EIC Unit 11

ICT in the Hollywood Global Supremacy

Hollywood, Defined

- Hollywood is a physical place, a district of the city of Los Angeles, California.
- Over the decades however, this name has become synonymous with the American entertainment industry

- Hollywood is defined as the system of the US entertainment industry revolving around the following six major companies that are part of the Motion Picture Association of America (MPAA):
  - Paramount Pictures,
  - Sony Pictures Entertainment,
  - Twentieth Century Fox Film Corporation,
  - Walt Disney Studios Motion Pictures,
  - Universal City Studios,
  - Warner Bros. Entertainment.

- All the studios, at the time of this writing, are units of large media conglomerates operating domestically and internationally in different segments of the entertainment industry.

- As a system, it is dependent upon the six Hollywood studios,

- The Key entities of the American entertainment industry :
  - the talent agencies,
  - the creative community (actors, directors, writers, independent producers, etc.)
  - industry labor,
  - the trade industry press,
  - specialized research firms.

Hollywood’s Economic Leadership

- The core business of the Hollywood studios is to finance, produce, and distribute entertainment content ranging from feature-length motion pictures to TV programs, including animation and live action series.

- The entertainment products they produce are experience goods,
  - whose value is determined by the individual experience they provide to their audiences, an entertainment experience.

- These products are also public goods non-excludable in consumption,
  - one person’s consumption of an entertainment product does not affect its potential fruition from another person, unlike other products as physical goods.

- These products are expensive to produce and cheap to reproduce, with the average “negative costs” for a feature-length motion picture constantly exceeding US $63M in the period 2003–2007.

- In addition to the negative costs, the marketing costs of theatrical release alone of a movie have constantly exceeded US $34M in the same period.

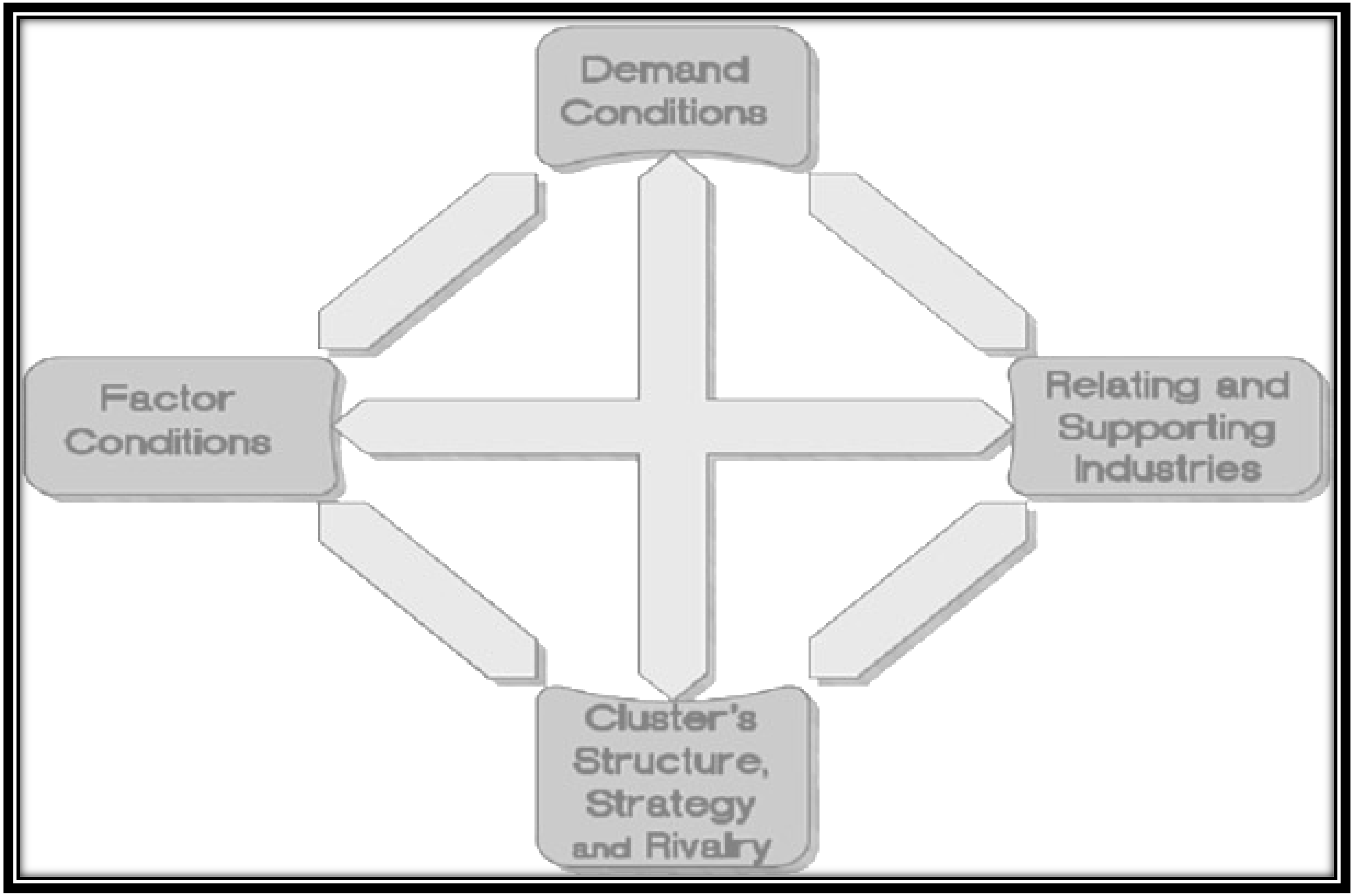
- Total costs incurred by MPAA members to release domestically in movie theaters a feature-length motion picture in the period 2003–2007 have on average exceeded US $100M

- Hollywood studios consistently rank at the top of world- wide charts

- In particular,
  - Warner Bros ranked first with 16.2% of the global theatrical gross in 2007,
  - Sony/Columbia Tristar in 2006 with 16.4%,
  - Warner Bros. in 2005 and 2004 with 15.7 and 14.2%, respectively,
  - Buena Vista International (the distribution arm of the conglomerate Disney) in 2003 with 18.1%.

The Drivers of Hollywood's Competitive Advantage

- **The Economic Drivers of Hollywood's Global Competitive Advantage**
  - Can be explained utilizing Porter's theoretical framework of the "national diamond".
    - Factor conditions
    - Demand conditions
    - Strategy/structure/rivalry conditions
    - Relating/ supporting industry conditions


Demand Conditions
Factor Conditions
Relating and Supporting Industries
Cluster's Structure, Strategy and Rivalry

- Factor Conditions
  - Includes the role of prominent film schools,
  - These institutions located in the region contribute to Hollywood’s leadership as they attract individuals with potential talent from all over the world, providing them with state of the art training and ultimately facilitating their entry into the industry.
  - In addition, the mild and sunny climate of Southern California with its diverse landscape, ranging from deserts to mountains, valleys, and the Pacific Ocean, allows diverse outdoor scenes

- ***Relating and Supporting Industries***

  – Existence of specific industries, also geographically concentrated in Southern California, whose know- how help develop the industry’s competitive advantage.

  – Includes:
    - Talent agencies,
    - The music and recording industries,
    - The trade industry press
    - Specialized research firms,
    - Entities comprising the creative community and the industry labor.

Strategy, Structure, and Rivalry

- Historically, Hollywood studios have fiercely competed and rivaled one another on certain aspects of the business.
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- Competition did not constitute a destructive factor for the industry as a whole, as the industry would operate and evaluate itself through entities like the Academy of Motion Picture Arts and Science (AMPAS), awarding the Oscars for excellence in the different facets of the creation of motion pictures.

- As a result, this particular kind of competition has been producing a global competitive advantage for the industry players, as opposed to “zero sum game” of other industries, where the competitive strategies of the industry players contribute to undermine the very existence of the industry itself by attempting to eliminate key players of the industry or undermine their long-term prosperity.

- ***Demand Conditions***
  - The US domestic market (including Canada) is by far the largest in the world in economic terms, with on average more than 1.4 billion tickets sold per year and approximately US $9B generated at the box office per year in the period 2000–2009

The Potential Threats to Hollywood's Global Primacy in an Evolving Landscape

- The Hollywood studios initially missed the opportunity to expand their business
    - By being too product-oriented (and considering themselves only as movies makers) as opposed to customer-oriented (and therefore position themselves as entertainment providers).

- As a result, Hollywood studios have been diversifying their investments in the entertainment industry

- Since then, establishing a significant presence in the TV business in addition to their original core business: movies.

Threats in the 21st century

- ***Rise of non-scripted entertainment in prime time schedules***

- ***ICT revolution, as disruptive force on creation and distribution of entertainment***

- ***Audiences appear to be willing to have a say in outcome of shows***

- ***European entities, able to successfully penetrate the American TV entertainment market***

- ***Flexibility for local adaptation of non scripted shows rather than scripted shows***