American Entertainment in the 1990s

James P. Kraft

Department of History
University of Hawaii at Manoa

Research in business and economic history has increasingly focused on the robust nature of the contemporary American economy. This research has led to new debates about the relevance of different sectors of the national economy, and of specific firms within these sectors. The new scholarship and the debates it spawned, however, have largely ignored the importance of the media and entertainment business in recent economic development. In the past twenty years, consumer spending in this sector of the economy has risen at roughly twice the rate of overall consumer spending. In 1993 alone, Americans spent approximately $340 billion to entertain themselves, more money than they paid for traditional high-cost items like health care, motor vehicles, or housing and utilities [Mandel, Landler, and Grover, 1994, pp. 59-66; *Screen Actor*, p. 4].

This paper identifies prominent trends and patterns in the entertainment business and provides a few thumbnail sketches of leading firms in the field. In doing so, it throws light on the growing significance of the entertainment economy and explains that a handful of capital-intensive, transnational firms have established a near monopoly in this sector of economic life.

Major Trends and Patterns

If one word applies to American leisure patterns it is diversity. Americans now have more ways of amusing themselves than ever. Spending patterns in the United States help to illustrate this point. We now pay about $13 billion a year for movie tickets and film-video rentals, $19 billion to watch cable television, and $10 billion for recorded music. We spend another $12 billion to see sporting events, musical concerts, and other kinds of live entertainment; $14 billion to attend amusement and theme parks; and a whopping $28 billion on gambling. When one factors in money spent on entertainment "hardware" the figures soar even higher. Toys and sporting equipment account for about $65 billion in spending. VCRs, televisions, CD players, and videotapes another $50 billion; still another $50 billion goes for books, magazines, and newspapers. Even these figures obscure the diversity in leisure-time spending. They ignore, for example, money spent at restaurants and cafés, and on things like sailboats, private planes, and the like [Armstrong,

BUSINESS AND ECONOMIC HISTORY, Volume Twenty-six, no. 2, Winter 1997.
 ISSN 0894-6825.

1997, pp. 130-34; Vogel, 1991, p. 10; Mandel, Landler, and Grover, 1994, pp. 59-66; *Economist* 1997, p. 114].

Corporate expansion and consolidation also characterize the entertainment economy. More and more financial specialists have come to see the field of entertainment as the bull market of the future, and thus corporations have purchased large shares of stock in companies that specialize in producing entertainment products. Meanwhile, large firms already in the market have consolidated their positions. One result is that companies with smaller capital resources and less organizational and technological capabilities have been absorbed by bigger, wealthier companies [Baskerville, 1995, pp. 7-10; Burnet, 1996, pp. 12-13].

This expansion and consolidation, it is worth noting, has begun to challenge traditional ways of understanding and explaining the media business. Media studies have typically divided the communications business into four basic categories – music, motion pictures, radio/television, and newspapers and magazines. But as corporate investments cut across these lines, the traditional paradigm holds less explanatory power. Like business historians, media experts have had to explain that modern corporations are building large efficient systems designed to achieve synergy in certain fields. By controlling and coordinating several areas of entertainment, large firms like the Sony Corporation can simultaneously promote various media products. A music video produced by Sony, for example, can be used to promote a Sony film, the film's sound track, and the careers of stars under contract with the firm. The music video and film might be played, of course, on Sony hardware products [Burnet, 1996, pp. 19-23].

The increasing globalization of consumer markets has affected the entertainment business no less than other sectors of the economy. Entrepreneurs in the leisure business have always looked at foreign markets as potential sources of revenue, but these markets have proved particularly valuable in recent times. American movies, television programs, and musical recordings now draw about half of their revenue from foreign countries. In 1993 American films generated $13 billion in revenue, $8 billion of which came from outside the United States. The growing strength of foreign markets has clearly affected the production strategies of entertainment firms. The abundance of action-packed movies with little dialogue and musical recordings with simple lyrics are partly explained by efforts to maximize profits in Asian, Latin American, and European markets [Burnet, 1996, pp. 10-15; Mandel, Landler, and Grover, 1994, pp. 59-66; *Economist*, 1996, p. 114].

The deregulation of markets is another trend that characterizes the field of entertainment. Throughout the 1980s and 1990s, federal regulatory agencies have abandoned policies that prohibited certain types of corporate mergers in the entertainment business. Since 1985, for example, the Federal Communications Commission (FCC) has increased the number of radio stations a firm can own in a specific geographic market from two stations (one AM and one FM) to sixteen stations (eight AM and eight FM). The belief that deregulation will create competition in national markets and simultaneously help U.S. firms compete abroad largely explains federal actions. Whether deregulation has had the intended effect is unclear; it is clear, however, that dismantling regulatory policies has had some unintended consequences. Consolidation in the radio industry, for example, has significantly diminished minority ownership in broadcasting and also given a few large corporations near monopolies over specific age groups [Arnst, McWilliams, and Barrett, 1997 pp. 30-32; *Honolulu Advertiser*, April 24, 1997].

Rapid technological change also explains recent entertainment history. Since the early 1980s, several new-fangled devices have left permanent imprints on recreational habits and business practices. The introduction of the compact disk (CD) in the music industry offers a good example. CD sales, which took off in 1985, fundamentally changed the way people listened to music as well as the way business firms produced and distributed music. In the near future, home computers equipped with CD technology promise to bring new changes to the realm of music. Consumers may soon be downloading entire libraries of recorded music into their home computers. If they do, they will further change the music retailing business [Baugham, 1992, pp. 207-210; Burnet, 1996, pp. 45-46; Armstrong, 1997, pp. 130-34].

Other technological advances are revolutionizing different sectors of entertainment. Digital compression technology and interactive television promise to make the vast majority of radio and television sets obsolete within the next decade. Meanwhile, giant-screen technology and better sound systems will probably transform the movie-going experience. The Canadian-based Imax Corporation, after struggling for nearly three decades to popularize its eight-story high movie screens and three-dimensional films, plans to double its network of 150 theaters within the next five years. Imax is presently negotiating with Hollywood filmmakers to produce movies especially for Imax theaters [Brown, 1997, pp. 8-9; Symonds, 1997, p. 80].

A sixth trend that characterizes the entertainment economy is job growth. America's appetite for entertainment has clearly been a boon for workers. Job growth in the leisure business accounted for approximately 200,000 new jobs in 1993, a staggering 12% of all new employment. In fact, employers in the recreation business are now hiring more workers than the health care industry, the main job creator in the 1980s. About 4.5 million Americans are now working in the realm of entertainment and recreation, more than in all auto-related industries, including car manufacturing plants, gas stations, auto repair shops, and car dealerships. The engines of job growth in entertainment are largely amusement parks and gambling casinos. Theme parks in the Orlando, Florida area alone employ some 40,000 workers. (A single casino in Las Vegas, the MGM Grand, employs 8,000 people.) According to one estimate, the gaming business could provide 500,000 new jobs in the next decade. This labor market, of course, should not be viewed through rose-colored glasses. Most of the jobs created in the entertainment economy are unskilled, low-paying ones that offer little security. Labor strikes are not uncommon in this market [Mandel, Landler, and Grover, 1994, p. 63].

Profiles of Major Corporations

Over the past two decades, a handful of highly-organized conglomerates with large numbers of foreign subsidiaries and branch offices have gained considerable control over recreational spending. Most of these firms are involved in producing both the "hardware" and "software" of entertainment. That is, they make consumer products like televisions and cameras as well as movies and music. I offer the following sketches of entertainment firms with a cautionary word: the structure of the entertainment business is changing too rapidly to make confident statements about the size and scope of specific companies.

I turn first to Time Warner, an American-based firm which generated about $21 billion in revenue in 1995. Time Warner has a long history, but at the heart of that history is the 1990 merger between Warner Communications and Time/Life, and the more recent integration of Ted Turner's entertainment empire into the Time Warner complex. Unlike other large entertainment firms, Time Warner is largely in the software business. The company's CEO, Jerry Levin, has divided software into three basic units: Entertainment, News and Information, and Telecommunications. Among the most notable and profitable subsidiaries within the firm is Warner Bros., which primarily manufactures movies and television programs, and the broadcasting firms of NBC, CNN, HBO, and TNT. Time Warner also controls Six Flags Amusement Parks, two professional sports teams (the Atlanta Braves and Atlanta Hawks), and Time Inc., which produces well-known magazines like *Fortune*, *People*, and *Sports Illustrated*. To capitalize in the music business Time Warner controls Atlantic Records and maintains multi-year recording contracts with stars like Madonna and the band Motley Crue. (Madonna's 7-year contract, worth about $60 million, gives Time Warner control over six Madonna albums as well as the star's music videos, films, and books.) Building an entertainment empire, of course, has not come without cost. Time Warner currently carries a debt of about $17 billion [Landler, 1995, pp. 41-45; Burnet, 1996, pp. 25, 52-53].

The Japanese-based Sony Corporation, which generated sales of approximately $26 billion in 1991, also controls a huge portion of the entertainment business. Sony is essentially divided into two corporations – Sony Electronics and Sony Software. While the first corporation produces and markets hardware products like radios, VCRs, camcorders, televisions, and cassette decks, the second focuses largely on music and movies. To produce the latter products, Sony looks primarily to CBS Records and Columbia Pictures, both of which it acquired in the late 1980s, and to its multi-million dollar contracts with performing artists like Michael Jackson and the rock group Aerosmith. A strong commitment to research and development (R&D) has long been a key to Sony's success. With annual R&D expenses that top $1.5 billion, Sony plans to remain at the forefront of invention and innovation. The company has clearly been a trailblazer in the fields of electronic publishing and digital television [Burnet, 1996, pp. 25, 51-53].

While Sony and Time Warner maintain dominating positions in the entertainment economy, a number of other firms wield enormous influence in that economy. The Japanese giant Matsushita, for example, is a formidable competitor in the area of entertainment hardware. With its JVC-line of televisions, CD players, and other consumer electronic products, Matsushita generated revenues of $38 billion in 1990, more than either Sony or Time Warner. The company has had difficulty, however, establishing a strong position in software markets. In 1990, the firm purchased MCA entertainment, the parent company of several major entertainment businesses, including Universal Pictures, Universal Studio themes parks, MCA Records, and Geffen Records. But in 1995 Matsushita sold 80% of MCA to the Canadian-based Seagram Company [Burnet, 1996, pp. 14, 18-20].

Three European-based firms hold competitive positions in the entertainment economy. England's Thorn-EMI, as its hyphenated name implies, has investments in both hardware and software markets. (Thorn handles the company's hardware and EMI the software.) The company's software unit has recently extended its influence in the music business and now controls about 15% of the global music market. Another powerhouse in Europe is the Netherlands-based Phillips Electrical Company and its software subsidiary Polygram Records. This company has also been at the forefront of consolidation in the music business. Since the late 1970s Polygram has absorbed a number of famous independent record companies, including Decca, A&M, and Motown Records. The third European company is the German Bertelsmann Publishing Group (BMG), whose history is tied to that of Radio-Corporation of America (RCA). BMG, which has especially large stakes in publishing, music, film, and television, now has employees working in 30 countries [Burnet, 1996, pp. 57-60]

Finally, I return to the American side of the Atlantic. Recent moves by a few large U.S. corporations have had major consequences for the entertainment business. With its recent purchase of the media giant Cap Cities/ABC, the Walt Disney Company has substantially extended its control over recreational spending. Disney now has major investments in radio, television, and publishing as well as film production, amusement parks, hotels, and spectator sports. Recent deals with communication companies like Ameritech and Southwestern Bell have suggested that Disney wants to expand into markets for interactive video, educational programs, and home shopping [Landler, 1994, pp. 41-45] Two other oldtimers in the American economy – Westinghouse Electric and ITT – have recently entered the entertainment business on a grand scale. In 1995, Westinghouse purchased CBS for $5.4 billion and Infinity Broadcasting for $4.7 billion. These acquisitions gave Westinghouse considerable control over radio and television programs. ITT recently spent $3 billion to turn itself into a leisure-time company. The conglomerate now owns five major gambling casinos, including Caesar's Palace in Las Vegas and Caesar's Atlantic City, as well as a major New York television station (WBIS), the Sheraton hotel chain, and a professional basketball team (the New York Knicks) [Lesly and Grover, 1997, pp. 82-83; Baker and Lesly, 1997, pp. 39-40].

A few other large, diversified corporations would deserve attention in a longer paper. Recent moves by companies like Viacom and Rupert Murdoch's News Corporation, for example, would underscore my basic contention that a few highly organized, transnational firms exert enormous influence over recreational spending. New studies in business and economic history, I hope, will take the matter of consolidation and centralization in the entertainment industry more seriously. The business of entertainment is clearly one of the most explosive sectors in contemporary economic life.

References

Armstrong, L., "Shoot A Cyborg, Ski an Alp," *Business Week*, February 24, 1997, 130-34.

Arnst C., G. McWilliams, and A. Barnett, "The Return of Ma Bell," *Business Week*, June 9, 1997, 30-32.

Baker, B., and E. Lesly, "Westinghouse Gets a Little Twang for Its Buck," *Business Week*, February 24, 1997, 139.

Baughman, J.L., *The Republic of Mass Culture: Journalism, Filmmaking, and Broadcasting in America Since 1945* (Baltimore, 1992)

Baskerville, David, *Music Business Handbook and Career Guide* (London, 1995).

Burnet R., *The Global Jukebox: The International Music Industry* (New York, 1996).

Brown, R., "Digital radio: hear it! read it," *Independent Tabloid*, June 30, 1997, 8-9.

"MCA is Sold for $5.7 Billion," *Honolulu Advertiser*, April 10, 1995.

"TV Assets Snagged Time Warner's Pursuit of Turner," *Honolulu Advertiser*, October 13, 1995.

Landler, M., "The Fat Lady Hasn't Sung at Paramount," *Business Week*, January 24, 1994, 40.

Landler, M., and M. Lewyn, "Radio's Empire Builders are Scanning the Dial," *Business Week*, June 29, 1992.

Economist, May 17, 1997, 114.

Lesly, E., "Television," *Business Week*, June 3, 1996, 32.

Lesly, E., and R. Grover, "Is Showbiz No Biz for ITT?," *Business Week*, January 20, 1997, 80-82.

Mandel M., M. Landler, and R. Grover, "The Entertainment Economy," *Business Week*, March 14, 1994, 59-66.

Myer, M., S. McGuire, C. Fleming, M. Miller, A. Murr, and D. McGinn, "Of Mice and Men," *Business Week*, September 5, 1994, 41-45.

Oneil, M., "Mogul," *Business Week*, December 11, 1995, 87-91.

Vogel, H., *Entertainment Industry Economics: A Guide for Financial Analysis* (Cambridge, 1991).

Screen Actor, July 1997, 4.

Symonds, W.C., "Now Showing In Imax: Money!," *Business Week*, March 31, 1997, 80.