

*A detailed look at the state of
the entertainment industry.*

theskyisrising

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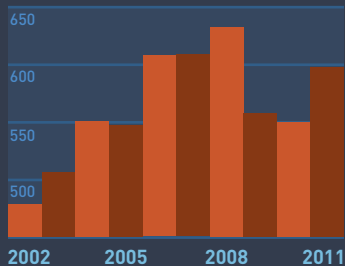


A closer look at growth in the major entertainment industries

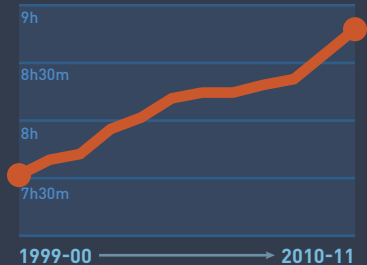
GAMES

VIDEO

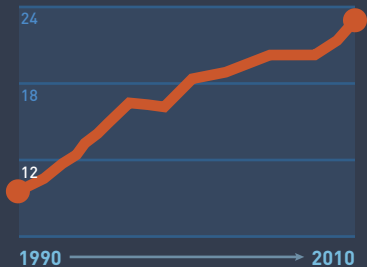
FILMS RELEASED IN THE US



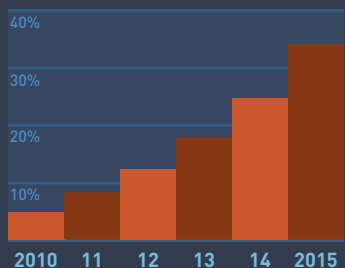
TIME SPENT WATCHING TV AVG. DAILY HOUSEHOLD HOURS



MOVIE INVESTMENT IN BILLIONS

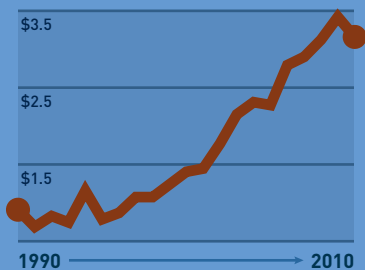


ONLINE VIDEO TRAFFIC AS % OF ALL TRAFFIC, PROJECTED

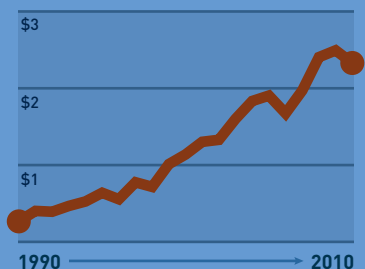


MUSIC

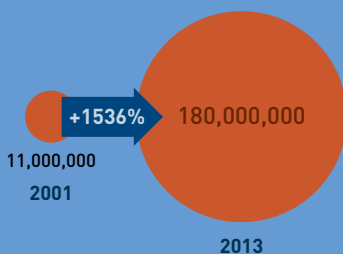
LIVE CONCERT REVENUES IN BILLIONS



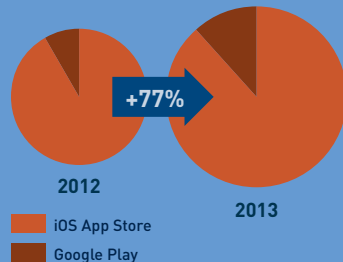
ROYALTY REVENUES IN BILLIONS



NUMBER OF TRACKS INDEXED BY GRACENOTE



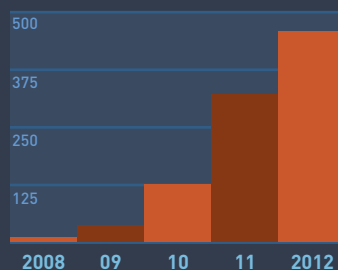
MUSIC APP REVENUES GROWTH INDEX



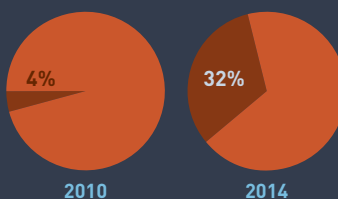
iOS App Store
Google Play

BOOKS

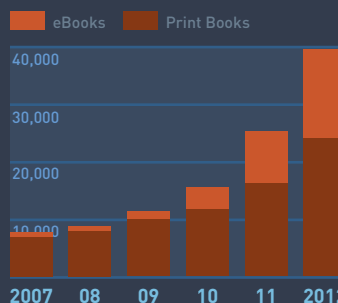
E-BOOK UNITS SOLD IN MILLIONS



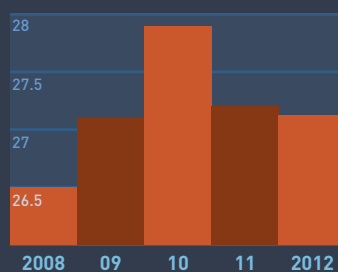
E-READER OWNERS AS % OF POPULATION



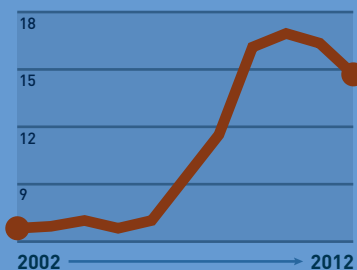
SELF-PUBLISHING OUTPUT BY TOTAL NUMBER OF ISBNs



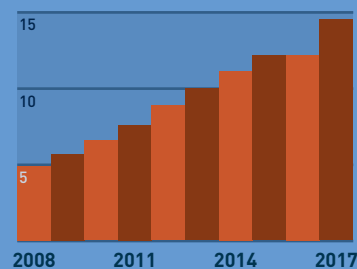
TOTAL BOOK MARKET IN BILLIONS



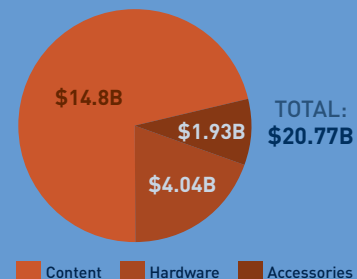
VIDEO GAME SALES TOTAL CONSUMER SPEND, IN BILLIONS



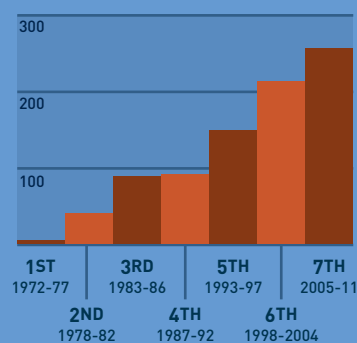
MOBILE GAME REVENUES IN BILLIONS, WITH PROJECTION



CONSUMER SPEND ON GAMES 2012, BY CATEGORY



GAMING CONSOLE SALES LIFETIME UNITS SOLD, BY GENERATION



OVERVIEW

Two years ago, in our first Sky is Rising report, we highlighted how, despite all the reports of doom and gloom, we were living in a true renaissance period for content around the globe, in which more content than ever before was being created, more people had access to more content, more people were paying more money for content and the overall content industries were making more money than ever before.

That did not mean that everything was perfect for everyone. Mixed within that data, we noted that there were both challenges and opportunities for many different parties. For content producers, while it had become cheaper and easier to produce and distribute their works (and to connect with fans), it also meant that there was significantly more competition to deal with. Similarly, for traditional middlemen (especially those in gatekeeper roles), the shift was monumental. The changing nature of the creation, distribution and promotion of content often meant that business models that relied on being a gatekeeper were suddenly less powerful.

In short: the creative output continued to grow and the money continued to flow – but often in very different ways that created both opportunities and challenges for all participants.

Last year, we released the second report in the series, focusing on what was happening in six European countries. The reason behind this was to explore how accurately the global results were reflected in certain individual countries. What the data showed was that – for the most part – the global trends stayed true within individual countries, but with some key differences. Certain industries struggled more than others, giving us glimpses into different challenges and the ways different policies might impact the content industries. For example, there was a pretty clear correlation between the number of authorized digital music services and music revenue – suggesting that more convenient licensing policies likely resulted in more revenue.

This report is the third in the series, and it focuses on what the data says about the US specifically. The US, of course, remains the leader in the production of music, movies, books and video games – and those works are exported all over the world. So focusing on the US gives us a glimpse into what’s happening around the globe, but with the added benefit of more widely available and much more consistent measurements and data.

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At the same time, the US is also beginning what is likely to be a long process of exploring copyright reform – and we hope that an analysis of what the data actually says about the US market for content will help aid the debate and discussion as that process moves forward.

As for the data: the basic story certainly remains the same. Within the US there has been an explosion in creative output over the past couple of decades. While the nature of the various industries may have changed, the simple, undeniable fact is that there is a cornucopia of amazing new content being produced, consumed, shared and monetized in the United States. The amount of new music being produced and released is absolutely staggering, with Gracenote's database of commercially available songs jumping from 100 million tracks in 2011 to 180 million tracks in 2013. Despite constant predictions of it falling off, the live music business continues to grow as well. While the business models are still unclear, the rise of streaming services as the dominant form of access in both music and video are a clear and overwhelming trend. There is significant evidence that the long-predicted shift from "owning" content to "accessing" content is in full swing.

A similarly undeniable trend is the shift in music, movies and books away from total domination by "the majors." While major labels, major studios and major publishers still produce much of the top content, independent artists, authors and movies are no longer on the fringe, with many taking up the slack where the majors have backed off on production. Independent movie production, for example, has been revolutionizing the movie industry, with some of the most successful (and critically acclaimed) movies in recent years coming from independent origins. Self-publishing is no longer stigmatized in the way it once

was, with some massively successful books now coming out from self-published authors.

Meanwhile, the television market (increasingly difficult to define, given changing technology), has continued to expand, and many people now recognize that some of the most creative content production has moved from "movies" to episodic television – though some of that "television" is now only available online. Related to this is the ongoing struggle of how those shows will be offered, with some still locked to

traditional pay TV options (cable and satellite) and others available via online only platforms, like Netflix and Amazon. Connected to all this are the "cord cutters" and (increasingly) the "cord nevers" who are driving the various paths on a collision course. The markets are still somewhat fragmented, but everything is moving online, and the amount of new and wonderful content continues to multiply.

The book market is one that many people have been predicting doom and gloom for quite some time – often for different reasons than the music and video markets. However, again, the technology industry appears to be creating a wonderful payoff for those in the publishing industry who embrace it – showing tremendous growth in ebook publishing, thanks to increasingly widespread adoption of dedicat-

ed ebook readers and general purpose tablets and smartphones.

The video game market has been changing quite a bit in recent years as well. After seeing incredible growth for years, the industry did have a bit of a stumble, but mostly that appears to be due to the switching generation of consoles, leading many gamers to hold off on purchases until the new platforms were available, and not fully attributable to the 2008 economic downturn. That said, the rise of new

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gaming opportunities in mobile and social have begun to change what people think of as “gamers” and the potential gaming market.

Put it all together, and we discover, again, an incredibly vibrant world of creativity on multiple fronts. Amazing new works are being created in every different form of media – with the boundaries and lines between them starting to blur. Much of what is happening is directly related to technological progress and innovation, as new platforms, tools and services are enabling cheaper, easier and better ways to create, to distribute, to promote, to connect and to make money.

The challenges still remain: with easier creation, promotion and distribution – there is much more competition, and it can be much more difficult to be heard above all the other noise. The “tried and true” paths to making money in the past were never really that tried or true, but the general steps were clear, even if nearly all who took them failed. Today, however, there is no real tried and true path. There are a variety of different paths, each with different opportunities and challenges all its own.

For example, crowdfunding has become a major force, but already some are exploring alternative models. Tools like Kickstarter are still dominant, but new and interesting alternatives like Patreon are drawing interest as well. Subscription services in many areas have become key players in the field – and with that come concerns about whether or not they will become “the new gatekeepers.” Making sure platforms are kept as open as possible, and where individuals and companies are allowed to innovate and experiment is going to be key to keep this level of innovation flowing, while encouraging ever more creation of content as well.

For consumers of content, the world remains one of as-

tounding abundance. Not only do they have significantly more content to explore than ever before, but a greater opportunity to really dig in and explore new areas and communities. They’re better able to learn about influences, to join communities and even to interact with the artists and creators, as well as other fans, directly.

Legacy players may be facing more challenges in adapting to this new world, but we’re seeing that as they embrace new systems and platforms, many are learning how

to thrive as well. The increasing success of licensed platforms for distribution are opening up new channels, and those who take a more holistic view of the opportunities are seeing success. This has been true in the past, but often went unnoticed or uncommented upon. People often point to Jack Valenti’s famous testimony, in which he predicted the VCR would be “the Boston Strangler” to the movie industry to demonstrate how little some perceive the benefit of technology, but perhaps the more powerful point is that it was merely four years after he made that comment that home video revenue surpassed box office revenue for the movie industry.

All too frequently, the debate over these issues is framed as the technology industry “against” the content industry, but as we see with this report, that appears to

be an unfortunately inaccurate framing. Throughout history, the two industries are intertwined, with innovation and improvements in technology opening up tremendous new opportunities for creators, for the public and for those who serve both. There is little indication that anything on that front has changed. If anything, the increasing level of innovation appears to have been a huge boon for the public and many content creators.

All in all, the sky continues to rise.

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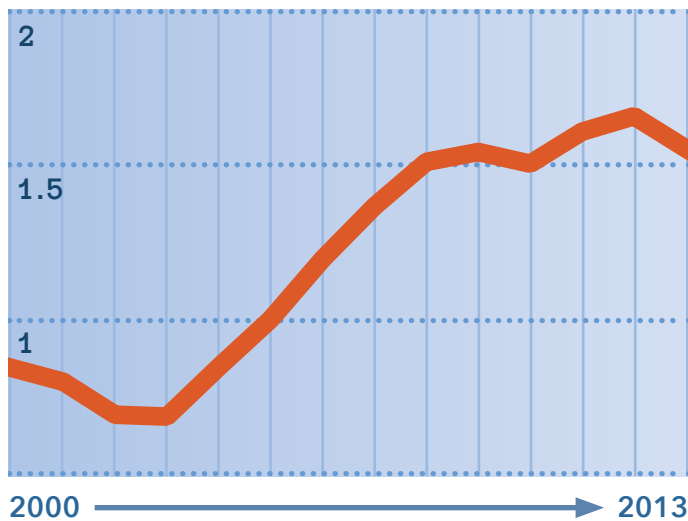
MUSIC

The music industry consists of a diverse collection of creative individuals, bands, royalty collection organizations, startups and multi-billion dollar media giants. Some musicians become rock stars, and others play music as a part-time hobby. It's incredibly difficult to truly capture the entire music industry with a few numbers, but the ubiquity of music is obvious. While the business of selling music has met with some technological challenges over the last few years, the fundamental drive to create, share and listen to music has never been stronger.

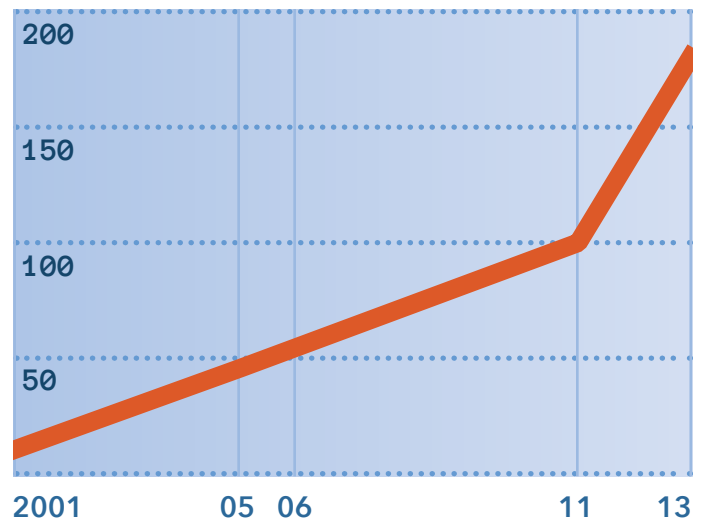
In 1929, Americans collectively purchased about 100 million songs on vinyl records, and 80 years later, Americans bought 7.5 billion songs as CDs and downloads.¹ Over the same timeframe, the costs of recording a song grew steadily but modestly. Recording studios in 1929 charged about \$0.31 per song, and in 2009, the fee was \$0.83 per song.¹ Notably, this production cost increase is well below the rise in the prices to buy a song, which has more than quadrupled since the 1940s.² Americans have greater access to music than ever before in history, and in 2006, it was estimated that consumers downloaded about one billion tracks per month.³ In 2013, music listeners in the US streamed billions of songs, and streaming music consumption is experiencing double digit growth, year over year.⁴ According to Nielsen SoundScan, overall sales transactions hit record highs in 2011 and 2012.⁵ Music lovers are consuming music now at historically high rates.

As music consumption appears to be growing and growing, the ability to record music is also getting easier and faster. It's never been simple to estimate how many songs are being produced each year, but the Gracenote database (which indexes commercial music metadata) continues to expand. For several years Gracenote had added about 10 million music tracks to its database each year, but for the last couple years, the rate is accelerating. In 2001, Gracenote had 11 million tracks in its database, and by 2011, it had 100 million. In 2013, Gracenote's database grew to 180 million tracks.⁶

TOTAL SALES TRANSACTIONS
DIGITAL & PHYSICAL MEDIA, IN BILLIONS ⁵



NUMBER OF MUSIC TRACKS
AS INDEXED BY GRACENOTE, IN MILLIONS ⁶

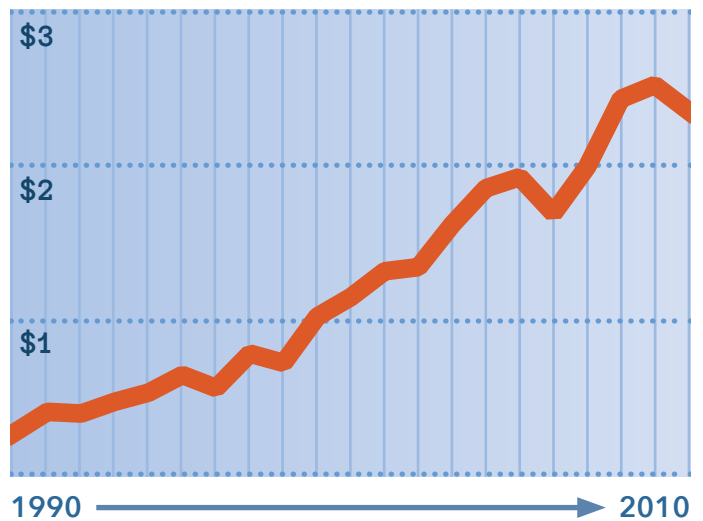


Anecdotally, musicians of all kinds are creating more music in impromptu settings and online. For a single, unscientific datapoint, more than 150 original songs can be recorded in a weekend, as evidenced by the song submissions from both amateur and professional musicians at the request of NPR Music in November of 2009.⁷ Musicians are gaining inspiration from an increasingly wide number of sources. Beatboxing musicians have adopted unexpected communication services to share their creations, using the voice messaging WhatsApp app to share and store their riffs.⁸ Computer-aided composers can create music for a variety of purposes. One composer who relies heavily on technology, John Powell, stated that having access to a vast collection of playlists is an essential creative gift for his ability to come up with his own original music.⁹ Music begets more music. Additionally, completely computerized composers are also maturing, as a computer program named Emily Howell (the successor to Experiments in Musical Intelligence, aka EMI) has released an album of music, and robotic bands playing music composed specifically for mechanical beings have been created (but aren't touring just yet).^{10,11} Music software may never replace fully human musicians, but the advancement of musical technologies will certainly make music ever more pervasive in every aspect of our lives.

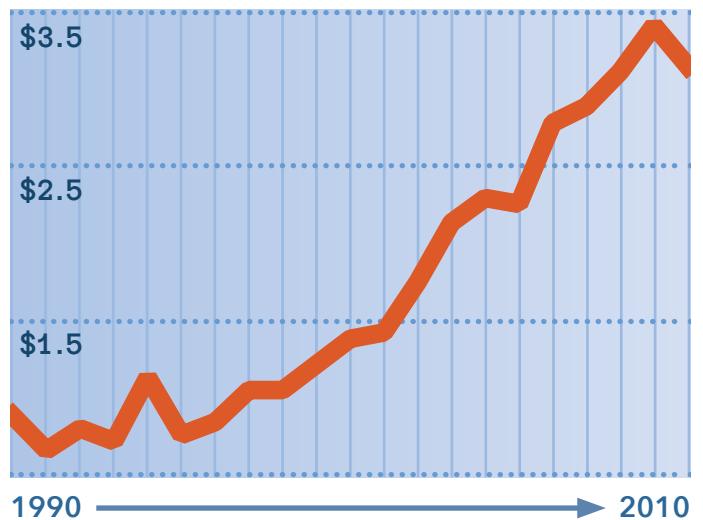
According to Bureau of Economic Analysis (BEA) researchers estimating the value of original music created each year in the US, real music production was valued at \$7.8 billion in 2010, down from \$9.1 billion in 2000 (adjusted for inflation in 2005 dollars), but they also reported a sustained, long-term increase in real music production since the 1920s.¹² PricewaterhouseCoopers (PwC) reports a more recent trend for the music industry, estimating the US music industry growing from \$15 billion to \$15.1 billion from 2012 to 2013, and predicting it will reach \$15.3 billion in 2014. The revenues from broadcast and satellite radio are also expected to increase, from \$19 billion in 2012 to \$19.6 billion in 2013.¹³

Concert revenues continue to be a bright spot for the music industry, as the North American concert industry grossed a record-breaking \$5.1 billion in 2013, according to Pollstar. On top of this rising trend for concert sales, Pollstar president Gary Bongiovanni said, "I don't think we've reached the saturation point."¹⁴ PwC estimated the US concert business at \$8.61 billion for 2013, growing to \$9.2 billion in 2014 with a compound annual growth rate of 3% through 2017.

ROYALTY REVENUES IN BILLIONS ³⁰



LIVE CONCERT REVENUES IN BILLIONS ³⁰



The actual scarcity for seeing a musical performance live appears to be a healthy and sustainable practice for the foreseeable future.¹⁵

Curiously, the sales of physical media (eg. CDs, cassettes) has generally been declining – except for vinyl records. Vinyl album sales were up 33% in 2013, selling 6.1 million units and hitting a 15-year high.¹⁶ In 2012, Nielsen noted that vi-

nyl album sales hit 4.6 million which was also a Nielsen SoundScan sales record, up from 3.9 million in 2011 and just under 1 million in 2007.¹⁷ Even though vinyl is still a niche market by its overall size, some artists are targeting vinyl customers by publishing special vinyl editions of their work. For example, Jack White broke a world record by recording and pressing a vinyl track in under four hours. White has also released a vinyl record with new features such as “hidden” tracks that play at different speeds and a hologram to make the album even more special and noteworthy.¹⁸ These kinds of efforts help build relationships with fans by giving them exclusive features and collectible physical goods. With the resurgence of this music format, the largest vinyl pressing plant in the US has recently announced it is expanding its operations.¹⁹

FAST FACTS » GROWING DIGITAL

118.1 billion

music streams in 2013, a record high.²¹

68%

of the US population
streamed music in 2013²¹

9.1%

growth of digital album
& track sales in 2012²²

Over 50%

of recorded music
sales are digital, without
even counting
streaming services²³

Over 70%

estimated growth of
subscription and
ad-supported royalty
fees in 2012²⁴

Over \$1 billion

in ad revenues paid to the music industry by YouTube²³

Not surprisingly, however, the future economic growth of music is clearly in digital tracks. Streaming music services are growing, but the business models to support these technological advances are still up in the air. There is promise and potential in selling new ways to access music, and a study from Nielsen found that music fans could spend an additional \$450 million to \$2.6 billion annually, if the opportunities to buy behind-the-scenes access to artists or exclusive content were available.²⁰ Streaming music hit a record 118.1 billion streams in 2013, and 68% of the US population has streamed music in 2013.²¹ Legal digital music downloads grew by 9.1% with both digital albums and digital tracks hitting record highs in units sold in 2012.²² More than half of all recorded music sales worldwide comes from digital revenues, and that doesn't even include streaming services. YouTube has paid the music industry over \$1 billion in ad revenue over the last several years, so digital music streaming is undeniably becoming a significant segment of the music industry.²³ Subscription and ad-supported royalty fees are growing at double digit rates, increasing over 70% by some estimates in 2012, but the absolute size of these services is still relatively small compared to the rest of the music industry.²⁴ A major component of the uncertainty of streaming music as a business is the legal mess that plagues royalty agreements.²⁵ Still, competition in the music services space is highly active, with large companies like Apple and Google acquiring some of the startups and possibly fueling more investment frenzy in digital music.²⁶

One optimistic note about the music business is that, unlike other media, songs are easily re-mixed or adapted to fit different times or places. Occasionally, decades-old songs even have a resurgence that tops the latest releases.²⁷ For example, Whitney Houston and Guns N Roses had best-selling albums in the first half of 2012, and older albums (older than 18 months) outsold newer ones 76 million to 74 million during that time.²⁸ The long tail of the music catalog apparently can swing back and outsell more recent releases, especially as it becomes increasingly easier for music listeners to discover old or obscure songs.

Digital distribution can drive new demand for older music and inspire interest in obscure works. Rickrolling (the internet prank of linking to Rick Astley's “Never Gonna Give You Up” hit from 1987) and other viral music memes have the ability create a music culture far more dynamic than ever

heard before. Without streaming online music, Americans probably wouldn't have ever watched "Gangnam Style" — a pop hit with minimal English lyrics from South Korea that reached a billion views on YouTube — or "What Does The Fox Say?" from a Norwegian artist. Even more surprisingly, a song such as Opus No. 1 by Tim Carleton has been installed on 65 million Cisco phone systems as the default hold music, creating a strange fanbase that has sought out this musical composition created in 1989 by a then 16 year old who had no idea how far his music would reach.²⁹ The opportunity for musicians has never been more open and free of gatekeepers.

Although the prominent business models for music are changing, the consumption of music has never been higher. Music, as a business, will very likely be much more diverse in the types of its revenue streams with more and more subscriptions, ads, fan patronage, live concerts, in-app purchases, merchandising, royalties and other transactions that haven't been tried yet. As a creative endeavor, music has not stopped being an integral part of our emotional lives, and there seems to be no end to the massive creativity that continually produces music.

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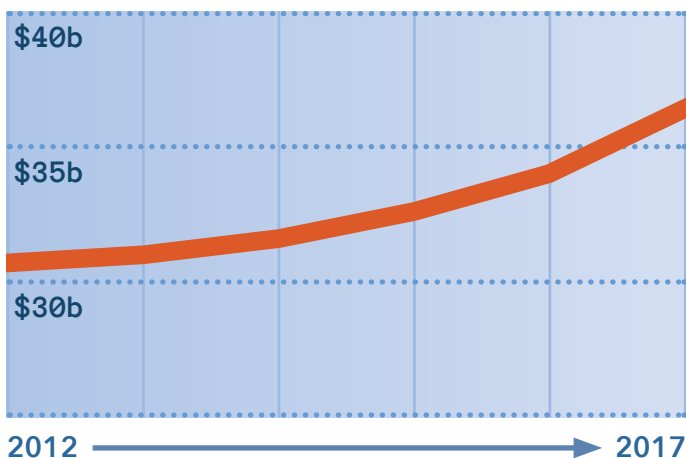
VIDEO

The video entertainment industry has traditionally been divided into separate categories with different core business models, but these distinctions have grown less and less useful each year since the dawn of the digital age. The lines between film, television and online video still exist, but they are increasingly blurred by the growth in multi-platform distribution and new more flexible video delivery mechanisms, as well as changing viewer habits. The lines between video and other media aren't always easy to draw either: music videos have long been an important part of both industries, and the recent trend of "Let's Play" presentations and other video game-based video sharing, in which individuals or groups share recordings and live streams of their gameplay sessions along with reactions and commentary, presents a brand new crossover industry with no direct precedent. But whether the major video entertainment businesses are viewed as individual silos or parts of an interconnected whole, the pattern is the same: video is a growing industry that has proven highly resistant to economic fluctuations, and is likely to remain strong in the foreseeable future.

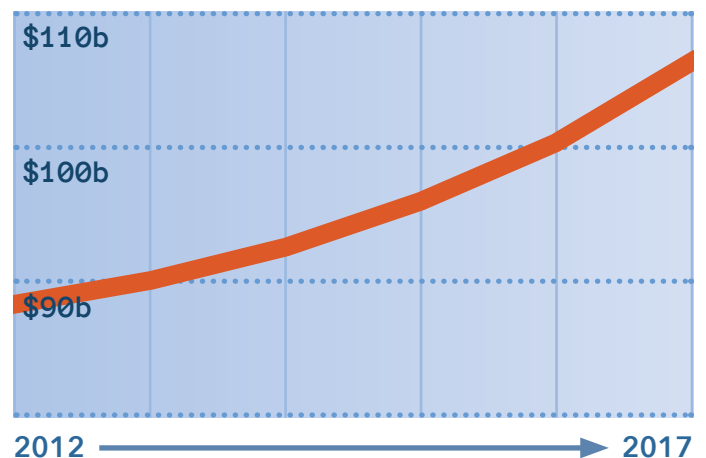
Like other entertainment industries, much of the growth in video is happening and will continue to happen outside of historically dominant channels. Independent creators and disruptive startups are thriving thanks to the same key factors at work in most media: decreased production costs, increased access to distribution and promotional channels, and a massive potential audience that crosses traditional demographic boundaries. Meanwhile, incumbent video entertainment companies have continued to adapt to an evolving market, and significant changes are happening within the established film and television industries as they compete for an audience with more choices than ever before.

All this adds up to a highly positive future for the video entertainment industry globally, and especially in the US. In its 2013 outlook report, PricewaterhouseCoopers projected that despite the rapid growth in international entertainment industries, the US will continue to be the largest and most valuable territory in the world for all video entertainment. PwC estimates that the overall sector will grow from \$31.04 billion in 2012 to \$36.35 billion in 2017, when it will represent more than a third of the global industry. The bulk of this growth will come from streaming services like Netflix, Hulu and Amazon, while the box office remains the largest revenue driver. Sales of physical home entertainment media (DVDs, Blu-Ray) will continue to decline, and will be the only category of video entertainment that does so.¹

US FILMED ENTERTAINMENT
TOTAL INDUSTRY SIZE, PROJECTED ¹



GLOBAL FILMED ENTERTAINMENT
TOTAL INDUSTRY SIZE, PROJECTED ¹



THE FILM INDUSTRY

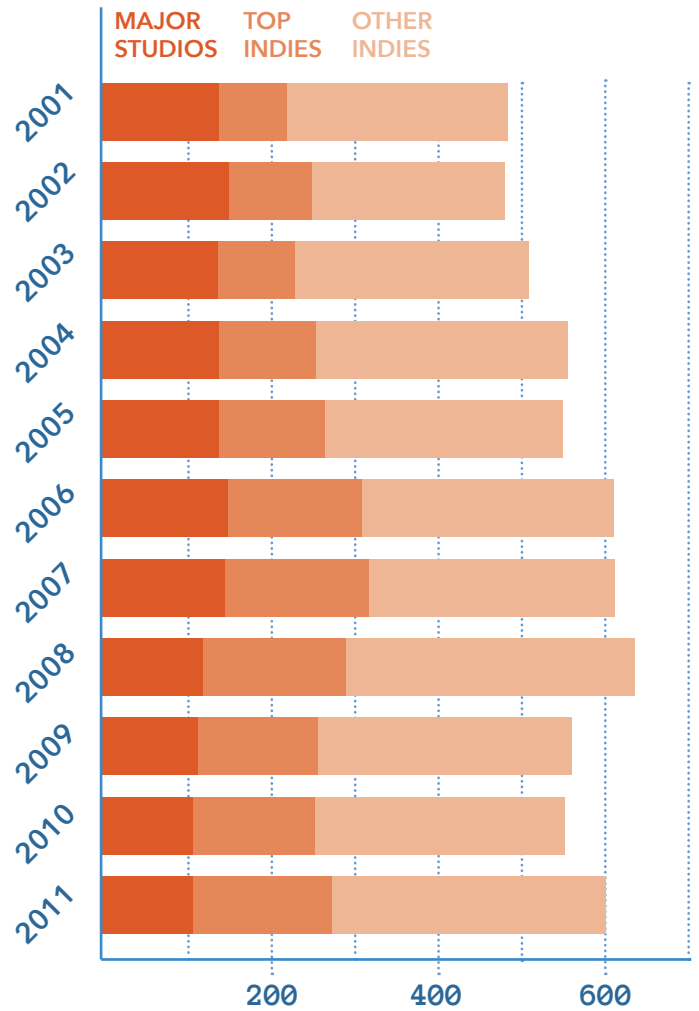
Though Hollywood has crusaded loudly about the supposed threat that digital piracy represents to the movie business, the reality is that the US film industry is healthy and growing, even if that growth is slower than other video sectors. The estimated annual number of films released in the US declined by 6% between 2008 and 2011, but that must be contrasted against a rapid 25% increase from 2003 to 2008, and a long-running trend of overall growth. The 2011 output of nearly 600 films is still historically high, compared to 478 in 2000 and only 410 in 1990.² According to research by Rachel Soloveichik based on economic census data, investment in movies has also experienced nearly-uninterrupted growth, rising from less than \$3 billion in the 1960s to over \$12 billion in the 1990s, and nearly \$24 billion in 2010.³

Much of this growth in output is attributable to independent film production. The volume of major studio releases has been in decline since the 1990s, with a 25% drop between 2006 and 2011, but this 20-year trend is outweighed by hugely increased output from the top independent studios in the same timeframe.² Independent films are not relegated solely to festivals and cinephile circles: for example, 2013's Oscar-winning *Dallas Buyer's Club* was independently produced with financing from Texas businessman Joe Newcomb, who is just one of a new generation of independent movie moguls financing prestige films. Two best picture nominees from 2013, *American Hustle* and *Her*, were financed by Megan Ellison, daughter of Oracle co-founder Larry Ellison. *12 Years A Slave* and *The Wolf of Wall Street* also obtained independent financing.⁴

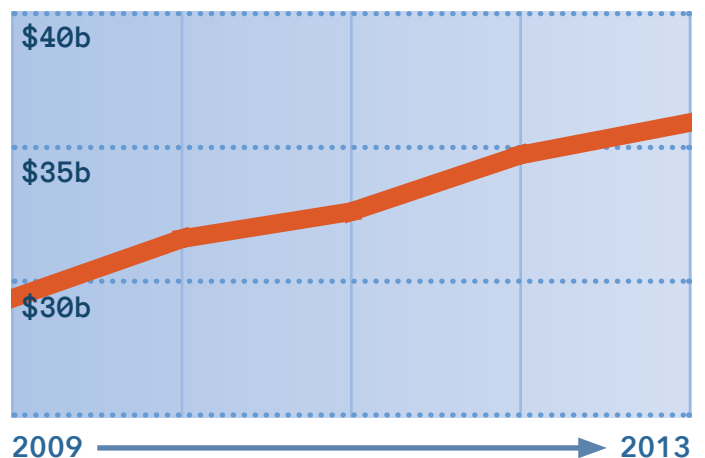
These productions do not exist entirely outside of the Hollywood system, as they rely on large, established studios for distribution deals. These films represent a low risk to the studios compared to big-budget blockbusters, which are themselves showing signs of decline as a dominant Hollywood product.⁵ 2013's third-highest grossing studio, Universal Pictures⁶, attributes much of its success to *Despicable Me 2* producer Chris Meledandri, whose specialty is producing hit films at much lower budgets than the average blockbuster. DreamWorks Animation SKG and Disney have both also announced new lower budget caps for films.⁵

Overall, box office revenues for US films continue to break records every year, with the global box office hitting

NUMBER OF FILMS RELEASED MAJORS VERSUS INDEPENDENTS²



GLOBAL BOX OFFICE TOTAL REVENUES⁷



\$35.9 billion in 2013 according to MPAA figures, up from \$29.4 billion in 2009. Growth in the domestic portion of that market is slower, rising from \$10.6 billion in 2009 to \$10.9 billion in 2013⁷. This relative steadiness is attributable to a significant decline in ticket sales counterbalanced by a huge increase in average ticket price. The global growth, on the other hand, is due largely to the construction of new cinemas in developing markets, most notably South Asia.² PwC estimates that box office revenues will grow to \$44.4 billion by 2017, representing annual US and global growth of 3.3% and 5.2% respectively.¹

The most pronounced downward trend in the film industry is in physical home video sales and rentals. Initially feared by Hollywood as a threat, home video quickly became the dominant source of movie revenue shortly after the inception of the VCR, but is now in steady decline, at least in its physical form. PwC projects physical home video revenues dropping 4.9% annually, from \$40.48 billion in 2012 to \$31.46 billion in 2017, while revenue from electronic home video (streaming services like Netflix and Hulu as well as video-on-demand services from traditional television providers) grows from \$11.2 billion to \$26.9 billion over the same period. This places a key tipping point – when combined streaming and VOD revenues surpass those of DVDs and Blu-ray discs – in 2016 for the US market.¹ However, this portion of the market is not exclusive to the movie business, as both physical and digital home video services generally involve both film and television content.

FAST FACTS » REPLACING PHYSICAL HOME VIDEO

\$31.46 billion

projected global physical home video revenues in 2017, down from \$40.48 billion in 2012¹

4.9%

estimated annual drop in revenues from physical home video between now and 2017¹

2016

is the key tipping point, when streaming & VOD revenues surpass physical home video in the US¹

THE TELEVISION INDUSTRY

Television can be broadly divided into two different business model categories – advertising-funded broadcast TV and paid subscription services – but the two are heavily intertwined by retransmission, syndication, digital distribution and myriad other factors. Additionally, the growth of digital video services that put films and television on equal footing in the home is breaking down the walls between these traditionally separate forms of video entertainment. An increasing number of TV shows are finding success outside the standard metric of performing well in a given timeslot on a given channel: some have gained popularity only after the fact when released as season-long box sets, some are exclusive to on-demand services like Netflix, and some have middling ratings that flourish once DVR numbers are included. All these factors have both directly and indirectly contributed to what many critics and observers refer to as “the second golden age of television”.

For advertising-supported broadcast television, the biggest adaptation challenge has been changing audience habits that are eroding the role of television as a shared live experience, as people exercise more choice in what media they consume. According to data from Nielsen, the total amount of TV time spent watching live content decreased from 89% in 2006 to 85% in 2011, while DVR usage grew from 1.6% to 8% of TV time.⁸ From 2012 to 2013, the average monthly time spent watching live TV broadcasts dropped slightly, from 156 hours and 24 minutes to 155 hours and 32 minutes, while in the same span the monthly time spent watching time-shifted TV grew from 12:38 to 14:40.⁹ This trend is even more pronounced among younger people and during the “prime time” hour of 8–9:00pm. According to a 2012 GfK study on 18- to 49-year olds, among those who said they watched TV the previous day during prime time, 26% said they were watching a recorded or time-shifted program rather than a live broadcast, up from only 16% in 2008.¹⁰

This has forced the industry to begin rethinking its approach to ratings and demographics. The “live-plus-seven-days” viewership of a show, which counts a week’s worth of DVR viewing and other time-shifting beyond the initial broadcast, has become an increasingly important metric. In the first week of the 2012 fall season, shows on the top five networks experienced an average 29.7% ratings bump when

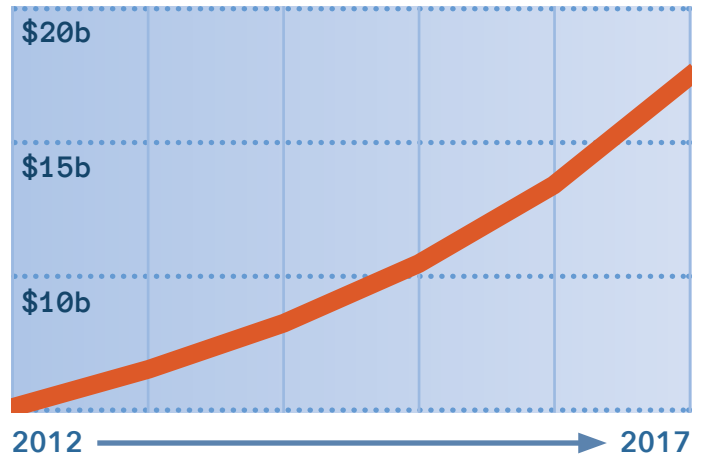
comparing live-plus-seven-days to standard live ratings, up from 23.4% the previous year.¹¹

Traditional payTV – cable and satellite providers, including specialty networks like HBO – is going through its own set of difficult transitions, primarily driven by competition from a new ecosystem of digital streaming alternatives like Netflix, plus huge amounts of online content ranging from the amateur to the semi-professional. The emerging demographic of “cord-cutters” has been tracked and debated for years, and is now being joined by a new generation of “cord-nevers”: people who have always used the internet as their primary means of video consumption, and will never purchase a traditional cable or satellite package.¹² At the same time, many of the highest-rated and most critically-acclaimed shows are still exclusively aired by major specialty networks, and these shows are also among the hottest trends on social media and TV blogs – communities that heavily correlate with cord-cutter and cord-never demographics. This imbalance, as well as the reactions to it from audiences, networks and creators, has provided several unique insights into TV business models, viewer expectations, and the true impact of piracy.

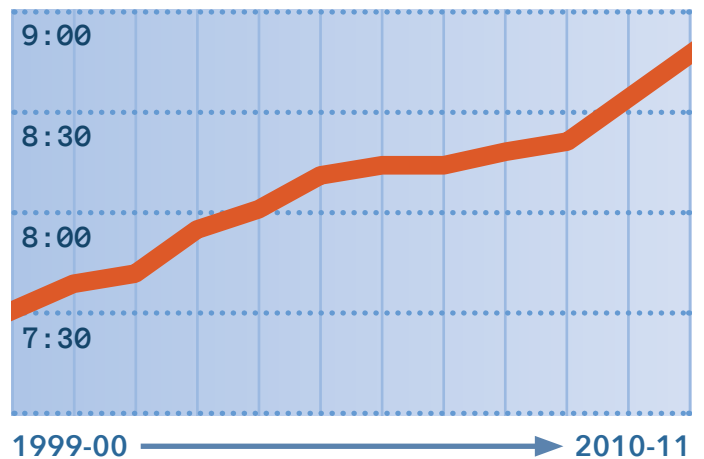
Unsurprisingly, estimates from Torrentfreak have shown that the most-watched shows are also among the most-pirated – but the rankings do not track directly. HBO’s hit Game of Thrones has repeatedly been the biggest anomaly, with an extremely high rate of piracy compared to its viewership. In the 2013 spring season, Game of Thrones averaged 5.5 million viewers per episode and 5.2 million torrent downloads. In comparison, AMC’s hit The Walking Dead averaged 12.4 million viewers and only 2.7 million downloads. The former has become a popular symbol of cord-cutter complaints about the restrictive nature of specialty networks like HBO, which only makes its shows available online to people who also buy traditional cable subscriptions.¹³ Nevertheless, Game of Thrones continues to gain viewers, and has already broken its own ratings records in the 2014 spring season.¹⁴

This situation cannot last forever, though, and many analysts and commentators have pointed to the inevitability of standalone digital subscription offerings from HBO and other networks in the near future. Apart from the simple fact that this is what many customers demand, the popular prestige shows that drive subscribers are no longer solely the domain of specialty cable networks. Netflix produces award-winning and critically-acclaimed exclusive series, and

GLOBAL STREAMING REVENUES SERVICES LIKE NETFLIX & HULU, PROJECTED¹



TIME SPENT WATCHING TV AVERAGE DAILY HOUSEHOLD HOURS:MINUTES⁹



FAST FACTS » TIME SHIFTING IS TAKING OVER

29.7%

ratings bump for TV shows when comparing live-plus-seven-days to standard live ratings¹¹

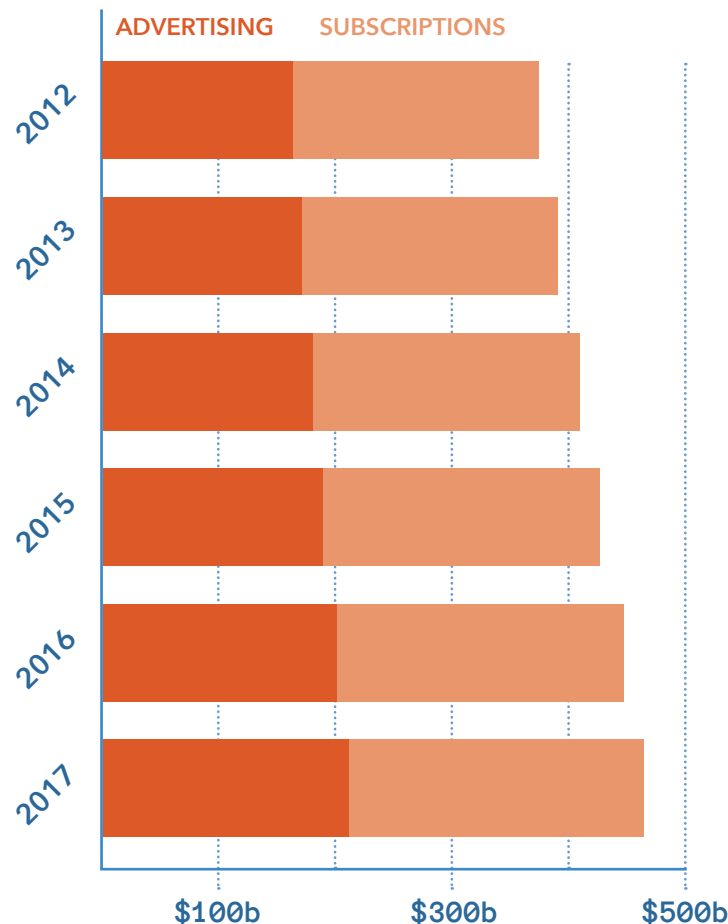
26%

of 18- to 49-year olds who watch TV during primetime are watching time-shifted content¹⁰

Amazon has been actively expanding its new Amazon Originals program to commission new pilots for its streaming service. In the past, HBO has stated that it was prepared to offer a standalone service, but did not believe the numbers supported it. More recently, the network announced that it will begin offering standalone digital subscriptions some time in 2015, though few details on the scope and availability of the planned service are available.¹⁵

Despite these various challenges, PwC projects that television revenues will continue to grow. Globally, advertising revenues will grow from \$162.1 billion in 2012 to \$209.4 billion in 2017. Pay TV subscription revenues will remain higher but grow more slowly, from \$209.5 billion to \$252 billion. In 2017, the two markets will be nearly equal in the US, with advertising revenues of \$81.68 billion and subscription revenues of \$83.8 billion.¹ Projections by Infonetics are even higher, with estimated global pay TV revenues of \$270 billion in 2017.¹⁶

GLOBAL TV REVENUES ADVERTISING & SUBSCRIPTIONS, PROJECTED¹



ONLINE VIDEO

The category of online video entertainment is the hardest to isolate, because it overlaps almost completely with other video arenas, with virtually all video content becoming available online in some form eventually. Film and TV content is highly popular online, as is independently produced video from online-only creators – and there’s a vast spectrum of reviews, mashups, supercuts and other fan-created content in between.

The online video audience is huge, and the amount of content is staggering. YouTube, the largest online video site, receives over a billion visitors a month who collectively watch over 6 billion hours worth of video. Every minute, 100 hours of video content is added to YouTube, up from 60 hours in 2012. Much of this activity is monetized: over a million creators are part of the revenue-sharing partner program, and YouTube states that thousands of channels are making six figures a year.^{17,18} Estimates based on known advertising rates and view counts suggest that top partners like gamers PewDiePie and BlueXephos are currently earning between \$6 and \$7 million a year from their popular channels.¹⁹ In 2010, similar estimates placed the top earner’s revenues at only \$315,000.²⁰

Meanwhile, other services have been appearing to fill gaps in the online video market. Live broadcasting service Twitch launched in 2011 and has rapidly grown to be the fourth-largest source of all peak internet traffic in the US, surpassing Hulu, Facebook, and Valve’s Steam service. Over 43 million viewers watch Twitch every month according to the company’s internal analytics, and the average viewer watches an hour and a half of video per day. Much of this success is attributable to Twitch’s integration with the PlayStation 4: owners of the gaming console make up 20% of the broadcasters on Twitch. The company also found that 68% of its users have decreased their TV-watching time in favor of Twitch broadcasts.^{21,22}

The past few years have also seen the rise of a new popular type of online video: short snippets shared on social networks, created and consumed primarily through smartphone apps. Vine and Instagram Video typify this trend, and both have proven especially popular and effective for brands seeking new ways to engage customers outside of traditional advertising channels. In 2013, Honda launched

the #WantNewCar campaign in which it responded to Twitter comments with rapidly-produced Vine videos, and found that engagement with its tweets tripled. Lululemon's branded Instagram videos receive over twice the average likes as its photos, and General Electric's Instagram videos are shared on Facebook by five times as many people as its photos.²³

World NewsMedia Network estimates that by 2015, video content will make up more than a third of all internet traffic in the world.²⁴ Overall, video is among the most popular and resilient forms of entertainment, and the ever-decreasing barriers to production and distribution are fueling its

constant expansion in the digital era. The future of video entertainment will be marked by even further elimination of the divisions between platforms and formats, and with them many of the now-obsolete conventions they spawned such as the 22-minute episode or the two-hour movie.²⁵ The result of this is a lively market with huge potential for continued growth, an increase in consumer choice and satisfaction, and an unprecedented set of opportunities for the next generation of independent video creators. The new golden age has just begun.

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BOOKS

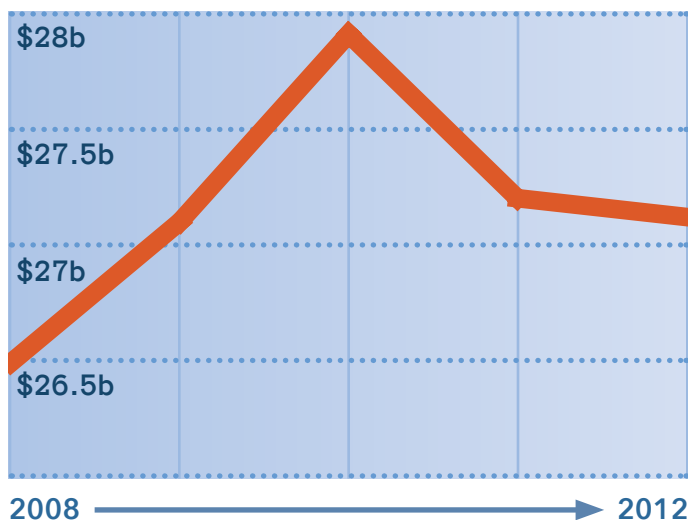
Despite a recession, and warnings that “books are doomed,” the US book industry is actually doing just fine. According to data from BookStats and HarperCollins, the net revenue for US trade books has actually increased by almost \$2 billion from 2008 to 2012.¹ Much of that growth can be attributed to the increasing popularity of ebooks, sales of which increased by almost 4700% just in that period. Meanwhile, hardcover and paperback sales have remained relatively flat, with print sales largely driven by a few bestselling titles. US title production also grew significantly from 2006 to 2012, almost tripling to more than 235,000 titles for print and digital combined.² Notably, this was driven by self-publishing, which has become an increasingly popular choice for authors to get their books published, with one of the main benefits being higher earnings per unit sold.

This growth in the book industry wouldn't be possible without technological innovations, such as e-readers, tablets, and various self-publishing tools that make it easy for people to buy, read and sell books. Anytime a new disruptive technology “threatens” the familiar old way of doing things, there's always the inevitable fear that things will be worse off, but the US publishing industry and American consumers have really embraced ebooks and new reading devices.³ Tim O'Reilly – who, looking at his own history of founding O'Reilly Media, a product of the desktop publishing revolution – predicts that self-publishing will play a major role in democratizing the publishing industry via technology, with self-publishers becoming publishers themselves.⁴ The future of publishing is digital and bright.

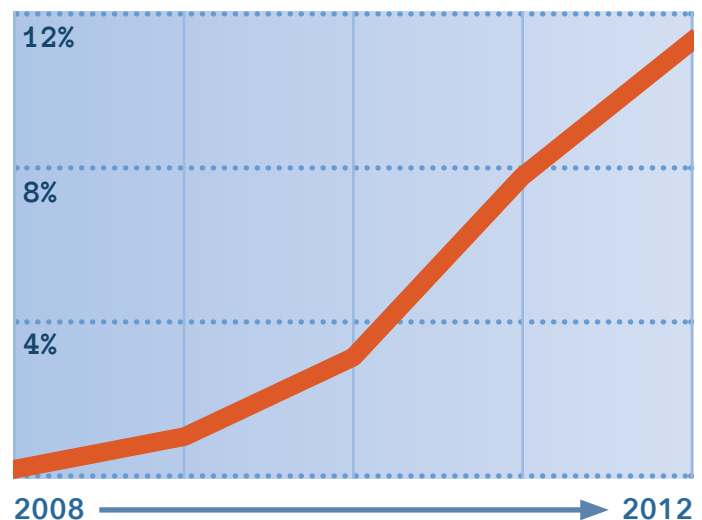
THE PRINTED BOOK MARKET

Even though the number of Americans reading ebooks is growing, the “death of the printed book” hasn't happened as people feared, and it may likely never happen. According to Pew Internet research, the number of Americans (age 16 and older) who read ebooks increased from 16% to 23% from 2011 to 2012, while at the same time, those who read printed books dropped from 72% to 67%.⁶ However, as writer Nicholas Carr has pointed out, the printed book is still by far the preferred format, as 89% of Ameri-

TOTAL BOOK MARKET
DIGITAL & PHYSICAL MEDIA⁵



EBOOK MARKET SHARE
AS PERCENTAGE OF TOTAL BOOK MARKET⁵



cans said they read at least one printed book over the course of the year in 2012.⁷ Research from Bowker even found that the biggest buyers of ebooks – those who buy at least four titles per month – were actually purchasing more printed books than before.

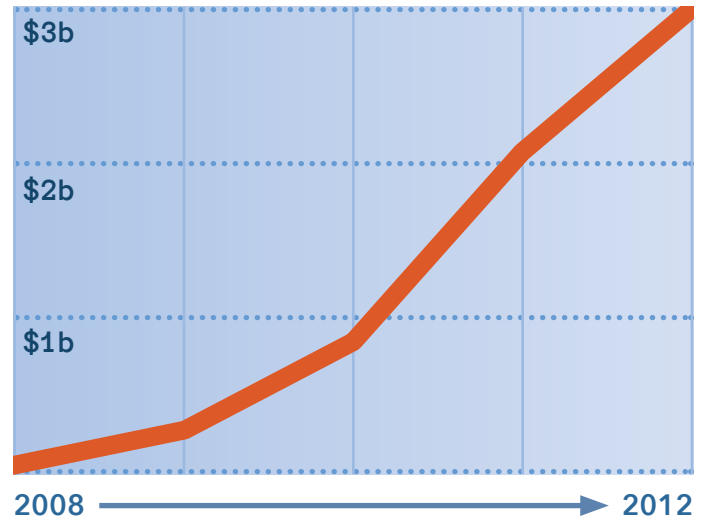
The one market where the printed format is still showing strong growth is children’s books, where ebooks have less than 5% market penetration.⁸ In 2011, the total sales growth of printed children’s books exceeded that of ebooks, and hard-cover sales increased almost 40%. The latest data from the American Association of Publishers (AAP) shows that sales of children’s board books increased almost 21% from 2012 to 2013, while sales of children’s ebooks fell almost 27%.⁹

THE EBOOK MARKET

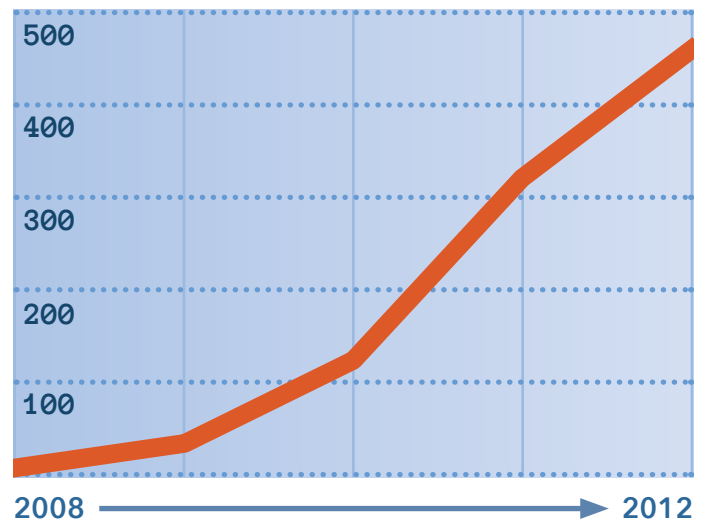
American publishers have been more accepting of ebooks generally because they’re cheaper to produce and provide higher margins than printed books, and they don’t have to worry about inventory return costs.¹⁰¹¹¹² Despite the impressive growth of the ebook market over the past few years, there’s a general agreement that printed books and ebooks will continue to co-exist.¹³ In some cases, printed editions will be replaced by ebooks, but in other cases, it’s likely that both printed and digital formats will complement each other. Results from an August 2013 survey by the Book Industry Study Group (BISG) provided reinforcing evidence of the existence of a hybrid print/ebook market, with 30% of respondents saying that they purchase ebooks and printed books interchangeably – a percentage that has remained about the same since September 2010.¹⁴

According to PricewaterhouseCoopers (PwC), ebooks made up only 2.7% of total US consumer book sales in 2009, but by 2012, ebooks accounted for almost 15% of the book market, and by January 2013, the ebook market share had increased to about 25%.¹⁵ The ebook market in the trade segment grew from \$64 million to more than \$3 billion in sales from 2008 to 2012 – an increase of almost 4700% – as the number of ebook units sold increased from 10 million to 457 million during the same period. Early on, sales of ebooks were driven by the introduction of reading devices, such as Amazon’s Kindle and Barnes & Noble’s NOOK. From 2008 to 2009, ebook sales increased 354% to \$291 million, as units increased to 36 million. Sales of ebooks really took off from 2010 to 2011,

EBOOK MARKET TOTAL REVENUES⁵



EBOOK MARKET TOTAL UNITS SOLD, IN MILLIONS⁵

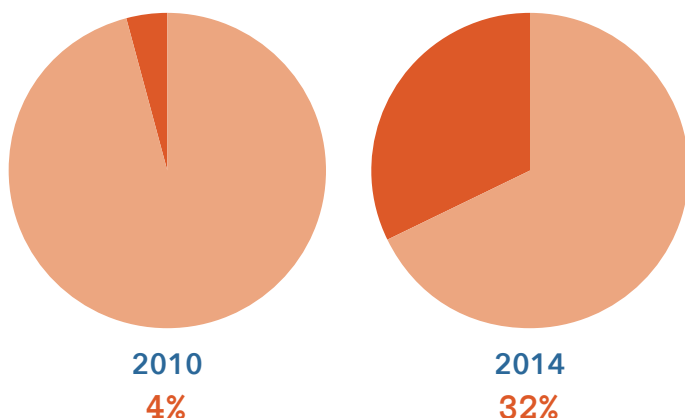


as publishers started to make more print books available as ebooks, more than doubling from \$869 million to \$2.1 billion, as units increased from 125 million to 320 million. In 2012, the growth of the ebook market started to slow down, but still, ebook sales grew 44% to more than \$3 billion.⁵ As Publishers Weekly points out, this isn’t surprising since ebooks had become a billion-dollar business, so it would be unrealistic to expect triple-digit growth at this point. Furthermore, the slowdown in growth was also partly due to lower ebook prices and lower unit sales.

The introduction of Amazon's Kindle e-reader in late 2007 marked the beginning of the transition from print to digital. Increasing numbers of Americans (age 16 and older) were reading ebooks – growing from 16% in 2011 to 23% in 2012 and 28% in 2013.¹⁶ This was also reflected in the growth experienced by online book retailers (35%) and direct-to-consumer sales (57%). Meanwhile, brick-and-mortar store sales dropped 12.6%. As tablets gained popularity with the introduction of the Apple iPad in 2010, a shift in devices was observed. By the end of 2011, the number of Americans who owned a tablet almost doubled to 19%, rivaling e-reader ownership which was also at 19%.² By mid-2012, tablets beat out dedicated e-readers as the preferred ebook reading device. By late 2012, more Americans owned tablets (24%) than e-readers (19%), and while ownership of both tablets and dedicated e-readers continued to increase, the trend in shifting devices continued, with 34% of Americans owning tablets and 24% owning e-readers in late 2013, and 42% owning tablets and 32% owning e-readers in early 2014. According to the BISG, the more recent increase in tablet ownership could be attributed to the introduction of Amazon's Kindle Fire, which was the preferred reading device of ebook consumers (17%), compared to the Apple iPad (10%) or Barnes & Noble's NOOK, which increased from 2% in 2011 to 7% in 2012.

Amazon.com is currently the leading US retailer for both printed books and ebooks. From 2010-2011, representing a 60% increase from the previous year, more than 70% of ebook buyers purchased ebook titles from Amazon, which had 950,000 ebook titles available in its Kindle store at the time.² Now it also has nearly 2 million free ebooks in the

EREADER OWNERS AS A PERCENTAGE OF THE POPULATION ¹⁷



public domain that can be downloaded from the store. Back in 2011, Barnes & Noble was second behind Amazon and represented its strongest competitor, with more than 2 million ebooks available, and staying ahead of Apple's iBookstore and iTunes. However, now there's some debate about whether Apple or Barnes & Noble is the second largest ebook retailer, and the answer depends on the publisher.¹⁸ According to the largest publishers, Barnes & Noble appears to be solidly in second place behind Amazon, but it's losing market share. According to small publishers, Apple appears to have taken the market share lead over Barnes & Noble. However, among medium-sized publishers and indie authors, it's less clear who's in second place. Overall, the trend seems to be that both Amazon and Apple are gaining market share, while Barnes & Noble is losing it. For readers looking for other sources of free ebooks, the Internet Archive – a non-profit digital library that offers free universal access to books, movies, and music – has over 2.5 million ebooks available for download.¹⁹

In response to the slowdown in growth in the ebook market, Jo Henry, director of Nielsen Book Research, pointed out that ebooks are in the later stages of the innovation curve and that future growth will depend partly on convincing less committed users of their value.¹⁴ According to the BISG's Consumer Attitudes Toward E-Book Reading study, 48% of consumers said they would be willing to pay more for ebook and print bundles. Consumers were also willing to pay more for ebooks if the books could be given away or re-sold.

SELF-PUBLISHING & INDIE AUTHORS

US book title production has grown significantly in the past few years, driven in large part by self-publishing.² According to Bowker, self-published titles (including both printed and ebooks) grew 422% to more than 391,000 from 2007 to 2012, with printed book titles increasing about 250% to around 235,000, and ebook titles growing almost 1800% to 157,000. However, it should be noted that Bowker only includes titles that have been registered with an International Standard Book Number (ISBN) agency, so Amazon, Barnes & Noble, Kobo, Apple, and other sources that don't use ISBNs aren't taken into account.²⁰ Therefore, the actual number of self-published ebooks is likely much higher than the number reported by Bowker.²¹ As a result, it has been challenging to assess

the actual size and value of the self-published book market.

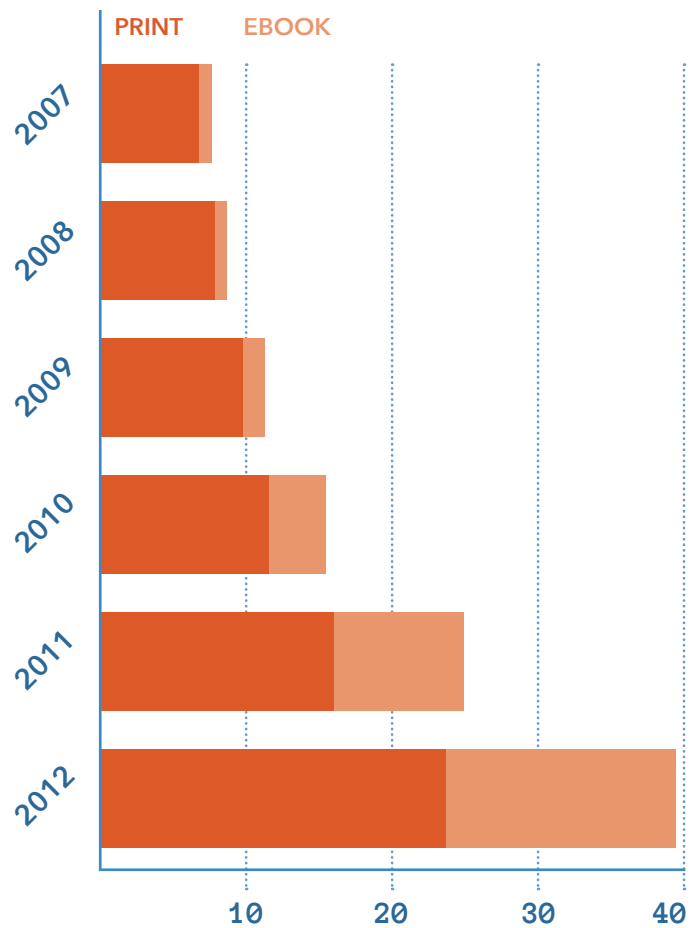
Hugh Howey, indie author of the bestselling science fiction trilogy WOOL, has been creating quarterly author earnings reports since February 2014, with the goal of helping authors make informed decisions about how to publish their work by examining units sales and earnings through different publishing paths.²³ The report is based on the sales of the 50,000 bestselling titles on Amazon.com, and includes not only ebooks, but also printed books and audio downloads, and covers titles published by major “Big Five” publishers, independent and small presses, and self-published authors. While the report is focused on only a single (but major) bookseller – Amazon – it does find some interesting trends that challenge some long-held assumptions about the publishing market.

According to Howey’s first report from February 2014, self-published Genre Fiction ebooks are outselling titles published by the Big Five trade book publishers (Hachette Book Group, HarperCollins, Macmillan Publishers, Penguin Random House, and Simon & Schuster) by 5%.²⁴ Most notably, it found that self-published authors of Genre Fiction ebooks earned at least as much as traditionally published authors in almost every earnings bracket, showing that with ebooks, even midlist authors can now earn a comfortable living. For example, for authors making \$50,000 a year in earnings, there were 350+ indie authors compared to 190+ traditionally published authors, and even for authors making \$100,000 a year, indie authors (150+) outnumbered traditionally published authors (90+). Data from the May 2014 report corroborates the findings from the first report – that self-published authors are earning just as much as traditionally published authors on Amazon – the world’s largest ebook sales platform – and the most recent report from July 2014 shows that self-published authors are, for the first time, earning more in royalties than traditionally published authors.^{25,26}

According to indie ebook distributor Smashwords, self-published ebook authors typically earn 60-80% of their book’s list price, compared to traditionally published authors, who earn 12.5%-17.5% of the list price.²⁷ So indie ebook authors can sell fewer units but make just as much or even more than traditionally published authors, and they can also price their books lower but still earn more per unit sold. According to the Digital Book World ebook bestseller list, which is dominated by Big Five titles, the average price for a best-

SELF-PUBLISHING OUTPUT

BASED ON NUMBER OF ISBNs, IN THOUSANDS ²²



TRADITIONAL V.S. SELF-PUBLISHING

BASED ON 50,000 AMAZON.COM BESTSELLERS

Number of genre fiction authors earning \$50k/yr: ^{25,26}

SELF-PUBLISHED

350+

TRADITIONAL

190+

Number of genre fiction authors earning \$100k/yr: ^{25,26}

SELF-PUBLISHED

150+

TRADITIONAL

90+

selling ebook has been fluctuating weekly between around \$6 to \$8.²⁸ However, mystery thriller novelist J.A. Konrath, a huge advocate of self-publishing, has found that \$2.99 is the sweet spot for ebook pricing, and that when the price was dropped to \$0.99 in some cases, he sold more units and made more money than when the price was \$2.99.^{29,30} At the other extreme, there is a growing number of authors who are giving away digital versions of their books for free in order to increase their visibility. Many of them use open licenses, such as Creative Commons licenses, to give away some rights (e.g., sending a copy to a friend) while retaining others (e.g., banning commercial use) for their works. Publisher Tim O'Reilly once said, "Obscurity is a far greater threat to authors and creative artists than piracy." A small survey of ten authors who had made some or all of their books available for free online found that every single author agreed that free distribution helped increase their exposure.³¹ Most of the authors also felt that open publishing was (morally) the right thing

to do, and that they would continue giving away their books online. While the authors aren't making any money off these books, the books are being downloaded and shared, so what they're gaining is an audience, which helps them make more money down the road. Aside from royalties, many authors also make money from consulting, teaching, speaking, writing commissioned articles, etc. – all of which could benefit from increased exposure.

As the publishing market continues to shift towards the digital, ebooks and self-publishing should continue to play an important role in helping the market grow and enabling more writers to make more money. While a few limited studies have shown that in some cases, making books available for free online doesn't negatively affect sales of printed books, and in other cases even increases print sales, it remains to be seen – as the digital publishing market continues to change – how free ebooks will affect both print and digital sales.³²

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VIDEO GAMES

The video game business is unique among the media and entertainment field, as this industry is intimately tied to the pace of technology. As computers and processors get smaller, faster and cheaper, the capabilities available to game developers grow, and the audience for video games expands to nearly everyone. Game producers simply cannot ignore technology trends or rely on outdated business models. In fact, game creators are often at the forefront of innovation when it comes to monetizing their products and engaging with players.

Video games were once expensive, standalone machines. Video arcade systems that consumed players' coins were relatively quickly replaced by home console systems that offered comparable (and now superior) graphics. Video arcades certainly still exist, but the industry has largely moved to where players could play more often (their homes). The industry has grown tremendously by adapting quickly to its audience and offering more convenient products for everyone. Not too long ago, games were exclusively sold in physical formats on proprietary cartridges or on optical discs. However, players no longer need to go to a brick and mortar store to purchase a game packaged in a cardboard box. Unlike other segments of the entertainment economy, many video game companies have learned to accept a rapid pace of change and not lament the end of selling plastic discs or a paradigm shift in their business models.

Games have a relatively short shelf life, especially compared to books or music. Old games can be difficult to find and play after just a decade. Newer hardware often makes game consoles obsolete and effectively takes the associated software away, as users upgrade and incompatible systems get lost in basements. Still, games are incredibly engaging when they're initially released (and even years after, if players can still find operational devices to play them).

Video games have become such a cultural phenomenon that millions of non-players are watching other people play video games, like a spectator sport.¹ This trend to watch gamers playing could be a fad, but there is an increasing ecosystem of playing statistics that tracks top players for games like League of Legends and StarCraft.² Professional players aren't exactly as famous as traditional athletes, but it's starting to be possible to create "fantasy e-sports" teams that are analogous to fantasy football, baseball, basketball, etc.

A popular video platform for gaming, called Twitch, allows gamers and non-gamers to watch and chat about video games. The Twitch community gathers about 45 million viewers per month, and recently, its peak internet traffic ranked fourth behind Netflix, Google (YouTube) and Apple – and ahead of other properties such as HBO Go, Hulu, Facebook, Amazon Instant Video and Tumblr.³

FAST FACTS » TIME SPENT PLAYING GAMES

3 billion hours

collectively spent playing games every week⁶

5 million people

play games for more than 45 hours every week⁸

FAST FACTS » GAMING IS A SPECTATOR SPORT

45 million users

in the Twitch game streaming community³

9 million people

watched one famous 2014 Twitch stream⁵

Twitch has even revived some interest in an old game with Twitch Plays Pokemon, an experiment that allowed a massive number of viewers to collectively watch and play Pokemon.⁴ A 16-day run of Twitch Plays Pokemon had over 1 million participants, 121,000 concurrent players at its peak, and over 9 million unique viewers in total.⁵ The growing popularity and mainstream value of video games – and watching video games being played – is simply undeniable.

Gamers are so engaged with the universe of online games, PC games, mobile games and gaming consoles that they collectively play for about 3 billion hours per week.⁶ Gamers spend more time playing than streaming movies or TV shows to their computers, phones and gaming consoles.⁷ About 5 million people play video games for 45 hours or more per week – actually spending more time playing than some people do working.

The population of gamers is also generally rising. Previously, we noted reports stating 56 million US gamers in 2008 and 135 million of them in 2011. More recently, the NPD Group estimated that about two-thirds of Americans, 211.5 million people, were playing video games in 2012, though NPD stated that number was down about 5% from 2011.⁸ In 2009, NPD reported that about 170 million Americans were playing games with 32.9 million “console gamers” – but the definition of a gamer and various subsets of gamers has changed over recent years.⁹ For 2014, NPD estimated 34 million “core gamers” who play on a console or a PC for at least 5 hours per week, but that number of core gamers

FAST FACTS » THE GAMING POPULATION

211.5 million people

were playing video games in the US in 2012⁸

34 million people

are “core gamers” playing more than 5 hours/wk^{10,11}

75 million people

have active accounts on the Steam platform¹³

was surveyed to be down from 37.5 million in 2013.^{10,11} A precise definition of a gamer seems to be difficult to maintain when games and gaming behavior can shift with technological changes. Industry watchers don’t want to confuse the population of casual gamers with other players who are considered more valuable and spend more time and money on relatively expensive console/PC games. However, these differences may blur with time, as more players use multiple platforms and spend more on in-app purchases for a variety of game genres. Ultimately, nearly everyone might play some kind of game, so these gamer population figures will likely become more complicated as advertisers and game publishers try to segment the general population by various types of gamers and consumer demographics.

Tracking the number of hours that people play games is becoming an increasingly important metric for the industry. Based on independent analysis of the Steam platform, players have logged an estimated 3.8 billion hours on a single game, DotA 2 (Defense of the Ancients), which is the most popular game on Steam by a large margin. (Players of the next most played game, Team Fortress 2, have logged 1.4 billion hours.)¹² Obviously, Steam users may not be representative of the entire gaming community, but there are approximately 75 million active Steam users out of a total 172 million Steam accounts. (Steam also recently reached a record 7 million concurrent users.)¹³ A significant number of “core gamers” must be using Steam, and these numbers certainly show that players are spending a significant amount of time playing.

Over the last few years, video game revenues for the US have fluctuated, rising from \$14.6 billion in 2008 to \$15 billion in 2011, then falling to \$13.4 billion in 2012, according to PricewaterhouseCoopers. In 2013, PwC stated that video game revenues rose again to \$14.2 billion, with projections of growth over the next few years.¹⁴ Similarly, the NPD Group reported that video game revenues rose and fell, from \$10.9 billion in 2009 to \$17.1 billion in 2010, then leveling out at \$15.4 billion by 2013.¹⁵ Globally, the video game market grew from \$79 billion in 2012 to \$93 billion in 2013, according to Gartner, with positive 5-year forecasts.¹⁶

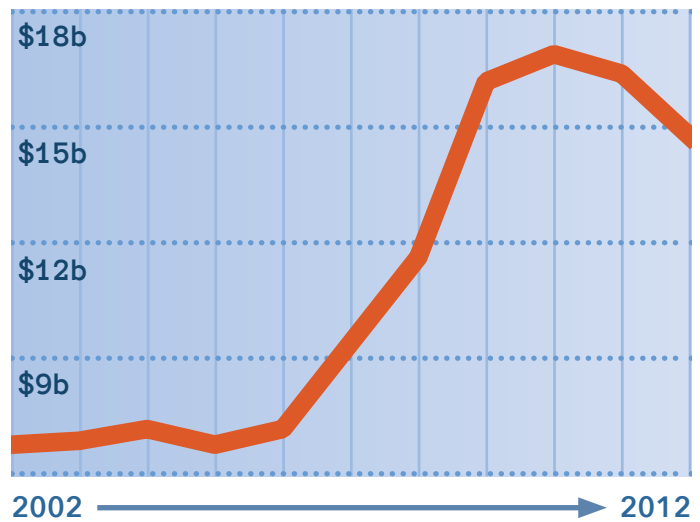
The US economic downturn after 2008 doesn’t completely explain the fall in video game revenues that occurred in 2012. The North American market depends heavily on console games, and a generation of consoles reached the end of their lifespans in 2012 – namely, the Microsoft Xbox 360,

Sony PlayStation 3, and Nintendo Wii were set to be replaced by their respective successors.¹⁷ The Xbox One and Sony PlayStation 4 were released in 2013, and Nintendo Wii U launched in late 2012. In anticipation of these new systems, gamers didn't spend as they usually would have in 2012, and the transition to the current eighth generation of consoles is still ramping up.

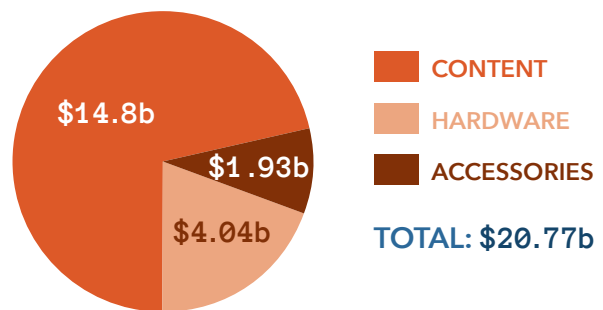
On the other hand, a booming segment of the gaming market is mobile games. Estimates for the absolute size of the mobile gaming market vary considerably, but the overall trend is clearly upward. For the iOS platform, Apple launched its App Store for the iPhone in 2008, and mobile games sales hit about \$5 billion globally for that milestone year.¹⁸ According to PwC, the mobile app market for games (including other platforms besides iOS) generated over \$9.9 billion in worldwide sales in 2013.¹⁹ (Independent estimates put Apple's global App Store game sales at \$7.9 billion in 2013.)²⁰ For just the US, according to eMarketer, about 125.9 million people played games on their phones in 2013, and mobile game revenues grew from \$559 million in 2011 to \$1.3 billion in 2012 and \$1.78 billion in 2013.²¹ Another estimate for the US market from SuperData Research reports that 237 million monthly active users play mobile games and that mobile game revenues reached \$3.0 billion in 2013.²² Additionally, for Google Play and iOS, the most popular app category is games by both number of downloads and revenues.²³ Presumably, as mobile devices get more powerful, mobile games will only become more engaging, more fun and more ubiquitous.

The demand for games is still impressive, as sales records are still being set. Grand Theft Auto V (GTA V) became the fastest-selling game in 2013, breaking six world records in entertainment. According to Guinness World Records, GTA V was the fastest entertainment property to gross \$1 billion, doing so in just 3 days.²⁴ Other gaming records are also being set, with players getting acknowledgments for performing various feats. A player named Ray Cox (aka Stallion83) earned 1 million points for his Xbox Live Gamerscore, making him the first person to break that number and adding to his Guinness World Record achievement for having the highest Xbox Live Gamerscore.²⁵ On a less positive note, the most expensive virtual spaceship battle destroyed virtual property in EVE Online worth over \$200,000 (in real-world dollars).²⁶ In other industry sales records, Guinness named the iPhone 4 as the fastest-selling portable gaming device

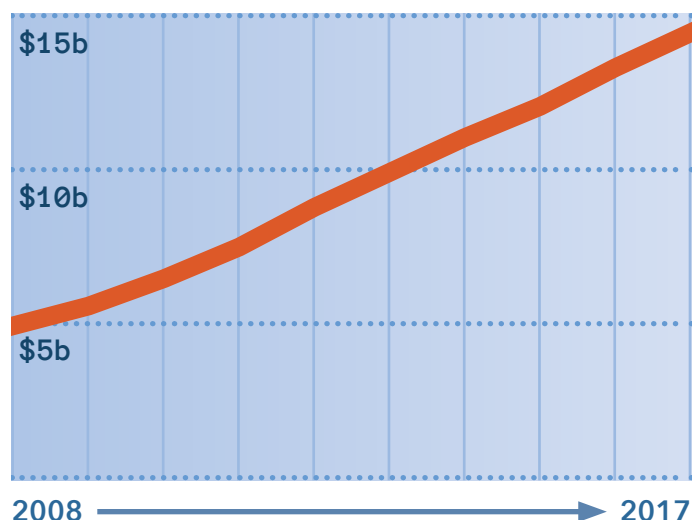
US VIDEO GAME SALES TOTAL CONSUMER SPEND¹⁵



CONSUMER SPEND BREAKDOWN 2012, BY CATEGORY¹⁵



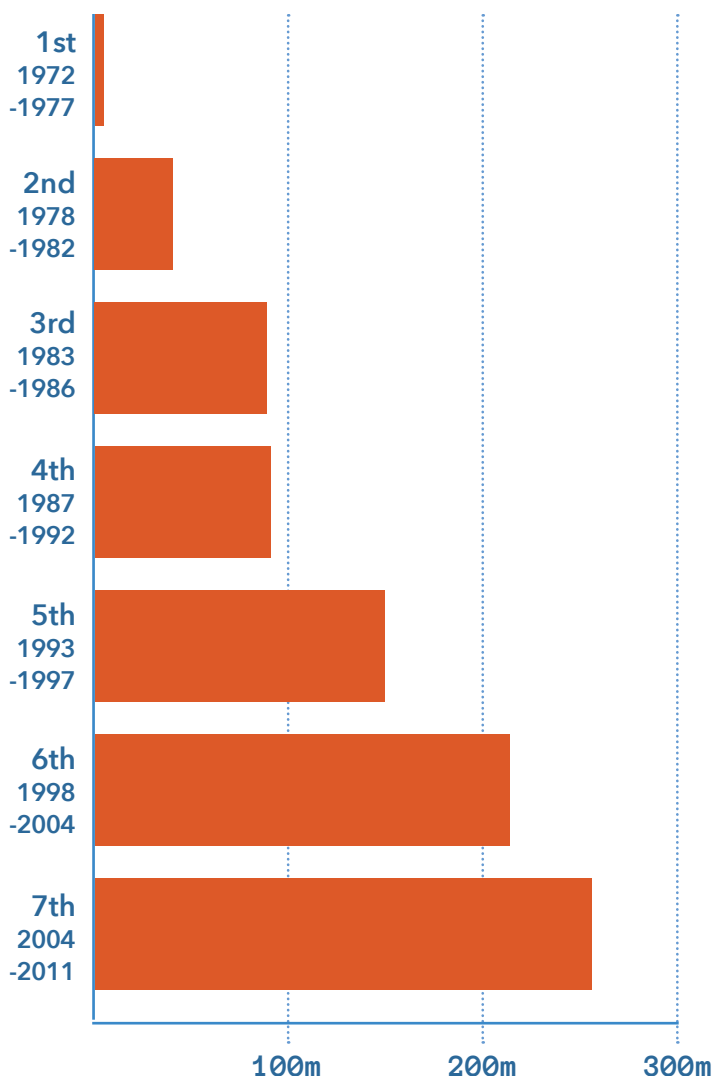
MOBILE GAME REVENUES WITH PROJECTION¹⁹



in history, selling 1.5 million units and with the Apple App Store reaching 6.5 billion downloads of gaming-related apps.²⁷ Less officially, an a game development competition called Ludum Dare broke a game development record with 2,497 new games created and submitted to its contest in a single weekend.²⁸ Adding to the numerous games available to gamers everywhere, Steam released more new games in the first half of 2014 than it did in all of 2013.²⁹

As always, the game developer community is incredibly active, supporting independent game creators and large game studios alike. In 2012, we noted that Minecraft had sold over 4 million copies, and that franchise has since expanded to other gaming platforms, selling over 9 million cop-

GAMING CONSOLE SALES LIFETIME UNITS SOLD, BY GENERATION ¹⁷



ies for PC/Mac and over 20 million copies including all the platforms it supports – on track to surpassing The Sims as the world’s best-selling game for PCs and Macs.³⁰ Minecraft started as a part-time project for an individual programmer, and other examples of single developers achieving massive popularity continue to make headlines. By the beginning of 2014, Flappy Bird became a viral hit game on the iOS App Store, starting out as any other unknown game, but suddenly spreading eight months after its launch with over 50 million downloads in more than 100 countries, making its creator an estimated \$50,000 per day from in-game ads.³¹ The game’s creator took the game completely off the market, but a flood of copy-cat games rushed to fill the void.

Game enthusiasts continue to find new ways to innovative ways to monetize games. Mobile games just in the US commonly incorporate ads, generating \$297 million in revenues in 2013, up from just \$79 million in 2011.³² Games also offer virtual goods, selling between \$600 million and \$1.1 billion worth of intangible items in 2009, expanding to a \$2 billion virtual good economy for US players by 2013.³³ In the relatively short history of crowdfunding, Kickstarter has promoted several games, and 2,796 video game projects asked for support in 2012 and received \$83 million from crowdfunders, making 2012 the “year of the game” for Kickstarter. One of the biggest successes was Oculus Rift which ultimately sold to Facebook for \$2 billion. One of the biggest disappointments was Ouya, which raised \$8.5 million from Kickstarter supporters, but then released a new kind of console that didn’t quite live up to expectations.³⁴ Still, Ouya provides an example of the rapid technological and market forces that can just as quickly kill an innovative new venture as make one a cultural touchstone.

Beyond in-games ads, freemium games, and the selling of virtual goods, the spectator sport aspect of games is also ramping up. The top players can actually earn over six figures posting recordings of their video game antics online. Felix Kjellberg, who also goes by PewDiePie on YouTube, posts videos of himself playing games and has 27 million subscribers following his YouTube updates.³⁵ These “Let’s Players” (named after videos titled Let’s Play such-and-such game) collectively attract over 60 million viewers on YouTube. The vast majority of these gamers don’t earn very much, but an industry of talent promoters and conferences for fans has sprung up to support this new kind of game-re-

lated profession. Video entertainment is becoming an increasingly important component of the video game industry, and console hardware makers are adding streaming video capabilities and original TV show programming for game set top boxes. Sony has announced a one hour drama for the PlayStation 4, and presumably more shows will be available as gamers and non-gamers see game consoles as entertainment centers, and not just game devices.³⁶

The video game market has seen some downturns, especially just before the industry releases major updates to

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CONCLUSION

The clearest general trend in all the data we analyzed across all industry sectors is one of growth masked by decentralization, and it's here we see the cause of the “doom and gloom” attitude about the modern media business, as well as its folly. It is plainly obvious, not just from the data but from everyone's personal experience of a media-saturated world, that the overall output and availability of music, video, books and video games is continuing to grow – but the people creating that content, the platforms making it available, and the mechanisms for earning money with it are all more diverse and widely distributed than ever. From any one vantage point – especially that of a media business based on gatekeeping and control – all may indeed appear to be doom and gloom. But a broader view reveals the broader truth: the sky is definitely rising.

As it rises, it gets harder to navigate, and this can create two challenges. One is for the content creators and media businesses that must rapidly adapt to a changing market that offers no single clear path to success, but rather a multitude of possibilities that call for creativity and experimentation. The other is a challenge we have attempted to tackle in this series of reports: how to understand and analyze this new and complex marketplace in a useful way that doesn't ignore all the innovation happening in non-traditional, hard-to-measure places. Consistently, we've found that when you look past the legacy indicators that are often in decline, it becomes clear that the undeniable challenge faced by media businesses is not one of a shrinking market but one of growing competition.

From a public policy standpoint, where encouraging greater creativity, innovation and culture is seen as key, it is simply undeniable that we are in a cultural renaissance. It is easier and cheaper to create, to promote, to build an audience, to distribute and to monetize than ever before. If the goal of public policy is to continue this trend, we should be generally cautious about making policy that feeds off the false narrative that our culture is at risk – or that the very same innovations that have made this renaissance possible are somehow to blame for a perceived decline in these markets.

This latest installment in the series reinforces that idea, and builds upon it – for wherever we have seen new successes and growth happening since previous reports, we have seen it coupled with innovation and adaptation, and a growing acceptance of the fact that the media business in the digital era cannot be about monolithic control. Moving forward, we hope this deeper understanding of the landscape will help to guide creators, businesses and lawmakers in their plans and decisions, and we hope to continue enhancing our own insight into these industries by finding new and better ways to measure them, so that everyone may benefit as the sky continues to rise.