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Value Creation in Entertainment: The U.S. Motion Picture Industry

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Abstract

The management of intellectual property has become a core competence of successful enterprises. This is particularly true for firms in the entertainment and creative industries where battles are waged for the rights to new ideas. Our focus and purpose in this chapter is to show that the U.S. motion picture industry has the potential to provide a fruitful research field for management accounting researchers. The industry has high economic importance and is appealing to researchers because it offers rich data sets that cover the entire product lifecycle for new products and a number of challenging problems especially related to the management of talent and intellectual property. Academic research in this area, particularly in accounting, is in its infancy. In this chapter, we therefore discuss critical management accounting and control issues faced by the motion picture industry, review cross-disciplinary literature on those issues, and outline promising research directions.

1. Introduction

Information, communication and entertainment now comprise the largest sector of the U.S. economy (Shapiro & Varian, 1999). A major category of the information sector is the motion picture industry,[1] which is America's second-largest export business, after aerospace (Bureau of Economic Analysis, 2005). The motion picture industry generates revenues through selling content to consumers, licensing content to other firms, or selling audience attention to advertisers. Motion pictures remain a major cornerstone of domestic entertainment, with consumers paying billions of dollars annually to watch movies in an increasing variety of formats. In 2006, consumers in the U.S. bought about 1.45 billion movie tickets worth $9.49 billion at domestic theaters—an average of about four million tickets a day. This is just a small portion of the total

[1] The information sector is a newly-created economic sector since 1998, at which time the U.S. Census Bureau started collecting data on it. The information sector includes establishments previously classified in the Standard Industrial Classification (SIC) in manufacturing (publishing); transportation, communications, and utilities (telecommunications and broadcasting); and services (software publishing, motion picture production, data processing, online information services, and libraries) (U.S. Census Bureau, 2006).

revenues from movies, however, as receipts from video, television and theaters in international markets continue to increase. In 2006, worldwide consumption of U.S. movies topped $40 billion primarily from theater tickets and rental or purchase of home videos (Standard & Poor's, 2007). Total spending on filmed entertainment, including box office, home video and broadcast, is one of the fastest growing media and entertainment revenue streams (Veronis Suhler Stevenson LLC, 2005).

The products supplied by the motion picture industry—movies—have the following characteristics. First, production of movies is characterized by high fixed costs of creation and low marginal costs of reproduction. The marginal costs of producing another unit of a movie with current technology (not considering distribution costs) are close to zero. Second, movies are experience goods, which means that it is difficult for the consumer to assess the quality of the good before purchasing it (Eliashberg & Sawhney, 1994). For suppliers, such as movie studios and exhibitors, this means that a movie's success at the box office is difficult to predict (Neelameghan & Chintagunta, 1999), partly because consumer preferences are fickle (Eliashberg, Jonker, Sawhney & Wierenga, 2000). Third, successful movies have long lives. Movies and movie franchises such as *Star Wars*, *Lord of the Rings*, *Spiderman*, *Shrek* and *Pirates of the Caribbean* can generate revenues for many years. This implies a weak contemporary link between costs and revenues, and thus, the importance of considering costs and revenues over a movie's lifecycle.

The production, distribution and retailing processes of the motion picture industry are also distinct from other consumer products' industries. The production process is human capital intensive. Movies are made by talented writers, producers, directors, technicians and actors. In addition to be highly collaborative, the production and distribution processes are based on extensive networks of individuals and organizations. At the center of the production network are producers, who will seek out scripts, talent, financing and distribution deals. These different entities are organized on a project rather than on a permanent basis (Baker & Faulkner, 1991). Reputation and relationships are far more important in the movie industry than in other industries in the economy. Another characteristic of the industry is that business decision making in the industry relies less on rigorous economic modeling and more on intuition and "gut feel" even though the decisions often commit millions of dollars (Squire, 1992).

To structure our discussion of these unique industry features, we organize this chapter around the value chain of the industry with the major links being production, distribution and exhibition. In the context of each stage of the value chain, we discuss the most pertinent management accounting and control issues and present several opportunities for research. Part of the discussion, especially around production and distribution, involves the changes in the industry brought about by advances in digital technologies. Digital technologies not only create new content that will compete with traditional media for attention and revenue, but also create new production tools and distribution channels for traditional media, and thus, new revenue sources.

Management accounting and control research in entertainment in general, and the motion picture industry in particular, is in its infancy. Thus, our purpose in this chapter is to provide a framework for understanding the industry that will guide our suggestions for research.

2. Value Chain of the Motion Picture Industry

Porter's (1980, 1985) value chain framework describes the activities within and around an organization, relates those activities to an analysis of the competitive strength of the organization, and evaluates which value each particular activity adds to the organization's products or services. In this chapter, we apply the value chain framework to the U.S. motion picture industry (see Figure 1).

— Figure 1 —

Production, the first part of the chain, involves four processes: property acquisition, pre-production, production, and post-production. Marketing and distribution, exhibition, as well as various channels of downstream retailing, follow next. It is these downstream retailing channels in the value chain that generate the vast majority of revenues. In today's environment, it is rarely the case that ticket sales pay for the cost of a movie; however, box office performance is still important since box office receipts brand a movie as a hit or flop, influencing the general public and determining a movies' revenue potential in other channels (Gong, Van der Stede & Young, 2007; Lehmann & Weinberg, 2000; Ravid, 1999). The downstream revenues include video sales and rentals, network and cable television rights (including syndication), independent television rights, pay-per-view and pay television rights, airline screenings rights, college campus screening rights, international distribution rights, music sales for soundtracks from movies, merchandise related to the movie, potential book publishing rights, branded entertainment and product placement (products strategically shown in a movie). Table 1 shows the major sources of these revenue streams and their windows.

— Table 1 —

The chain of value creation in the motion picture industry is consistent with one of the underlying assumptions behind the wave of mergers and acquisitions in the entertainment and media industries in the 1990s. (Table 2 lists the movie studios and their parent conglomerate as well as other downstream business units of these conglomerates.) Conglomerates realize synergies among different branches of the entertainment business by exploiting a movie—that is, the movie *brand* or *franchise*—across a number of different sectors in a coordinated manner. In other words, major studios owned by the big conglomerates are not only producing blockbuster movies, but most importantly, brands or franchises. Further, as suggested in *The Economist* (November 19, 1998, p. S5):

> Some character or idea can be marketed in a thousand different ways. A brand is often launched with an "event" film as with Disney's *Lion King* or Sony's *Godzilla*, but brands can start a life in all sorts of ways. Viacom's *Rugrats*, which has just been turned into a film, came from a children's cable channel, Nickelodeon; Time Warner's *Batman* is an old and revered comic book character that happened to translate nicely into a live action movie and much, much more.

— Table 2 —

There have been several studies on the organization of the U.S. motion picture industry (see Scott, 2002, for a review). An interesting phenomenon in this setting, particularly, has been the change over time from the old "studio system" to a flexible system characterized by a nexus of specialized firms as well as individuals, such as talent, who operate as free agents (Christopherson & Storper, 1989). Others have studied organizational changes in this industry with respect to the rise of the "Blockbuster strategy" or the era of big-budget movies, and how it led to specialization in movie production and separation of the business and artistic sides of movie making (Baker & Faulkner, 1991). Flexible structures are not unique to the motion picture industry, however. As such, studies of organizational forms in the motion picture industry can draw from, or extend to, various other organizations with flexible structures, such as professional service firms (Eccles & Crane, 1988). Further, the organization theory and strategy literatures posit that organization structure, strategy and performance are intricately related (Rumelt, 1974). An interesting question, therefore, is whether and how firm characteristics in the motion picture industry affect competitive advantage and (financial) performance. As an example, Corts (2001) compared the movie release scheduling of movies distributed by independent studios with those by major studios, and found that major studios are not as efficient as independent studios in avoiding competition while scheduling movie releases. Obviously, many other aspects of competitive nimbleness and organizational performance associated with different organizational forms remain to be studied in this industry.

2.1. Production

Properties. The first step in producing a movie is the acquisition of a property. In the motion picture industry this property is either a treatment (an overview of the movie with a discussion of the characters and a brief plot synopsis) or a completed screenplay. A property may be an adaptation of an existing book or an original piece of work. Acquiring properties is a highly competitive part of the value chain, where the major studios, independent producers, and even actors or other investors often compete for the most promising properties. Whoever obtains the property can then develop its content into a movie, which we refer to here as the movie production process.

The movie production process often entails an extensive network of parties involved, as shown in Figure 2. Among others, it involves producers, financiers, talents and their agencies, and post-production firms. Below we discuss the key nodes in this network.

— Figure 2 —

Producers. A producer is mainly responsible for pre-production, production and post-production, but depending on the situation, may have been involved in property acquisition and marketing as well. The whole range of activities commonly falls under the responsibility of producers who are tied to a studio, as opposed to independent producers, who are mainly focused on producing the movie. Focusing on production, the producer's key tasks are to find project financing and to hire screenwriters, actors and directors.

Financing. For studio-produced movies, movie *greenlighting*—that is, the decision to finance the production of a movie—is a critical decision characterized by an environment in which studio executives are largely unable to forecast. Little is known about the process that leads to the selection of movies to produce at any of the studios. Financing is an even more daunting task for independent producers. In order to get financing, independent producers often have to sell distribution rights to different channels (e.g., theatrical, television and video distribution) in different territories (domestic, international). Because there are more financing partners involved, these deals tend to involve complex arrangements for the division of costs and revenues, distribution territories, and rights to theatrical, television and video distribution. As an example, consider the case of *Terminator 3: Rise of the Machines*. An independent production company, C-2 Pictures, sold the rights to Warner Brothers, Sony Pictures and other foreign distributors. Warner Brothers contributed $55 million to production and marketing to obtain the rights for domestic theatrical distribution and video sales and rentals of the movie, yet was entitled to only 50% of the revenues from these distributions (Hayes & Bing, 2004). Apart from relying on studios, financing through equity investors, bank loans, and judicious use of intricate tax shelters are some of the methods used. During the past few years, private equity firms and hedge funds have invested billions dollars in the motion picture industry as evidenced by Tom Cruise's deal with Morgan Stanley's hedge fund that has agreed to finance his next slate of movies. Clearly, recent private equity and hedge fund forms of funding are also having their mark in this industry.

From the studio's perspective, financing movies is risky given the high level of required investment and the wide distribution of payoffs. One way studios have dealt with the uncertainty around the success of financing movies is by turning to co-financing, risk-sharing arrangements with other studios or with smaller, semi-independent production companies. In the latter case, the large studios typically buy a substantial equity stake in the production companies, which is expected to initiate and develop movie projects that are then co-financed by both parties as part of a long-term agreement. This approach to financing has grown considerably in recent years. For instance, while there was only one multi-studio effort in 1993, eleven major releases in 2003 were co-ventures (Goettler & Leslie, 2004). In most cases, the parties involved agree to share the costs of a movie that appears to be a particularly risky proposition because of its storyline, creative talent or production budget. A recent example is *Seabiscuit*, for which Universal (30%), Dreamworks (30%) and Spyglass Entertainment (40%) shared the $87 million budget.

Research on the types of financing and their features, as well as the rationales of studios behind their financing decisions, is only beginning to emerge. For example, Goettler & Leslie (2004) found, perhaps surprisingly, that studios do not tend to co-finance their most risky movies. What they did find, however, was that co-financing helps soften release competition, particularly for high-budget movies. That is, studios that have co-financed a movie tend to avoid head-to-head competition with other movies in their portfolio, reducing the risk of a failed opening week for the co-financed movie. Clearly, the effectiveness of co-financing in risk management is a topic worth of further study.

Moreover, what is largely unknown is the decision and control process that leads to the selection of movies to produce at any of the studios. In some cases, such as sequels, the outcome is believed to be largely determined by the success of the original property (Marr, 2007). But who actually decides on what movies should be greenlighted? Ultimately, a studio head has the last say in signing off on a movie, but the process is said to often come down to the tastes and preferences of a few executives. Because of the unpredictability of what movies will be successful, it is believed that studio executives choose less risky movies in order to keep their jobs

(Ravid & Basuroy, 2004). Such movies often appeal to the lowest common denominator regarding the movie-going public. These contentions, however, must be carefully researched as virtually no systematic evidence exists. Plausible frameworks for studying such decisions might include risk aversion, investment and employment horizon, real options, and other theories.

A related question is what kind of movie projects (screenplays) have the highest box office potential and should be greenlighted? A recent study by Graser (2007) shows that original screenplay-based movies perform better than adaptations or sequels or remakes. However, studios continue to be eager to produce movie sequels, and so it remains largely unknown whether sequels lead to more favorable risk-return ratios. But perhaps not all sequels are created equal; that is, what kinds of movies are amenable to a successful sequel and which are not? Related, how can studios use sequels to build and sustain valuable franchises?

Screenwriting. Besides finding financing for the movie project, the producer also needs to hire screenwriters as well as actors and directors. After a producer hires a screenwriter, screenplays are written. Before a script is accepted there can be numerous rewrites, sometimes involving several screenwriters. When a director is hired, s/he has his/her own vision, and when a star actor/actress is hired, s/he may have yet another opinion. Sometimes a schism develops among the screenwriter, director and actors. As a matter of fact, regardless of how talented directors or actors are, a poor script will overshadow their talents. Thus, obtaining a good script is often key to retaining talent.

Talent. Motion pictures critically rely on talent since the names and faces of the talent in the motion picture industry sell tickets unlike personnel in most other industries. Moreover, in order to win financing and interest from potential distributors, producers need not only a good script but also a reliable list of *above-the-line* personnel, including directors and actors/actresses.

What sets the creative industries apart from, say, companies producing commodities, is the reliance on the creativity of personnel. While other industries inarguably rely heavily on skilled individuals too, the creative industries employ people many of whom are thought to have different mindsets or hard-wiring (Young & Pinsky, 2006). Although evidence is mixed, a star's presence is often believed to increase the expected revenue potential of a movie (DeVany & Walls, 1999; Ravid, 1999). Consistent with this, banks often decide how much money to lend to producers based on expected movie revenues, which they believe is a function of star power. Stars therefore are commonly ranked on the basis of *bankability* (Ulmer, 2000).

A complicating factor in the motion picture industry, as in the creative industries generally, is that talent is difficult to discern and the relevant credentials (such as graduation from a given acting school) are relatively unimportant (Zuckerman, Kim, Ukanwa & von Rittmann, 2003). This poses several interesting puzzles for both talent and those who hire them (in this case, talent agents who act as brokers between the talent and the producer – see below). From the talent's perspective, the question is whether they should pursue a specialist or generalist identity; that is, to be "typecast" or not (such as Sylvester Stallone being associated with an action image)? And, for those who hire the talent, should they go for a proven type or run the risk that a star might fail at broadening the range of characters they can act (as Sylvester Stallone has in roles against his action image in comedies and dramas)? Zuckerman et al. (2003) is an exemplar study that examines these questions, not only because of its integrative theorizing, but also in demonstrating how studying motion picture labor markets offers unique empirical features while allowing careful generalizations beyond just the specific industry setting (that is, theoretical generalization).

Related to the quality of talent, is their compensation. In the motion picture industry, compensation of talent commonly consists of a fixed salary plus a variable component, which is either a share of gross revenue or a share of net profits. Given the presumed role of talent in a movie's success, such forms of risk-sharing compensation appear sensible (Chisholm, 1997). An important concern, however, is how to set a star's upfront fixed compensation, sometimes running in the tens of millions of dollars, given that star power sometimes fails to leads to the expected box office performance. Moreover, for the variable compensation component, the accounting of profit for net profit participants is an issue that is sometimes highly controversial and subject to litigation. All told, the motion picture industry offers an appealing setting to study compensation issues in terms of which kinds of contracts are most effective in attracting and motivating talent, provided that compensation contracts often vary from project to project, talent to talent, and even over time.

Talent in the motion picture industry is comprised mostly of members of unions and guilds. The term "union" in the creative industries describes labor organizations that represent technical personnel, who are referred to as *below-the-line*. The term "guild" describes labor organizations that represent the creative talent, who are referred to as *above-the-line*. These designations result from their actual position on the pages of production budgets in which "creative" and "technical" costs are divided by a line. In a typical motion picture production budget, for example, below-the-line costs are considered fixed, whereas above-the-line costs are considered variable (which is, in part, because of profit participations for talent and thus this number may vary). This labeling obviously deviates from the prescriptions in traditional cost accounting textbooks, as some of the costs related to the creative talent are clearly fixed, such as any upfront fixed compensation, whereas several of the below-the-line personnel-related expenditures are variable (such as those related to freelance services). Studies of cost treatment and behavior in this industry therefore also offer interesting opportunities for research.

Pre-production. In the pre-production process, producers hire non-star actors, crews and other below-the-line personnel. Pre-production also involves the securing of equipment and locations. Since each day in movie production is very expensive, pre-production preparation is important. During pre-production, producers also prepare the production budget.

The budgeting process for motion pictures is a fertile area for research. Very little is known about it, but the process is said to require a fair amount of judgment. And because each movie can be considered a one-off project, there is little historical data to rely on. To prepare the movie production budget, every page of the screenplay is scrutinized and budgeted according to the experience of the producers, involving estimates of the number of days of shooting and the shooting sequence. Survey evidence suggests that very few certified management accountants work as “production accountants” in the motion picture industry (Neale & Allerston, 2005). These so-called “production accountants,” however, play a critical role in assisting the producer in preparing the production budget and assessing the commercial viability of the movie project.

Production. A movie’s production costs, or the costs of manufacturing the master print called a negative (hence the term *negative costs*) have several components. These costs include any upfront payments to talent and other employees, costs of sets, and other costs incurred during the production process, such as the cost of special effects. For studio movies, the production cost also includes overhead charges by the studio for use of its facilities. The studio also charges interest on the negative cost and overhead. One common problem during production is that movies tend to run over budget. Cost accountability, however, is an interesting issue due to the different parties involved; that is, there is the director who implements the production, the producer who is responsible for the budget, and the financier who provides the money. Because accountability is difficult to attribute, producers often buy insurance against runaway costs. In this context, it would therefore be interesting to study how such insurance affects each of the involved parties' behavior, as well as to understand the relevant tradeoffs and economic incentives for the parties involved in these situations.

Post-production. In post-production, producers aid in the editing process with the help of professional editors and the director. The editing process is critical to the form and impact of the final picture. Post-production editing can cover a myriad of production flaws. The editing sometimes even takes more time than the actual production of the movie, during which time music and sound are added to the tape as well. Then the movie is rated. After the movie is cut and rated, previews are scheduled. This is similar to taking a theatrical play on the road. At a preview, producers, directors and editors learn about audience reactions, timing, laughs, tensions and the general pulse of the movie (Austin, 1989). If the reactions are not as expected, changes are made before the movie is tested again at a second preview. There can be two to four previews. Once the director and producer are satisfied, the movie is locked in and ready for release. Whereas several studies in marketing have attempted to develop pretest models for movies (e.g., Eliashberg & Sawhney, 1994; Eliashberg et al., 2000), predicting movie enjoyment, and hence, movie performance, has been met with mixed success at best, causing producers to have little to go by before releasing the movie.

Organization. From the overview of the above process from property acquisition through post-production, the producer indisputably is the key person to manage the process. Producers fall onto a continuum ranging from being completely independent of any studio to being completely tied to a studio. The independent producers' main job is to interest distributors (studios) in their product and to obtain financing for producing the movie. Some producers, however, are under exclusive contract to a major studio. In this case, the studio finances the movie and provides production support. Some producers fall somewhere between these categories. They sign a contract with a studio but can also work for other studios (these are so-called *first look deals*). For the latter two types of producers, finding financing is significantly easier as the studio will often foot all, or a significant part of the production costs. Given the crucial role of the producer in the making of a movie, various ways of organizing that role seem to each have their features and drawbacks, with potential effects on, or of, the types of movies produced, the risks assumed by the various parties, as well as the financing of the movie projects. These interrelationships, however, stand to benefit from further study.

Movie production can be considered akin to new product development in other types of organizations. Prior studies on new product development have mainly focused on manufacturing settings (e.g., Larson & Gobeli, 1988; Hertenstein & Platt, 2000). The motion picture industry, therefore, offers a unique opportunity for research into the organization and economics of new product development, with variance in this setting ranging from what could be called *in-house* vs. *outsourced* (independent, networked) modes of product development. Specifically, unlike new product development in large hierarchies like pharmaceutical firms, consisting of relatively stable new product development units, movies today are typically made by temporary organizational configurations purposefully set up for developing a specific movie, which are largely disbanded upon completion of the movie (Baker & Faulkner, 1991). As mentioned above, such "single-project organizations" operate largely by means of freelance contracting, which is different from the relative stability of hierarchical arrangements found in many other new product development settings (Christopherson & Storper, 1989).

The flexible approach to new product development in the motion picture industry, as well as its features, drawbacks and effectiveness, is relatively under-studied. A related question is whether financing of movies affects new product development. In the motion picture industry, creative talent and financiers are worlds apart (Caves, 2000). Movie producers have essentially the choice between using studio funds (and giving up control) or obtaining independent financing (and retaining control). Consistent with arguments in the literature on investor control, Fee (2002) finds that independent motion picture financing is more common when a filmmaker's private artistic stake in the movie is high and for movies requiring a high level of creative effort. However, it is not clear how co-financing of a movie by several studios, which is increasingly prevalent, might affect creative control.

Intermediaries. Related to the choices involved in the organization of the production process, there are multiple levels of contracting issues in the creative industries. While simple agency models deal with a single principal and agent, talent in the motion picture industry often have to deal with numerous intermediaries who help them manage their careers, including managers, agents and publicists. Many intermediaries are independent or work in small firms, but others are employed by large companies such as the Creative Artists Agency or the William Morris Agency. Intermediaries match properties and talent with producers. Producers turn to agents to obtain material to be developed into movies and to identify and hire talent for production. Some intermediaries are as recognizable as the stars they represent. Who they choose to represent, and how they represent them, provides yet another interesting set of contracting issues.

Briefly, *managers* play the role of Chief Operating Officer in managing an individual. They advise their clients on every aspect of their career such as who to sign with and what projects to accept. They also coordinate the activities of their clients' agents, publicists and attorneys. *Agents*' jobs involve discovering talent, matching talent to each other and locating employment opportunities. *Publicists* find opportunities for their clients to make personal appearances, engage in interviews and promote themselves. *Attorneys* represent their clients' interests by protecting their intellectual property, overseeing contracts and litigating disputes. At the professional level in the motion picture industry, it is almost impossible for talent to succeed without a team of intermediaries working on their behalf. But stories abound in Hollywood about how the contractual process among these parties can break down even though having the right representation is critical for success. Since managers, agents and publicists work as a team, research on how they manage their clients' careers, as well as the myriad of contractual issues it involves, would be most intriguing.

2.2. Marketing and Distribution

Figure 3 shows the network surrounding movie marketing and distribution. As discussed above, the major movie studios serve either as both financier and distributor of movies produced by producers employed by or affiliated with them (*in-house production/distribution*), whereas they serve as distributors only for movies produced by independent producers. Distributors then contract with exhibitors (movie theaters) for theatrical exhibition as well as retailers for DVD/video distribution and other retailers/broadcasters for distribution via other formats, such as satellite, pay and cable television, but also, more recently, internet distribution (web video). When a producer signs a contract with a distributor, the producer commonly yields all the distribution rights to the distributor, domestically and internationally, initial and ancillary (such as merchandising). Because marketing is done by the distributors, we discuss distribution first, including the relationship between producers and distributors, and then marketing.

— Figure 3 —

Distribution. There are essentially four types of producer-distributor agreements when the movie is not in-house. In a *production-financing/distribution* agreement, the studio/distributor provides production and distribution funds to an independent producer with a fairly complete package including property acquisition, movie production, as well as a distribution arrangement that is entered into prior to the start of production. In a *negative pickup* deal, the distributor makes a contractual commitment to distribute the movie if the movie meets certain pre-specified criteria. The producer then uses the contractual commitment to secure production financing from a third party lender or financier. In this arrangement, the distributor only provides distribution funds and the producer relies on the agreed share of movie revenues/profits to service the loan and earn a profit. A negative pickup deal is entered into prior to the start of the production of the movie. An *acquisition* deal is similar to a negative pickup, except that the distribution deal is entered into after the movie is produced, and thus the independent producer needs to secure funding to acquire property rights, develop the screenplay and produce the movie without the commitment from a distributor. Finally, in *rent-a-distributor* deal, an independent producer secures funds not only to produce the movie but also most, if not all, of the funds to distribute it. Because the producer essentially takes on all the risks and only “rents” a distributor who does not provide any funding, the share of revenues/profits that the distributor can claim is generally at its lowest. Obviously, the rent-a-distributor deal is entered into only after the movie is produced.

The parameters of any deal between producers and distributors exhibit great variation and have evolved considerably over time. Perhaps the most important element of these deals is the specific revenue/profit sharing agreement, and there are many possible arrangements, ranging from gross to net deals and many variations of sharing for each. In gross deals, the producer receives a share of all revenues. In *first dollar gross splits*, for example, the producer gets a percentage of the movie’s gross revenues without any advance. Such deals impose a high level of risk on the producer, unless the movie is successful of course, in which case the deal can have a high payoff for the producer. In net deals, the distributor recoups distribution costs and sometimes other agreed amounts or fees first (such as a multiple of an advance to the producer) before splitting the remainder with the producer. Such arrangements spread the downside risk between the producer and distributor, although not necessarily equally, depending on the split and the amount of the advance. Further variations involve sliding scales, where the revenue sharing is staggered, with a different share on the first, second, and so forth slice of the revenues, and a constant share thereafter.

The specific deals brokered between producers and distributors depend on the their business relationship, negotiation skills and risk preferences. For instance, in acquisition deals where the distributor acquires the right to distribute the movie only after the movie has been completed, the producer assumes all of the risk before the distributor becomes involved, which should be reflected in a revenue/profit sharing scheme that favors the producer, although that is not always so, depending on both parties' assessment of the success of the movie, among other things, such as their bargaining power. Studying and understanding these agreements and their specific features represents a fertile ground for further research in the contracting, incentives or other literatures.

Marketing. Before a movie is released, distributors spend millions of dollars on marketing it, with marketing costs skyrocketing. In 1975, the average cost of marketing a movie was $2 million, but the movie *Jaws* changed these dynamics. The average marketing cost was $20 million in 1996 and $34.5 million in 2006. The vast majority of movies is marketed and distributed by a major studio's distribution arm or by specialty distributors within conglomerates. Very few movies are distributed by completely independent distributors. Studios need a regular supply of movies to fuel their domestic and international distribution operations and earn distribution fees.

Distributors are responsible for the design and implementation of the marketing campaigns for the channels and territories they own the distribution rights for.

Marketing research starts at the early stages of the development of a movie. Movie screenings, telephone surveys, and trailer tests all play a role in assessing the reaction of targeted audiences which, in turn, influences and directs the positioning of the overall marketing campaign (Austin, 1989; Eliashberg et al., 2000). Nielsen NRG is a company that specializes in screening tests. The company recruits potential audiences, shows them the movies, asks them to complete questionnaires, and holds focus group discussions on the movie's weaknesses and strengths. As discussed above, several rounds of screening test results provide useful information for editing the movie and designing advertising campaigns before the movie is released. In addition to traditional marketing channels, such as in theatres, print ads and television, the internet also recently has played an increasingly significant role in providing information about or do marketing for movies, such as through streaming video of upcoming movies.

In the case of large blockbuster releases such as *Independence Day*, there is an attempt to turn the initial launch of the movie into a major event. Studio distributors spend large amounts on promoting their movies, such as on premiere events, recognizing that such efforts can substantially boost revenues. For example, Disney spent $2 million on a lavish premiere event to promote *Pirates of the Caribbean: Curse of the Black Pearl*. The premiere was held at Disneyland and the park was closed down for the general public in the early evening for the first time since it opened in 1955. Disney received a huge amount of press on this event and *Pirates* went on to gross $653 million in worldwide box office and $320 million in domestic DVD/video sales and rentals (www.the-numbers.com).

Although marketing costs have increased proportionally faster than production costs (MPAA, 2007), it is not well understood how marketing affects a movie's success (Eliashberg, Elberse & Leenders, 2006), as there are numerous examples of both blockbusters and flops. And how are marketing and production costs related? Do high production costs by themselves signal high movie quality? And, in reverse, can a studio salvage a poor movie with additional marketing? The endogeneity, as it were, between both types of cost incurrence by studios is little understood and researched.

2.3. Exhibition

Theatrical release is the most important stage in the lifecycle of a movie given its impact on all other ancillary markets, which we discuss separately in Section 3. Nevertheless, global box office revenues (domestic and international) typically account for only about 20% of the total revenues for a movie over its entire lifecycle. Hollywood movies still dominate the theaters and are released internationally anywhere from within a couple of days to as long as six months following the domestic release. U.S. studios control three quarters of the distribution market outside the U.S. And, in dollar terms, moviegoers in the U.S. still account for about 44% of global box office. Geoff King (2002, p. 73) notes the following:

> Release in the cinema remains the biggest stage on which to display Hollywood's wares. It is the most prestigious part of the lifecycle of Hollywood entertainment [which] translates into the greatest levels of success further down the chain. This is why so much is often invested in initial advertising and promotional campaigns that can act as loss leaders. Their costs can be a sound investment in the longer term value of the product. […] Big hits at the box office are usually the titles that fill the walls in video rental and retail outlets and earn the biggest fees for release to cable, satellite and terrestrial television.

Little is known, however, about the lifecycle of movies, either in each of its release formats ("windows") or across them, and thus, across a movie's entire life from cradle to grave. One can imagine many shapes. Some movies peak early and decay quickly, whereas others might never peak but still exhibit relatively stable “staying power” over a prolonged period. More importantly, perhaps, especially for industry participants: What are the determinants of a movie’s lifecycle and/or its various shapes and what can be done to affect them? A study of the various lifetime shapes of movies, like Bradlow & Fader (2001) did for *Billboard* songs, would be insightful.

Regarding a movie’s theatrical life, the current business environment is tough for studios (distributors) and theaters (exhibitors). Industry observers note that box office revenues face increasing competition from television and the internet. Tom Sherak, former head of marketing at Fox Studio, had the following comment on the theatrical release of movies (Shone, 2004, p. 238): “The motion picture business has the shortest shelf life of any marketable product. You can spend $100 million to make a movie. You can spend another $35 million to market it, and you can be off the screen in seven to fourteen days.” With reference to the above, this suggests that many movies peak early (or do not peak at all) but decay quickly in their theatrical life.

Today, five major theater chains control most of the movie exhibition market in the U.S. Independent theaters distinguish themselves by offering less publicized, independent and foreign movies. Besides sharing box office receipts with distributors, theaters also obtain revenues from concessions (i.e., sales of popcorn, candy and soda in the theater), which account for roughly 35% of the revenues of theater chains. Ironically, the high costs of concessions have caused many consumers to complain. While theater revenues seem to be increasing, the actual number of people attending has decreased markedly. The high revenues have come about simply because ticket prices have gone up.

Distributor-exhibitor contracts. A distributor leases or licenses a movie for exhibition in theaters though direct negotiation or a bidding process. A bidding process involves a bid request from the distributor and bids from interested exhibitors. Movies are to be booked movie-by-movie, theater-by-theater (or by theater chain). Thus, a licensing agreement is required for each theater (chain). Once a bid is accepted or negotiations are completed, a distributor/exhibitor agreement is drawn up, which includes the period of time that the movie will play at the theater, advertising arrangements, and how box office receipts are to be split between both parties.

The most common box office split between the distributor and exhibitor, or *rental*, is 90/10, with 90% (10%) of the box office revenues for the distributor (exhibitor) for the first week, after the agreed-upon amount to cover exhibitor expenses (which is also called the *house nut*). The split ratio then typically slides down over several weeks to, say, 35/65. This creates an incentive for the exhibitor to stay with the distributor's movie and serves to keep the competition out. Current distributor-exhibitor deals also often include a minimum payment (*floor*) for the distributor. Just like with producer-distributor agreements, distributor-exhibitor agreements show great variation, offering a compelling research setting for studying risk and profit sharing and associated economic incentives for, and responses from, the parties involved.

Several studies, particularly in the marketing literature, have attempted to develop models to help exhibitors perform their "screens management" (e.g., Sawhney & Eliashberg, 1996; Swami, Eliashberg & Weinberg, 1999), which is viewed as a problem akin to allocating shelf space for retailers. In this regard, Swami et al. (1999, p. 352) make the following pertinent statement:

> Managing the allocation of shelf space for new products is a problem of significant importance for retailers. The problem is particularly complex for exhibitors—the retailers in the motion picture supply chain—because they face dynamic challenges, given the short life cycles of movies, the changing demand over time, the scarcity of shelf space, and the complex revenue sharing contract between the exhibitor and the distributor.

However, the extent to which such screens management models have been adopted in practice by exhibitors to replace or complement rules of thumb remains an open issue.

Theatrical release. There is an obsession in Hollywood with opening box office performance. It is not uncommon for a major motion picture to open on over 3,000 screens to try and recoup the large amounts invested in production, marketing and promotion. During the opening weekend, successful movies can take in between 25-40% of their total gross. *The Hulk* set a record with a 70% decline in ticket sales between its opening and the second weekend, although the normal drop is typically around 50%. The first weekend for a "blockbuster" movie is a make-or-break proposition. A movie that fails to open strongly loses the attention of the media, audiences and exhibitors. It is therefore perhaps not surprising that most industry and academic research to date in the motion picture industry has been concerned with analyzing movie success at the box office, particularly opening box office performance (Hayes & Bing, 2004).

Given the importance of the opening box office, careful timing of the opening is critical. Decisions on when and where to release a movie are made by the distributor and are influenced by various factors, including the release dates of other, competing movies and time of year. Ideally, a movie is released on a weekend when there is no other movie competing for the same target audience. But with so many movies released, this is difficult to accomplish. Releases also tend to be timed in particular periods, such as on holiday weekends or the Christmas season. Most research on the effects of the timing of release have focused on the role of competition and seasonality in the U.S. market (Einav, 2003a, b; Chisholm, 2000; Krider & Weinberg, 1998).

In addition to domestic releases and their timing, the U.S. entertainment industry's international presence is extensive. American movies typically account for the majority of box office receipts in Western Europe and Japan. Foreign demand is typically strong for the big-budget movies that are a staple of the U.S. motion picture industry, but also for which the scope of a worldwide audience is needed to support the large production, marketing and distribution budgets. Foreign box office receipts exceeded domestic box office receipts for U.S. movies for the first time in 1993. Today, 60% of box office receipts for U.S. movies stem from overseas for most box office hits. The foreign box office can sometimes save domestic flops. For example, *Troy*, which was considered a failure in the U.S., still went on to gross just under $500 million, 73% of which came from overseas.

3. Downstream Revenues

Theatrical distribution is just the first of many revenue streams, including revenues from television rights, video sales and rentals, and merchandising. Blockbuster movies today aspire to be *tent-pole franchises*; that is, centerpieces for multiple spin-off products, from lunchboxes to soundtracks, comic and children’s books and computer games. *Batman* earned three times as much from merchandise as it did from ticket sales. Blockbuster movies today *are* commercials—commercials for themselves. They also *include* commercials, in the form of product placement. *Tomorrow Never Dies*, the Bond movie, is a good example of such product placement, with screen time sold to Visa, Avis, BMW, Smirnoff, Heineken, Omega, Ericsson, and L’Oréal.

Video. The home video market is the booming business. Consumer spending on videos and DVDs, videos for short, in 2006 was approximately $24 billion in the U.S., while movie ticket sales were $9.5 billion (Standard and Poor’s, 2007). Videos used to be sold in two pricing tiers: a higher price to rental stores and a lower price to retail stores to encourage purchase. The lower price was known as the *sell-through price*. In the early days of home video, most movies were initially priced for rental, with a re-release at sell-through price approximately six months to one year after the initial release. This release pattern was the norm throughout the 1980s and most of the 1990s. In the late-1990s, however, rental stores and distributors started signing revenue-sharing deals. For rental stores, revenue-sharing reduces upfront costs, allowing them to order more copies of new releases, in effect guaranteeing that every customer can get any movie at any time. This is important as consumer demand for video rentals historically peaks in the first three weeks of availability and then drops off precipitously. Distributors also benefit from revenue sharing, particularly on successful titles, considering that the marginal cost of reproduction of videos, and even more so for DVDs, is low.

The success of DVDs, however, changed the dynamics of the home viewing market again. DVDs were initially priced between $15 and $30, much lower than $65 for video cassettes to be bought by rental stores. Since the video rental stores' upfront cost was much lower for DVDs than for video cassettes, rental stores had no longer an incentive to share the rental revenues with distributors. As a matter of fact, video rental stores now threaten to not renew revenue-sharing contracts with the distributors. At lower prices, consumers also are more inclined to purchase their own DVD, either outright, or after viewing it in theatres or renting the DVD first.

The DVD market provides the movie industry with a large new source of revenues at minimum cost, which has also led them to exploit their movie libraries more than ever before. The studios have been investing heavily in upgrading their movie libraries. For example, Sony's acquisition of MGM was fuelled in part by MGM's movie library of 4,000 titles. One of the biggest emerging markets is for the *made-for-video* and *new-to-video* categories. Made-for-video movies are those typically with low budgets that studios believe might garner sizable revenues on video. Some of these movies are ones that were initially set to have a theatrical release but the studios changed their mind. New-to-video movies are those that currently exist in a studio's library but have never been released on video.

Video has a protected window of six weeks to six months, meaning that the only place consumers can rent or buy the movie is on DVD or video. However, with pay-per-view becoming more popular, and video-on-demand a reality, some in the home video industry have argued that their window of exclusivity is too short for stores to have enough time to turn a profit.

Another issue in the video area relates to talent contracts. In the early days of home video, distributors wanted to avoid having to account for manufacturing and marketing costs when they calculated net profit for profit-participating talent. Thus, they developed a royalty structure where the distributor only considered a contractual percentage of gross home video sales as gross revenues when reporting to profit participants. The initial royalty rate set by the distributor for titles priced for the rental market was 20% of gross sales, leaving the distributor with 80% of gross sales to cover their costs and earn a profit. In the sell-through market, distributors adopted a lower royalty rate, typically 10%, because the costs of releasing home video titles to the sell-through markets were higher than to the rental market. As the distributors became more efficient and lowered their costs, their profits increased dramatically. These profits were not shared with the profit participants. As such, worldwide home video represents the largest difference between the studio's profit and the amount reported for sharing with talent in the movie. Now participants are asking a higher royalty rate. An interesting question in the video market, as well as in other profit-sharing contexts in this industry, is how to determine the contractually-agreed basis for profit sharing. Management accountants know that "true" costs can never be determined with pinpoint accuracy, but in a profit-sharing context, such inaccuracies perhaps are even more contentious.

Pay-per-view/video-on-demand. When the exclusive home video window closes, movies are then made available on pay-per-view or video-on-demand venues, on both cable and satellite television systems. Pay-per-view/video-on-demand is a brief window, starting eight months after theatrical release and extending for two months. (Note that the movie will always be available on video after its initial availability, so subsequent discussions of exclusivity do not include the home video window.) Typically, distributors license pay-per-view rights to a third party such as Viewer's Choice, which bills and collects money from the customer. For example, a customer requesting a specific movie via pay-per-view/video-on-demand at a specific time is charged a certain amount which is then split, say, 10% to Viewer's Choice, 45% to the cable operator and 45% to the studio.

Television. After the exclusive pay-per-view window expires, movies can then be shown on premium cable channels, such as HBO, Showtime or Starz. The movie is shown concurrently on both the premium cable channels and pay-per-view for approximately six weeks. Then the pay-per-view window closes, leaving an exclusive window for the premium cable channels that lasts for approximately 18 months. HBO, Showtime and Starz each have exclusive deals with the individual studios in which they agree to pay the studio for all of the movies it produces in a given year. The amount that the premium channel pays per movie is based on domestic box office revenues, and can go as high as $20-25 million for a blockbuster.

After premium (pay) television, the movie appears on network (free) television for one or two runs; this interval lasts for 12-18 months. Top-rated cable channels (USA Network, TBS, TNT) have been able to outbid traditional networks (ABC, CBS, NBC) to obtain rights to broadcast movies. For a very popular movie, the cable or network channel may even buy future runs at 5 or 10-year intervals. The network/cable channels negotiate with the studio for each movie, resulting in a fixed payment per movie ranging from $3-15 million, depending on the movie and the number of runs.

Following the broadcast premiere and second run, the movie then goes into syndication, again either on cable or network television, or both. This can continue for five years. Movies are licensed to the highest bidder on a title-by-title basis. Studios can exhibit the movies for as long as they own the copyright or the right to distribute the movie.

Merchandising. Movie studios treat their high-profile blockbusters as *brands*. They seek to leverage these brands to sell other products by licensing the use of the name and likeness of the movie and various characters to consumer product companies. The selection of a movie to be branded stems from its inherent popular qualities (*Shrek*, for example). Planning of merchandising deals with licensees can begin more than a year before theatrical release. Separate merchandise licenses are drawn up with companies specializing in apparel, video games, gifts, sporting goods, toys, and so forth. Under these deals, upfront advances are paid to the studio, with royalties that might range from 2-3% for foodstuffs and 8-10% for apparel and toys. A related form of merchandising stems from co-promotion with fast food chains and beverage companies. For a specific event movie, such co-promoting companies can spend millions of dollars to advertise and cross-promote their products, timed with the release of the movie. From the studio perspective, such promotion campaigns can generate media awareness worth $30 to $40 million of advertising.

Web video. Digital technology, which transmits sound and images as a series of electronic on-off signals, generally provides higher quality audio and video than do older media. As audio and video recordings rely more heavily on digital technology, the personal computer has begun to loom larger in the entertainment sector. According to Standard and Poor's (2007), digital applications will remain a major driver of industry growth. It is expected that the personal computer and all of its offshoots, along with new technology that combine computer capabilities with those of television and video, will be used increasingly to access, store, and even create entertainment programming.

The web video market can be divided into two categories based on the source of web videos. One type of web video is just copyrighted video content posted on the web (with or without permission of the owners, which is a another key issue). Another type of web video is self-made.

For copyrighted video, web video is just another distribution channel. Internet downloads currently represent a relatively small revenue source for the studios, but because electronic catalogues can house many more titles than store shelves can, the internet is expected to boost the number of titles readily available to consumers. Digital downloading via the internet also reduces distribution costs for studios, and so it is expected that the industry will see continued growth in paid internet-based distribution of movie content. Growth in this channel is also expected to be facilitated by legal and technological restraints placed on unauthorized distribution; by growing ownership of home computing and all of its offshoots; and by access to fast broadband, high-speed internet access services. A big unknown, however, is the extent to which distribution in non-theatrical windows, such as through the internet and mobile phones, will substitute or complement theatrical distribution. An interesting issue, therefore, is to examine the interdependence of revenues that studios derive from these various channels.

For self-made web video, the business model is completely different. Self-made web video is like network TV except that producers of web videos are often not compensated by money directly, but by affiliation. That is, distributors of self-made web videos typically claim no right to the video except that they can tag ads to it. This emerging phenomenon has been evolving rapidly and is currently not well understood.

Overall, interesting research questions about downstream revenues are, first, the extent to which theatrical and non-theatrical windows substitute or complement one another; that is, do they negatively or positively affect each other's revenue potentials? For example, does the availability of DVDs deter people from going to the theater? Does the prospect of being able to see a movie on pay cable, network, or syndication television deter people from renting or buying the DVD? How is owning and renting of content potentially affected by the same content being readily available online? And, do the answers to the above questions differ across segments of consumers and/or across types of movies? Second, and from a management accounting perspective more specifically, what windowing strategies maximize studios' revenues and/or profits and what are the reasonable lifecycle revenues over the various and long-winded windows that studios should take into account when making movie production decisions? Lastly, and perhaps most fundamental for the motion picture industry business model, what revenue windows will remain or become viable, and how and to what extent can studios best tap or develop them?

4. Conclusions and Discussion

A distinctive feature of the creative industries is the interplay among the various parties and the complexities of the contracting process, which often take place long before the production of the movie (Caves, 2000). It is the management and organization of the creative industries that determine how to negotiate and secure the artistic product that they then will present, market and sell to the public. In the first instance—the relationship between the creative industries and the individual artist(s)—management and organization deal primarily with rights, royalties, agents, contracts and commissions. There have been quite a few high-profile legal cases involving profit-sharing plans between distributors and the talent side of the business (Weinstein, 1998). After deducting production, distribution, advertising and other costs, including studio "overheads," any profits (if any remaining) are then divided accordingly. Given these characteristics of the industry, we believe that studies of various kinds of contracts in the movie industry constitute a promising area for management accounting researchers, particularly given our comparative advantage in costing and cost allocation methodologies. There is obviously an intricate link with research on incentives that has become prominent in the accounting literature as well.

In the second instance—between the creative industries and the audience/consumer—the focus shifts to production and production costs, marketing and promotional plans, audience-building and fundraising, and consumer testing and polling. Here, too, do management accounting researchers have insights to offer, such as with respect to budgeting, lifecycle costing, customer or channel profitability, and pricing methodologies and strategies.

Overall, we hope we were able to make the case that the motion picture industry provides fertile ground for research in management accounting. Because this industry is very complex and has been little studied as yet in management accounting, there should be ample room for a variety of research methods, including field research, large sample empirical testing (for which publicly-available data are often present), as well as the development of conceptual models to systematize observed contracting and other behaviors that are common in this industry and that can be generalized to other settings. Whereas it is impossible to provide an exhaustive set of (management accounting) research opportunities in this industry setting, we hope that we have piqued the interest of researchers with diverse backgrounds and expertise in various management accounting areas (such as in cost accounting, budgeting, capital budgeting, performance measurement and incentives) and various theoretical perspectives to generate their own ideas about the many potential researchable questions in this particular industry. Although we focused on the motion picture industry in this chapter, several other industries, particularly those in the information goods sector, such as publishing, music, games and the arts, share commonalities (Werbach, 2000). And even though the motion picture industry certainly is not the only relatively unexplored sector in the management accounting literature, it is an important one given its size (sales and employment) and worldwide economic and cultural impact.

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Figure 1
Movie Industry Value Chain

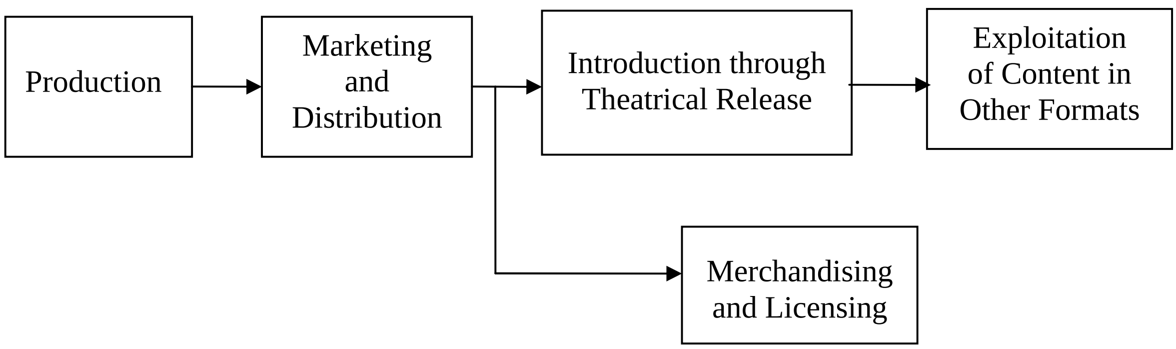


Table 1
Major Sources of Motion Picture Revenues and Their Windows

Channels	Window	Beginning
Theatrical	6 months	Initial theatrical release
Home Video (VHS/DVD)	7-10 years	6 months after initial theatrical release
Pay-Per-View	2 months	8 months after initial theatrical release
Pay Television	18 months	12 months after initial theatrical release
Network TV	30 months	30 months after initial theatrical release
Pay Television, Second Window	12 months	60 months after initial theatrical release (30 months if no Network TV sale)
Syndication or Basic Cable	60 months	72 months after initial theatrical release (42 months if no Network TV Sale)
Syndication or Basic Cable, Second Window	60 months	132 months after initial theatrical release

Note: Omitted from the distribution channels and windows are foreign sales, the video game sector, consumer products merchandizing and theme parks. Foreign sales usually begin after the initial theatrical release in the U.S. Each territory has different windows for different channels. Video games based on blockbuster movies such as *Lord of Rings* and *Terminator 3* sometimes earn equivalent revenues as theatrical releases.

Table 2
The MPAA Motion Picture Studios, Major Subsidiary Studios, Distributors, and Parent Corporations

Major Studios	Major Subsidiary Studios	Distributor	Conglomerate	Downstream Businesses of the Conglomerate
Twentieth Century Fox Movie Corporation	Fox Searchlight	Twentieth Century Fox International Corporation	News Corporation	TV networks (Fox News Channel), TV stations, Newspapers (New York Post), and Magazines (Gemstar-TV Guide).
Walt Disney Pictures	Miramax Pixar Animation Touchstone Pictures	Buena Vista International, Inc.	The Walt Disney Company	TV networks (ABC), Radio networks (ABC Radio), Music (Hollywood Records), Consumer products (Disney Licensing)
Warner Brothers Pictures	New Line Cinema	Warner Brothers International Theatrical Distribution	Time Warner Inc.	TV networks (TBS), Radio networks, Music (Warner Music Group), and Publishing (Time, Inc.).
Paramount Pictures	Dreamworks Pictures Paramount Vantage	Paramount Pictures Corporation	Viacom, Inc.	Cable networks (MTV) and Music (Famous Music)
Columbia Pictures	Screen Gems Sony Pictures Classics	Columbia TriStar Motion Picture Group	Sony Corporation (Sony Pictures Entertainment)	Music (Sony Music)
Universal Pictures	Focus Features	Universal International Movies, Inc.	General Electric Company	TV network (NBC)

Figure 2
Network Surrounding Movie Production

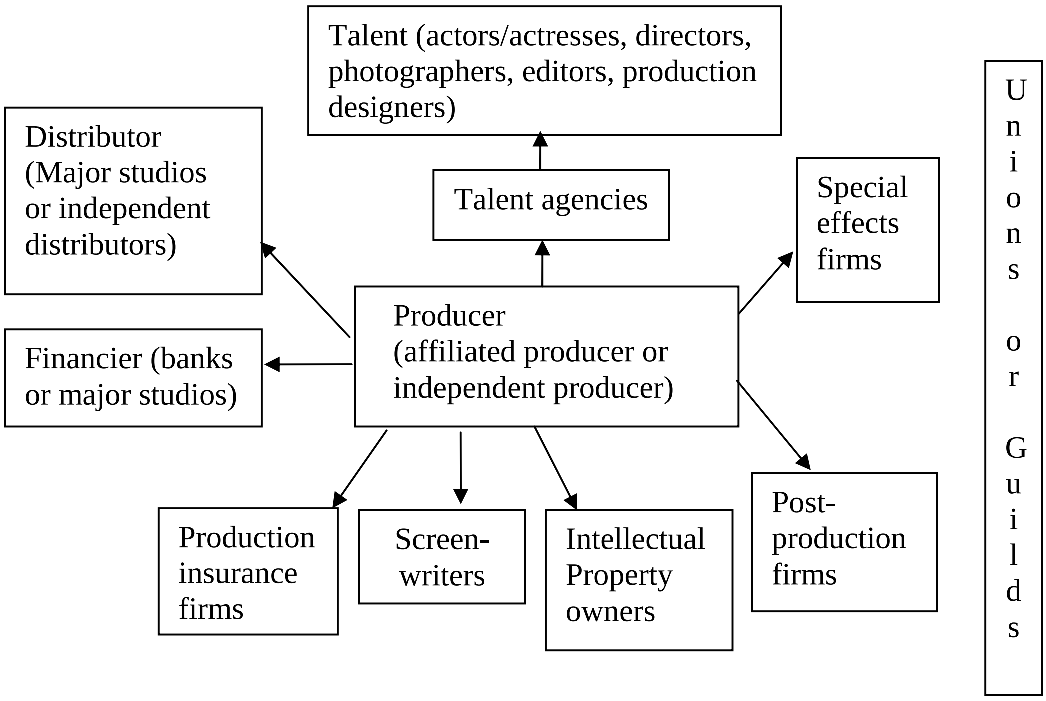
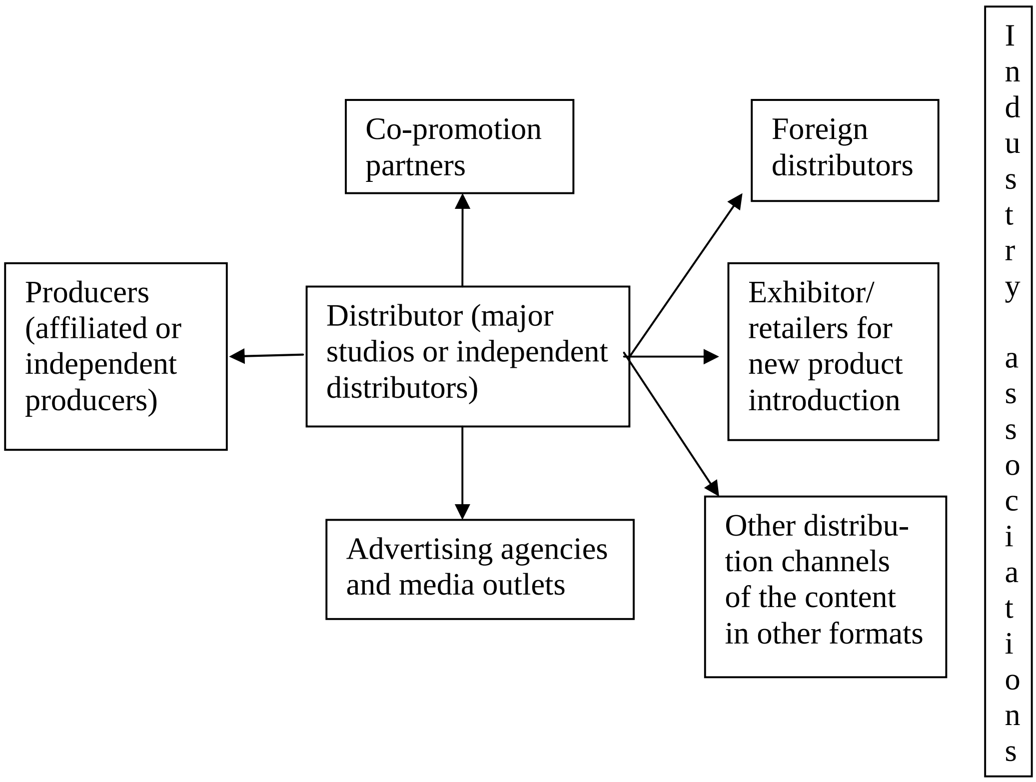


Figure 3
Network Surrounding Marketing/Distribution and Movie Exhibition



A movie is simultaneously a cultural property, an entertainment medium, and an economic commodity. When examining the movie industry, the economic processes of production, distribution, and utilization are, in addition to the social, political, and historical parameters, of significant interest. This is a preview of subscription content, log in to check access. References. The Economist. (2002). Merchandising and chidrensâ€™s films â€“ The spiderâ€™s bite. Accessed July 26, 2010, from http://www.economist.co.uk/PrinterFriendly.cfm?Story_ID=1124311&CFID=7160934&C. Wirtz, B. W. (2003b). Full reference of the published version: Value Creation and the Possibilities for Management Accounting Research in the Entertainment Sector: the United States Motion Picture Industry Handbook of Management Accounting Research Volume 3, 2008, Pages 1337â€“1352 doi:10.1016/S1751-3243(07)03007-6 Value Creation in Entertainment: The U.S. Motion Picture Industry S. Mark Young Âª Leventhal School of Accounting. Marshall School of Business University of Southern California Los Angeles, CA 90089-0441, U.S.A. James J. Gong Department of Accountancy College of Business University of Illinois Urbana-Champa Entertainment as an industryâ€”in the United States aloneâ€”is responsible each year for $150 billion in expenditures and some 120 billion hours of consumed time (Vogel 1998, p. xvii). Entertainment as an economic sector consists of diverse products and services including motion pictures, television, music, broadcasting, print media, toys, gaming, gambling, sports, and fine arts. Economic development and the demand for leisure. Leisure time has been a determining factor in the development of recreation and entertainment as an industry. Entertainment has grown as an industry in step with increased Value creation has changed, but the rulesâ€”and the ways of winningâ€”remain the same.Â BCG has been advising companies on value creation since our founder, Bruce Henderson, opened its doors more than five decades ago. Indeed, many of the firmâ€™s innovationsâ€”such as the growth share matrix, experience curves, and cash trapâ€”stem from our early work on the ways that competitive advantage and capital allocation interact to create value for a companyâ€™s owners.Â For our 20th report, we have now diligently reassessed our cumulative experience and distilled our perspectives down to ten lessonsâ€”including the source of some of the most common managerial mistakesâ€”that we think really matter. (See â€œValue Creation Insights Through the Yearsâ€). processes that create value for companies and consumers in the context of video games which are now available on multiple devices (e.g., consoles, portables, mobile devices) and through multiple channels (e.g., retail and online). The authors therefore develop a conceptual framework of value. creation through video games, highlight important ï¬ndings from extant research in marketing and other disciplines, and apply the framework to. derive future research opportunities.Â Conceptual Framework of Value Creation in the Video. Game Industry. Our conceptual framework indicates how valueis created in the.Â entertainment industries such as motion pictures. Such industries. generate â€œrelated content,â€which can provide inspiration.