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If You Want to Run an Entertainment Company, Here is Your New Bible

Adam Leipzig · Monday, September 5th, 2016

I read just about every book that analyzes the entertainment business, both because it's the business I'm in and I love to learn new perspectives. *Streaming, Sharing, Stealing: Big Data and the Future of Entertainment*, by Michael D. Smith and Rahul Telang (MIT Press), is the best book on the subject, bar none. Every entertainment executive who hopes to have a job in coming years should read it and follow its prescriptions.

I met Michael Smith, who's a professor of information systems and marketing at Carnegie-Mellon University, at Sundance in January, where he gave a riveting presentation on digital piracy at the Sundance Institute. We struck up a conversation and, full disclosure, have become friends.

One of the things I most admire about Smith and Telang's work is that they do not come from the entertainment business at all, and therefore have no axe to grind, no jobs to protect, and no legacy business models to justify. All they care about is data, and they collect lots of it.

Their data leads to conclusions that may not seem shocking to people who follow digital content enterprises, but will certainly upset traditional entertainment companies.

Some say that it's inevitable for longstanding film, music, television, and publishing companies to survive as they have for many decades. Smith and Telang counter this viewpoint because, they contend, the fundamentals of the business have changed permanently. Where once it was enough to make and own great content — the province of movie studios, record labels, and publishing houses — now that is no longer sufficient. Today it is possible to own the audience, and massive amounts of audience data represent a near-insurmountable competitive advantage. The big question is whether large companies will take this information to heart and change their business models before it's too late and data-driven companies, like Netflix, Amazon, and iTunes, leverage their understanding of the audience to topple a century-old hegemony.

As Smith and Telang summarize their thesis:

"In recent years a perfect storm of technological change has hit the entertainment industries. It involves the convergence of user-generated content, long-tail markets, and digital piracy, and it has diminished the profitability of these industries' traditional business model.

"At first glance, none of these changes seems to pose much of a threat. User-generated content, after all, is amateur fare: videos of cats riding Roombas and kids playing *Minecraft*. Long-tail markets, for their part, are full of products that can't compete: old, failed films and television shows, say, that don't stand a chance against new blockbusters such as *Avatar* or *The Sopranos*. And digital piracy, while certainly harmful to sales, impacts all of the studios equally and therefore shouldn't upset the competitive balance.

"But in fact this perfect storm has changed everything. Content is no longer hard to produce or

easy to control because of the technological revolutions in hardware and software that we're now witnessing. Distribution is also much easier now: long-tail markets make it possible to allow everything to be put up for sale, a big shift from the limited capacity in movie theaters and limited space on television broadcast channels. And thanks to digital piracy, it's much harder to maintain the profit from the staggered release windows that are fundamental to all of the entertainment industry's existing business models."

For the benefit of existing entertainment companies, Smith and Telang provide a series of well-thought-through recommendations in their closing chapters. As someone who has been in the entertainment business for 30 years, it feels clear to me that Smith and Telang's data are excellent and their conclusions are inevitable. Will movie studios, broadcast networks, music labels, and publishing companies view this book as the new rule of the road or the raving of Cassandra? Time will tell — and for legacy companies, time is running out.

Image: The cast of 'Arrested Development,' a series Netflix picked up after it was cancelled on Fox's broadcast network. Why did Netflix do that? They had the data. Image courtesy 20th Century Fox TV.

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