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Mass entertainment in the digital age is still about blockbusters, not endless choice

Technology has given billions of people access to a vast range of entertainment. Gady Epstein explains why they still go mostly for the big hits

ONE of the axioms of technological progress is that it democratises entertainment, distributing delights to the masses that were once reserved for the elites. More high-quality entertainment is available to more people on the planet than ever before. At the same time individuals across the globe can find an audience much more easily than was previously possible. The ability to access whatever entertainment people want digitally and on demand has transformed diversions in societies both rich and poor, changing the lives of billions.

Even more remarkably, mass entertainment today can be tailor-made, not one-size-fits-all. There is something for everyone and any time that suits. At the beginning of the day in New York the dreary subway ride to work is filled with music. In Tokyo the journey home from the office is a time to devour manga on a mobile phone. In the evening in a rustbelt city outside Beijing, workers who cannot afford a night out may tune into broadcast live-streamed by their fellow citizens. Billions of people can choose from a large range of mobile games at any time.

In his book "The Long Tail", published in 2006, Chris Anderson, a technology writer who used to work for *The Economist*, observed that the Internet has opened up potential markets for any niche product, no matter how quirky. A decade on, any star on YouTube can attest to that. From a child unboxing toys to the delight of toddlers around the world to a pockish Swedish gangster with millions of teenage fans, running one's own virtual TV channel online can be worth tens of millions of dollars to a lucky few.

And yet as a business, entertainment has in some ways become less democratic, not more. Technology is making the rich richer, skewing people's consumption of entertainment towards the biggest hits and the most powerful platforms. This world is dominated by an oligarchy of giants, including Facebook, Google, Amazon, Netflix and Disney (as well as Alibaba and Tencent within China's walled ecosystem). Those lacking sufficient scale barely get noticed. Paradoxically, enabling every individual and production on the planet to find a market has made it next to impossible for the market to find them. Consumers generally favour whatever they find on their mobile screens or at the top of their search results. The tail is indeed long, but it is very skinny.

Being able to produce a blockbuster hit has become even more valuable than it used to be. It turns out that everyone wants hits—the more familiar the better, says Derek Thompson, author of a book entitled "Hit Makers". Despite the availability of entertainment specially tailored for each individual, people still

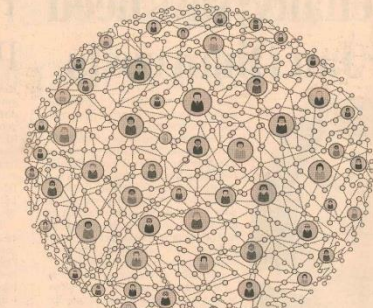
crave experiences they can share with others. What they want most is what everyone else wants.

These same technological tools that have atomised entertainment have also made it easier to aggregate audiences. Rankings of the most popular downloads or streams are self-reinforcing. Recommendation algorithms steer people to what others like them have also watched or listened to. The social-media impact of the biggest hit in any genre is dramatically greater than that of any lesser hit, thanks to network effects. It seems clear now that the future of mass entertainment is not "selling less of more", as Anderson put it, but selling a lot more of less.

The film business illustrates the point. Of the thousands of films released worldwide in 2016 (including well over 700 in America alone), the top five performers at the box office were all made by Disney. The 13 films the company released last year, plus remaining business from "Star Wars: The Force Awakens", accounted for one-fifth of total film revenue worldwide. Disney has focused on big-event films with iconic characters and storylines that have global appeal (and that fit its unparalleled businesses in consumer-product licensing and theme parks). Only a few years ago the big studios would typically aim for 20-25 films apiece to provide a margin for error. Some still do, but Disney's more focused approach, investing almost exclusively in blockbusters, is paying off with a much higher rate of return.

When Bob Iger took over as CEO in 2005, he felt sure that, in an era of proliferating content, big brands would become more valuable—the bigger the better. The company went on to spend \$15.5 billion to amass an arsenal of content brands that became the envy of the media world: Pixar Animation Studios, Marvel Entertainment and, in 2012, Lucasfilm, maker of "Star Wars". "We saw in each one of those brands that would matter in a new world order," says Iger.

The blockbuster effect has been even more striking on the digital platforms that were supposed to demonstrate the benefits of the long tail. On iTunes or Amazon, the marginal cost of "stocking" another item is essentially zero, so supply has grown. But the rewards of this model have become increasingly skewed towards the hits. Anita Elberse, of the Harvard Business School, working with data from Nielsen, notes that in 2007, 91% of the 3.9 million different music tracks sold in America notched up fewer than 100 sales, and 24% only one each. Just 36 best-selling tracks accounted for 7% of all sales. By last year the tail had become yet longer but even thinner: of 8.7 million different tracks that sold at least one copy, 96% sold fewer than 100 copies and 40%—3.5m songs—were purchased just once.



And that does not include the many songs on offer that have never sold a single copy. Spotify said in 2013 that of its 20 million-strong song catalogue at the time, 80% had been played—in other words, the remaining 4 million songs had generated no interest at all.

Music-streaming services have not been around for long enough to allow a definitive assessment of their market impact, but as they attract more casual music fans (as opposed to deeply knowledgeable nerds), the hits can be expected to benefit. In 2015 the top 1,000 songs were streamed 57 billion times in America, accounting for 18.8% of the total volume of streams, according to BuzzAngle Music; last year the top 1,000 songs accounted for 92 billion streams, or 23% of the total. The economics of blockbuster films, which are shown in cinemas, might seem different from those of blockbuster music and TV streaming, but in the digital age they and other entertainment products have much in common. There is almost no limit to the supply of entertain-

ment choices in every category, but people's awareness of these products and their ability to find them is constrained by the time and attention they can spare. Overwhelmed by the abundance of choice, they will generally buy what they are most aware of. The algorithms used to make recommendations, offered by many sites, reinforce this trend: they push consumers to what is popular rather than send them off to explore obscure parts of the tail. This helps explain why Netflix, which specialises in supplying film and video on demand, has repeatedly bet big on event television, from its hit "The House of Cards" to the lavish production of "The Crown", about Britain's royal family. It has also spent hundreds of millions of dollars to secure the rights to Disney films. It still views itself as a long-tail company, but although it spends billions of dollars to serve a lot of different market niches, especially geographical ones, subscribers generally make a beeline for the top 50 or so.

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At the same time a lot of entertainment has been commoditised as the barriers to production and distribution have come down. An item further down the long tail may rarely be chosen, but is not "scarce" in the sense that it can command a premium; on the contrary, a relatively obscure item is worth very little. One reason is that the Internet leads consumers to expect most things to be free, especially content without a brand name. Second, consumers believe (rightly) that there is not much difference between most of the obscure items on offer. And third, they reckon (also usually correctly) that those items have cost hardly anything to produce, so they are almost worthless. Conversely, consumers will pay a premium for famous brand names.

This is partly to do with the way search engines and social platforms work. Facebook, YouTube and Snapchat readily deliver huge amounts of entertainment free. At the same time they offer individual performers, artists and writers a greatly increased chance of finding some sort of audience, be it next door or halfway across the world. On average, 60% of the viewers of an individual creator's YouTube channel live outside the country where the artist is based. This may be a fair way of achieving stardom than in the pre-Internet era, when traditional media companies picked winners and pushed them to the public via narrow distribution channels. Likewise, the 710m people online in China have discovered another independent path to fame, which is likely to spread to other parts of the world. Live-streaming has helped millions of Chinese Internet users, many of them in rural villages or dreary industrial towns, personalise mass entertainment for each other. In such ways, with lower barriers to finding an audience (whether of one or many), millions of people around the world are using the Internet as a lottery ticket to stardom. It is still a very long shot, but in theory the opportunity is now available to everyone.

That translates into more entertainment of all kinds being produced and consumed than ever before. On the whole, though, the rewards of the digital economy accrue mostly to the big platforms and media companies. Eric Schmidt, the executive chairman of Alphabet, Google's parent, has said that his company's thinking has been greatly influenced by the long tail, but he has also acknowledged that most of the money is to be made in the head.

The enduring dominance of the blockbuster has implications for the way consumers will be entertained for decades to come. Global competition for their attention, and their wallets, will bring about

more mega-mergers like the one proposed between AT&T, a telecoms and pay-TV firm, and Time Warner, one of Hollywood's greatest content creators. The \$109 billion offer indicated that AT&T felt the need to own great content to differentiate itself in the market. Likewise, it hinted at an uncertain future for content companies that cannot make sure they have an audience. For now, the competition among studios and video programmers is delivering more high-quality television for everyone than ever before, but it is also stoking fears of a collapse to come. This report will examine the proposition that the world may be getting close to peak TV.

The best time to gain (or lose) audience—and to challenge the dominance of an established platform—is when technology makes a leap. That is why media, gaming and tech companies are investing billions in virtual reality and augmented reality. Such technologies can change the way that people experience storytelling and persuade them to suspend disbelief. James Cameron showed with his superb 3D imagery in "Avatar" how a leap in visual technology can create an outsize blockbuster. Now Disney is racing with other studios and tech giants to come up with the next leap, alternative realities. This report will argue that the most promising of these technologies are still far from ready, though many people will take to lesser, cheaper formats of them, such as those they can experience on their smartphones.

I was there

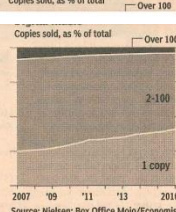
Between the avalanche of digital entertainment and the still-distant promise of alternative realities, there is still a huge market for experiencing something real in person. The few hits that have captured the public imagination command a hefty premium. From "Hamilton" on Broadway to the mixed martial arts combatants in the Ultimate Fighting Championship, people will pay thousands of dollars for the privilege of being there, even though they can experience the same thing or at least hear the same songs in digital form for a small fraction of the price.

For the majority who must consume entertainment remotely most of the battles are still about screens, be they the size of a smartphone or half a wall, and about minutes of attention within particular apps. But although consumers seem to have a dizzying array of choices, most of them do not take full advantage of them. What they pick is increasingly determined by the algorithms driving this competition (Google/YouTube), and the algorithms mostly send them straight to what everyone else is consuming. Blockbusters are the safe bet.

The Economist

The blockbuster effect

Digital music
Copies sold, as % of total



Source: Nielsen; Box Office Mojo/Economist

Film
Box-office revenue, as % of total



Source: Nielsen; Box Office Mojo/Economist