it has not altogether stopped people from buying. Even enthusiastic pirates will still buy CDs of music that they love, in order to get the cover art or simply to express their devotion. And what people love, it turns out, are hits.

The tyranny of the hit

Although you might expect people who seek out obscure products to derive more pleasure from their discoveries than those who simply trudge off to see the occasional blockbuster, the opposite is true. Tom Tan and Serguei Netessine of Wharton Business School have analysed reviews on Netflix, a popular American outfit that dispatches DVDs by post and asks subscribers to rate the films they have rented. They find that blockbusters get better ratings from the people who have watched them than more obscure ones do. Even the critically loathed "Transformers: Revenge of the Fallen" is awarded four stars out of five. Ms Elberse of Harvard Business School has found the same of ratings on Quickflix, the Australian equivalent of Netflix.

Perhaps the best explanation of why this might be so was offered in 1963. In "Formal Theories of Mass Behaviour", William McPhee noted that a disproportionate share of the audience for a hit was made up of people who consumed few products of that type. (Many other studies have since reached the same conclusion.) A lot of the people who read a bestselling novel, for example, do not read much other fiction. By contrast, the audience for an obscure novel is largely composed of people who read a lot. That means the least popular books are judged by people who have the highest standards, while the most popular are judged by people who literally do not know any better. An American who read just one book this year was disproportionately likely to have read "The Lost Symbol", by Dan Brown. He almost certainly liked it.

This explains why bestselling books, or blockbuster films, occasionally seem to grow not just more quickly than products which are merely very popular, but also in a wholly different way. As a media product moves from the pool of frequent consumers into the ocean of occasional consumers, the prevailing attitude to it—what Hollywood folk call word of mouth—can become less critical. The hit is carried along by a wave of ill-informed goodwill.

These days it may travel far. Blockbuster films, long among the most international of media products, are now more so. The leading studios have beefed up their foreign-sales arms and learned how to market films that open at roughly the same time all over the world. Sony has done particularly well this year, pulling in more than $1.6 billion in ticket sales from outside America, a record for the studio. Big films such as "2012" and "Angels and Demons" have earned roughly twice as much in foreign cinemas as in American ones.

Hollywood seems to have exported the blockbuster model, too. Anil Arjun, chief executive of Reliance MediaWorks, reckons ticket sales for the top five films in India grew by 250% between 2004 and 2008. Growing professionalism and a multiplex building boom have lifted the market as a whole, but the biggest films are rising most quickly. In addition, the best Hindi films increasingly serve expatriates in London and California's Bay Area.


"New Moon", newly enthroned

Blockbusters are also reaching people in more ways. Peter Chernin, who recently stepped down from overseeing News Corporation's film and television business, notes that technology does not just expand the range of products available. It also gives people much greater choice in how they consume the most popular ones. No longer must people go to a cinema or a video shop if they want to see a popular film. They can get hold of it as a video-on-demand, download it or stream it. "Hits are going to be the single biggest beneficiary of technology," Mr Chernin reckons.

In short, just because people have more choice does not mean they will opt for more obscure entertainments. That is especially clear in the book trade. A study of the Australian market by Nielsen, a research firm, found that the number of titles bought each year (measured by ISBNs) has risen dramatically, from about 275,000 in 2004 to almost 450,000 in 2007. Niche titles selling fewer than 1,000 copies each accounted for nearly all the growth in variety. Yet their market share fell. In Britain, sales of the ten bestselling books increased from 3.4m to 6m between 1998 and 2008.

The bestsellers are gaining in part because of a change in the retail marketplace that affects other media too. High-street bookshops, which carry a reasonable selection of what publishers call "mid-list" and "back-list" titles—that is, modestly popular and somewhat out-of-date books—are struggling. Borders UK, owner of a British chain, is reportedly seeking a buyer for its stores. Such shops are being displaced by online retailers, which offer vast selections of obscure titles, and also by supermarkets, which sell a tiny selection of hugely popular books.

In newspapers, too, the leading outfits are faring best. The three biggest-selling American publications—the *New York Times*, *USA Today* and the *Wall Street Journal*—have all held on to subscribers better than the large metropolitan papers that comprise the second tier. That market also has a thriving long tail in the shape of small-town papers. This has less to do with consumers' tastes than with advertising. The metropolitan papers are suffering because the classified advertisements on which they rely have collapsed under pressure from free listings websites such as Craigslist. Small-town papers also depend on classified ads, but they face less online competition. The nationals rely more on display advertising.

What is a media company to do? As sales become ever more concentrated, it is becoming both more urgent and harder to establish a foothold near the top of the market. A book or film that fails to attract a mass audience tumbles quickly into the depressed middle. To avoid this fate, should a company spread its development and marketing budget over lots of products, hoping that one or two catch on, or should it bet on just a few? The problem is especially acute in businesses like music, where money is tighter than ever and even the hits are not quite as solid as they used to be.

The joke answer, proffered by several executives asked these questions, is that media companies should simply churn out hits. This is less of a joke if a firm knows in advance what will prove popular. Of all creative media enterprises, Hollywood is the most confident of its ability to predict demand. Film studios carry out rigorous audience research and adjust production and marketing budgets according to the size of the group they are targeting. The studios have learned that stars are much less reliable generators of profits than films based on known characters and stories. That is why, in August, Disney agreed to pay $4 billion for Marvel Entertainment, a veteran comic-book and media firm that had filed for bankruptcy protection in the mid-1990s.

Above all, Hollywood has learned that bigger is better. Although small films can do astonishingly well (the latest is "Paranormal Activity", a cheap thriller that has sold more than $100m-worth of cinema tickets in America alone), they do not do so at all dependably. SNL Kagan, a research firm, calculates that between 2004 and 2008 films costing more than $100m to produce consistently returned greater profits to the big studios than cheaper films did. With DVD sales slumping in the recession and outside financing hard to obtain, the leading studios are cutting back their output of films. But the cuts are concentrated at the bottom end. Studios have shut down or neglected their divisions that specialise in distributing low- and middle-budget films. None has sounded a retreat from big-budget blockbusters.

Hollywood is one of America's most stable industries, with the same number of big studios now (six) as in the early 20th century. As both production budgets and risks soar it seems less likely than ever that an outsider will break into the club. On the contrary: the club may eventually shrink. The trend towards blockbusters is likely to suit the most successful studios, with the deepest pockets, the best marketing departments and the greatest ability to wring revenues from a hit by selling DVDs, television rights and toys.

Of course, not everything can be big. Complex political films; violent cartoons; English folk music—none of these things is likely to produce queues around the block. And a great many hoped-for hits fail: every media company puts out many more misses than hits. What to do with them? One answer, says Mr Bewkes, is to take advantage of the protective power of brands. Television programmes, in particular, do not compete for audiences on a completely featureless playing field. They are shown on channels that attract distinct audiences with different expectations. In the right context, a middling show can survive. "You let the strong brand carry the medium product," Mr Bewkes explains.

Another way of rescuing less popular stuff is to charge more for it. In many media businesses it is an accepted principle that such products cost more. Specialist magazines are often expensive. Less popular books cost more than bestsellers, because the latter are discounted. Even television has a successful model for charging more for shows that a smallish group of people feel passionately about, in the form of premium subscription channels like HBO. Yet, with the exception of live screenings of opera and sport, film tickets all cost the same. This is one thing that could change.

But nobody knows quite what to do. The old-media world of limited choice, in which any product that was not too objectionable was guaranteed a decent audience, was a comfortable place. Pleasing a customer who can choose from several hundred films and television programmes even without getting up from the sofa, by contrast, is an unnerving prospect.

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