

# 2010

## Entertainment & the Media in Los Angeles



Jack Kyser

Nancy Sidhu Ph.D.

Kimberly Ritter

**LAEDC Kyser Center for  
Economic Research**

1/20/2010



# Entertainment and the Media In Los Angeles

January 2010

**Prepared by:**

Jack Kyser  
Nancy D. Sidhu, Ph.D.  
Kimberly Ritter  
Ferdinando Guerra



Los Angeles County Economic Development Corporation  
Kyser Center for Economic Research  
444 S. Flower St., 34<sup>th</sup> Floor  
Los Angeles, CA 90071  
Tel: (213) 622-4300 or (888) 4-LAEDC-1  
Fax: (213)-622-7100  
E-mail: [research@laedc.org](mailto:research@laedc.org)  
Web: <http://laedc.org>

The LAEDC, the region's premier business leadership organization, is a private, non-profit 501(c)3 organization established in 1981.

**As Southern California's premier business leadership organization, the mission of the LAEDC is to attract, retain, and grow businesses and jobs for the regions of Los Angeles County.**

Since 1996, the LAEDC has helped retain or attract more than 157,000 jobs, providing \$7.5 billion in direct economic impact from salaries and more than \$134 million in tax revenue benefit to local governments and education in Los Angeles County.

### **Regional Leadership**

The members of the LAEDC are civic leaders and ranking executives of the region's leading public and private organizations. Through financial support and direct participation in the mission, programs, and public policy initiatives of the LAEDC, the members are committed to playing a decisive role in shaping the region's economic future.

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### **Economic Consulting**

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The LAEDC operates several subsidiary enterprises, including the World Trade Center Association Los Angeles-Long Beach (WTCA-LA-LB), which facilitates trade expansion and foreign investment, the California Transportation and Logistics Institute, which enhances the quantity and quality of workforce training for the logistics industry, and L.A. PLAN, which assists major public land owners in developing real estate through the LAEDC network. In addition, the LAEDC's Center for Economic Development partners with the Southern California Leadership Council to help enable public sector officials, policy makers, and other civic leaders to address and solve public policy issues critical to the region's economic vitality and quality of life.

### **Global Connections**

The World Trade Center Association Los Angeles-Long Beach works to support the development of international trade and business opportunities for Southern California companies as the leading international trade association, trade service organization and trade resource in Los Angeles County. It also promotes the Los Angeles region as a destination for foreign investment. The WTCA-LA-LB is a subsidiary of the Los Angeles County Economic Development Corporation. For more information, please visit [www.wtca-lalb.org](http://www.wtca-lalb.org).

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# THE HEADLINES

## The Entertainment and Media Industries in Los Angeles

### Major Trends

- Content is king! Owning content is becoming more important versus simply distributing it
- Consolidation in the entertainment and media industries will continue through 2010
- Consumers are insisting on increased mobility; they want to take their content with them
- Information may *want* to be free, but media companies are stepping up efforts to charge for access to their services
- The use of digital media will continue to grow across all demographic groups
- 2009 was the worst year for the advertising industry in decades – 2010 looks a bit brighter

### By The Numbers

- Entertainment and Media Employment in Los Angeles County
  - In 2008, the entertainment industry cluster employed 141,400 workers – employment grew by +31.3% since 2001 and by +0.4% compared with 2007
  - Combined, the media industries (broadcast and cable TV, radio broadcasting, and newspaper and magazine publishing) employed 29,900 workers in 2008 – this represented a total decline of -10.9% since 2001 and a decline of -3.5% compared with 2007
  - The advertising industry employed 20,100 people in 2008 – industry employment was up by +2.1% since 2001 and by +2.7 compared with 2007
  - Entertainment, media and advertising industry employment, combined, dropped by at least 12,000 jobs (-6.0%) in 2009
- In 2009, domestic box office receipts totaled \$10.7 billion, a new record level
- DVD spending (sales and rentals) totaled \$21.4 billion in 2009, down from the 2004 peak of \$24.9 billion
- Los Angeles County had a 45% share of total U.S. entertainment employment in 2008
- Viewership for L.A.'s largest TV stations dropped in 2009 after a strong 2008
- Local radio stations generated more than \$1 billion in ad revenue in 2008, but ad sales were down by -12% compared with the prior year
- The *Los Angeles Times* is the fourth largest newspaper by circulation (657,000 daily) in the country behind the *Wall Street Journal*, *USA Today* and the *New York Times*.
- Newspapers across the nation are bleeding print readers, ad revenues and employees

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**This report was produced by the LAEDC Kyser Center for Economic Research team:**

Jack Kyser, Founding Economist -

Dr. Nancy D. Sidhu, Chief Economist -

Kimberly Ritter, Associate Economist -

Ferdinando Guerra, Associate Economist -



# The Entertainment Industry in Los Angeles

A high glamour quotient – a major change in the business environment

## Introduction -

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Entertainment is the best-known industry in Los Angeles. In fact, many people think of it as the only industry in Los Angeles. It is also very misunderstood. Most see only the glamour, thanks to awards shows on TV and the glossy magazines at supermarket checkout stands. They do not understand how the entertainment industry really works nor do they understand the momentous challenges it faces. Worse, economic information for the industry is incomplete. Many workers in the industry are independent contractors and are not counted by government statisticians. Also, since there are a small number of large entertainment firms, government agencies are careful not to disclose any critical information, so sales/receipts data are not reported well.

Local assets for the film industry include the large crew base, plus all the support activities. There are also several film schools in Southern California. In addition, many “looks” are available right in the industry’s back yard; i.e., Long Beach subbing for Miami Beach (as in CSI Miami), or Downtown Los Angeles subbing for “anywhere USA” in auto commercials.

While people may think the industry is centered in the community of Hollywood, one of the largest concentrations of production activity is in the southeast San Fernando Valley, which includes the Burbank-Universal City-Studio City corridor. Then there are the communities of Hollywood and the Westside

of Los Angeles, including Century City and Culver City. Other pockets of entertainment activity around the County include Santa Clarita, which has several rental sound stages, Raleigh Studios in Manhattan Beach, and Los Angeles Center Studios in downtown Los Angeles.

Six major studios produce feature films and TV series, and they all are part of media conglomerates. The latter have rather diverse business portfolios. The majors are Fox (part of News Corp.), NBC Universal (soon to be co-owned by Comcast as well as GE), Paramount (part of Viacom), Sony Pictures Entertainment (part of Sony Corporation), Walt Disney, and Warner Bros. (part of Time Warner).

There are also some smaller film companies, such as DreamWorks Animation, Lionsgate, MGM, and the Weinstein Company (TWC). In addition, the “new” DreamWorks has re-established itself as an independent film production company. DreamWorks will remain based at Universal, though Disney will distribute its films. CBS, sister company to Viacom, is going to start producing feature films.

There are always rumors about possible mergers in the entertainment industry. This pot was stirred by Disney’s recent acquisition of Marvel Entertainment. Another dramatic example is the pending acquisition of a controlling interest in NBC Universal by cable

giant Comcast. Also important is the future of MGM, as the studio is beset by financial problems.

Many people have the impression that the studios' revenue comes only from theatrical distribution (both domestic and international). However, they have multiple revenue streams, including DVD and TV (cable, pay-per-view, video on demand, etc.). There is also merchandise tied into movies, with Disney the acknowledged master at this. In addition, some studios have video game divisions.

Currently, there is some confusion about the health of the industry. While the Sunday reporting of domestic box office receipts (which were up in 2009) is positive, many people have the impression that the industry is struggling. The industry's labor problems receive lots of headlines; the national recession has hammered advertising revenue, and run-away production (from Los Angeles) is a constant threat. In the last few years, most studio specialty divisions were dismantled and the number of films released by the major studios declined. All of this has resulted in some job losses and has generated a lot of stories about the "crisis" in the movie business. The local sub-text is whether Los Angeles will remain a center for the entertainment industry.

Certainly, the entertainment industry faces formidable challenges, which are upending long-standing business practices. Some of the challenges are due to the rapid changes in technology; others are due to the globalization of the film business. Finally, there are changes in the way people consume entertainment (either when they want it or where they want it, or in a social context –

i.e., "going to the movies"). We consider these below after a review of the facts.

### Some Numbers and Some Comments

**Box office receipts:** Domestic box office receipts moved to a new high level in 2008 of \$9.8 billion. Last year (2009) started strong – double-digit gains over the year – but dropped back to a +9.2% advantage over the previous year. This pushed the total well over \$10 billion, a new record level.

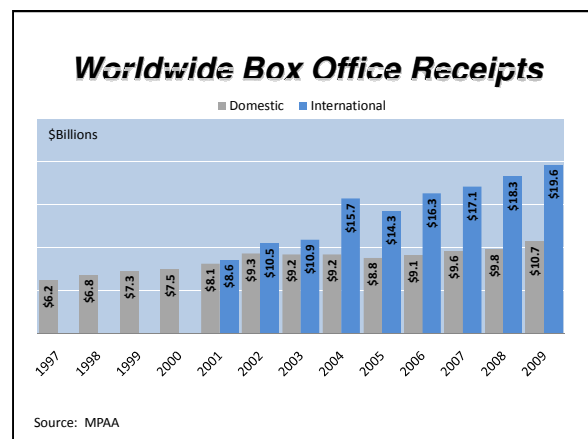


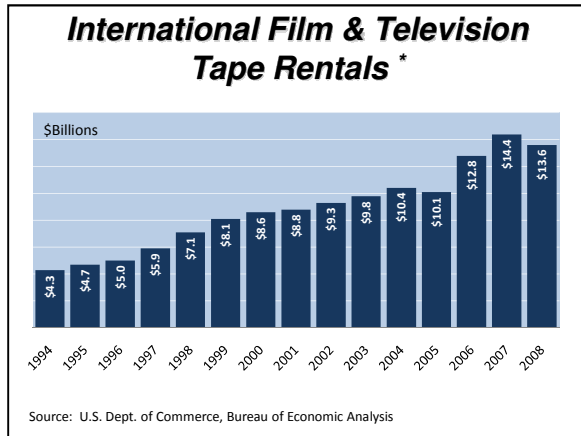
Figure 1

International box office receipts (outside the U.S.) also moved to a new high level of \$18.3 billion in 2008. Hard numbers are not yet available for 2009, but anecdotal information points to a solid gain, matching the '07/'08 gain of +7.1%.

International box office has become quite important to the film industry, with some films doing better abroad than domestically. Foreign release dates are chosen to maximize results and now may occur before the U.S. release date. Also, ad campaigns are tweaked to account for foreign sensibilities (U.S. comedies often do not travel well). Russia is proving to be a lucrative market for U.S. made films. China is felt to offer great potential,



but access to this market is still limited despite a recent WTO ruling.



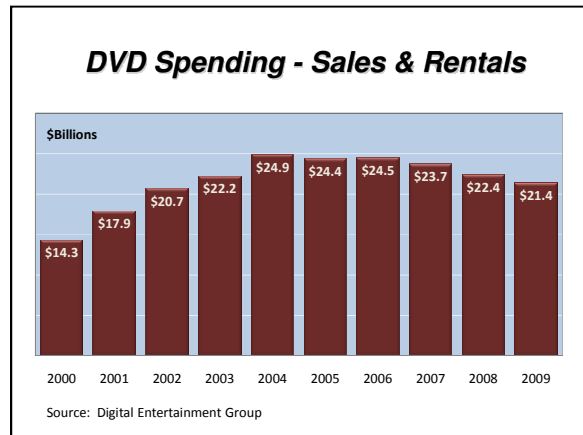
**Figure 2**

*\*Note (1): Film and Television rentals cover the rights to display, reproduce and distribute U.S. motion pictures and television programming abroad. These numbers do not necessarily correspond to foreign box office totals.*

Not all of the reported box office receipts go to the studios. They are shared with theater operators, based on a sliding scale. The longer a film plays in a theater, the better for the studio.

**DVD sales:** DVD revenue is quite important to the film industry, as it represents the largest share of pure profit. DVD sales have softened in recent years since it is a mature platform, but rentals are still fairly strong. Total DVD spending actually peaked back in 2004 at \$24.9 billion. Blu-ray initially did not perform as strongly as hoped, but seems to be gaining traction. Currently, the rental segment is being powered by Netflix and Redbox kiosks, though reaction to the latter is mixed. Some studios think inexpensive rentals will take away from DVD sales, especially in a soft economy. In any event, all studios are reviewing strategies to revitalize or protect the DVD business.

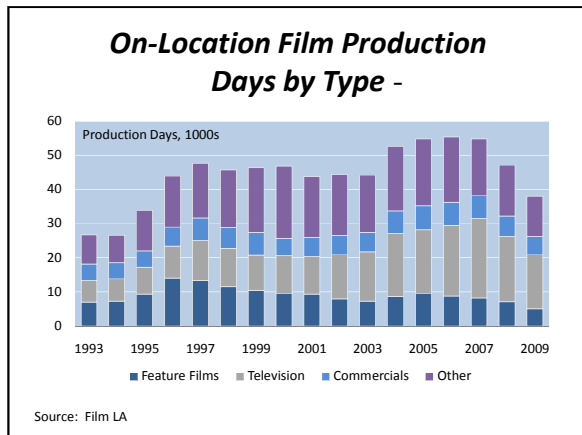
Not all DVDs are films that have been shown in theaters. There is a sizeable “direct-to-video” business. Some of these are sequels to theatrical releases, produced at a lower cost than a theatrical film. Others are films specifically crafted for DVD. Producers of independent movies like to have a theatrical release, as it is considered an indication of quality (people notice the ad in the newspaper).



**Figure 3**

### Tracking Film & TV Production in Los Angeles

This can be difficult, but is important given the size of the industry and the commotion over run-away film production. One indicator is the number of on-location production days (away from the studio lot). These data are gathered by FilmL.A., which coordinates location filming in the city of Los Angeles; unincorporated areas of Los Angeles County; the cities of Diamond Bar, Industry, Lancaster, Palmdale and South Gate; the Angeles National Forest, and the Los Angeles Unified and Burbank Unified school districts. While this data set does not capture all the location filming activity in the area, it does provide a measure of overall activity as well as trends by film type (feature, TV, etc.).



**Figure 4**

According to FilmL.A., total on-location production activity peaked in 2006 at 55,399 days. The total includes feature films, TV, commercials, music videos and other assorted activities. There have been shifts in location activity for the three major categories. Feature film activity reached a high back in 1996 at 13,980 days. Since then, on-location filming has shrunk to just 4,976 days in 2009. According to FilmL.A., this was a low point for on-location feature film production in Los Angeles

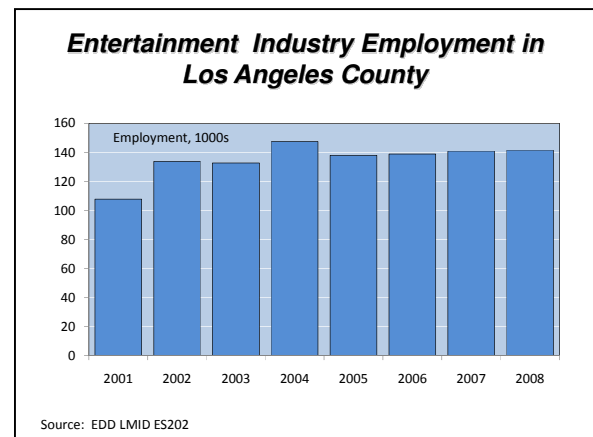
Location activity for TV reached a new high of 25,277 on-location days in 2008. However, in 2009 it fell by -16.6% to 15,933 production days. There have been shifts in the type of TV production. Reality TV shows had recorded major gains in 2008, but activity dropped off in 2009. “Reality” is a misnomer, as this type of show has a predetermined story line. Unfortunately, these productions do not yield as much in employment as a scripted series.

On-location production of commercials in Los Angeles peaked in 2005 at 6,983 days. Since then, activity has eased, reflecting the woes of the advertising industry. 2009 saw a -12.0% decline. However, FilmL.A. noted

increases in the third and fourth quarter of the year. The Bunker Hill area of Downtown Los Angeles remained a popular spot for auto commercials (hills and swooping ramps).

## Employment Trends

The official employment numbers for this industry cannot hope to capture all of the jobs associated with it. The Quarterly Census of Employment & Wages (QCEW) provides the most detailed data, but there is a time lag. Sectors included in our count are: motion picture & video production; motion picture & video distribution; post production & other related activity; sound recording; independent artists, writers & performers; and their agents & managers.



**Figure 5**

According to this data set, 141,400 people worked in Los Angeles County in the industry during 2008. The all-time peak employment according to the QCEW was in 1997, when there were 148,600 jobs. However, 2004 came to a close with 147,500 jobs. For 2009, a decline of about 9,000 jobs is forecast. A modest gain in entertainment employment is expected in 2010, reflecting the absence of labor issues, the impact of California’s film

incentive program, and a push to stockpile product before mid-2011 when the major guild contracts expire.

Many people in the industry work as independent contractors, including production crews. When they are on assignment working on a film, they officially work for a payroll firm, not a studio. Using “nonemployer” data from the Bureau of the Census, there were 76,280 independent contractors (without any employees) working in the entertainment industry in 2007. [Latest data available]

<b>Entertainment Industry Nonemployer Firms in L.A. County</b>					
Description	2003	2004	2005	2006	2007
Motion Picture/TV Production	11,867	12,569	12,793	14,795	14,109
Sound Recording Industries	2,176	2,305	2,309	2,510	2,512
Broadcasting (Except Internet)	914	959	987	1,070	1,019
Agents & Managers of Artists, etc.	3,865	3,963	4,087	4,089	3,940
Independent Artists, Writers & Performers	47,132	49,904	53,411	54,712	57,400
<b>Total:</b>	<b>65,954</b>	<b>69,700</b>	<b>73,587</b>	<b>77,176</b>	<b>76,280</b>

Source: US Dept. of Commerce, Bureau of the Census, Nonemployer Statistics

Figure 6

And how do you capture all people who are involved in the production of a film, like equipment rental, prop and costume houses, set storage, and on-location caterers? They are reported in other industry sectors.

The QCEW data also help show where the entertainment industry is located in California. Los Angeles County has the lion’s share of the jobs, 94.1% of total entertainment industry employment in the state in 2008. Number two is Alameda County with a 1.0% share, followed by San Francisco County with a 0.7% share.

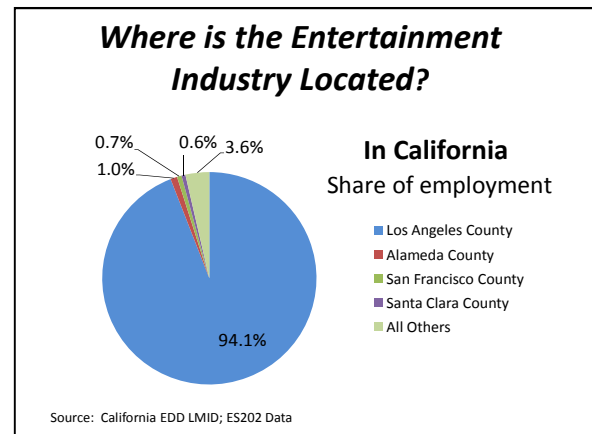


Figure 7

More interesting, the QCEW data provide insight on what share Los Angeles County has of entertainment industry employment nationwide. In 2008, the County had a 45% share of workers in motion picture & video production, and took a 43.4% share of employment in post-production & other related industries.

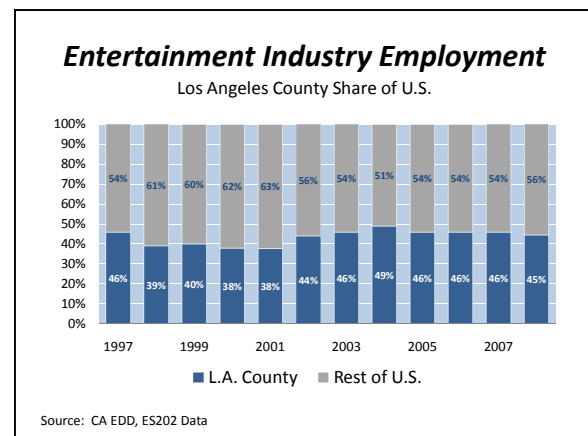


Figure 8

## ***Entertainment Industry Employment by Sector in L.A. County***

Description	2001	2002	2003	2004	2005	2006	2007	2008
Motion Picture & Video Production	76,500	101,778	99,197	118,172	109,346	108,721	108,360	110,386
Motion Picture & Video Distribution	2,400	2,049	1,902	1,934	1,997	2,030	2,103	2,153
Post Production & Other Related Industries	9,141	9,452	8,384	8,457	8,752	8,926	8,525	9,200
Sound Recording	5,040	5,066	4,906	3,616	3,657	3,695	5,127	3,320
Independent Artists, Writers & Performers	10,509	11,429	13,966	10,870	9,604	10,593	10,371	10,100
Agents & Managers of Artists, etc.	4,143	4,203	4,348	4,497	4,613	4,953	6,329	6,283
<b>Total:</b>	<b>107,733</b>	<b>133,977</b>	<b>132,703</b>	<b>147,546</b>	<b>137,969</b>	<b>138,918</b>	<b>140,815</b>	<b>141,442</b>

Source: CA EDD, QCEW Series

Note: The EDD re-classified several firms in 2002 &amp; 2007, moving them into the entertainment industry

Figure 9 -

## ***Entertainment Industry Payroll in L.A. County***

Description	2001	2002	2003	2004	2005	2006	2007	2008
Motion Picture & Video Production	\$6.86	\$8.36	\$8.14	\$9.50	\$9.48	\$9.35	\$9.46	\$9.61
Motion Picture & Video Distribution	0.23	0.24	0.26	0.37	0.30	0.26	0.29	0.33
Post Production & Other Related Industries	0.74	0.71	0.71	0.72	0.77	0.83	0.82	1.06
Sound Recording	0.35	0.34	0.30	0.31	0.31	0.33	0.34	0.31
Independent Artists, Writers & Performers	2.13	2.38	2.63	2.94	2.67	2.94	2.98	3.23
Agents & Managers of Artists, etc.	0.54	0.58	0.58	0.66	0.67	0.72	0.79	0.83
<b>Total (\$Billions):</b>	<b>10.85</b>	<b>12.61</b>	<b>12.62</b>	<b>14.50</b>	<b>14.20</b>	<b>14.43</b>	<b>14.68</b>	<b>15.37</b>

Source: CA EDD, QCEW Series

Note: The EDD re-classified several firms in 2002 &amp; 2007, moving them into the entertainment industry

Figure 10 -

## Overall Economic Impact -

A frequently asked question concerns local revenues generated by the entertainment industry. Unfortunately, regional and state data are not reported by the Census Bureau in the economic census, but some proxies can be used. An example is gross product generated. According to the U.S. Bureau of Economic Analysis, gross product in Los Angeles and Orange counties from the motion picture & sound recording industries in 2007 totaled \$23.2 billion. In 2001 when the data set starts, the figure was \$18.8 billion.

Another broad indicator is the wages and salaries earned in the entertainment industry. Using the QCEW data set previously cited, the total for Los Angeles County in 2008 was \$15.4 billion.

## The Challenges

When the LAEDC last analyzed the entertainment industry in November 2005, the list of “issues” (or challenges) included piracy, run-away production, shifts in the audience, union militancy, and (digital) technology. Four years later, the list has gotten longer, and the technology issues even more daunting.

**Technology:** This challenge has several aspects.

Digital production: One is in the production of filmed product. Do you do it on traditional-but-expensive film, or do it digitally? A lot of TV series are now being produced digitally because of the lengthy Screen Actors’ Guild contract stalemate in 2008-2009. As the American Federation of Television & Radio Artists had a signed

contract with the studios, many new shows that year went digital since there were no delays. Moreover, high-definition tape is less expensive than traditional film stock. Digital production also speeds up the process of sound editing, and the addition of visual effects. It has improved aesthetics and is also being used in feature film production.

There are some disadvantages to digital. The cameras are bigger and bulkier than film cameras. Also, lighting, makeup and set decoration need to be more exacting, as digital captures fine detail.

Digital distribution: Digital technology also impacts how filmed product is distributed. Will it be on the producer’s terms, or when the consumer wants it? More TV networks are putting content on the web, but are not yet making money on this move. There is also the problem of tracking web viewership, which is important in trying to monetize consumption of product, especially TV series. Studios are also experimenting with online sales of films, but so far are having more success with video on demand.

A new twist is studios using “trailers” in ways that are more sophisticated, putting them on web sites and even cable channels to generate interest in a feature film, and soliciting feedback from potential viewers.

3-D exhibition: This is the latest new, hot thing in motion picture exhibition and is felt to have great potential. Currently, ticket prices for 3-D films are higher, which is always attractive. However, the number of theaters equipped to show 3-D films is still limited. One issue is the cost of installation, while another is who pays for the glasses that the

audience must wear. A benefit, however, is that pirates cannot videotape a 3-D film in a theater. Some observers worry that 3-D is a “gimmick” that could have a short life, but the raging success of “Avatar” seems to have validated this technology.

**Marketing:** Technology is also impacting the performance of new films. “Word of mouth” used to spread slowly (around the office coffee station on Monday). But now with Twitter, texting and blogging, it is instantaneous, and a film’s receipts can fall quickly over a weekend if it is not well received. Separately, “viral” marketing is frequently used to build anticipation for a film.

Worrisome for newspapers is that studios are lowering their allocations of marketing dollars to this medium.

**New equipment:** Finally, new HDTVs now allow the user to connect with the internet. This could be damaging for cable TV services.

**Piracy:** Despite lots of well meaning reports and task forces, piracy of filmed production continues to be a major problem. The studios have watched in horror the pain inflicted on the recorded music industry. One problem is that technology keeps racing ahead making it difficult for the law to keep up.

**Run-away production:** This is an issue that ebbs and flows, and currently is a hot button issue. California has lost a lot of feature films to states that are offering incentives, over 40 at last count. There is an on-going escalation in the incentives being offered. For example, both Georgia and Louisiana have recently raised their tax credits to 30%. Tax credits

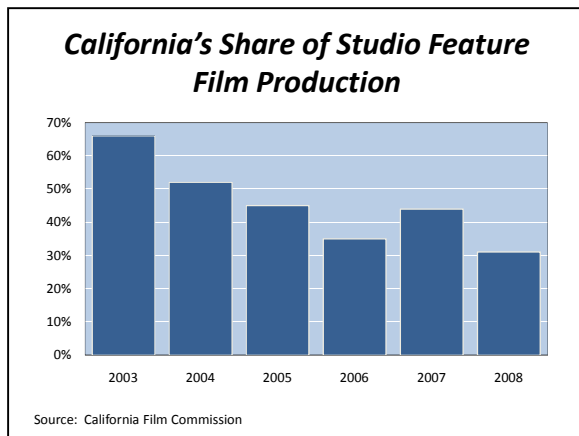
have become very important in selecting a filming locale, for either a feature or TV.

There has been some pushback in other states over these incentives, as most are experiencing budget problems. New York State has exhausted its pool of incentive money and has yet to replenish it. Michigan’s program also has been criticized as too costly for a state that is struggling financially. There are dueling studies by think tanks about the effectiveness of the incentive programs. Nonetheless, Michigan is aggressively developing studio facilities, and offering a 25% infrastructure credit applied to expenditures on construction of a studio and the contents. At last count, two studio projects with 1.3 million square feet of space were under development.

Why are the states offering incentives? They are looking for good jobs and tax revenue. In 2005, the consulting department of the LAEDC analyzed the impacts of film and TV production for the California Film Commission. The results were revealing. A mid-budget film (\$32 million) sustained 141 direct jobs and another 425 indirect jobs. It also generated \$4.1 million in sales and income taxes.

Besides Michigan, several other states are very serious about building up their film industry infrastructure. The best examples are Louisiana and New Mexico. They have built new sound stages and post-production facilities, and are also trying to develop a skilled crew base.

While Los Angeles County has felt the largest impact from run-away production, counties and cities around the state have also lost production activity to other states.



**Figure 11**

California has been criticized for not offering incentives. Despite a huge budget crisis, an incentive package was introduced in 2009. It includes a 20% tax credit on expenditures for crews and vendors. The incentives will be available for five years, with \$100 million available each year. Payments under the program start in 2011, though production can begin in 2009. It is available for feature films with up to a \$75 million budget, and for movies of the week and new television series for original distribution on cable. A broadcast TV series would be eligible for incentives if production returns to California (the “Ugly Betty” provision). To date there has been a very positive response. Some films utilizing the incentives started production in August 2009.

The city of Los Angeles, which already has an “Entertainment & Multimedia Tax Incentive,” is considering offering non-monetary incentives for film location production. They would help identify crew-parking options, and would install utility nodes in frequently used locations such as downtown Los Angeles. The city is also considering establishing a film commission. The city of Santa Clarita also has an incentive program that subsidizes permit

fees and offers other benefits. The city has hosted a variety of feature film and TV series production.

**An intense focus on costs:** There is a new focus on costs in the entertainment industry, among both broadcast TV networks and the studios. The recession has curbed advertising expenditures, and the broadcast networks have continued to lose audience to cable TV. The latter are offering “edgy” fare, often with top name talent. Also, the networks were hurt by the 2007-2008 Writers’ Guild (WGA) strike. Some promising new series never recovered from the lack of a full season of episodes to keep the audience engaged.

The TV networks (and industry suppliers and workers) were closely watching NBC’s move of Jay Leno into the 10:00 pm hour Monday through Friday. This, of course, eliminated the need for a scripted series. Early in 2010, NBC decided to move Leno back to 11:30 pm due to pressure from its affiliates. The network is now actively developing pilots to fill the 10:00 pm hour.

More attention is also being paid to costs in feature film production. All the major studios are part of media conglomerates that have been hurt by the decline in advertising. For the film studios, this means more pressure to keep costs under control, by cutting the number of films released or by focusing on small films (read low cost) or “tent poles” (a movie series that continues over a period of years and plays well both domestically and internationally). Star salaries are being scrutinized as well. Mid-tier movies are currently an endangered species. Films with major stars attached disappointed at the box office in 2009. However, several animated features have performed quite well (they do use “name” voice talent, however).



There is interest in “micro-budget” movies, fueled by the success of “Paranormal Activity.” Paramount has recently allotted \$1 million a year to produce ten such films. In addition, a company has recently been formed to make films for distribution via the Internet with a theatrical release, if any, at a later date.

**Financing:** Outside money tends to flood into the entertainment industry in good times, and then rapidly disappear due to disappointing results. Recently, the money came from overseas and from the private equity sector. Due to the credit crunch, there currently is not much in the way of outside financing available. Some industry observers fret that this might result in a shortage of films in 2010 and 2011. However, this could also be good news in that films could play longer in theaters. Late in 2009, outside money started to reappear, but not in large amounts. A significant amount came from India, which has its own large film industry (“Bollywood”).

**Fractious unions:** The entertainment industry has to deal with multiple unions. The best known are the Screen Actors Guild (SAG), the Writers Guild (WGA), the Directors Guild (DGA), and the American Federation of Television & Radio Artists (AFTRA). There are also IATSE (which represents many production workers), the Teamsters, and a variety of specific craft guilds (like costume designers and location managers).

The industry’s relations with SAG and the WGA have been rather contentious recently. The WGA was on strike in late 2007 into early 2008. This walkout severely disrupted TV production and accelerated changes in the network TV business model. In mid-2008, there was a lengthy standoff between the

studios and SAG, which had some unexpected consequences. Notable was the decision of many TV shows to be shot on digital tape and thus be under AFTRA jurisdiction (which had a signed contract). For WGA members, the walkout has had lingering unpleasant financial impacts.

More moderate leadership is now in place at both SAG and the WGA. Looking ahead, the contracts of SAG, WGA and the DGA next expire in 2011, and the negotiations are expected to be difficult. Again, the key issue will be how workers are compensated for distribution of content on the web. The studios have similar concerns. While there have been lots of experiments on new ways of distributing filmed content, significant revenue streams have yet to develop.

### **Some Thoughts about the Future of Filmed Entertainment in Southern California**

The entertainment industry is fascinating, and like many business sectors, has its own lingo. Frequently heard terms are “fan boy” (a young teen who is a rabid fan of science fiction or action hero stories), “tent poles” (a movie series that continues over a period of years and plays well both domestically and internationally), and “four quadrant” movies (which appeal to all four major audience groups).

Many people worry that “Hollywood” will soon become a shell of itself due to run-away production. However, the Los Angeles area has some compelling assets. First, there are several well-regarded film schools here. In addition, the entertainment “community” is here including the crew base as well as all the multiple suppliers. With technology becoming more critical, Los Angeles also has a strong advantage in this sector. The area also



includes a strong infrastructure for people in the industry (including jobs when not working in entertainment). This would be very hard to duplicate in most other locations.

Despite the turmoil and uncertainty, some facility expansions have been announced, including the NBC Universal “Evolution” project at its lot in Universal City, and the Disney/ABC Studios at the Ranch in Santa Clarita. These come on top of a reported base of over 375 sound stages.

Production activity is forecast to pick up in 2010. This increase will reflect the impact of the California incentive program, as well as an effort to build up an inventory of product before the major guild contracts expire in early 2011.

The Los Angeles-Orange County region’s motion picture business is significant in size and scope, but seems to have lost some ground relative to the rest of the U.S. Two indicators are illustrative:

1. In 2007, Los Angeles-Orange County motion picture and sound recording industries accounted for 53.9% of all U.S. metro area gross product in this sector – down from the 2004 peak of 57.7%.

2. In 2007, motion picture gross product accounted for 3.6% of total private-sector activity in the Los Angeles-Orange County region. Again, that share was down from the 2004 peak of 4.2%

What can local community leaders do to maintain this high-value industry? It is at an interesting juncture. Box office is growing, there is rapidly evolving technology yielding new ways to deliver content, and the

industry’s business model is in the midst of major change.

- 1) Place a renewed focus on entertainment as a serious business. Too often, the general public only sees the glitter. For many residents of Los Angeles County, it is just an exotic activity that takes place on the “Westside.” But entertainment generates jobs and tax revenues throughout the region. It also has critical links with other local industries such as tourism and fashion. The major awards shows are a constant reminder that Los Angeles is the center of both entertainment and fashion.

However, entertainment is a tough business, especially for talent, both in front of the camera and behind. You can be working one week and looking for a new assignment the next. What can community leaders do about this? A good question.

While the focus is mostly on film production, attention should be paid to post production activities as well. These involve well paid jobs, and Los Angeles has an advantage with its broad and deep technical capabilities. However, there is competition from India and elsewhere for this activity.

- 2) Watch the new leadership at Walt Disney Studios and the looming Comcast/NBC Universal combination (the latter includes the studio, the NBC television network and cable channels). Some new ideas could emerge on advertising practices (important to newspapers and the TV networks), and release windows (the time between a theatrical release and a DVD release of feature films). There is talk of compressing - this window, much to the dismay of the - theaters. Some new ways of operating could -

emerge that would further roil the entertainment industry food chain.

3) Monitor the results of California's film incentive program to see if it needs to be enhanced. There is also fear that the state's on-going budget problems might result in cancellation of the program, which would be a mistake.

4) Monitor the key growth drivers for the industry, including digital technology (a strong suit for Los Angeles), development of international markets, and overall population growth (many regions of the world do not have a developed movie exhibition business or have a constrained one). China is a good

example. Some support could possibly be offered in opening up this market.

5) The cities of Los Angeles and Santa Clarita have taken steps to become more film friendly. Other cities in Los Angeles County (and counties in the state) should be encouraged to take similar steps.

There will always be a demand for content, but how it will be consumed is a work in progress. The younger generation wants more creative content online, but how do you generate revenues and prevent piracy?

The entertainment industry is too important to the Los Angeles area not to take some decisive steps to retain it.

## Media and Advertising Industries in Los Angeles

### Introduction -

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The greater Los Angeles region also is home to numerous newspapers, periodicals, and a profusion of television and radio stations. The companies that own these media are dominated by News Corp, General Electric, CBS and Disney. Other major players are primarily known for newspaper publishing (Tribune Co., Gannett, Hearst Corp., Los Angeles Newspaper Group). Large media conglomerates commonly own companies spread across the entertainment-media spectrum. For example, a partial listing of News Corp.'s holdings include: a movie studio (20<sup>th</sup> Century Fox), several television channels (Fox Broadcasting Network), an online social networking site (MySpace), and newspapers and business information services (*The Wall Street Journal*, *Barron's*).

In addition to the ownership linkage across formats, the "value added" role played by advertising is essential to the revenue model used by media platforms. Advertising pays for content and influences the way information is delivered to consumers.

Media companies are grappling with technological changes that have transformed the relationship between advertising and the provision of content. As the technology of mass media consumption has expanded delivery options, consumers have become less interested in traditional forms of advertising and increasingly accustomed to

accessing content (free or paid) whenever and where ever they want it.

The biggest question facing managers and owners of media organizations is how to extract money for digital content (the industry mantra could well be, "Monetize! Monetize! Monetize!"). Consumers have migrated to the web much faster than most industry insiders expected, forcing media companies to reinvent themselves more rapidly than nearly anyone would have deemed necessary just a few years ago. Newspaper publishers provide a particularly illustrative example of this trend.

As if things were not interesting enough, the recent economic downturn led to a massive decline in advertising revenues. The resulting maelstrom of structural and cyclical woes combined to form a perfect storm of declining revenue and audience share, and nobody seems to know quite what to do about it.

The purpose of this segment of our report is to survey the media, both print and electronic, to gain an understanding of its importance to the economy of the greater Los Angeles region. We will identify and discuss the major trends reshaping different segments of the industry at the national level and then examine how those changes are playing out locally.

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## Broadcast & Cable Television

### Broadcast Television

The economics of television broadcasting are changing rapidly:

- 1) Emerging technologies are having a tremendous impact on how and when individuals access programming.
- 2) Tweaking program content and talent are no longer enough to hold audience share.
- 3) Broadcast television faces growing competition from the Internet and a declining share of the pool of advertising dollars.

In short, the cornerstone has been kicked out from under the traditional advertising based revenue model. The proliferation of mobile devices and new delivery formats (Internet, video on demand, podcasts), have expanded consumer choice, giving individuals more control of *where* and *when* they consume television programming. The growth of online options has also given individuals more control over *what* they see (e.g., Internet programming that caters to a very narrow demographic or user-produced content on websites like YouTube). The result is that broadcasters are competing for shares of an increasingly fragmented audience and, as audiences disperse across the media landscape, advertising dollars follow.

Broadcast television is divided into two segments: the national networks, which are dominated by four large organizations (ABC, CBS, NBC and Fox), and local TV stations. Two new networks have recently joined the line-

up: CW, a joint venture between CBS Corp. and Warner Brothers, and MyNetWork, owned by Fox. Networks make money by supplying programming to their affiliates (local television stations) and by selling national advertising. The over-the-air networks also charge cable, satellite and telecommunications companies for retransmission rights to their programming.

The networks are burdened by an economic model heavily dependent on advertising. So far, television networks have managed to keep revenues relatively intact by charging higher advertising rates per viewer even as their share of viewers declines. Networks can get away with this because broadcast TV is still highly ranked as a mass medium. The most popular shows draw millions of viewers, something the Internet cannot yet claim. A show that reaches 10 million “eyeballs” in a single evening is worth relatively more to an advertiser today than it was just a few short years ago. As audience shares continue to evaporate, however, it is unclear if the networks will be able to continue increasing advertising rates.

The financial meltdown in 2008, and the severe recession that followed, intensified the industry’s structural problems. Advertising revenues, already in decline (albeit from an extraordinarily profitable peak), plummeted as companies slashed their marketing budgets. Furthermore, these difficulties were exacerbated by the debt burdens taken on by parent corporations from acquisitions made when the economy was stronger.

The automotive industry, traditionally among the largest buyers of television advertising, severely curtailed advertising expenditures in the wake of bankruptcies (GM and Chrysler), and waning consumer demand. Advertising revenues from other sectors also deteriorated.

These days, advertisers have a lot of choice about where to spend their marketing dollars and the recession has forced a number of firms to rethink their marketing strategy. As companies reduce traditional advertising budgets and venture into alternative forms of marketing, competition for advertising dollars among the networks and competing media platforms has become increasingly intense.

#### **Total Broadcast TV Ad Revenues (\$ Billions)**

	3q2009	3q2008	% change
Spot TV	\$3.1	\$4.3	-28.1%
Syndication	\$1.0	\$1.1	-7.2%
Network TV	\$4.7	\$5.9	-21.5%
<b>Total Broadcast TV</b>	<b>\$8.8</b>	<b>\$11.3</b>	<b>-22.6%</b>

	Jan-Sept '09	Jan-Sept '08	% Change
Spot TV	\$8.7	\$11.9	-27.4%
Syndication	\$3.2	\$3.3	-2.8%
Network TV	\$17.0	\$19.1	-10.7%
<b>Total Broadcast TV</b>	<b>\$28.9</b>	<b>\$34.3</b>	<b>-15.7%</b>

Source: TNS Media Intelligence; Television Bureau of Advertising

**Figure 12**

Total broadcast television ad revenues were down by -15.7% in the first three quarters of 2009 compared to the same period last year. Network television fell by -10.7%, while local television ad revenues tumbled by -27.4%

(syndicated television was down by -2.8%). Comparisons for the third quarter were even worse. [Latest data available]

By category, from January through September 2009, ads by automotive manufacturers plummeted by a heart-stopping -52.0%. Ad buys from car and truck dealers slumped by -38.6%. And the dreary list goes on: financial services (-24.0%), home building centers (-25.9%) and clothing stores (-36.1%). Of the 25 categories tracked by the Television Bureau of Advertising, only one – food & food products – posted an increase (+3.2%). Another bright spot (for the viewing public at least) was that political ads dropped by -82.4%. However, we can look forward to a new bombardment in 2010 as the campaign season gets underway.

Years of cutbacks at the networks have done little to spur innovation. High quality shows on cable TV have been steadily chipping away at network audiences. At the other end of the spectrum, low budget, “webisodes” on YouTube and other online sources are attracting growing numbers of viewers looking for originality and special interest subject matter. In a recent study, the Conference Board reported that one in four U.S. households watches television online. This is a 20% increase over last year.

#### **Local Television Stations**

Local television stations share many of the same problems as the networks, namely a fall-off in advertising revenue and audience drift.

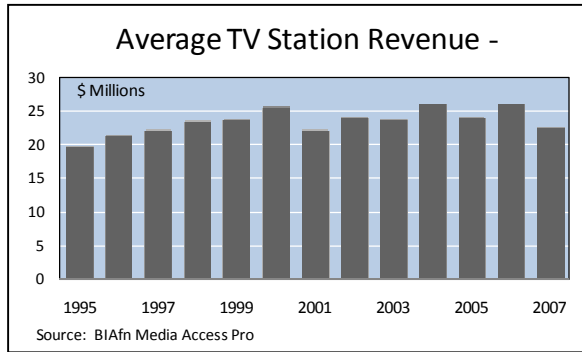


Figure 13

Two types of advertising are carried on local TV: national spot and local spot. National spot advertising, which accounts for 45% of station ad revenue, comes from companies that want to advertise widely, but do not want to advertise on a national network that broadcasts everywhere (e.g. makers of snow tires do not need to advertise in Los Angeles).

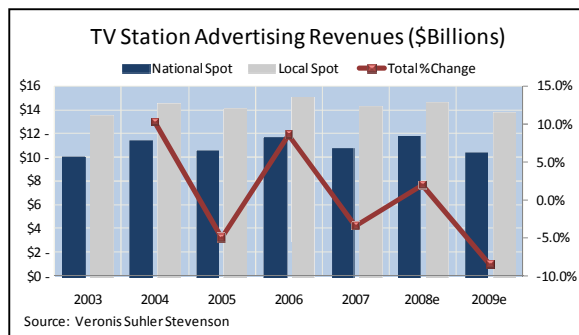


Figure 14

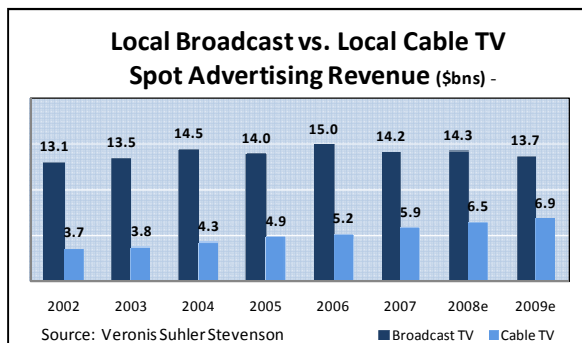


Figure 15

Local spot advertising accounts for the remaining 55% of station ad revenues and is made up of advertisers in the stations' own market. In addition to declining ad spends as a result of the recession, local broadcast TV must now compete with advertising on local cable. Local cable only takes in about half the local spot advertising revenue as broadcast TV, but it is growing faster.

Although online advertising is a small portion of local TV revenues, and has suffered as a result of the recession, it continues to expand. Still, most stations currently earn less than 2% of their revenues from online operations.

### Technological Innovation

While revenue declines are to be expected during a recession, TV stations are also coping with various technology-related issues.

1) The delay in switching to digital transmission from February to June 2009 added financial strain – stations had to pay to keep analog equipment working and delay some digital upgrades.

2) As online ad growth fell, broadcasters shifted their attention to new delivery platforms.

The next competitive advantage for local television stations may be from programming transmitted to mobile devices.

The support for such a move is nearly universal among local television stations. At an estimated \$250,000 per station for the necessary hardware upgrades, the cost to implement mobile digital TV is relatively inexpensive. The distribution of content over

handheld devices would provide local TV with a new avenue for advertising and subscription revenues that could be worth \$2 billion by 2012.<sup>1</sup>

However, TV stations already have a competitor in this market. MediaFLO (owned by Qualcomm) is a mobile-only provider that has been broadcasting since 2006 and, as of the end of 2008, was operating in 58 markets. MediaFLO charges a monthly subscription fee for exclusive and network content. However, mobile-only companies are at a disadvantage since they must build their own transmitters and negotiate license agreements from content providers (networks). TV stations already have programming and will not have to invest in transmission equipment.

Another example is Hulu.com, a video content aggregator. Hulu is jointly owned by NBC Universal, News Corp and Disney. Although content is currently free to viewers, commercials accompany the online offerings. Last year, the number of households logging on to Hulu increased by a factor of four (to 24 million).

### Television Broadcasting in Los Angeles

Mirroring national trends, the audience for broadcast TV audiences in Los Angeles County declined over the past year. During the month of September (2008) the 15 highest-rated stations in the county drew one million viewers. Viewership was boosted by the summer Olympics and election coverage. By May 2009, that number declined by -18.5% to 815,000. By September 2009, viewership had fallen to 728,000 or by -27.2% for the year.<sup>2</sup>

<sup>1</sup> BIA Financial Network

<sup>2</sup> Nielsen Media Research/*Los Angeles Business Journal*

Only the top two Los Angeles stations managed to garner more than 100,000 viewers in September: KABC (Channel 7) with 112,000 viewers and Spanish-language KMEX with 110,000. However, both stations posted a decline in viewers since May 2009: -30,000 and -33,000 respectively.

In spite of the difficult environment, five of the top 15 stations in Los Angeles County registered slight increases between May and September: KNBC (Channel 4) and KCBS (Channel 2). Both stations attracted 3,000 additional viewers during that period. Additionally, KTLA (Channel 5), KFTR (Channel 46) and KDOC (Channel 56) saw small upticks in their viewership numbers.

The local market has four independent stations, led by KCAL (Channel 9). The other independents are: KRCA (Channel 62), KWHY (Channel 22) and KDOC (Channel 56). Looking at ownership, NBC Universal owns three stations in the area (KNBC, KVEA, KWHY) and CBS (KCBS, KCAL) and News Corp. (KTTV, KCOP) each own two. [See appendix B]

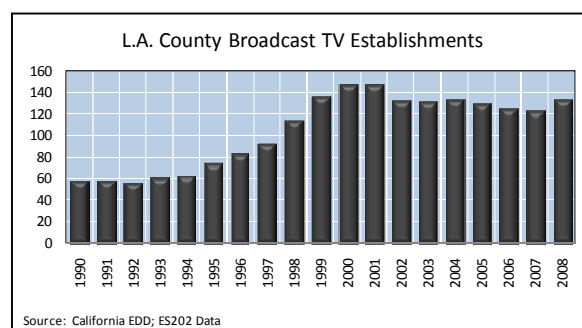


Figure 16

**Employment** In 2008, the broadcast TV industry in Los Angeles County employed 9,185 individuals – up slightly from 2007 (+3.2%), but down by -14.6% from the 2000 peak. There are also, a significant number of



independent writers and performers associated with the creation of television content that are not captured in these numbers.<sup>3</sup>

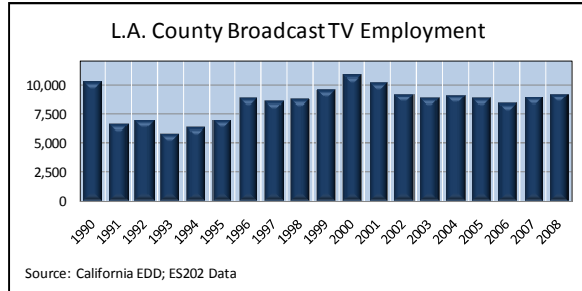


Figure 17

Employment in TV broadcasting fell slowly but steadily from 2000 to 2006. It started to pick up again in 2007 (+6.1%), with slower but positive growth in 2008 (+3.1%). However, the recession has taken a toll on the industry, and 2009 and 2010 could post large declines.

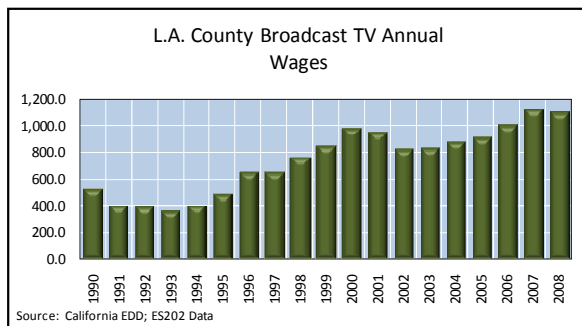


Figure 18

Total wages have followed the same pattern as employment, but have seen steadier growth than total employment following the 2001 recession; reaching and then surpassing the prerecession peak in 2006 and continuing to grow through 2007. In 2008, total wages fell by a relatively modest -1.6%, but as with

<sup>3</sup> See Entertainment, Figure 6: Nonemployer Firms in the Entertainment Industry in L.A. County

employment, more declines are expected for 2009 and 2010.

In spite of the declines in revenue, employment and wages, TV broadcasting has not suffered as much during the recession as many other industries have, giving credence to the idea that if not entirely recession proof, the industry is at least somewhat recession resistant.

## Cable Television

Cable TV is organized as a group of multiple system operators (MSOs) i.e. the “cable company” and various cable channel networks. Individual communities are served by a particular cable system which is run by a system operator. Since most system operators run cable systems in more than one community, the vast majority are known as MSOs. The cable channel networks (e.g. TBS, The Weather Channel, etc.) supply programming to the MSOs who then distribute it to their customers. [See appendices C & D for list of top MSOs and networks]

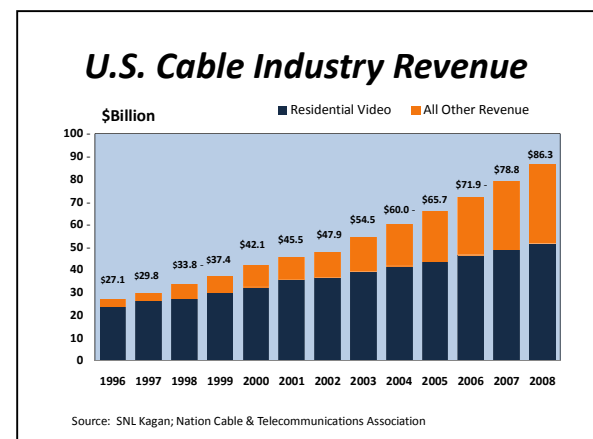


Figure 19

With its dual revenue streams (subscriber fees and advertising), the cable TV industry held up fairly well during the recession.



Advertising revenues in 2008 were up by +6.0% to \$26.6 billion compared with 2007. In 2009, the Cabletelevision Advertising Bureau projects advertising volume will have grown by +1.8% making 2009 the eighth consecutive year of ad sales growth. Cable TV also saw an increase in total revenues (+9.4%), climbing from \$78.8 billion in 2007 to \$86.3 billion in 2008.

Subscriber fees come to cable channels indirectly from viewers. The channels (ESPN, MTV, HBO etc.) are paid fees by cable operators (Comcast, Time Warner) in exchange for airing their programs. The operators, in turn, recoup that money from cable TV subscribers.

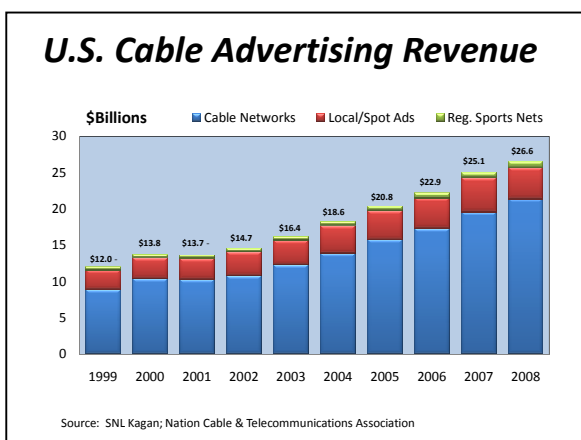


Figure 20

While the volume is still relatively small, the flow of advertising dollars out of broadcast television and into cable TV is picking up steam. Cable networks charge less for commercial time and they have a greater ability to reach niche markets. This allows advertisers to target ad dollars to a particular audience, thus maximizing their return on ad spends.

Industry analysts note that for cable, advertising has greater potential than subscriptions for long-term revenue growth. As cable markets mature, it becomes harder to sign up new subscribers or to get existing subscribers to add additional premium channels.

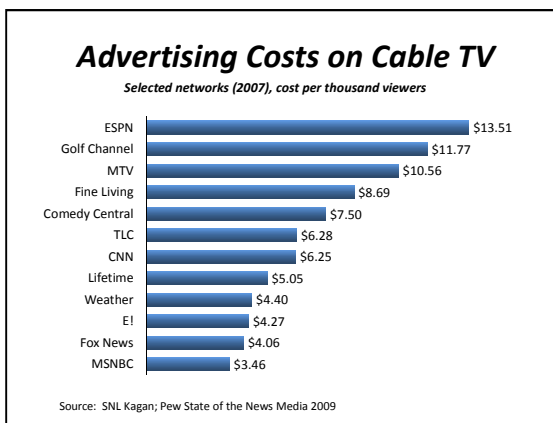


Figure 21

## Cable & Subscription TV in Los Angeles

The cable and subscription TV industry in Los Angeles is somewhat smaller than the broadcast TV industry. In 2008, the average number of cable employees was 6,707 (compared with 9,185 for broadcast TV). This represented a decline of -6.0% for the year. Since 1990, however, employment has grown by +87.7%. Total wages in 2008 declined by -0.5% to \$644 million compared with 2007.

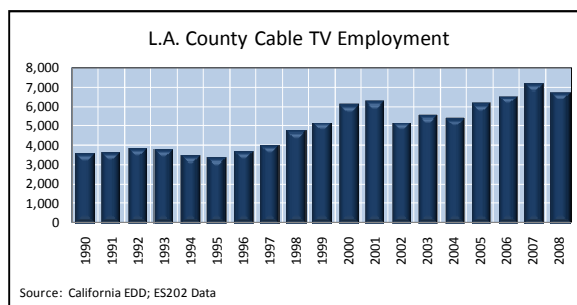


Figure 22

## Internet/Technology

Another big issue roiling the industry is the growing audience appetite for on-demand TV. How will the cable companies accomplish this without undermining their own business model? It is not just the cable companies – satellite and the telecoms also stand to lose out. The issue echoes the problems newspapers are having by allowing free content online i.e. giving away intellectual property.

One possibility would be to make online cable shows available only to cable subscribers. Disney has taken a different approach by placing episodes of shows from the Disney Channel and ABC Family online to build awareness and audience. Disney is also selling individual episodes on iTunes. The question is whether online video is really promotional boon for the cable networks or a threat to the economics that pay for the development of original programming.

The advent of Internet-ready televisions might make all of that a moot point. Already, people are dropping cable and meeting their video needs with free HDTV and on-demand downloads from Netflix, iTunes or Amazon. What these trends point to is the growing importance of owning content versus distributing it.

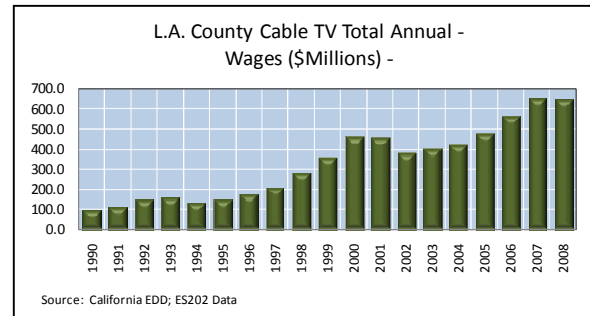


Figure 23

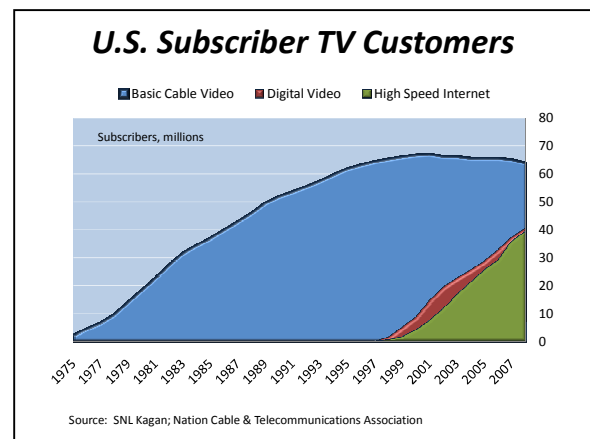


Figure 24

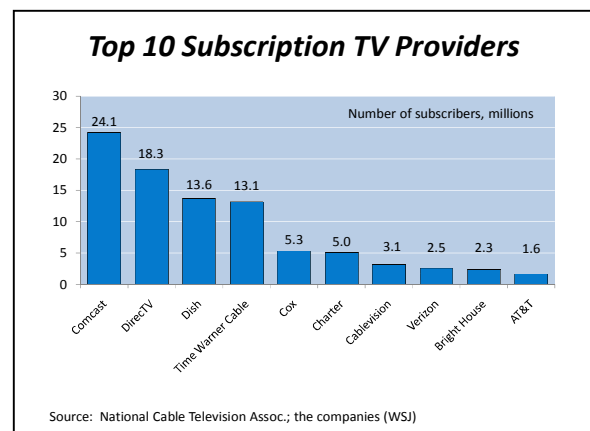


Figure 25

## Radio Broadcasting

### Introduction

Radio is the oldest form of broadcast media and the farthest reaching in terms of audience accessibility. In recent years, new forms of radio broadcasting have enabled the medium to extend its reach through use of the internet, the development of satellite radio and mobile devices (for example, local public radio station KCRW has an iPhone application).

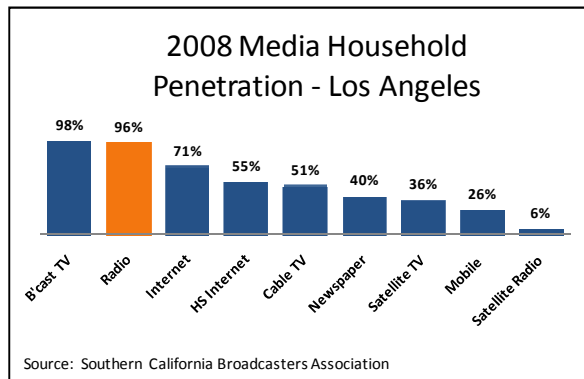


Figure 26

As with other forms of media, radio is wrestling with the breakdown of the industry's traditional revenue model - selling advertising in order to produce content. The development of satellite and Internet radio also means that radio is competing not only with other media platforms for audience share and advertising revenues, but with alternate versions of itself.

As of 2008, terrestrial (traditional) radio was still receiving 90% of total radio advertising revenues. That share is falling, however, due in large part to competition from low cost

online radio stations and changes in the composition of advertising revenues.

Radio is supported primarily by local advertisers and is heavily dependent on the automotive and retail industries for advertising revenue. Most of the weakness experienced by radio broadcasters through the first three quarters of 2009 was the direct result of the automotive and retail sectors being hit particularly hard by the recession.

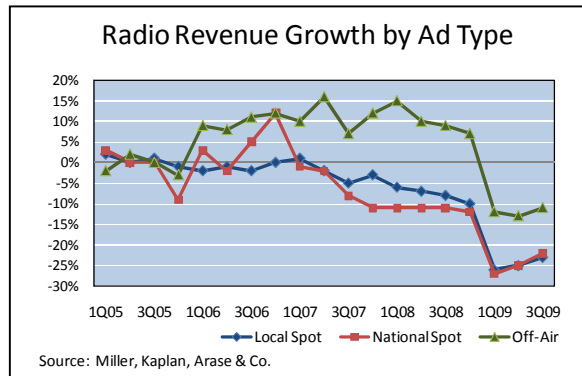
Radio stations nationwide saw a -6.7% decline in total revenues (advertising and network compensation) to \$12.7 billion in 2008. From 2005 to 2007, revenue growth had been relatively flat. Local radio station air time revenue for advertising and program content (commercials, infomercials, real estate listings and sponsorships) fell by -9.5% to \$8.1 billion in 2008.<sup>4</sup>

On the other hand, radio is benefiting from a shift away from traditional media advertising to alternative marketing. The share of on-air advertising dollars is declining, but the share of revenues from event sponsorships, billboards and online advertising is increasing.

Unfortunately, the growth in alternative marketing was not enough to offset declines in traditional advertising. During the first three quarters of 2009, total radio advertising revenues fell by -23% compared to the same period in 2008. The decline was about evenly

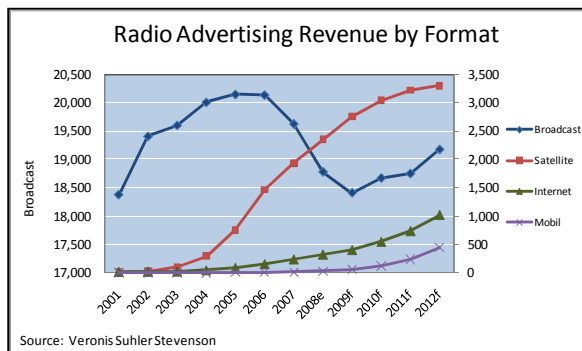
<sup>4</sup> U.S. Census Bureau 2008 Service Annual Survey: Information Sector Services

split between local advertising (-23%) and national (-22%). Off-air revenues (alternative marketing) fell by -11%. The declines appear to be slowing although not by much. The first quarter of 2009 logged the worst performance for this cycle – total local and national advertising revenue fell by -26% and off-air revenues declined by -12%.



**Figure 27**

While the short-term outlook for terrestrial radio is looking a little better, the future still holds significant challenges. Veronis Suhler Stevenson (VSS) forecasts that advertising revenues for terrestrial radio will fall over the five year period 2007 through 2012 by -2.3% (total) while satellite radio will grow by +70.7% and the digital formats (internet and mobile) will experience triple-digit growth, starting from a much lower base in 2007.



**Figure 28**

The Internet holds the greatest revenue growth potential for traditional radio stations. Online stations are relatively inexpensive to set up and can compete more directly with other media outlets (Internet-only radio and online newspapers and TV) by providing video, text (news and information) and podcasts. According to VSS, terrestrial stations' internet platforms saw revenues increase by +55.% in 2008 compared to 2007, which was up by +73.6% over 2006.

### Los Angeles Radio

Compared to other media formats, radio in Los Angeles is doing fairly well (aside from revenues lost due to the economic downturn). The region is home to one of the largest radio markets in the world. Local stations generated more than \$1 billion in ad revenue during 2008, according to the Southern California Broadcasters' Association. That marked the sixth consecutive year local radio advertising revenue surpassed \$1 billion. However, ad sales were down by 12% in 2008 compared with the prior year.

**Advertising** During the first five months of 2009, Los Angeles Radio's share of total advertising revenue was \$145.6 million or 21.4% compared to \$382.7 million for television (56.2%) and \$153.1 million for newspapers (22.4%). Local advertisers at every level are facing revenue challenges due to declines in consumer spending as a result of the recession. Still, six radio advertising categories increased ad spends over the first half of 2009 compared to the same period in 2008. Oil and gas ads grew by +190.4%, and personal fitness & weight centers grew by +164.3%. Somewhat less spectacular, but still strong growth came from casinos & lotteries (+19.8%) and security services (+12.1%). More moderate growth in advertising

revenues was seen in personal care products (+7.7%) and sporting goods (+5.7%).

By dollar volume the top five radio advertiser categories were: communications (\$19.4 million), financial services (\$16.5 million), professional services (\$15.6 million), restaurants (\$14.7 million) and concerts, theaters & movies (\$14.6 million).

Given the state of the economy over the past year, it is not surprising that some of the most drastic declines were home improvement (-28.9%) and financial services (-30.3%). The largest decline (-36.9%) was in the category music stores/videos/DVDs, but this was driven less by the recession and more by structural changes within the music and entertainment industry as sales and rentals moved online [See appendix F].

**Radio Stations in the L.A. Market** Clear Channel Communications Inc. owns 10 stations in the L.A. Market and accounts for an aggregate 24.2 share. That makes it the leading station owner based on ratings. The company has five of the top ten rated stations in Los Angeles: KIIS-FM (102.7) ranked No. 1, talk station KFI-AM (640) ranked third, adult contemporary station KOST-FM (103.5) ranked fourth, KBIG-FM (104.3) ranked eighth and KHHT-FM (92.3) ranked tenth!

CBS Radio owns eight stations in the market and has a combined 21.9 share. Stations include classic hits stations KRTH-FM (101.1) and KCBS-FM (93.1). CBS rebranded one of its stations as KAMP-FM (91.7) in June and changed the format to compete with KIIS-FM (102.7). The station registered a 3.7 share to place it at No. 6 in September 2009.

Spanish-language station operator Univision Communications Inc. had the third largest

market share for local station operators, with its four local stations taking a combined 8.7 share.

The L.A. market also has a vibrant and well supported public radio presence. Both KUSC-FM (91.5), classical music, and KPCC-FM (89.3) NPR and local news, made the top 25 in shares. Other public radio stations include KCRW-FM (89.9) “hand-picked” music programming, NPR and local news, and KKJZ-FM (88.1) jazz music, are thriving. [See appendix E]

While approximately 6.3 million people use the internet in Los Angeles in a given week, 10.4 million people listen to local radio stations. Radio’s daily reach is more than three times larger than the combined circulation of the Los Angeles area’s twelve largest papers. Most radio listening is done “out-of-home” i.e. at work or while commuting. Traffic, work, errands and shopping patterns all affect media choice and how much time is spent listening, watching, surfing etc.

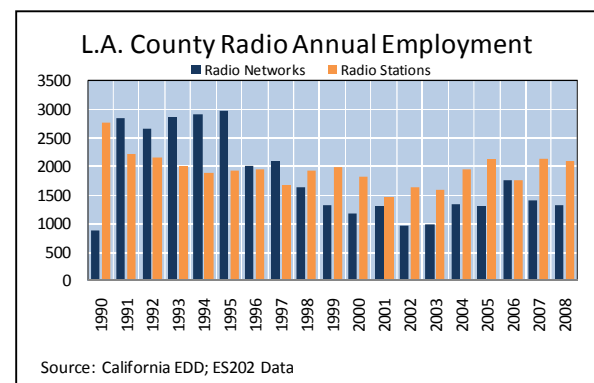


Figure 29

While radio has the greatest household penetration of any major media format except broadcast TV, it employs relatively few people in Los Angeles. In 2008 there were 1,314 workers at radio networks and 2,095

workers at radio stations. The combined total of 3,409 employees earned wages of \$278.4 million in 2008. Total average employment in the industry has fallen by -32.8% since a peak of 5,074 workers in 1991.

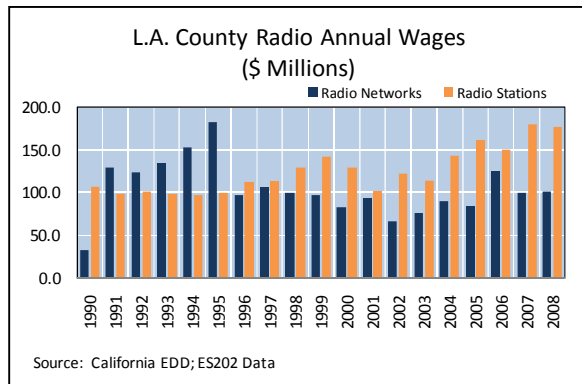


Figure 30

The number of radio establishments has remained fairly constant over the last twenty years, but the ratio of radio networks to radio stations has changed dramatically. The number of radio stations has declined by -32.5% between 1990 and 2008 while the number of radio networks has risen by +189%. This may reflect the trend in consolidation that the industry has experienced in recent years. Of the top 25 radio station in Los Angeles, 60% of them are owned by three firms: Clear Channel (24%), CBS (24%) and Univision (12%).

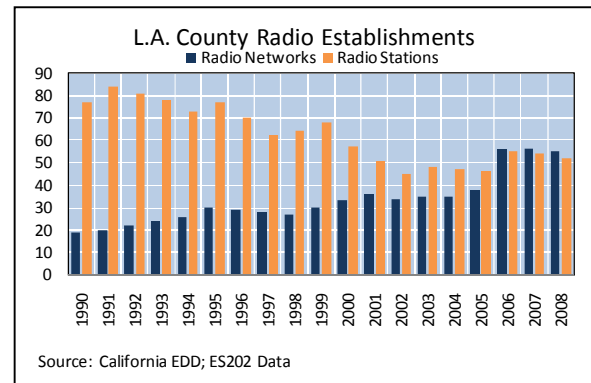


Figure 31

## Conclusion and Outlook

Radio should continue to do well in the near term. As a media format that is available at home, in the car, at work and piped into stores and other public places, it has large audience reach. Additionally, running an ad on radio is much less expensive compared to TV.

### Competing Radio Formats

**Internet Only Radio:** Revenues come from audio and website advertising. Some also charge for “premium” subscriptions so that a subscriber can listen to music without commercial interruptions. Revenues are also generated by providing links to retailers who then rebate a percentage of online sales (CD’s for example) back to the station.

**Satellite Radio:** 90% of revenues come from listener subscriptions and 4% come from advertising. Satellite radio is dominated by a single firm formed by the merger of Sirius and XM in 2008.

**Mobile radio:** This is a small but rapidly growing sector. Revenue also depends heavily on subscriptions. In 2007, \$7 million came from subscriptions and \$2 million came from advertising. Mobil devices (cell phones, smart phones and PDAs) are unique because they are the only media format that people have with them almost all the time.

## Print Publishing: Newspapers & Magazines -

### Newspaper Publishing

#### Introduction

Newspaper publishing is a \$50 billion industry in the U.S. The primary task of newspapers is to disseminate accurate information to the public. At the same time, the news media must function successfully as a business earning sufficient revenues to cover the costs of gathering and publishing news.

How newspapers will accomplish this going forward is an open-ended question. The industry is currently in a state of upheaval (150 newspapers ceased publication in 2009). The difficulty is not so much one of audience, but one of evaporating revenue streams. Rapidly evolving technologies and demographic changes have seriously undermined the traditional business model of the daily newspaper. The recession, which took a big bite out of advertising revenues, made a bad situation even worse.

In the conventional revenue model, newspapers make money by delivering advertising to newspaper readers. In general, advertising accounts for approximately 80%-90% of newspaper revenues with subscriptions contributing the remaining 10%-20%. Beginning in the early 1990s with the explosion of the Internet and the advent of new media, the relationship between advertising and newspapers began to disintegrate.

Still, in their 2009 report on the state of the news media, the Pew Project for Excellence in

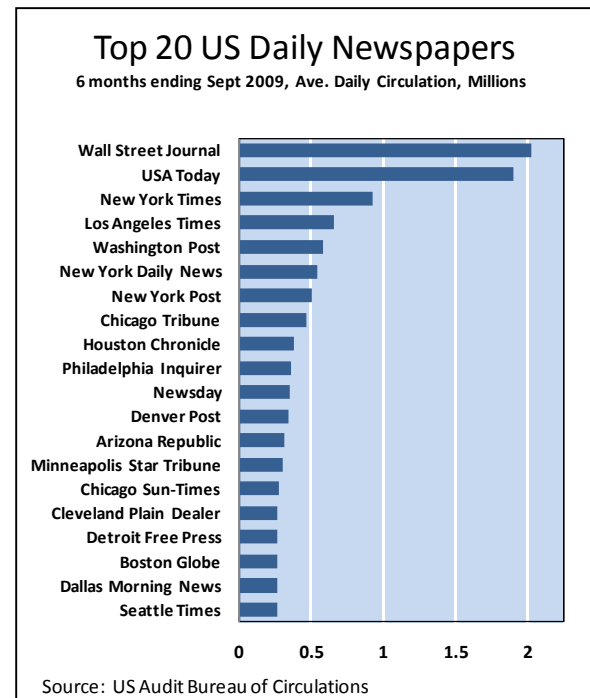


Figure 32

Journalism<sup>5</sup> reported that newspapers remained the largest source of news coverage and analysis in the United States. This statement applies not only to individuals, but also to a large extent to TV and radio stations which often use newspapers as “tip sheets.” Popular websites commonly appropriate and link to newspaper stories (usually without providing payment)<sup>6</sup>. Pew also noted that in

<sup>5</sup> The State of the News Media: An Annual Report on American Journalism (2009); [www.journalism.org](http://www.journalism.org)

<sup>6</sup> This issue calls into question the efficacy of current copyright laws. Newspapers (cont. next page) complain that Internet news aggregators are using



2008 for the first time more people in the U.S. got their news online for free than paid for it by buying newspapers.

In spite of declining print circulation numbers, plunging advertising revenues and the worst economic conditions since World War II, the industry was profitable overall in 2008. On the other hand, as the economy deteriorated further in 2009, most newspapers across the nation saw revenues and profits fall precipitously.

Going forward, a great deal will depend on how much of the industry's current distress is attributable to the recession versus ongoing structural problems. The recession and weak recovery certainly threaten the survival of the most vulnerable newspapers, but those that do weather the downturn will continue to face some truly daunting challenges. Unfortunately, the solutions thus far proposed by industry experts seem more speculative than viable at this time.

### Circulation and Demographics

Over the past 60 years, the U.S. population has more than doubled, while newspaper circulation<sup>7</sup> in 2009 is projected to be smaller

and benefiting from newspaper content without paying for it. Although many aggregators include links leading readers to newspapers' websites, many in the industry contend current copyright law has not kept up with issues raised by digital publication. For example, there is no clear rule on how much of a story can be republished and in what form before the principle of "fair use" is violated.

<sup>7</sup> Circulation refers to the number of copies distributed, typically reported as a daily or weekly average. Circulation is not necessarily the same as copies sold since some copies of newspapers are distributed without cost. Readership, on the other hand, is a measurement of total audience or the average number of people who "read" or "looked

than it was in 1946. Nationwide newspaper penetration, the percent of households that read a paper, is only 18%, compared with 33% 60 years ago.<sup>8</sup>

Circulation numbers for both daily and Sunday editions have been declining for a number of years. The total number of newspapers in print has also ebbed with evening editions taking the hardest hit. The evening edition was made redundant by the Internet's ability to update news stories throughout the day. Morning papers picked up some of the slack, but it was not enough to counter an overall decline since 1990 of -11.7% in the number of daily newspapers. Sunday editions picked up +5.1%, but have been mostly flat in recent years.

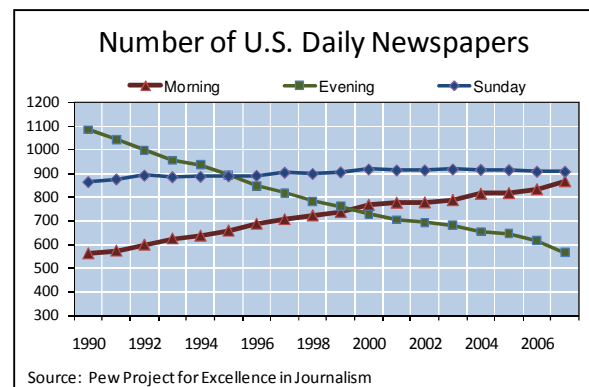


Figure 33

into" a newspaper in a given timeframe. Readership figures are usually higher than circulation figures because more than one person often reads a newspaper copy – at home, work or in a public setting like libraries or waiting rooms. The third measurement is "reach" or cumulative audience. This is the number of unduplicated individuals or households reached by (or exposed to) an advertising medium such as a newspaper or broadcast.

<sup>8</sup> When No News is Bad News, Warren, James; The Atlantic (January 21, 2009)



It is not that people have become less interested in the news. Rather, the media market place has become fragmented and consumers only have a limited amount of time to devote to the news. This is not a new problem – it has been an issue for newspapers since the advent of radio. The main difference in today's market is the speed at which the technological transformation is taking place. The industry has simply not been able to keep up with the pace of change.

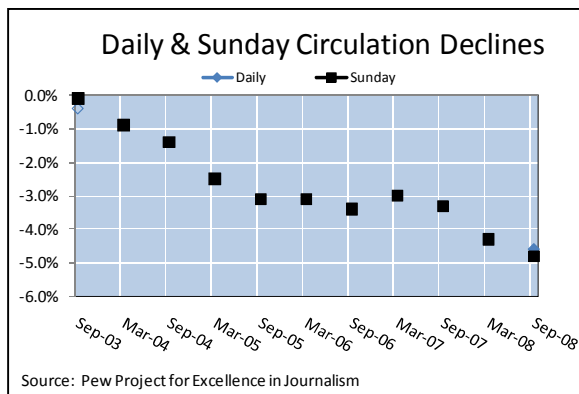


Figure 34

In Southern California, the story is much the same. Only a few large metro newspapers are left, and those that remain are struggling with declining circulation. The *Los Angeles Times* experienced a drop in combined (Sunday and daily) average paid circulation of -11.1% over the year ending September 2009. Declines have been even more drastic elsewhere in Southern California. Combined average paid circulation for the *Press Enterprise* (serving the Inland Empire) plunged by -24.3% and the *Ventura County Star* fell by -20.1%. The *Orange County Register* and *The San Diego Tribune* suffered less, posting declines of -10.1% and -10.0% respectively.<sup>9</sup> [Note: The *Los Angeles*

Newspaper Group has a significant presence in the region, but comparative circulation numbers are not available from the Audit Bureau of Circulations nor are figures for newspapers published by the organization. See Figure 41 for a list of newspapers published by the Los Angeles Newspaper Group]

For many papers, the initial response to declining print circulation was to create an online version of the print edition. However, the availability of free content online diverted even more print subscribers to the Internet.

Looking at the demographics of newspaper readership, the last several years have seen fewer people pick up a newspaper across all major demographic groups: age, education, income and ethnicity. The Southern California regional numbers largely reflect what is happening at the national level. Those least likely to pick up a copy of the *Los Angeles Times* (daily) are 18-24 years old (7.3%). Readership increases with age until it tops out at 43.4% for persons age 55 and older. The numbers for the *Orange County Register* and *The San Diego Tribune* follow the same general pattern. [See appendix I]

The low readership numbers for younger people coupled with an overall decline in readership across all age groups is indicative of a generational shift. Today's young people are not picking up newspapers as they age. Having grown up with the Internet and mobile devices, these technologies are the norm in their worldview. The format (print vs. digital) in which news and information are delivered is far less important than the requirement that content be made available on demand.

<sup>9</sup> Audit Bureau of Circulations

## Newspaper Publishing Economics

Newspapers traditionally have three revenue sources: newsstand sales, subscribers and advertising. Subscription levels have been falling steadily for a number of years. As subscribers abandoned newspapers for competing forms of media, advertising revenue followed. Separately, the past several years have been marked by a growing trend of consolidation under the umbrella of publicly owned media organizations. This introduced pressure from Wall Street to show consistent short-term profits, which forced papers into a rising tide of cost cutting.

**Revenue:** In 2008, newspaper publishers suffered a single-year decline in total revenue of -8.3% from \$47.9 billion in 2007 to \$43.9 billion in 2008. This followed a more modest decline of -2.7% in 2007. Sharply lower advertising revenues were the primary reason for the overall decline. Ad buys fell by -10.2% in 2008 to \$27.8 billion. Revenue from newspaper subscriptions remained largely unchanged – falling by just -1.2% to \$8.2 billion in 2008.<sup>10</sup>

During the six-month period April to September 2009, the decline in U.S. newspaper circulation accelerated. Average daily circulation fell by -10.6% compared with the same six-month period in 2008. Previously, circulation had declined by -7.1% over the year (October 2008 – March 2009) and by -4.6% during April-September 2008.<sup>11</sup>

That being said, newspapers have had some recent success in reducing subscriber turnover. Although the total number of

subscribers has been falling, newspapers managed to reduce the percentage of people who cancel subscriptions to 31.8% in 2008 compared with 54.5% in 2000. Publishers are focusing on retaining subscribers in key market segments in order to maximize value for advertisers. Interestingly, 32% of newspapers raised prices to \$0.75 for their daily edition in 2008 compared with just 2% in 2006. The seven-day home delivery rate also increased in 2008 to \$3.66 on average – up from \$3.37 in 2006.<sup>12</sup>

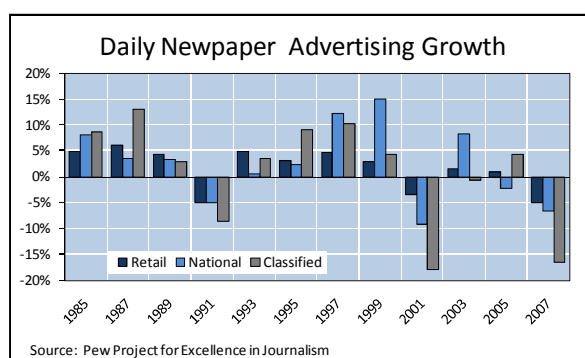


Figure 35

The larger problem (by far) for newspaper publishers has been the steep decline in advertising revenues. According to the NAA, total newspaper advertising revenues (print and digital) plunged by -28% in the first quarter of 2009 and by a further -29% in the second quarter (compared with a decline of -16.6% for all of 2008). Both print and digital posted big declines last year.

Print advertising sales fell by -29.7% to \$5.9 billion during the first quarter of 2009 compared with the same period in 2008. Online advertising revenue for newspaper companies decreased by -13.4% to \$696.3 million. Based on the first and second quarters, 2009 will be the worst year for

<sup>10</sup> U.S. Census Bureau 2008 Service Annual Survey: Information Sector Services

<sup>11</sup> Audit Bureau of Circulations

<sup>12</sup> Newspaper Association of America (NAA)

newspaper advertising revenues since the Great Depression.

What happened to disrupt the relationship between newspapers and advertisers? First, advertising is a cyclical business, so the recession was a major factor. Advertising in key categories such as banking, auto and real estate plummeted as the economy deteriorated. In Southern California, real estate ads were hit especially hard by the depth and breadth of the housing downturn. The credit crunch and subsequent slowdown in consumer spending resulted in a pull back in retail sector advertising.

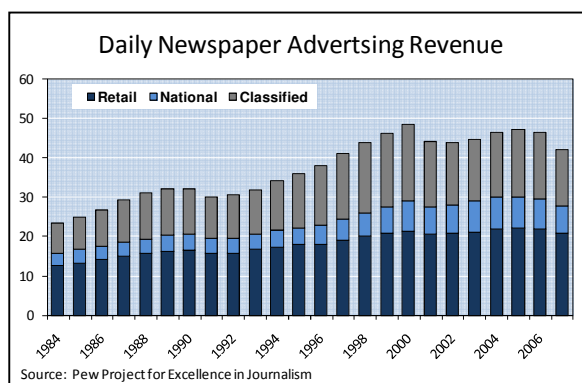


Figure 36

As the end of 2009 drew near, the free fall in newspaper advertising appeared to slow. Industry observers predict 2010 will bring the beginnings of a modest recovery. However, if the rate of decline in advertising did moderate during the fourth quarter, it will be in large part because the year-on-year comparisons reflect the final dismal quarter of 2008, i.e. the height of the financial crisis when newspaper advertising fell by -20%.

While significant improvement in ad revenues can be expected as the economy recovers, the industry will not be able to grow its way back to a healthy bottom line. The dispersal of advertising dollars across the Internet has hit newspapers particularly hard. Providing

much of their content online free of charge may have been, in retrospect, a tactical error. Why subscribe to a paper when content is readily available?

Consumer preferences also are changing in response to new technologies. As we have seen elsewhere, to be competitive, providers of news content must be able to deliver “on demand” via personal computers and, increasingly, mobile phones and other portable devices.

Companies that buy advertising are targeting increasingly narrower audiences. Online tracking of consumer preferences and subject-specific websites allow advertisers to concentrate their ad dollars where they are expected to do the most good.

Classified ads, once the mainstay of newspaper advertising, have almost disappeared from newspapers as more individuals and businesses migrate to sites like Craglist.com where they can place ads at lower rates than newspapers charge.

Another cause of concern for newspapers is that national websites are fast making inroads in attracting local advertising. It was thought, heretofore, that the inability of the web to zero in on “hyper-local” advertising provided protection, for community papers (if not the big metros).

Over the past decade, the share of Internet advertising derived from local businesses has doubled to 40%, by some estimates. Most of those ads (57% in 2007) are now going to national internet-only sites like Google and Yahoo, not to local news organizations.

**Employment:** Over the past ten years, employment in newspaper publishing has been steadily falling. In 2000, nearly 425,000 workers were employed in the industry. By

the end of 2009, that number had dropped to 282,000 – a decline of -33.6%. By far, the largest individual year-over slump occurred between 2008 and 2009. In 2008, 325,900 persons were employed in newspaper publishing. During 2009, the industry shed another 44,000 jobs or -13.5% of its remaining workforce.

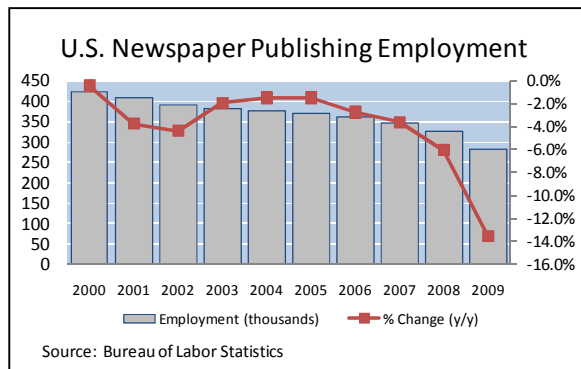


Figure 37

In addition to staff reductions in the newsrooms, overseas and local bureaus<sup>13</sup> have been closed; coverage of state and local government has been curtailed. The ability of newspapers to produce feature articles and to finance in-depth investigative reporting has been sharply reduced as well.

On the operational front, newspaper publishers have reduced the size, number of pages, and even the thickness of the paper used to print newspapers. Content sharing has become more common as has the outsourcing of print operations and delivery services. Home delivery is outsourced by 15% of newspapers and 40% deliver for other

<sup>13</sup> Media consolidation is also a factor. In November 2008, The Tribune Co. combined the Washington bureaus of the Los Angeles Times, the Washington Post and its broadcasting bureaus into a single operation in order to “facilitate content-sharing among the company’s media businesses.” (TVWeek.com/news/2009/02)

publications, which incidentally, provides an additional revenue source (NAA).

### Newspaper Publishing in Southern California

Southern California is home to a wide array of newspapers, both large metros (*Los Angeles Times*) and smaller regional papers such as the *Antelope Valley Press* and those targeting specific demographic groups (*La Opinion*, *Korea Times*). Nearly every sizable paper in the region has experienced declines in circulation, revenues and employment.

Focusing on Los Angeles County, the number of newspaper publishing establishments reached a high of 190 in 1999, but fell to 160 (-15.8%) by 2008. The decline in employment was even more precipitous. Jobs in this sector have been evaporating steadily for 20 years. In 1990, newspaper publishing employed 16,911 workers. In 2008, the number had fallen by -77.2% to just 4,698. Annual wages took a similar hit, declining by -52.3% from \$494.7 million to \$235.8 million during the same period. Unfortunately, 2009 has given us more of the same.

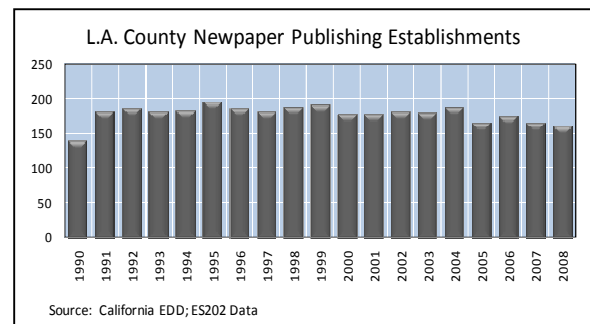


Figure 38

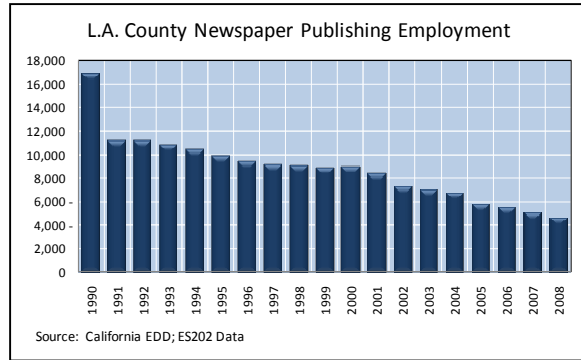


Figure 39

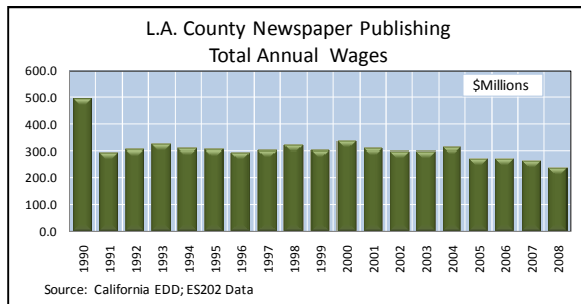


Figure 40

The largest newspaper in the region in terms of circulation and revenues is the *Los Angeles Times*. The *Times* is now owned by the Tribune Company (whose holdings also include KTLA-TV Channel 5). In 2006, the *Times* accounted for a quarter of the Tribune Company's \$4 billion in annual revenue.<sup>14</sup> [Latest available]

In December 2008, the Tribune Company, floundering under \$13 billion in debt (much of it amassed when Sam Zell took the company private in 2007), filed for Chapter 11 bankruptcy.

<sup>14</sup> As Time-Tribune Co. Standoff Grows, Bloggers Take Sides, Boyer, Mark; *Columbia Journalism Review* (September 19, 2006)

Long before then, the Tribune Company was pushing the *Times* to make staff reductions. In 2001, the paper had more than 1,200 journalists (second only to *The New York Times*). By February of 2008, the newsroom staff was down to 900 and now stands at approximately 570 (Pew).

In January (2010), the *Times* announced it was closing its Orange County printing facility to further reduce costs. The move will eliminate about 80 pressroom jobs. Additionally, the Monday business section will be dropped (business stories will be incorporated into the main section) and the width of the paper will be reduced from 48" to 44".<sup>15</sup>

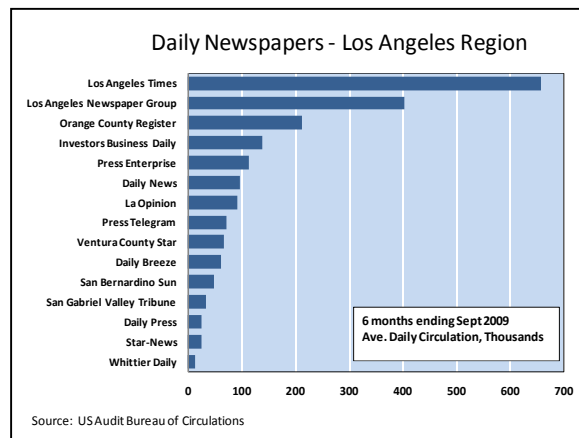
The *Los Angeles Times* is not the only area paper struggling because of declining ad sales and online competition. Freedom Communication, parent company of *The Orange County Register*, filed for Chapter 11 (\$771 million in debt) reorganization in September 2009. *The Orange County Register*, which ranks 30<sup>th</sup> in the nation in terms of circulation, has seen its circulation fall by -36.5% to 231,000 from more than 363,500 in 2000.

Motivated by hard times, the concept of "partnership" between rivals has gained traction in this industry. The *Los Angeles Times* and *The Orange County Register* (while no longer head-to-head competitors) have agreed that the *Los Angeles Times* will deliver both papers. *The Orange County Register* will become the *Times*' largest commercial delivery client and save itself seven figures per year in the process. These kinds of deals

<sup>15</sup> Los Angeles Times to Close Orange County Printing Facility, Hamilton, Walter; *Los Angeles Times* (January 7, 2010)

are becoming increasingly common – last year, the *Register* teamed up with the *Press Enterprise* to deliver papers to outlying areas of the Inland Empire. Nonetheless, while providing a cost savings for the *Orange County Register*, the deal with the *Times* will eliminate 55 full-time and 143 part-time workers at the *Register*.<sup>16</sup>

The two papers also announced a deal to produce a joint weekly advertising supplement. The OC\$Saver and the *Los Angeles Times*' Local Values will combine operations and be delivered with both papers. The move allows the *Times* and the *Register* to pool resources and halve the amount of pages each has to sell for the insert.



**Figure 41**

*Note: The Los Angeles Newspaper Group includes: L.A. Daily News, Long Beach Press Telegram, Whittier Daily News, Torrance Daily Breeze, Inland Valley Daily Bulletin, Redlands Daily Facts, San Bernardino Sun, San Gabriel Tribune and the Pasadena Star-News.*

Elsewhere in the region, changes also came to the *Press Telegram* of Long Beach (population

500,000, circulation 78,000). The publisher and managing editor were let go in 2008 and their duties were transferred to another MediaNews property – The *Daily Breeze* (South Bay Area) as was the copy desk. Editing of stories is now handled by staff at the *Daily Breeze*. This is an example of editorial outsourcing whereby the parent company acquires several papers in a centralized metro area and then consolidates editing operations.

MediaNews Group Inc. owns six newspapers locally [See appendix H]. Its largest holding in Southern California in terms of circulation, the *Los Angeles Daily News* (which focuses on the San Fernando Valley) reported a -26% year-over decline in weekday circulation. As a result of the decline, the paper dropped below 100,000 subscribers during September 2009. Sunday circulation also fell. The *Daily News* reported a little more than 100,000 Sunday subscribers, down by -25% from a year ago.

Los Angeles' largest Spanish language publication, *La Opinion*, also saw weekday circulation fall below the 100,000 mark. The paper reported an -8% decline in daily circulation compared to a year ago.

## Conclusion and Outlook

The economic base of the newspaper industry has imploded nationwide. Newspaper ad revenues have fallen by -23% in the last two years. Nearly one out of every five journalists working for newspapers in 2001 is now gone. The task ahead for the newspaper industry is to find new ways to underwrite the gathering and dissemination of factual news and information.

<sup>16</sup> OC Register, Los Angeles Times Add to Partnership, Volpe, Michael; *Orange County Business Journal* (August 10, 2009)



The crux of the problem is that the electronic media are gathering more readers but are not yet profitable. In 2008, 67.3 million people visited newspaper websites, but online advertising revenues accounted for only 9% of total newspaper advertising revenues.<sup>17</sup> By the third quarter of 2009, newspaper websites attracted 74 million visitors (NAA). Thus, newspaper publishers are in the uncomfortable position of having to use declining revenues from print media to finance the transition to digital. Larger online audiences have actually made things harder for the legacy news organizations because their readers have become accustomed to free access.

What to do? A number of new revenue models have been proposed that focus on newspapers as a public good such as converting to nonprofit entities, funding by endowments or a mixture of public/private support similar to National Public Radio or the Corporation for Public Broadcasting. So far, these proposals have garnered little concrete support.

Instead, the big media companies are concentrating on market based solutions. Papers like the *Financial Times* and *The Wall Street Journal* have put up pay walls for online content, and have proven that at least some people are willing to pay for a quality product. On the other hand, it is dangerous to generalize from these examples. *The Wall Street Journal* and the *Financial Times* provide specialized information that is valuable to business people. The big question for the legacy newspapers is whether the public at large will be disposed to pay for general and local news rather than migrating to other (free) online sources.

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<sup>17</sup> Setting the Price of a Free Press, Rutten, Tim; *Los Angeles Times* (August 22, 2009)

## Magazine Publishing

### Introduction

The magazine publishing industry is without question feeling the recessionary pinch, but the pain is mostly just that – lower advertising revenues driven by the economic downturn. Certain sectors of the industry are experiencing structural problems similar to those plaguing newspaper publishers, but these problems are not endemic. Newsstand sales were down in 2008 by -7.9% compared with 2007, but subscriptions were up by +7.6% over the same period. Overall, magazine sales in 2008 were down by just -0.4% over the year.<sup>18</sup>

Declining single copy sales were mainly attributable to recession driven-changes in consumer shopping habits (fewer impulse buys at supermarket checkouts) but can reasonably be expected to bounce back as the economy recovers. The increase in subscriptions was largely the result of better marketing methods (the ease with which subscriptions can be purchased or renewed online, for example) and steep discounts off newsstand prices. That being said, what holds true for the industry in general does not necessarily reflect problems in specific sectors.

Traditional business magazines have been hit especially hard, and in this case, part of the problem is structural. Since 2007 business weeklies experienced a general collapse of print advertising revenue as readers migrated to other media sources for news and

information. The original purpose of the business weekly was to provide basic reporting and some analysis, but the Internet now fulfills that function with the added benefit of daily (sometimes hourly) updates. Weekly business advice locked on the printed page is increasingly a thing of the past and is therefore, of diminished value to the reader. Accelerating the losses caused by the ebbing of the business weekly's *raison d'être* was the near catastrophic downturn of the economy. The major advertisers in business weeklies were among the hardest hit: financial services, insurance, consulting services and automotive.

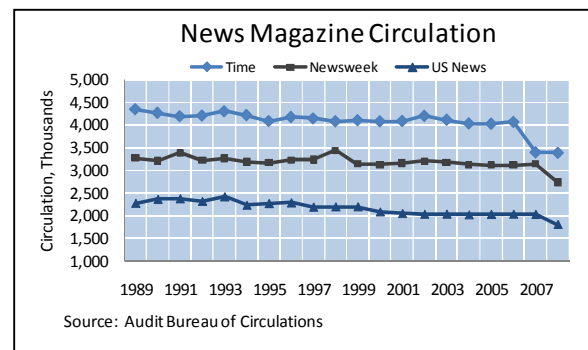


Figure 42

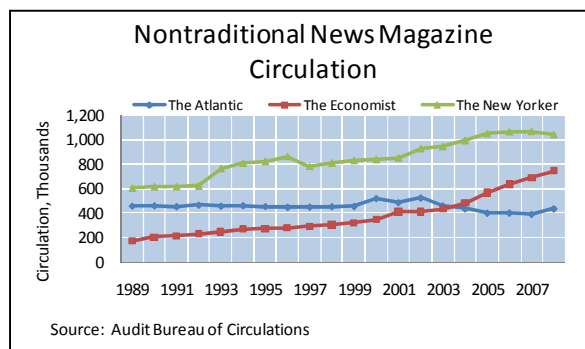


Figure 43

<sup>18</sup> Magazine Publishers of America; [www.magazine.org/handbook](http://www.magazine.org/handbook)



In contrast, some non-traditional business magazines such as *The Economist* managed to increase readership over the same period in spite of raising their prices. In 2008, the British weekly saw total print readership increase by an impressive +22.8%. *The New Yorker* and *The Atlantic* also saw readership expand by +7.3% and +2.0% respectively.<sup>19</sup> The business of reporting on business seems to have shifted to “elite” news magazines that focus on providing targeted analysis for individuals who have already read the news. While certainly not immune to recession-aggravated declines in advertising buys, these magazines have done a good job of building a strong and loyal audience.

Outside of news and current event-focused magazines, the trend is mostly in the opposite direction. Mass-market titles are faring better than elite titles. Magazines like *InStyle*, *Glamour*, *Real Simple*, *Southern Living* and *Cooking Light* are doing relatively well because they carry a wider range of advertising.

Several general interest magazines are reporting more advertising pages in December 2009 than they carried in December 2008. A few have even ended the year with an overall increase in ad pages. The primary reason is an uptick in food advertising. Brands like Heinz and Hellmann’s are benefiting from more people cooking at home. In the third quarter of 2009, magazine advertising in every category except food declined compared with the third quarter of 2008. Ad pages about food and food products rose by +3.9%<sup>20</sup>.

<sup>19</sup> The State of the News Media: An Annual Report on American Journalism (2009); [www.journalism.org](http://www.journalism.org)

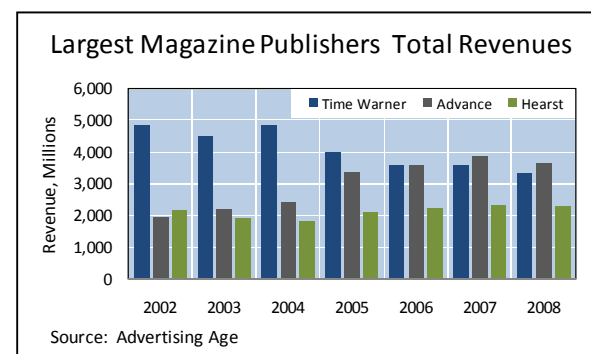
<sup>20</sup> Magazine Publishers of America; Ad category Data (quarterly and YTD)/September 2009

Special edition issues were also a bright spot for many magazines. Special editions tend to attract more advertising dollars. Because they sell well on newsstands, magazines can guarantee their advertisers more readers. The danger is that special issues can make regular issues seem dull in comparison and alternately, a publisher must be leery of creating too many “special” editions lest the concept lose its cachet.

### Magazine Publishing Economics

The magazine industry as a whole began to see declines in print advertising in 2006 as the Internet captured the attention of a larger share of magazine readers. The decline accelerated through 2008 as the recession deepened with the biggest hits coming from reduced ad buying by automakers, pharmaceutical companies and financial services providers.

By far, the largest share of revenue a magazine takes in comes from advertising with a much smaller share from subscriptions and single copy sales. In 2008, subscriptions accounted for 68% of total paid circulation revenue (\$6.7 billion) while single copy sales accounted for 32% (\$3.1 billion)<sup>21</sup>.



**Figure 44**

<sup>21</sup> Magazine Publishers of America; [www.magazine.org/handbook](http://www.magazine.org/handbook)

Total magazine revenues in 2008 declined by -2.4% to \$47.5 billion compared with \$48.7 billion in 2007. General interest magazines saw declines in both subscription and advertising revenues. Subscription revenues fell from \$7.7 billion in 2007 to \$7.1 billion in 2008 (-8.0%), while ad revenues declined by -6.7% from \$16.1 billion in 2007 to \$15.0 billion last year. Professional and academic periodicals also had a difficult year in 2008. Overall, revenues declined by -9.2%; subscriptions and single copy sales plunged by -15.3% while advertising dropped by -2.1% (the proportion of revenues received from advertising vs. subscriptions/sales is about even in this segment). Looking at a breakdown of revenues by media type, we find that in 2008 print periodicals declined by -10.2% while online periodicals advanced by +17.2%.

<b>Magazine Advertising Revenue and Ad Pages</b> January through September 2009 vs. 2008		
<b>Class Name</b>	<b>Revenue \$ % Change</b>	<b>Ad Pages % Change</b>
Toiletries & Cosmetics	-5.2%	-12.7%
Food & Food Products	-5.3%	-10.8%
Drugs & Remedies	-10.4%	-11.0%
Apparel & Accessories	-14.5%	-20.7%
Media & Advertising	-27.5%	-30.5%
Retail	-27.7%	-32.8%
Home Furnishings & Supplies	-26.0%	-26.9%
Direct Response	-15.7%	-26.3%
Automotive	-42.3%	-47.3%
Financial, Insurance & Real Estate	-26.0%	-29.2%
Techonology	-40.6%	-47.0%
Public Transportation, Hotels & Resorts	-20.2%	-28.9%
<b>Overall Total</b>	<b>-20.3%</b>	<b>-27.2%</b>

Source: Publishers' Information Bureau

**Figure 45**

Across the 251 magazines analyzed by the Publishers' Information Bureau (PIB), ad pages were down by a total of -12% in 2008 compared with a -1% drop in 2007. The sharpest declines occurred in the fourth quarter and cut across most magazine

categories. Consumer magazines - those intended for a general audience - including *People* and *Reader's Digest* did the worst as a group. All automobile magazines tracked by the PIB saw ad pages fall, most by more than -10%. Music publications also suffered steep declines as did business and finance magazines (double digits in most cases) throughout 2008.

The PIB estimated total magazine advertising revenues for the third quarter of 2009 were \$4.5 billion, a year-over decline of -18.6%. The total number of ad pages during this period fell by -26.6% to 38,626. Year-to-date (Jan-Sept), revenues were \$13.7 billion, a decline of -20.3% compared with the same period in 2008 while ad pages plunged by -27.2% to 119,575.

It should come as no surprise that given the steep decline in advertising revenues, most magazines have engaged in a round of deep cost cutting. In addition to slashing staff and operational expenses, many publications have decreased the weight of the paper they use or have reduced the number of issues published.

As the effects of the recession fade, the industry will have to find a way to sort out how much of the drop in 2008 and 2009 was a function of a difficult economy and how much reflects a permanent shift in the way producers of goods and services reach consumers. According to a report issued by the Magazine Publishers of America (MPA), magazine readership has remained strong over the past five years in spite of the growth of new media options. The majority of consumers surveyed by the MPA who read the print version of a magazine and visited its website disagreed with the statement that

the website could easily replace the print version.

In 2008, there were 195 total new magazine - launches compared with 54 closures. - Magazines that failed are more closely aligned to the economy and advertiser demand than consumer demand. A downturn in advertising is the single most important factor in magazine closings – declines in circulation much less so. The 54 magazines that closed in 2008 represented a 17% *decrease* in closures over the prior year. Nonetheless, it is too soon to assess the full impact of the downturn on the magazine industry.

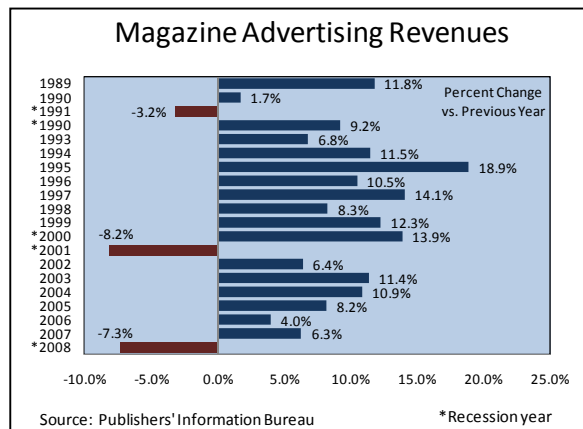


Figure 46

With significantly fewer ads and rising postal costs, many publishers have had to reconsider the cost effectiveness of maintaining high circulation bases. For many weekly news magazines, reducing the rate base has become a strategy of necessity due to higher paper and mailing costs, lower subscription returns and Internet drift. All three of the big traditional newsweeklies in the United States (*Time*, *Newsweek*, *US News*) have been actively trying to reduce the minimum circulation they guarantee to advertisers.

## Magazine Publishing in Los Angeles County

While the magazine publishing business is not a huge industry in Los Angeles County, neither is it insignificant. The Automobile Club of Southern California publishes *Westways*, which is the longest continuously published magazine in Southern California (established 1909) and has the tenth largest circulation of all magazines in the country. The Petersen Publishing Company is also based in Los Angeles. During the 1990s, Petersen published 80 different magazines. Current offerings include: *Motor Trend*, *Hot Rod* (launched in 1943), *Trend*, *Car Craft*, *Dirt Rider*, and *Teen*.

Although most of the big magazine publishers are based in New York, almost all of them have a presence here. The industry runs the gamut from large media firms that publish several titles to smaller single-title publishers. Media Corp. (health & fitness magazines) and Cannon Communications (publications for the bio-med manufacturing industry) are both headquartered in Los Angeles while several other groups maintain branch offices in the area: American Express Publications, Crain Communication, Hachette Filipacchi (Newport Beach), Meredith Corp., Sports Illustrated and Sunset to name a just a few.

As of 2008, the County had 275 establishments involved in magazine and/or periodical publishing. This activity encompasses all the operations necessary for producing and distributing magazines such as gathering, writing and editing articles and selling and preparing advertisements for either print or electronic formats. Peaking at 324 establishments in 1999, the industry has fallen back roughly in line with 1990 levels.

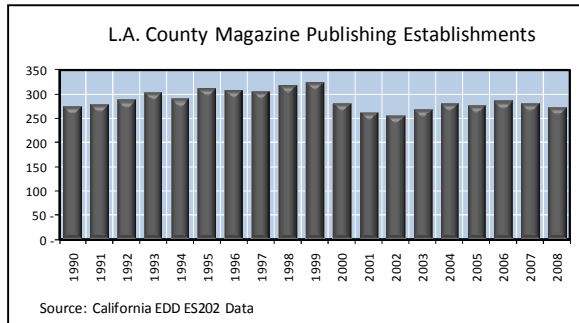


Figure 47

Employment also suffered a corresponding decline. In 1999, the industry employed just over 6,700 individuals but by 2008, the number of jobs tapered off to less than 5,900 (-12.4%). During 2008, employment dropped by -5.4% compared with 2007, and total annual wages contracted by -7.4% to \$557.1 million.

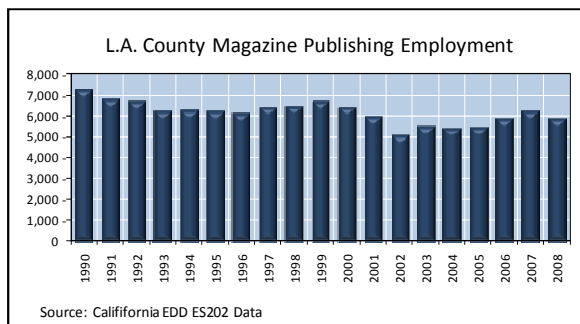


Figure 48



Figure 49

## Digital Trends

As the profitability of print publications began to decline, magazine publishers started to channel more resources into their online operations. They improved website portals and incorporated features from other media such as video, mobile wireless editions, topic-specific channels and Twittering, or in some cases cut back on the number of print issues in favor of expanded online offerings. Many news magazines (*Time* is a prime example) are using the web for news and their print edition for analysis and commentary. Other magazines are creating specialized digital services – providing access to archives or photo images (*Life Magazine*) for instance; or repackaging coverage of events like elections as e-books for electronic readers. Some publications are also erecting pay walls. Using a local example, *Variety* has plans to make some of its website content accessible only to readers with a paid annual subscription. This change will end a three-year experiment with free online content. *Variety's* web site currently draws about 2.5 million visitors a month. The daily print edition has about 26,000 paying subscribers and the weekly version another 31,000.

With the downturn in revenues from advertising and circulation, projected growth in revenues from magazines' digital platforms provides a glimmer (although a small one) of good news. One cannot say with any precision how much money digital operations contribute since few publishing companies report revenues and even fewer do so by revenue source for a single publication. Still, the best estimates indicate digital revenues are small but fast growing.

Projections from the market research firm Veronis Suhler Stevenson (VSS) and analysis

of advertising revenues by Advertising Age indicate digital revenue grew at double-digit rates during 2008, albeit starting from a very small base. According to VSS, revenues from digital advertising represented 2% (or \$542 million) of all magazine revenue in 2007. This compares with 41% for circulation (\$10 billion) and 58% for print advertising (\$14 billion). The share from digital revenues is projected to increase to about 3% in 2008, but the growth rate is expected to taper off over the next four years. According to VSS, by 2012, digital should account for approximately 7% of all magazine revenues.

### **Conclusion and Outlook**

As the magazine industry is largely dependent on advertising revenues and advertising is a cyclical business, magazine publishing as a whole should improve along with the economy. The future health of the industry will also turn on how well publishers adjust to changes in consumer shopping behavior and new technologies. The rising popularity of E-Readers and the proliferation of applications for mobile devices hold promise as new strategies for expanding readership and advertising opportunities. The task of magazine publishers in the years to come will be to adapt their business models to take advantage of these opportunities.

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## Advertising

### Introduction

The cyclical nature of the advertising business was clearly demonstrated during the 2008-2009 recession. In addition to the decline in revenues resulting from the economic downturn, the advertising industry is also facing secular changes closely related to those confronting the media industry. Once again, the question is how much of the decline in advertising over the last two years was cyclical in nature and how much represents a permanent shift in consumer habits and preferences.

### Advertising Revenues

In 2008, advertising expenditures in the United States fell by almost \$3.7 billion (-2.6%) to \$136.8 billion compared with 2007. Hispanic cable TV and cable TV were the only two media categories that increased advertising expenditures in 2008. Cable was the highest revenue-generating medium with \$26.6 billion in advertising sales. The print media were hit particularly hard. Advertising in national magazines fell by -7.6% and ad spends in newspapers (national, local, Sunday supplements) declined anywhere from -9.6% to -11.0% (Nielsen Company).

During the first half of 2009, the picture became even grimmer. Total advertising expenditures plunged by -15.4% to \$56.9 billion (-\$10.3 billion) compared with the same period last year. Cable and Spanish TV barely inched ahead, while spending for all other media fell.

### ***U.S. Ad Spending 1H2009***

Media Category	1H2009 vs. 1H2008 % Change
Cable TV	1.5%
Spanish Language Cable TV	0.6%
Internet	-1.0%
FSI Coupon	-5.5%
Network TV	-7.0%
Network Radio	-9.0%
Spot Radio	-9.1%
Spanish Language TV	-10.1%
Syndication TV	-11.6%
Local Newspaper	-13.2%
Outdoor	-14.9%
Spot TV 101-210 DMAs	-17.4%
National Magazine	-21.2%
National Sunday Supplement	-22.4%
National Newspaper	-22.8%
Local Magazine	-25.4%
Business to Business Magazines	-31.8%
Spot TV Top 100 DMAs	-31.1%
Local Sunday Supplements	-45.7%
<b>TOTAL:</b>	<b>-15.4%</b>

Source: The Nielsen Co.

**Figure 50**

In 2008, Internet advertising revenues grew by +10.6% to \$24.5 billion compared with \$21.2 billion in 2007. Most of the revenue gains (46%) benefited search engines. Revenue from the sale of banners and the other types of display ads that news websites depend on, accounted for 21%, followed by classifieds (13%), lead generation (7%) and rich media (7%)<sup>22</sup>.

<sup>22</sup> Interactive Advertising Bureau/PricewaterhouseCoopers

However, even Internet advertising revenues are expected to decline in 2009. One reason: the infinitely expanding universe of blogs and websites has forced these sites to cut their rates to compete for advertisers. The cost to reach 1,000 viewers fell by half in 2008 to an estimated average of \$0.26 compared with \$0.50 in 2007.<sup>23</sup>

Video ads are the fastest growing segment of the internet advertising market. News sites in particular are adding more video to keep pace with growing demand from advertisers. When major news events occur, new viewers tend to flock to newspaper websites (some of whom, it is hoped, will stick around). The New York Times Co., Gannett and Tribune Co. reach more than one million viewers a month with video streams.

By the first half of 2009, video ad revenues reached \$477 million, up by +38% over the same period last year. E-Marketer (a research firm) projects video ads will grow by 35%-45% for each of the next five years, reaching annual revenues of \$5.2 billion in 2014.

Another area exhibiting potential for online advertising growth is social networking sites. The Nielsen Company reported that on average, 17% of time spent on the Internet is devoted to social networking and blog sites, up by +6% from a year ago. Accordingly, online display ads on the top social network sites increased by +119% to \$108 million in August 2009 compared with \$49 million during the same period in 2008.

**Advertising Trends** The top ten national advertisers spent a total of \$15.5 billion in 2008 compared with \$18.3 billion in 2007 – a

staggering drop of -15.1%. Not one top ten firm increased ad spending in 2008 over 2007. Detroit's Big Three retained their spots in the top ten in spite of drastic reductions in their ad budgets (-15% to -31%). Foreign automakers Toyota and Honda both made the top ten, but they also cut ad spending (by -7.0% each). In dollar terms, the automotive industry slashed ad expenditures by -\$1.8 billion last year, the largest of any product category and half the total decline in ad spends among the top tier. The automotive industry retained its top spot in terms of dollars spent, but ad spends in the first six months of 2009 declined by -31.0% from a year ago.

As the leading automotive market in the country, Southern California media firms have been hit particularly hard by the slump in auto spends. Although not in the top echelon of national advertisers in terms of spending, cuts made by local real estate and financial services firms after the collapse of the housing market and ensuing financial crisis also put a big dent in regional ad revenues.

Big display advertisers such as department stores and movies studios may return in force as the effects of the recession abate, but certain advertising sectors will emerge looking very different than they did just a few years ago. Classified ads, which used to account for more than half the revenues of metropolitan newspapers, are rapidly migrating online for a fraction of the cost.

Innovation in the way marketers reach consumers is also complicating the relationship between media companies and advertising. Several forms of marketing that do not involve advertising in specific media (referred to as "below the line" advertising) are gaining momentum. These include in-

<sup>23</sup> The State of the News Media: An Annual Report on American Journalism (2009); [www.journalism.org](http://www.journalism.org)



store events, temporary stores and company websites. In 2008, spending on below the line events accounted for 62% of total marketing spending, up from 57% in 2007 (Veronis Suhler Stevenson). The result is a shift in dollars spent away from traditional media outlets and a blurring of advertising and promotion.

VSS forecasts alternative advertising will grow by +12.3% from 2008-2013. Spending on alternative media is projected to reach \$139.5 billion in 2013 or 29.7% of total advertising and marketing spending.

Another interesting development is the concept of “ad networks”. An ad network acts like a brokerage, placing clients’ advertising on publishers’ websites. In April 2008, the Rubicon Project opened its doors in West LA and has since become the third-largest online advertising company in the world. Only Google and Yahoo are larger in terms of reach. Rubicon processes more than 35 billion ads a month from 375 ad networks<sup>24</sup>.

### The Advertising Industry in L.A. County

As revenues fell and companies shed space they also trimmed staff. Figure 51 illustrates the cyclical nature of the advertising business. Note the previous cycle peaks in 2000 and 2008. These were both election years - a time when the media is flooded with political advertising and campaign ads.

The most current data available only take us up to 2008, but it is reasonable to expect declines in advertising industry employment

in 2009. In 2008, the advertising industry in Los Angeles County employed 20,122 workers, up by +2.7% compared with 2007, but down by -2.8% from a recent peak in 2000. Advertising agencies in Los Angeles County employed 12,642 workers (an increase of +4.4% over 2007). Media representatives (individuals engaged in selling media time or space for media owners such as newspapers or radio) were the next largest sector in terms of employment, with 2,538 workers in 2008.

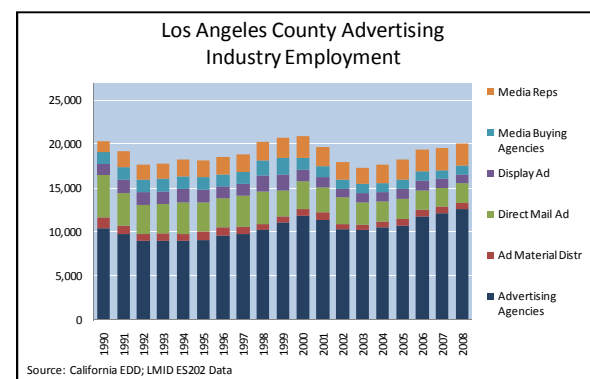


Figure 51

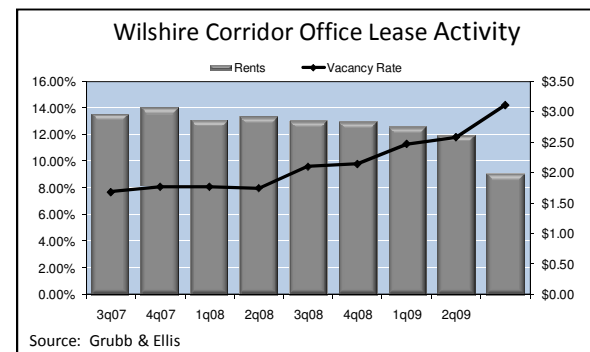


Figure 52

The slump in the media and advertising sectors has also taken a toll in terms of increasing office vacancies and job losses. The Wilshire Corridor (Wilshire Blvd. from downtown Los Angeles to Beverly Hills), which has a high concentration of media and

<sup>24</sup> By ‘Optimizing’ Ads, Can the Rubicon Project Save this Newspaper?, Neil, Dan; *Los Angeles Times* (March 24, 2009)

advertising firms, saw vacancy rates increase to 14.2% in the third quarter of 2009. Approximately 1.2 million square feet was on the market by the end of the quarter exerting downward pressure on rental rates. Third quarter average rents fell to \$1.99 compared to \$2.84 during the same period last year.<sup>25</sup>

## Conclusion and Outlook

As the economy recovers and begins to grow again in the coming year, what will the relationship between media and advertising look like? There are definitely some interesting trends to keep an eye on. Over the next five years, we can expect to see contraction in traditional advertising vehicles such as:

- Newspapers
- Consumer Magazines
- Broadcast Television
- Radio
- Business to Business Magazines

And growth in nontraditional formats:

- Internet Media
- Direct Marketing
- Event Marketing
- Word-of-Mouth Marketing
- Subscription Television
- Mobile Advertising and Content<sup>26</sup>
- Video games
- Business-to-Business e-Media

<sup>25</sup> Note: There are other effects that should also be considered. Other types of firms also have closed or moved to other locations e.g. downtown as rental rates fall in those areas.

<sup>26</sup> In 2008 there were 40 million active mobile web users and advertisers spent \$1.3 billion to reach them - an increase of +59% compared with 2007

These lists demonstrate the movement away from broad based print formats to electronic and targeted alternative advertising. This shift reflects a change in how consumers spend their time as well. Instead of sitting down and listening to the evening news or taking the time to read a newspaper in the morning, more of us are staying in touch with the world on mobile devices as we commute. While we might TiVo past commercials on broadcast TV, it is now common for ads to be integrated into TV shows, movies and video games – an innovation that most viewers seem to find less objectionable than traditional commercials.

The forecast for 2010 is a little bit brighter compared with 2009 (which will end the worst year for advertising in decades). However, the modest recovery in the United States and continued weakness in demand for ads in the print media mean that the industry is not likely to achieve pre-crisis levels for some years to come (maybe 2012).

A local bright spot to note is commercial production appears to be recovering. In the week preceding the Christmas holidays, on-location filming for commercials in Los Angeles was up by +9% compared to the same period last year. Production increased in six of the seven prior weeks and was up by +30% in the fourth quarter of 2009 (FilmL.A.).

As the number of choices in media products increases and consumers gain more control over content, advertisers are scrambling to develop innovative ways to break through the noise and clutter of the new media environment to directly interact with consumers.

## Summing Up

Summing up the entertainment and media industries is a difficult task – just keeping up with the seismic transformation taking place is a challenge. It would take a prognosticator of the highest order to predict with confidence what the industry will look like even a year from now. What we can talk about with some level of certainty is change – changes brought about by both secular forces and recessionary strains.

Several trends are redefining these industries:

1) **Content vs. Distribution:** Owning content is becoming more important versus simply distributing it. Several entertainment and media companies have moved in this direction and it is reasonable to expect more will follow. Some examples that have occurred over the past year: Comcast's pending purchase of a controlling stake in NBC Universal, Univision's acquisition of a production studio, and Walt Disney's purchase of Marvel Entertainment, Inc. Even Hulu.com is jumping on board by adding original programming to its line-up.

2) **Consolidation:** This has been going on for quite some time and will likely continue through 2010. Media companies heavily weighted toward older platforms will attempt to diversify their offerings in order to compete in a new media world.

3) **New Revenue Models:** More media companies will start to charge for access to information on their websites. The best content in the world holds little value if media companies cannot figure out a way to make money from the new platforms.

The established media with its legacy of high operating costs and outdated technology may face the greatest challenges convincing the public to pay for its content. Leaner, newer online competitors may continue to be free, avidly picking up the users lost by sites that begin to charge, but this probably cannot continue forever.

4) **More Digital Media:** Use of digital media will increase across all demographic groups. According to Nielsen, more Americans than ever are looking at multiple screens throughout the day: television, computer and mobile devices.

People of retirement age are now spending more time online than the younger segment of our population. Viewers 25-64 years old use DVR more frequently than do those 12 to 24 years old, who watch more video on the Internet or a mobile phone.

Conventional TV still accounts for 99% of all video content, and growth of TV and mobile phone video watching remained level or dipped only slightly compared with last year. Beneath that seeming stability, viewer habits are changing, however. Last year, time spent viewing video on DVRs rose by +21.1%

5) **New Technology:** 3D movies are here and 3D-TV is coming. Discovery, IMAX and Sony formed a joint venture for a 3-D television channel, and ESPN announced it would be starting a 3D channel in June 2010.

Also coming this year are TVs with direct Internet connections. Other new technologies to watch for are mobile digital

TV and development of a common digital standard that will let consumers buy or rent a movie and watch it on any device.

**6) More Legislation/Regulation:** On the technology side, the FCC is pushing ahead with efforts to make sure broadband Internet access is available to virtually all households (part of the federal stimulus package).

We can also expect more attempts to regulate the communications, broadcast and, especially, cable TV industries. For instance, the FCC and Congress might renew long-stalled efforts to force cable system operators to unbundle i.e. to let subscribers choose and pay for only the channels they want instead of purchasing a bigger, fixed bundle of channels. While such a move may reduce subscriber fees, it also has implications for smaller, less popular channels that are cross subsidized by channels that draw larger numbers of viewers.

Additionally, if federal regulators have their way, we will be seeing Internet-ready, work-with-any-network TV set-top boxes. These will give consumers unprecedented multimedia options through their TVs, not just their computers. If this were to come about, it could undermine the revenue model of cable and broadband providers of programming.

**7) Advertising:** It seems clear that even as the economy and the advertising industry recover, the growing number of media platforms will make it extremely difficult to attract enough advertising for many to be profitable. For each, the challenge is the same: to attract customers willing to pay for content. That means providing more value whether through better quality content or improving mobility.

The economy is turning around, but the industry is still unsettled. It is too early to tell how the entertainment and media industry will look at the end of this year let alone long term. As the weaker players are weeded out and consolidation gives media firms greater power over content and distribution, the consumer will probably end up paying more. The coming years will be a time of experimentation and transformation and the outcome will be very important to Southern California, the nation's largest provider of content. Things are going to remain interesting for quite some time.







# Appendix

## Los Angeles County Motion Picture Distribution Companies

Ranked by Total Domestic Box Office Receipts for 2009 (as of Jan. 3, 2010)

Rank	Distributor	2009 Results Box office receipts (\$millions) Films Market share	Top Grossing Film Name Gross (\$millions)	Parent Company
1	Warner Brothers Domestic Theatrical Distribution	\$2,130 27 20%	Harry Potter and the Half Blood Prince \$302	Time Warner
2	Paramount Domestic Distribution	1,459 13 14	Transformers: Revenge of the Fallen \$402	Viacom Inc.
3	Twentieth Century Fox	1,449 15 14	Avatar \$352	News Corp.
4	Sony Pictures Releasing	\$1,443 21 14	2012 \$163	Sony Corp.
5	Walt Disney Studios Motion Pictures	1,206 18 11	Up \$293	Walt Disney Co.
6	Universal Pictures Distribution	900 17 9	Fast & Furious \$155	NBC Universal
7	Summit Entertainment	480 9 5	The Twilight Saga: New Moon \$288	N/A
8	Lions Gate Entertainment	402 11 4	Tyler Perry's Madea Goes to Jail \$91	N/A
9	Fox Searchlight Pictures	257 10 2	Notorious \$37	News Corp.
10	Weinstein Co.	208 6 2	Inglourious Basterds \$121	N/A

Source: Los Angeles Business Journal



## Los Angeles County Television Stations

Ranked by September 2009 Nielsen Ratings

Rank	Station (Channel)	Viewership* September 2009 May 2009	Network Affiliate Local Programming	Profile Station Owner Year Founded
1	KABC-TV (7)	<b>112,000</b> 146,000	<b>ABC</b> News, entertainment	<b>Walt Disney co.</b> 1949
2	KMEX-TV (34)	<b>110,000</b> 143,000	<b>Univision</b> Spanish news, sports, community	<b>Univision Communications Inc.</b> 1962
3	KNBC-TV (4)	<b>92,000</b> 89,000	<b>NBC</b> News, entertainment, community	<b>NBC Universal</b> 1949
4	KCBS-TV (2)	<b>83,000</b> 80,000	<b>CBS</b> News, sports, entertainment	<b>CBS Corp.</b> 1931
5	KTTV-TV (11)	<b>68,000</b> 77,000	<b>FOX</b> News, sports, community	<b>News Corp.</b> 1948
6	KTLA-TV (5)	<b>53,000</b> 49,000	<b>CW</b> News, sports, community, entertainment	<b>Tribune Broadcasting</b> 1947
7	KCAL-TV (9)	<b>49,000</b> 52,000	<b>Independent</b> News, sports, entertainment	<b>CBS Corp.</b> 1989
8	KFTR-TV (46)	<b>45,000</b> 43,000	<b>TeleFutura</b> Community, entertainment	<b>Univision Communications Inc.</b> 2002
9	KVEA-TV (52)	<b>27,000</b> 30,000	<b>Telemundo</b> News, sports	<b>NBC Universal</b> 1985
10	KRCA-TV (62)	<b>23,000</b> 24,000	<b>Independent</b> News, entertainment, talk show	<b>Liberman Broadcasting</b> 1998
11	KCOP-TV (13)	<b>20,000</b> 26,000	<b>My Network TV</b> News, sports, community	<b>News Corp.</b> 1948
12	KCET-TV (28)	<b>15,000</b> 21,000	<b>PBS</b> News, entertainment, community, culture	<b>Community Television of So. California Inc. (1964)</b>
13	KAZA-TV (54)	<b>14,000</b> 16,000	<b>Azteca America</b> News, entertainment, sports	<b>Pappas Telecasting of So. California (2003)</b>
14	KWHY-TV (22)	<b>9,000</b> 12,000	<b>Independent</b> News, entertainment, sports	<b>NBC Universal</b> 1970
15	KDOC-TV (56)	<b>8,000</b> 6,000	<b>Independent</b> News, entertainment, sports, religion	<b>Ellis Communications</b> 1982

\*Based on average number of viewers over 24 hours

Source: Los Angeles Business Journal

## Top 25 Multiple System Operators (MSOs)

### September 2009

Rank	MSO	Subscribers (Basic)
1	Comcast Corp.	23,759,000
2	Time Warner Cable, Inc.	12,964,000
3	Cox Communications, Inc. <sup>1</sup>	5,246,900
4	Charter Communications, Inc.	4,879,100
5	Cablevision Systems Corp.	3,066,000
6	Bright House Networks LLC	2,283,100
7	Mediacom Communications Corp.	1,263,000
8	Suddenlink Communications <sup>1</sup>	1,254,500
9	Insight Communications Co., Inc.	718,200
10	Cable One, Inc. <sup>1</sup>	677,800
11	RCN Corp.	367,000
12	Atlantic Broadcasting Group, LLC	279,400
13	WideOpenWest Networks, LLC	252,700
14	Armstrong Cable Services	246,400
15	Knology Holdings	222,200
16	Bresnan Communications <sup>1</sup>	214,900
17	Midcontinent Communications <sup>1</sup>	214,500
18	Service Electric Cable TV, Inc. <sup>1</sup>	201,900
19	MetroCast Cablevision	198,000
20	General Communications	149,300
21	Wave Division Holdings, LLC	141,000
22	Blue Ridge Communications <sup>1</sup>	123,200
23	Broadstripe	110,000
24	New Wave Communications <sup>1</sup>	109,000
25	Buckeye Cable System <sup>1</sup>	102,700

Source: National Cable & Telecommunications Association; <sup>1</sup>SNL Kagan

## Top 25 Cable Programming Networks

### September 2009

Rank	Network	Subscribers (Millions)
1	TBS	101.9
2	The Weather Channel	101.7
3	Discovery	101.5
4	Nickelodeon	101.4
5	USA Network	101.2
6	TNT	101.1
7	CNN	101.0
8	Food Network	101.0
9	HGTV	100.9
10	Lifetime Television	100.9
11	TLC	100.9
12	Spike TV	100.8
13	ESPN	100.7
14	Cartoon	100.6
15	Disney Channel	100.5
16	MTV	100.4
17	CNBC	100.3
18	History	100.3
19	A&E	100.1
20	VH1	100.0
21	Comedy Central	99.4
22	ESPN2	99.1
23	ABC Family	99.1
24	Travel Channel	99.1
25	C-SPAN	98.6

Source: National Cable & Telecommunications Association; SNL Kagan Data from *Economics of Basic Cable Networks* (2009)

## Los Angeles County Radio Stations

Ranked by Audience Share, September 2009

Rank	Station	Audience Share September 2009 September 2008	Format Target Age Group/Language	Profile Station Owner Year Founded
1	KIIS-FM/KVVS-FM (102.7/97.7)	5.2 5.9	Pop contemporary hits 18-49 / English	Clear Channel Communications, Inc. 1947
2	KRTH-FM (101.1)	4.7 4.0	Oldies 35-54 / English	CBS Radio 1972
3	KFI-AM (640)	4.3 4.2	News, talk 25-54 / English	Clear Channel Communications, Inc. 1922
4	KOST-FM (103.5)	4.1 4.2	Adult contemporary 25-54 / English	Clear Channel Communications, Inc. 1982
5	KCBS-FM (93.1)	3.7 3.3	Adult hits 25-54 / English	CBS Radio 2005
6	KAMP-FM (97.1)	3.7 (N/A)	Contemporary hits 18-54 / English	CBS Radio 1996
7	KPWR-FM (105.9)	3.6 3.0	Rhythmic/contemporary hits 18-34 / English	Emmis Communications 1986
8	KBIG-FM (104.3)	3.5 3.3	Hot adult contemporary 25-34 / English	Clear Channel Communications, Inc. 1965
9	KLAX-FM (97.9)	3.2 3.4	Mexican regional 18-34 / Spanish	Spanish Broadcasting System 1992
10	KHHT-FM (92.3)	3.2 2.7	Old school & today's R&B 18-54 / English	Clear Channel Communications, Inc. 2001
11	KLVE-FM (107.5)	3.1 4.5	Spanish adult contemporary 25-44 / Spanish	Univision Communications 1972
12	KLOS-FM (95.5)	3.1 2.8	Classic rock 25-54 / English	Citadel Broadcasting 1968
13	KROQ-FM (106.7)	3.0 3.4	Alternative rock 18-49 / English	CBS Radio 1978
14	KTWV-FM (94.7)	2.9 3.2	Smooth jazz 35-54 / English	CBS Radio 1987
15	KSCA-FM (101.9)	2.8 3.9	Mexican regional 18-49 / Spanish	Univision Communications 1997
16	KKGO-FM (105.1)	2.8 2.5	Country 25-54 / English	Mt. Wilson FM Broadcasters, Inc. 1959
17	KNX-AM (1070)	2.8 1.9	News 35-64 / English	CBS Radio 1920
18	KBUE-FM/KBUA-FM (105.5/94.3)	2.3 3.1	Mexican regional 18-49 / Spanish	Liberman Broadcasting, Inc. 1995
19	KUSC-FM (91.5)	2.3 1.9	Classical 18-54 / English	University of Southern California 1946
20	KRCD-FM/KRCV-FM (98.3/103.9)	2.2 3.1	Spanish variety 18-49 / Spanish	Univision Communications, Inc. 1999
21	KYSR-FM (98.7)	2.0 1.9	Modern adult contemporary 25-54 / English	Clear Channel Communications, Inc. 1992
22	KABC-AM (790)	1.9 2.5	News, talk 35-54 / English	Citadel Broadcasting 1960
23	KXOS-FM (93.9)	1.9 (N/A)	Spanish hits 25-54 / Spanish	Grupo Radio Centro 2009
24	KPCC-FM (89.3)	1.8 (N/A)	News, talk 18-54 / English	Southern California Public Radio 1999
25	KXOL-FM (96.3)	1.7 2.2	Urban contemporary 18-49 / Spanish	Spanish Broadcasting System 2005

Source: Los Angeles Business Journal

Fastest Growing Categories of Radio Advertising Revenues in Los Angeles (\$ Millions)				
Category	June 2009	June 2008	\$Change	%Change
Phone Entertainment	0.2	0.01	0.20	1655.7%
Oil and Gas	3.1	1.1	2.01	190.4%
Personal Fitness & Weight Centers	0.8	0.3	0.51	164.3%
Casinos/Lottery	8.5	7.1	1.41	19.8%
Security Services	0.6	0.5	0.06	12.1%
Personal care products	2.5	2.3	0.18	7.7%
Sporting Goods	2.1	2.0	0.11	5.7%
Education	6.1	6.2	-0.15	-2.4%
Professional Services	15.6	16.0	-0.41	-2.6%
Sporting Events/Expos/Shows	4.4	4.6	-0.14	-3.1%
Insurance Companies	9.8	10.4	-0.60	-5.8%
Auto Parts/Service	5.4	5.7	-0.35	-6.0%
Amusement/Theme Parks/Museums	7.3	8.0	-0.65	-8.1%
Consumer Products	1.6	1.8	-0.17	-9.6%
Publications	0.5	0.6	-0.09	-14.3%
Entertainment - Other	2.5	3.0	-0.51	-16.9%
Drug Stores/Pharmaceuticals	3.9	4.8	-0.89	-18.5%
Grocery/Convenience/Liquor Stores	12.9	16.5	-3.62	-21.9%
Communications/Cellular/Public Utilities	19.4	25.7	-6.29	-24.5%
Jewelers/Clocks/Pawn Shops	1.7	2.2	-0.55	-24.6%
Foods	5.1	6.9	-1.82	-26.5%
Specialty Retail	4.6	6.2	-1.66	-26.6%
Restaurants	14.7	20.3	-5.53	-27.3%
Radio Stations	3.6	5.0	-1.42	-28.3%
Home Improvement	5.5	7.7	-2.24	-28.9%
Beverages	11.4	16.2	-4.81	-29.7%
Financial Services	16.5	23.7	-7.17	-30.3%
Charitable/Religious/Non-Profit/Govt. Agencies	5.2	7.7	-2.48	-32.1%
Health Care	10.6	16.1	-5.50	-34.2%
Concerts/Theatre/Movies	14.6	22.3	-7.69	-34.5%
Music Stores/Videos/DVDs	2.1	3.4	-1.24	-36.9%

Source: Southern California Broadcasters Association; Miller, Kaplan, Arase & Co., LLP/TNS-CMR -

Los Angeles Radio's Share of Total Advertising Revenue (May 2009 YTD \$ Millions)					
Category	%Radio Share of				Total Media
	Radio	Total Media	Television	Newspaper	
Security Services	0.5	96.7%	0.0	---	0.5
Recruitment/Employment	1.4	46.1%	0.8	0.9	3.1
Postal & Delivery Services	0.7	42.5%	0.9	---	1.6
Grocery/Convenience/Liquor Stores	10.2	37.3%	12.8	4.3	27.3
Auto Parts/Service	4.6	34.5%	6.1	2.5	13.2
Entertainment - Other	2.0	32.3%	2.6	1.6	6.2
Beverages	7.7	32.0%	15.5	0.8	24.0
Sporting Events/Expos/Shows	4.0	30.2%	6.7	2.5	13.2
Phone Entertainment	0.2	30.2%	0.4	---	0.6
Heating/Ventilation/Air Conditioning/Plumbing	0.6	28.1%	0.2	1.4	2.2
Oil and Gas	2.0	27.4%	5.3	---	7.4
Consumer Products	1.3	26.4%	3.6	0.0	5.0
Health Care	9.1	26.4%	18.9	6.3	34.3
Radio Stations	3.0	23.4%	9.4	0.5	13.0
Music Stores/Videos/DVDs	1.8	23.3%	4.6	1.2	7.6
Professional Services	13.1	22.9%	39.1	5.0	57.3
Amusement/Theme Parks/Museums	4.6	21.9%	16.1	0.4	21.2
Casinos/Lottery	6.8	21.3%	18.1	6.8	31.7
Home Improvement	4.5	21.1%	7.0	9.8	21.4
Insurance Companies	8.1	18.2%	33.8	2.6	44.5
Specialty Retail	3.8	18.0%	9.4	7.9	21.2
Communications/Cellular/Public Utilities	16.3	17.9%	54.4	20.5	91.3
Financial Services	13.1	17.6%	21.2	40.1	74.4
Television/Networks/Cable Providers	12.1	16.9%	40.9	18.8	71.8
Charitable/Religious/Non-Profit/Govt. Agencies	4.0	16.7%	11.8	8.1	24.0
Transportation	2.3	16.7%	8.2	3.5	14.1
Education	5.0	15.6%	21.9	5.1	32.0
Political	2.7	15.5%	12.5	2.3	17.5
<b>Total:</b>	<b>145.6</b>	<b>21.4%</b>	<b>382.7</b>	<b>153.1</b>	<b>681.3</b>

Source: Southern California Broadcasters Association; Miller, Kaplan, Arase & Co., LLP/TNS-CMR

## Los Angeles County Daily Newspapers

Ranked by September 2009 Daily Circulation

Rank	Newspaper	Daily Circulation September 2009/2008 % Change	Sunday Circulation September 2009/2008 % Change	Profile Owner Year Founded
1	Los Angeles Times	657,467 / 739,157 -11%	983,702 / 1,055,076 -7%	Tribune Co. 1881
2	Investor's Business Daily	138,732 / 156,882 -12%	(N/A) (N/A)	DAI Inc. 1984
3	Daily News	95,938 / 129,647 -26%	100,232 / 134,183 -25%	MediaNews Group Inc. 1911
4	La Opinion	91,977 / 100,462 -8%	47,058 / 52,720 -11%	ImpreMedia 1926
5	Press-Telegram	71,411 / 77,783 -8%	73,148 / 79,869 -8%	MediaNews Group Inc. 1897
6	Daily Breeze	61,925 / 63,623 -3%	62,211 / 63,729 -2%	MediaNews Group Inc. 1894
7	San Gabriel Valley Tribune	33,387 / 37,594 -11%	37,226 / 39,538 -6%	MediaNews Group Inc. 1955
8	Daily Variety	26,472 / 34,550 -23%	(N/A) (N/A)	Reed Elsevier Group PLC 1905
9	Pasadena Star-News	24,362 / 25,735 -5%	27,041 / 26,765 1%	MediaNews Group Inc. 1884
10	Hollywood Reporter	19,984 / 19,984 0%	(N/A) (N/A)	Nielsen Business Media 1930
11	Antelope Valley Press	19,219 / 24,534 -22%	23,762 / 29,183 -19%	Antelope Valley Newspapers Inc. 1915
12	Glendale News Press	18,500 / 19,900 -7%	(N/A) (N/A)	Tribune Co. 1905
13	Santa Monica Daily Press	18,000 / 19,000 -5%	(N/A) (N/A)	Santa Monica Daily Press 2001
14	Whittier Daily News	13,076 / 14,563 -10%	14,990 / 14,745 2%	MediaNews Group Inc. 1900
15	The Signal	8,471 / 11,625 -27%	9,174 / 12,960 -29%	Morris Multimedia Inc. 1919

Source: Los Angeles Business Journal



## Major Demographic Trends of Newspaper Readership in Southern California

### Average Daily Readership by Age

Source: Audit Bureau of Circulations

	18-24	25-34	35-44	45-54	55+
Los Angeles Times	7.3%	10.8%	17.8%	20.6%	43.4%
Orange County Register	4.4%	6.3%	18.4%	22.5%	48.3%
The Press-Enterprise	5.4%	11.1%	13.7%	19.6%	50.2%
Ventura County Star	7.7%	8.4%	11.9%	24.9%	47.1%

### Average Daily Readership by Household Income

Source: Audit Bureau of Circulations

	<\$50,000	\$50,000 - \$74,999	\$75,000 - \$99,999	\$100,000 - \$149,999	\$150,000+
Los Angeles Times	23.7%	13.8%	14.3%	21.2%	27.0%
Orange County Register	26.9%	16.5%	16.7%	18.9%	20.9%
The Press-Enterprise	42.4%	12.6%	16.2%	14.1%	14.7%
Ventura County Star	34.7%	14.3%	12.6%	22.4%	16.0%

### Average Daily Readership by Education

Source: Audit Bureau of Circulations

	High School or Less	Some - College	College Grad
Los Angeles Times	25.1%	31.7%	43.2%
Orange County Register	30.1%	36.9%	33.1%
The Press-Enterprise	39.0%	40.8%	20.2%
Ventura County Star	33.3%	36.8%	29.8%

## Los Angeles County Advertising Agencies

Ranked by 2008 LA County Billings

Rank	Company (Ranking in 2008)	Gross Billings (\$millions)		Billings Breakdown		Profile	
		2008 (county/total)	2007 (county/total)	Print/broadcast	Outdoor/direct mail	Headquarters L.A. employees	Offices (county/total)
1	Rubin Postaer & Associates (1)	\$1,151/\$1,151	\$1,141/\$1,141	8%/69%	1%/1%	<b>Santa Monica</b>	440
				10%/11%/0%			1/8
2	Davidandgoliath LLC (2)	455/455	450/450	7/63	8/2	<b>Los Angeles</b>	100
				0/15/5			1/4
3	Inter/Media Advertising	450/450	400/400		WND	<b>Encino</b>	83
							1/3
4	Quigley-Simpson (4)	256/256	282/282		WND	<b>Los Angeles</b>	55
							1/1
5	Davis Elen Advertising Inc.	220/220	235/235	3/68	12/2	<b>Los Angeles</b>	129
				12/3/0			1/3
6	Mendelsohn Zien Advertising LLC (5)	189/186	248/248		WND	<b>Los Angeles</b>	46
							1/1
7	Kovel/Fuller (6)	172/172	161/161		WND	<b>Culver City</b>	60
							1/1
8	Wongdoody (8)	108/190	85/147	15/20	5/5	<b>Culver City</b>	47
				0/35/20			1/2
9	Ground Zero (7)	95/95	95/95	10/69	4/1	<b>Los Angeles</b>	53
				5/10/1			1/1
10	InterTrend Communications Inc. (9)	60/60	76/76		WND	<b>Long Beach</b>	57
							1/1
11	Fraser Communications (11)	58/58	55/55	7/56	12/3	<b>Los Angeles</b>	36
				3/16/3			1/1
12	Phelps Group (12)	55/55	55/55		WND	<b>Santa Monica</b>	64
							1/1
13	Weston/Mason Entertainment Advertising (10)	42/42	71/71		WND	<b>Santa Monica</b>	WND
							1/1
14	Riester Pacific Inc. (13)	33/123	30/110	28/46	7/2	<b>Phoenix</b>	17
				10/2/5			1/3
15	IW Group Inc. (14)	26/26	35/35	33/24	16	<b>West Hollywood</b>	62
				22/2/3			1/3
16	Sagon/Phior (15)	22/31	28/40	5/10	10/0	<b>Los Angeles</b>	20
				35/35/5			1/5
17	Liquid Advertising	21/21	15/15	5/5	0/0	<b>Venice</b>	15
				0/90/0			1/1
18	Castells Advertising	20/72	20/66	10/45	6/8	<b>Los Angeles</b>	55
				16/10/8			1/2
19	Miller Group	16/16	14/14		WND	<b>Los Angeles</b>	WND
							1/2
20	Roddan Paolucci Roddan	8/8	10/10		WND	<b>Palos Verdes Estates</b>	22
							1/1

Source: Los Angeles Business Journal

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