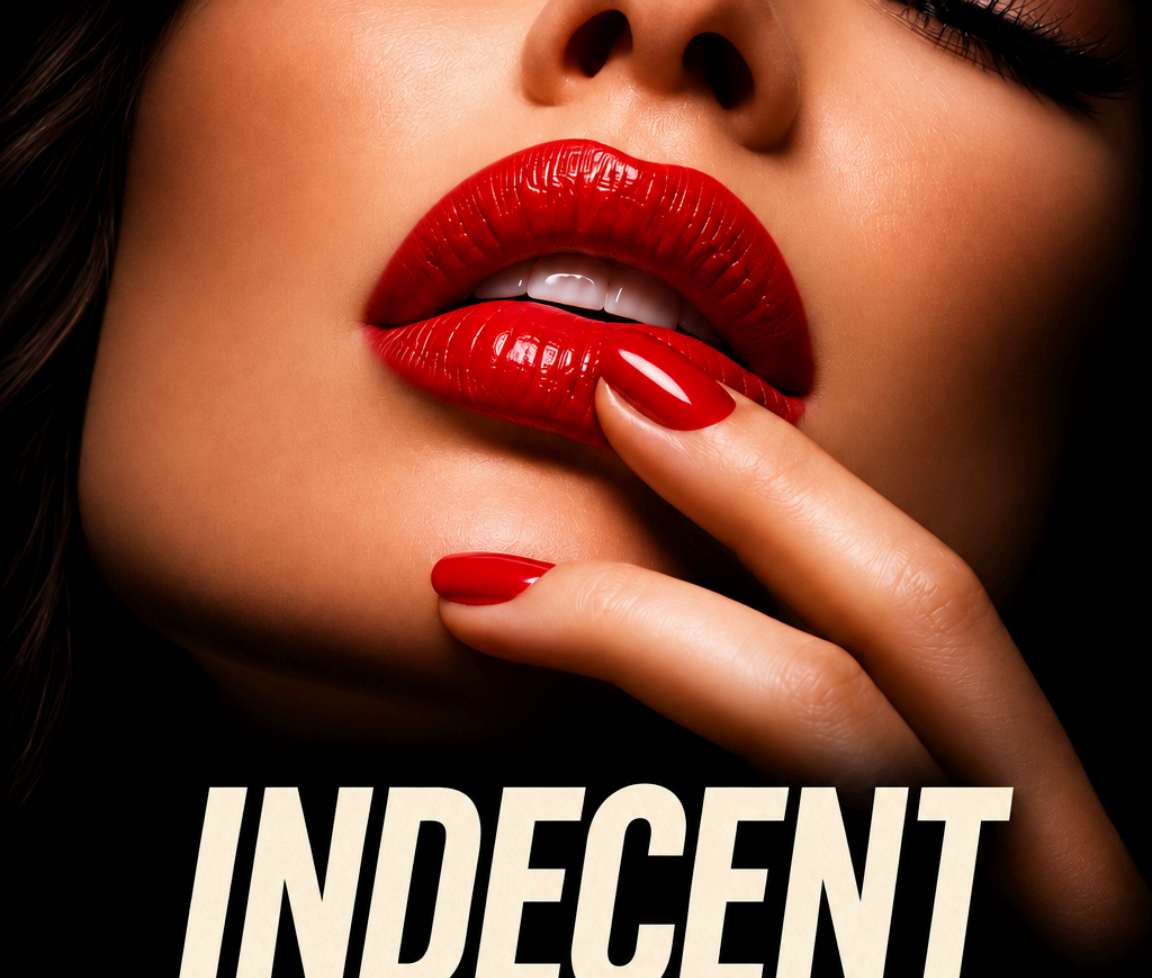

INDECENT EXCELLENCE

A Radical Agenda for the Reinvention of Adult Entertainment

PHIL AUTELITANO

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SCREW
NEW YORK

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To my sons.
May this work inspire you to excellence in your own.

And, of course, to my best friend, Mary.

Special thanks to Joe, Charles,
everyone at SCREW,

and that one girl (she knows who she is).

Acknowledgments

There are a great many people I would like to acknowledge for their inspiration, encouragement and support, both in my own pursuit of indecent excellence and in the writing of this book.

But this is, after all, a book about the pornography business. And considering my intention to distribute it freely throughout the world, I thought it best not to implicate otherwise innocent civilians in the permanent historical record.

So, with considerable affection and gratitude, I'll simply say this:

You know who you are.

Thank you.

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INTRODUCTION

An Industry in Need of Its Own Revolution

“Our industry should be participating in the invention of the future, not merely submitting applications for permission to participate in it.”

I find it somewhat ridiculous that an industry which once took considerable pride in being technologically ahead of everybody else now seems perfectly content to be an afterthought in the evolution of digital entertainment.

What the hell happened to us?

Adult entertainment, an industry historically associated with entrepreneurial ingenuity, technological experimentation, unconventional thinking and an almost pathological disregard for the establishment, has become remarkably conventional in the way it conducts much of its business. We have become an industry of imitators. We imitate websites, business models, advertising strategies, subscription platforms and one another, frequently without stopping to consider whether the thing we're imitating was particularly good to begin with.

Meanwhile, the rest of the entertainment business is engaged in one of the most fascinating periods of technological and commercial reinvention in its history. And here we are, still arguing about traffic.

Historically, our exclusion from conventional channels of distribution created the very circumstances that encouraged experimentation with unconventional ones. Entrepreneurs who couldn't rely on established retailers, broadcasters, advertisers or distrib-

utors had compelling reasons to figure out alternatives. Necessity, in our business, was often the mother of invention.

Today, many of those same constraints persist. But somewhere along the way, we seem to have become more interested in accommodating the limitations imposed upon us than in inventing our way around them. Our most urgent conversations increasingly concern what we're permitted to do, where we're permitted to advertise, who will process our payments, which platforms will tolerate our existence and what new regulatory requirements we'll need to satisfy. These are legitimate concerns. They are also a depressingly inadequate agenda for an entire industry.

Survival is not a vision.

A company can spend every waking hour solving the problems that threaten its existence and still fail to create anything worth preserving. The adult entertainment industry needs to devote more of its collective intelligence to determining what it wants to become.

In 2026, I addressed one aspect of this problem in a technical report entitled *Reclaiming the Frontier: Publisher Autonomy and Integrated Video Infrastructure in Adult Entertainment*.[1] Its central concern was the strategic importance of controlling the infrastructure upon which a publishing enterprise depends. This book extends that argument well beyond the technical architecture of video publishing, into the economics of entertainment, the standards of professional production, the organization of businesses and the responsibilities of an industry to its own future.

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1. Autelitano, Philip M. *Reclaiming the Frontier: Publisher Autonomy and Integrated Video Infrastructure in Adult Entertainment*. Technical report MZ-TR-2026-001, 2026. Zenodo. https://doi.org/10.5281/zenodo.24571121.

The Great Devaluation

Before examining the peculiar economics of modern adult entertainment, consider the magnitude of the business we're discussing. As far back as 2001, a skeptical analysis published by *Forbes* put annual U.S. adult video sales and rentals somewhere between $500 million and $1.8 billion. More than a decade later, New Frontier Media reported approximately $34 million in annual net revenue from its adult transactional television division alone, in its financial statements for the fiscal year ended March 31, 2012.[2]

Neither figure tells us what the industry is worth today. Estimates of the global market are difficult to reconcile when some count consumer expenditure, others distributor or producer revenue, and others include products and services beyond filmed entertainment. Adding overlapping categories can count the same dollar several times. But even the historical evidence establishes a business of considerable economic substance. We need not pretend to know its precise present-day size to recognize that it warrants the same commercial intelligence we devote to other sectors of the entertainment economy.

We spend money producing content, acquiring talent, building brands, maintaining websites, storing enormous libraries of video and attracting audiences. Then, in many instances, we present the fruits of those investments inside digital environments that make them look practically worthless: flashing banners, pop-ups, pop-unders, misleading download buttons, intru-

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2. *Forbes*. “How Big Is Porn?” May 25, 2001. https://www.forbes.com/2001/05/25/0524porn.html. Historical estimate of U.S. adult video sales and rentals, not a current market valuation. New Frontier Media, Inc. *Annual Report on Form 10-K for the Fiscal Year Ended March 31, 2012*, Note 11, Segment and Geographic Information. U.S. Securities and Exchange Commission. https://www.sec.gov/Archives/edgar/data/847383/000104746912007291/a2209786z10-k.htm. Transactional TV segment net revenue: $34.042 million. Neither historical figure estimates the present-day global market.

sive advertisements, indecipherable video controls and websites so cluttered that locating the actual entertainment occasionally feels like an exercise in archaeological excavation.

And for what? Consider the price of advertising. In 2020, advertising network ExoClick cited average minimum bids of around fifty cents per thousand impressions for U.S. in-stream video across its general network.[3] In March 2025, *MediaPost* reported average prices of approximately $20 to $25 per thousand impressions for premium streaming inventory on major platforms, with certain Roku inventory priced below $10.[4]

An advertised minimum bid is not the same as an average transaction price, and neither necessarily represents the amount a publisher receives. Differences in audiences, advertising demand, formats, measurement and distribution matter. These figures are not a calculation of the industry's potential earnings. But they raise a question worth investigating: how much of the difference in advertising value reflects the nature of our product, and how much reflects the commercial environment we've built around it? We'll examine that question, and the economics of changing the environment, in Part IV.

Imagine walking into a movie theater and discovering that the screen was surrounded by illuminated advertisements for dubious products, that someone was attempting to sell you something every time you adjusted your seat, and that the exit signs occasionally redirected you into another theater. You probably

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3. ExoClick. “Case study: How to optimize an In-Stream Video campaign.” 2020. https://www.exoclick.com/blog/case-study-how-to-optimise-an-in-stream-video-campaign/. The quoted $0.50 figure describes an illustrative average minimum bid for U.S. run-of-network inventory, not actual publisher revenue or a representative adult-industry clearing price.

4. Friedman, Wayne. “Roku CPM Cuts To Yield Major Ad Gains, Analyst Says.” *MediaPost*, March 5, 2025. https://www.mediapost.com/publications/article/403906/. The report describes premium streaming inventory pricing and certain discounted Roku rates; it does not establish prices for every streaming service or predict comparable rates for adult publishers.

wouldn't describe it as a premium entertainment experience. Yet online, we have normalized variations of precisely this absurdity.

We have allowed the mechanisms by which we monetize our product to undermine the perceived value of the product itself. Perceived value is not some abstract marketing concept to be discussed over cocktails at an industry convention. It is fundamental to what people are willing to pay, how frequently they return, whether they trust a brand and how they distinguish one entertainment provider from another. If we present our product as disposable, we should hardly be surprised when consumers regard it as such.

The problem of free adult content is more complicated than the existence of free adult content.

Free is a price. Cheap is a perception. The two needn't have anything to do with one another.

Some of the most sophisticated entertainment experiences available to consumers are subsidized by advertising. Television built an entire commercial ecosystem around the principle that audiences would willingly exchange a portion of their attention for access to professionally produced entertainment. There is nothing inherently objectionable about that arrangement. What matters is the quality of the experience surrounding it.

Watch an advertising-supported movie on a major streaming service. The advertisements may interrupt the movie, but the movie itself is still presented as a movie. Its visual integrity is preserved. The experience remains recognizably professional. Why should our audiences or our producers expect anything less?

We Are in the Entertainment Business

One of the more consequential mistakes we make is thinking of adult entertainment as a business fundamentally separate from the entertainment business. Certainly, we face unique legal,

cultural, technological and financial challenges. Those distinctions are real, and any serious discussion of our future must acknowledge them. But the underlying commercial principles of entertainment are remarkably indifferent to the subject matter.

Audiences have expectations. Brands develop reputations. Distribution determines reach. Presentation influences perceived quality. Technology shapes consumption habits. Intellectual property constitutes an asset, and customer relationships have economic value. None of these principles cease to exist simply because the entertainment is intended exclusively for adults.

Throughout this book, I use terms such as *film*, *motion picture* and *production* broadly to encompass audiovisual creative works, regardless of their running time or format. Where the differences among individual scenes, short-form video, feature-length films, live productions and interactive entertainment have commercial or technical consequences, I'll distinguish among them.

People in our business will sometimes scrutinize the cost of producing a film down to the last dollar, yet devote astonishingly little attention to the technological environment in which that film will ultimately be experienced. The video player, the website and the advertising experience are all part of the product. So are the billing process, customer service, privacy protections, accessibility, playback quality and ability to watch on different devices.

From the customer's perspective, there is no convenient departmental distinction between the entertainment and the technology delivering it. There is simply the experience. And that experience is what we're selling.

The Infrastructure of Independence

The future of adult entertainment cannot be discussed intelligently without examining the infrastructure upon which it depends. Who controls our distribution, our access to customers,

our payment mechanisms, advertising inventory, hosting, data and the technological interfaces through which our products are consumed? How much of what we consider our business is actually subject to the commercial discretion of somebody else's business?

These questions extend well beyond the familiar arguments about censorship. They concern ownership, negotiating power, economic resilience and the ability of entrepreneurs to determine their own commercial destinies. An industry that depends excessively upon institutions that regard it as an inconvenience has a rather obvious strategic vulnerability.

The answer is not necessarily to abandon mainstream technology companies or retreat into an isolated technological universe of our own making. There are substantial advantages to interoperability, established standards and participation in broader commercial ecosystems. But we ought to possess alternatives. We ought to be capable of building infrastructure specifically suited to our requirements and developing technologies that make it easier for legitimate adult businesses to operate professionally, responsibly and independently.

Artificial intelligence, connected television, digital identity, privacy-preserving age verification, decentralized systems, cryptocurrency, interactive media and advanced advertising technology each present opportunities as well as complications. Each deserves more attention than simply determining whether it can generate additional clicks.

Our industry should be participating in the invention of the future, not merely submitting applications for permission to participate in it.

Excellence Is Not a Luxury

The word *excellence* may strike some readers as an unusually ambitious word to associate with pornography. That, in itself, is

part of the problem. Excellence is not a moral judgment about the nature of a product. It is a judgment about the standards to which the people responsible for that product hold themselves.

An adult filmmaker can pursue excellence in cinematography, a publisher in design, a software developer in engineering. A business owner can pursue excellence in customer service, professional conduct, privacy, safety and commercial integrity. The pursuit of excellence is entirely compatible with irreverence, unconventionality and an unapologetic approach to adult entertainment.

Industries operating under extraordinary scrutiny have an even greater commercial incentive to establish exceptional professional standards. We cannot reasonably demand that other industries take our businesses seriously while treating professionalism within our own industry as optional. Nor can we expect technological independence to mean exemption from responsibility.

The future I envision for adult entertainment is one in which consent, performer rights, intellectual property, consumer privacy, responsible age verification and technological innovation are understood as integral components of a mature entertainment economy. These considerations belong in the design of our businesses, not in a disclaimer at the bottom of our websites.

What This Book Is About

This is not a book about making pornography respectable. Frankly, I have very little interest in seeking the approval of people who object to the existence of adult entertainment in the first place. It is a book about making the business of adult entertainment exceptional.

It is about challenging economic assumptions that have gone unchallenged for too long, questioning technologies we have accepted as adequate, commercial arrangements we have accept-

ed as inevitable and professional standards we have accepted as good enough. It is about examining what the rest of the entertainment industry does well, determining what we can learn from it and identifying the opportunities in which we might actually be capable of doing something better.

It is written for studio executives, independent producers, performers, publishers, webmasters, advertisers, technology developers, entrepreneurs, investors and the next generation of people contemplating a career in this peculiar business. It is also written for the people who have been in this industry long enough to have become thoroughly convinced that certain things cannot be done. I hope to irritate some of them.

If you haven't the time to read this entire book, or if you'd prefer to get straight to the conclusions without the inconvenience of acquiring the knowledge upon which they're based, turn directly to Chapter 65, *Ten Principles of Indecent Excellence*.

I have no expectation that everyone reading this book will agree with every proposition contained within it. Some of the ideas presented here will undoubtedly prove more commercially practical than others. Some may require technologies or cooperative efforts that have yet to materialize. Others may be entirely wrong. But ideas deserve to be argued on their merits, and I would rather see this industry engaged in a vigorous argument about its future than another tedious conversation about the declining value of traffic.

The digital edition of this book is being made freely available because I want its ideas to travel.

Copy it. Share it. Distribute it. Discuss it at conventions. Disagree with it publicly. Send it to your business partners. Hand it to your developers. Give it to the people responsible for deciding what your company will look like five years from now.

An idea that sits unread behind a paywall accomplishes very little. If even a fraction of what follows inspires somebody to build a better product, establish a higher standard, invent a new technology or reconsider an entrenched business practice, this undertaking will have served its purpose.

The adult entertainment industry has spent much of its existence being considered indecent by somebody.

Perhaps it's time we became indecently excellent.

Phil Autelitano

PART I

WE USED TO LEAD

“What is past is useful only as it suggests ways and means for progress.”

Henry Ford
My Life and Work (1922)

CHAPTER 1

The Industry That Forgot Its Future

“We should be thinking of ourselves as entertainment companies with websites, not website companies that happen to have entertainment.”

There was a time when the adult entertainment industry was practically a research and development department for the future of mass media.

Long before Hollywood became infatuated with streaming, adult entertainment entrepreneurs were already wrestling with the commercial possibilities of delivering video over the Internet. Before online subscriptions became an ordinary household expense, adult publishers were persuading consumers to pay for digital content. Before electronic commerce became second nature, our industry was confronting the practical difficulties of processing payments, authenticating customers and conducting business with people we would never meet.

We didn't invent every technology for which we've occasionally taken credit. The frequently repeated story that pornography single-handedly determined the outcome of the format war between Video Home System (VHS) and Betamax, for instance, is an entertaining bit of industrial folklore that oversimplifies a more complicated history. But our early adoption of home video, digital video discs (DVDs), online payment systems and streaming media is well documented. As broadband connections became

more widely available, adult publishers were already developing businesses around video delivered over the Internet.[1]

What distinguished us wasn't necessarily our ability to invent technologies. It was our ability to recognize their commercial potential before many established entertainment companies did. That's a more useful talent than we seem to appreciate.

The Advantage of Being an Outsider

Established industries have an unfortunate tendency to evaluate new technologies according to their potential impact on existing businesses. Entrepreneurs without established businesses enjoy the intellectual advantage of having less to protect.

When a traditional entertainment company contemplated the Internet in the 1990s, it had to consider its relationships with distributors, retailers, television networks and other commercial intermediaries. A new method of distributing entertainment could threaten an elaborate economic arrangement in which substantial sums of money had already been invested.

The adult entertainment entrepreneur confronted an entirely different set of circumstances. Conventional distribution was frequently inaccessible, inconvenient or prohibitively expensive. The prospect of communicating directly with customers, without requiring the cooperation of a traditional retailer or broadcaster, represented a commercial opportunity of enormous significance.

The Internet was particularly well suited to an industry whose customers placed great value on discretion. An adult publisher could establish a direct relationship with a consumer who might

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1. Coopersmith, Jonathan. “Does Your Mother Know What You Really Do? The Changing Nature and Image of Computer-Based Pornography.” *History and Technology* 22, no. 1 (2006): 1–25. https://doi.org/10.1080/07341510500508610. See also Kal Raustiala and Christopher Jon Sprigman, “The Second Digital Disruption: Streaming and the Dawn of Data-Driven Creativity,” *New York University Law Review* 94 (2019), discussion of adult entertainment. https://corpus.nyuengelberg.org/doc/2dfb77874d3b/.

never have been comfortable walking into a physical establishment selling the same material. Geography became less consequential. Operating hours became irrelevant. The commercial distinction between a small independent publisher and a major entertainment company became less obvious on a computer screen.

The restrictions under which we had historically operated created some of the very incentives that made us innovative. Being an outsider was a competitive advantage. The question is whether we still know how to exploit that advantage.

When Innovation Becomes Administration

There is a curious phenomenon in the evolution of successful businesses. The entrepreneurial activity that initially creates a business gradually gives way to the administrative activity required to maintain it. This is entirely understandable. Businesses require organization, consistency, financial controls, legal oversight and the management of increasingly complicated operations.

But somewhere in that transition, the people asking what might be possible frequently find themselves answering to the people responsible for explaining why it isn't. The same thing can happen to an entire industry.

At adult industry conventions, you'll encounter intelligent, hardworking people engaged in legitimate conversations about the mechanics of doing business. Traffic acquisition, payment processing, affiliate commissions, conversion rates, regulatory compliance and search engine optimization. These subjects are important. But none of them, individually or collectively, constitutes a vision for the future of adult entertainment.

Suppose we organized an industry conference around an entirely different question: What should the adult entertainment experience look like in 2035?

Not what the current websites will look like with redesigned homepages. Not how much traffic artificial intelligence might generate. Not which payment processor will still be willing to do business with us. What will the actual experience of consuming adult entertainment become?

How will people discover it? What devices will they use? How will they interact with it? What will they consider worth paying for? How will performers participate in the ownership and economics of their work? What technologies will protect their rights and the privacy of their audiences? And, perhaps most importantly, who will own the infrastructure that makes all of this possible?

Those are entrepreneurial questions. The answers might make some of our current business models obsolete. Good. I'd rather participate in the obsolescence of my own business model than have somebody else do it for me.

The Webmaster Mentality

The adult industry has produced a generation of Internet entrepreneurs. It has also developed something of an institutional obsession with the website as the definitive unit of its business. The website became the store, the theater, the distribution network, the advertising platform and, in many cases, the brand itself. For years, this arrangement made perfect sense.

But the website is an interface, not an industry.

A television network is not its television set. A record company is not a record player. A publishing house is not a printing press. The value of an entertainment business resides in its intellectual property, its talent, its brand, its relationship with its audience and its ability to create experiences people consider valuable. The mechanisms through which those experiences are delivered will inevitably change.

Consider what happened to the music industry. The compact disc, once the centerpiece of an enormously profitable commercial ecosystem, lost its dominant commercial position as downloads and streaming grew.[2] The songs didn't become obsolete. The predominant mechanism for selling them did. An entrepreneur who confuses the mechanism with the product will inevitably find technological progress rather inconvenient.

We should be thinking of ourselves as entertainment companies with websites, not website companies that happen to have entertainment. That distinction alone could radically alter the way we allocate our resources, develop our products and evaluate new business opportunities.

The Fallacy of Technological Leadership

Having a technologically enabled business is not the same thing as being a technologically innovative business. There is nothing particularly revolutionary about operating a website in the twenty-first century. Nor is there anything inherently innovative about adopting artificial intelligence, accepting cryptocurrency or adding another feature to a video player. The application of new technology to an old commercial problem can certainly be worthwhile. But the more interesting opportunities often involve reconsidering the problem itself.

Why must an adult entertainment business operate within the confines of the conventional website? Why should a consumer's ability to watch legally produced adult entertainment on a television depend so heavily upon the commercial preferences of a handful of consumer electronics companies? Why should demonstrating that a customer is old enough to access adult ma-

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2. Recording Industry Association of America (RIAA). *US Revenue Database*, historical U.S. recorded-music revenues by format. https://www.riaa.com/u-s-sales-database/.

terial involve revealing more personal information than the transaction requires?

Why shouldn't the industry develop advertising standards that preserve the integrity of the entertainment those advertisements finance? Why shouldn't an independent producer have access to sophisticated distribution technology without surrendering an unreasonable portion of the economic value of the product? These are opportunities for technological innovation with actual commercial purpose.

Consider the possibilities: a television-first viewing experience, with connected devices such as Roku and phone-to-television playback where supported; age verification designed around proof of eligibility rather than unnecessary identification; and alternative payment systems, including cryptocurrency, evaluated on their commercial merits. Or consider the economics of surrounding a film with distracting advertising priced, as we saw in the introduction, at bids of a dollar or less per thousand impressions, instead of developing a professional commercial break of the kind audiences already encounter on mainstream streaming services. The challenge is to create advertising worth more, not simply to demand more for the same advertising.

Properly understood, many of the problems peculiar to our industry are also business opportunities. We should stop looking at every inconvenience imposed upon us as somebody else's problem to solve.

The Cost of Waiting

One of the more dangerous assumptions a business can make is that the future will resemble the present sufficiently to justify postponing its reinvention. The difficulty is that technological change seldom waits for an industry to arrive at a comfortable consensus.

Consumer expectations evolve outside the boundaries of our business. Every sophisticated streaming service a customer uses, every elegantly designed application they download and every frictionless commercial transaction they complete contributes to their expectations of what a modern digital experience should be. They bring those expectations with them when they visit our websites.

Our competition, in this respect, extends far beyond other adult entertainment companies. We're competing against the standards established by the best digital experiences in the world.

Consumers don't generally make allowances for the historical difficulties of operating an adult entertainment business when confronted with a lousy interface. They simply encounter a lousy interface. And the longer we postpone improving that experience, the greater the distance becomes between what our customers have learned to expect and what we continue to provide.

Reclaiming Our Appetite for the Future

I have no particular desire to romanticize the history of adult entertainment. There were plenty of terrible businesses, lousy products, unscrupulous operators and profoundly misguided commercial decisions during the periods in which we supposedly led the technological revolution. But there was also something worth recovering: the willingness to approach a new technology without an elaborate collection of preconceived notions about what we were supposed to do with it.

That willingness is among the most valuable things an entrepreneurial culture can possess. We need to cultivate it again.

We need to regard technological experimentation as a legitimate business activity rather than a distraction from the acquisition of traffic. We need to encourage independent developers, reward ambitious engineering, demand more sophisticated prod-

ucts from our technology providers and invest in ideas whose commercial potential may not be immediately apparent. And we need to stop measuring the health of our industry exclusively by the amount of money we're able to extract from the machinery we've already built.

The greatest opportunities in adult entertainment may very well exist in businesses that haven't been invented yet. Somebody is going to invent them. I see no compelling reason why it shouldn't be us.

CHAPTER 2

When Hollywood Followed Us

“Nobody owes us a royalty on the future.”

One of the more amusing ironies in the history of American entertainment is that an industry Hollywood has historically been reluctant to acknowledge as a legitimate part of its business has often provided a compelling preview of where that business was headed.

We were conducting experiments in the commercial distribution of entertainment that would eventually become fundamental to the economics of mainstream media. We just weren't particularly good at getting invited to the dinner where everybody congratulated themselves for discovering them.

To appreciate the magnitude of the opportunity facing adult entertainment today, it is worth examining what we accomplished when the technological landscape was less accommodating than it is now. And to do that, we need to separate our history from our mythology.

The Pornography That Supposedly Killed Betamax

If you've spent any appreciable amount of time in the adult entertainment business, you've probably heard somebody explain, with absolute historical certainty, that pornography was responsible for VHS defeating Betamax. It's a terrific story. Unfortunately, reality is a little more complicated.

The historical research points to a more complicated explanation. The strategies pursued by VHS manufacturers and the mar-

ket dynamics that encouraged adoption of a common format played major roles in the outcome.[1]

But our industry's actual contribution to the evolution of home video is arguably more interesting than the exaggerated version. We recognized that the commercialization of prerecorded entertainment for private consumption represented an enormous business opportunity. That might seem painfully obvious today. In the 1970s, it was anything but.

Hollywood had built an industry around the economics of theatrical exhibition. People went somewhere to watch a movie. An entire commercial infrastructure existed to facilitate that transaction. The notion that consumers would purchase movies to watch whenever they damn well pleased, in the privacy of their own homes, represented a fundamentally different relationship between the entertainment producer and the audience.

For adult entertainment, privacy wasn't merely a convenient feature of the technology. It was an enormously valuable component of the product. The technology didn't create the desire for privacy. It enabled entrepreneurs to monetize an existing desire in a way that had previously been impractical.

There's an important lesson in that distinction. Some of the greatest technological opportunities in business are discovered not by asking what a new technology can do, but by identifying something consumers have always wanted to do and determining whether technology can finally make it possible.

Hollywood Goes to Court

In 1976, Universal City Studios and Walt Disney Productions initiated litigation against Sony over its Betamax videocassette

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1. Cusumano, Michael A., Yiorgos Mylonadis, and Richard S. Rosenbloom. “Strategic Maneuvering and Mass-Market Dynamics: The Triumph of VHS over Beta.” *Business History Review* 66, no. 1 (1992): 51–94. https://doi.org/10.2307/3117053.

recorder. The dispute eventually reached the United States Supreme Court, which ruled in Sony's favor in 1984, holding that the sale of the device did not constitute contributory copyright infringement because it was capable of substantial noninfringing uses.[2]

Think about the historical absurdity of that for a moment. Two of the most prominent entertainment companies in the world were attempting to hold the manufacturer of a consumer recording device liable for copyright infringement associated with its use.

The home video market would subsequently become an enormously important source of revenue for Hollywood.[3] A technology perceived as a threat to an established commercial arrangement ultimately helped create another lucrative commercial arrangement.

This pattern would repeat itself throughout the evolution of media. The recording industry confronted digital music. Newspapers confronted the Internet. Television networks confronted streaming. The entertainment business has an impressive history of initially regarding some of its greatest future opportunities as existential threats.

The lesson is not that intellectual property rights should be disregarded. Quite the contrary. The ownership and protection of intellectual property will become increasingly important to our industry, as we'll examine later in this book. The lesson is that protecting intellectual property and protecting an existing method of distributing intellectual property are two entirely different things. Confusing the two can be an expensive mistake.

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2. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), especially pp. 442–456. https://www.law.cornell.edu/supremecourt/text/464/417.

3. “How Hollywood Learned to Stop Worrying and Love the VCR.” *Los Angeles Times*, April 19, 1987. https://www.latimes.com/archives/la-xpm-1987-04-19-tm-1667-story.html.

Before Everybody Had a Subscription

In 1995, adult entertainer Danni Ashe launched Danni's Hard Drive. Ashe recognized that the Internet provided an opportunity to establish a continuing commercial relationship with her audience rather than depend entirely upon the sale of individual products through traditional intermediaries. She built a membership business around digitally delivered entertainment.[4]

Consider what that meant in 1995. Google didn't exist. Facebook didn't exist. YouTube didn't exist. Netflix didn't exist. Most American households had yet to develop the digital consumption habits upon which today's subscription economy depends.

Yet here was an adult entertainer participating in the development of a commercial arrangement that would eventually become ubiquitous throughout the entertainment business. Monthly payments in exchange for continuing access to a digital library. Sound familiar?

The commercial sophistication of early adult Internet businesses is frequently overlooked because the nature of their product tends to dominate any discussion of their accomplishments. But these entrepreneurs were solving genuine business problems. How do you authenticate a customer remotely? How do you collect recurring payments? How do you deliver proprietary content securely? How do you manage the simultaneous demands of thousands of customers? How do you acquire customers efficiently when conventional advertising opportunities are limited?

These weren't exclusively pornography problems. They were emerging problems of digital commerce. And we were among the people confronted with the commercial necessity of solving them.

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4. Lewis, Elen. "Danni Ashe: Danni's Drive to Net Profits." *The Independent*, August 5, 2001. https://www.the-independent.com/news/business/analysis-and-features/danni-ashe-danni-s-drive-to-net-profits-5547114.html.

Streaming Before Streaming Was Cool

In January 1999, WIRED published a profile of Internet Entertainment Group, an adult media company investing heavily in high-capacity Internet connections, servers, streaming video and interactive technologies.[5] The infrastructure required to deliver video online in those days was more cumbersome and expensive than it is today. Internet connections were slow. Video compression was primitive by contemporary standards. Playback was frequently unreliable. The commercial prospects of streaming feature-length, high-quality entertainment to millions of households remained uncertain.

Nevertheless, the adult industry was already investing in the proposition that consumers would eventually want their video delivered directly over the Internet. Netflix began rolling out its instant-viewing service in January 2007.[6] That's eight years after the WIRED article and twelve years after Ashe launched her online business.

This isn't to suggest that Netflix simply appropriated the adult industry's ideas. Netflix deserves credit for recognizing the broader commercial implications of streaming and executing a remarkably ambitious transformation of its own business. But the chronology is instructive. We were experimenting with the commercial delivery of video over the Internet while many of the companies now considered synonymous with digital entertainment were either in their infancy or hadn't been established.

We had identified the opportunity. What we failed to do, collectively, was maintain our position at the forefront of its development.

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5. Slaton, Joyce. “The Prince of Porn.” *WIRED*, January 29, 1999. https://www.wired.com/1999/01/the-prince-of-porn/. Contemporary reporting; not an endorsement of the company’s other practices.

6. Netflix. “Netflix Offers Subscribers the Option of Instantly Watching Movies on Their PCs.” January 16, 2007. https://about.netflix.com/en/news/netflix-offers-subscribers-the-option-of-instantly-watching-movies-on-their.

Innovation Without Institutional Memory

There is something frustrating about watching an industry repeatedly rediscover ideas with which it once experimented. Direct-to-consumer entertainment, subscription-based access, interactive video, creator-operated publishing businesses, performance-based advertising and personalized content delivery. None of these commercial concepts should strike veterans of adult entertainment as particularly exotic.

What's remarkable is the degree to which other industries have developed, refined, financed and professionalized these ideas. The mainstream entertainment industry didn't simply adopt Internet video. It invested in sophisticated delivery infrastructure, original programming, consumer interfaces, recommendation technologies, device integration and the development of recognizable viewing experiences. It built institutions around the technology.

An innovation becomes more valuable when somebody creates an enduring commercial ecosystem around it. The adult industry has historically been rather good at identifying opportunities for immediate commercialization. We have been less consistent in developing the institutions necessary to sustain our leadership over time.

Of course, we don't enjoy equal access to investment capital, banking services, advertising markets or distribution platforms. It would be intellectually dishonest to compare our accomplishments with those of mainstream media companies without acknowledging those structural disadvantages.

Nevertheless, the inability to raise a billion dollars doesn't preclude the ability to develop a better idea. Nor does it excuse our failure to cooperate on technologies, standards and infrastructure that would benefit a substantial portion of our industry.

Innovation needn't always arrive accompanied by a press release announcing another round of venture capital. Sometimes it

begins with a handful of people who are sufficiently annoyed by the inadequacy of something to develop an alternative.

Not All Innovation Deserves Applause

We should also acknowledge that some of our industry's contributions to digital commerce have been less admirable. The adult Internet was an early commercial environment for aggressive advertising and misleading interfaces. Federal Trade Commission enforcement actions documented allegations of deceptive billing by some adult website operators as early as 2000.[7] The technical ingenuity involved in figuring out how to extract money from an unsuspecting consumer does not make the enterprise worthy of admiration.

There is a difference between innovation that creates economic value and innovation that merely exploits an inefficiency in somebody else's ability to protect themselves. Both can generate revenue. Only one provides a particularly attractive foundation upon which to build a reputable business.

We ought to be capable of celebrating our entrepreneurial heritage without embracing every commercial practice associated with it. Excellence requires discernment. I would much rather our industry be remembered for pioneering a superior entertainment experience than for figuring out how to open seventeen browser windows a customer never asked to see.

Being First Isn't Enough

History is littered with businesses that recognized the future and subsequently failed to capitalize on it. The Xerox Palo Alto Research Center (PARC) contributed foundational ideas to per-

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7. Federal Trade Commission. “Adult Web Sites Settle FTC Charges.” July 18, 2000. https://www.ftc.gov/news-events/news/press-releases/2000/07/adult-web-sites-settle-ftc-charges. Describes allegations and settlement, not an industry-wide prevalence estimate.

sonal computing that other companies commercialized with great success. Kodak developed an early digital camera in 1975 yet struggled with the commercial transformation from photographic film to digital imaging.[8]

Being present at the invention of a technology does not guarantee participation in the wealth that technology will eventually create. The advantage of being first is temporary. The advantage of being perpetually inventive is more durable.

Our industry cannot reasonably expect to receive some sort of permanent commercial dividend for having been an early adopter of home video or Internet streaming. Nobody owes us a royalty on the future. We have to earn our position in it.

The question isn't whether adult entertainment helped shape the technologies that now define the mainstream entertainment business. It did. The question is whether, twenty years from now, somebody writing a history of artificial intelligence, interactive entertainment, digital identity or the next generation of television will find our industry sufficiently interesting to warrant a chapter. I would prefer that they need several.

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8. Computer History Museum. “Computers,” *Timeline of Computer History*, entry on Xerox PARC Alto. https://www.computerhistory.org/timeline/computers/. Kodak. “Photography,” company history. https://www.kodak.com/en/company/page/photography-history/. See also Willy Shih, “The Real Lessons from Kodak’s Decline,” *MIT Sloan Management Review*, summer 2016. https://shop.sloanreview.mit.edu/store/the-real-lessons-from-kodaks-decline.

CHAPTER 3

Necessity Was Our Mother

“A captive customer is not necessarily a satisfied customer.”

There's a peculiar advantage to being unwelcome in somebody else's establishment. Eventually, you entertain the possibility of building your own.

Much of the entrepreneurial history of adult entertainment can be understood in the context of things we weren't allowed to do, places we weren't allowed to advertise, establishments that wouldn't carry our products and institutions that wouldn't handle our money. For generations, entrepreneurs in our business operated without the luxury of taking conventional commercial infrastructure for granted.

If you manufactured furniture, there were established mechanisms for getting furniture into stores, advertising it to consumers, financing your inventory and collecting payment. If you produced adult entertainment, the availability of those mechanisms was less predictable.

The traditional business textbook devotes remarkably little attention to what an entrepreneur should do when half the companies necessary to execute the business plan don't particularly care to be associated with the business. In many respects, we had to write our own textbook. And some of its chapters were rather ingenious.

The Accidental Entrepreneurial Education

The independent adult publisher of the twentieth century frequently had to acquire a range of commercial competencies that would ordinarily have been distributed among several different companies. Publishing, manufacturing, distribution, advertising, fulfillment and customer acquisition could become the responsibility of a single organization, not because its owner had studied the merits of vertical integration at business school, but because outsourcing those responsibilities wasn't always a practical option. The adult entertainment business was an education in commercial resourcefulness.

When conventional retailers wouldn't carry certain publications, specialized retail networks emerged. Publishers explored direct distribution and mail-order commerce, sometimes confronting formidable legal challenges in the process.[1] Specialized service providers emerged to address commercial requirements that mainstream businesses were unwilling or unable to accommodate. What developed was an informal economy of specialized expertise.

People in the business knew things that people outside the business frequently didn't need to know. They understood the importance of discretion in consumer transactions. They understood the commercial potential of geographically dispersed audiences. They understood that an audience could be enormously valuable without being particularly visible.

The Internet would eventually make these competencies relevant to virtually every category of consumer commerce. For us, they were already occupational necessities.

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1. See *United States v. Reidel*, 402 U.S. 351, 351–355 (1971), concerning federal restrictions on mailing obscene material. https://www.law.cornell.edu/supremecourt/text/402/351. This case illustrates historical legal obstacles, not a finding that all adult publications were prohibited.

The Economic Value of Being Ignored

One of the most interesting phenomena in entrepreneurship is the existence of commercially attractive markets that established businesses refuse to serve. Sometimes their refusal is based upon legitimate economic considerations. Sometimes it's a consequence of regulation. Sometimes it's institutional inertia, cultural prejudice or an unwillingness to explain an unconventional business decision to shareholders.

Whatever the reason, an opportunity remains an opportunity. If a substantial population of consumers wants something, and the companies ordinarily equipped to provide it choose not to, the commercial potential of satisfying that demand doesn't disappear. It becomes available to somebody else.

The adult entertainment business is an illustration of this principle. Its exclusion from mainstream commercial infrastructure has created entire categories of specialized businesses: financial services, hosting, advertising, legal services, distribution and software development. These businesses exist because the broader commercial ecosystem has left significant requirements unfulfilled.

From an entrepreneurial perspective, that's a fascinating situation. Imagine being presented with an industry containing a substantial customer base, numerous independent businesses and an extensive collection of technological and operational problems that many of the world's largest companies would prefer not to solve. An economist might describe certain aspects of that situation as market inefficiency. An entrepreneur ought to be interested.

The Bank That Doesn't Want Your Money

Financial services provide a revealing example of the peculiar commercial circumstances under which we operate.

In May 2023, the Free Speech Coalition published an updated survey report on the financial experiences of people earning their living in adult entertainment. Among respondents earning income in the industry, 63% reported losing access to a bank account or payment tool because of their work.[2]

Think about the implications of that beyond the immediate inconvenience. Imagine establishing a profitable, legally operating business, acquiring customers, employing people, paying taxes and fulfilling your financial obligations, only to discover that maintaining access to a checking account constitutes a material business risk.

For most entrepreneurs, a bank account is something you establish before you begin conducting business. For some entrepreneurs in our industry, keeping one becomes part of conducting business.

There is a cost associated with that uncertainty that extends beyond processing fees and the inconvenience of moving money. How does an entrepreneur confidently expand a business when the financial mechanisms necessary to operate it are subject to interruption? How does a small producer negotiate favorable financing arrangements? How does an independent performer establish a reliable financial history? How does a business owner plan for payroll, investment or expansion?

The consequences are cumulative. Every unnecessary obstacle consumes money, management attention and entrepreneurial energy that could otherwise have been invested in developing better products.

I call this the *exclusion premium*: the additional cost of conducting otherwise legitimate commercial activity in an industry

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2. Free Speech Coalition, in collaboration with SexWorkCEO and SWR Data. *Financial Discrimination and the Adult Industry* (May 2023), pp. 1, 4, 9. Survey of over 600 participants recruited through industry channels; 73% were U.S.-based. Self-reported, nonrepresentative findings.

that conventional institutions are reluctant to serve. That premium rarely appears as a convenient line item on an income statement. Nevertheless, we pay it.

The Exclusion Premium

Consider two hypothetical entertainment companies. Both produce original video programming. Both employ talent. Both operate subscription services. Both have comparable revenues, production expenses and customer bases. One produces documentaries. The other produces adult films.

The documentary company may encounter ordinary commercial difficulties in securing financing, purchasing advertising, distributing its programming and negotiating with technology providers. The adult company encounters those same difficulties, plus a collection of additional ones associated with the nature of its business. Its selection of vendors may be smaller. Its access to certain advertising platforms may be restricted. Its financial arrangements may be more expensive. Its distribution opportunities may be more limited. Even when alternatives exist, the additional time required to identify, negotiate with and manage those alternatives represents a business expense.

The exclusion premium is not necessarily the consequence of a coordinated effort to undermine an industry. It can result from thousands of individual decisions made by otherwise unrelated organizations. The cumulative economic effect, however, can be substantial. And because the cost is distributed throughout the business, entrepreneurs may gradually come to regard it as an unavoidable characteristic of the industry rather than a problem deserving a commercial solution.

That's where things get interesting. Every component of the exclusion premium represents a potential market for somebody capable of reducing it.

A technology company that meaningfully reduces the cost of distribution creates economic value. A financial institution that provides reliable, appropriately regulated services to underserved businesses creates economic value. A software developer who eliminates an expensive operational inconvenience creates economic value.

We spend a great deal of time complaining about the additional costs of doing business in adult entertainment. Perhaps we should spend more time examining the business of eliminating them.

The Danger of Captive Markets

Unfortunately, exclusion can create something less admirable than entrepreneurial ingenuity. It can create complacency among the companies that serve the excluded. A captive customer is not necessarily a satisfied customer.

When the number of available vendors is limited, customers may tolerate inferior products, inconvenient services, excessive pricing and technological deficiencies they would never accept in a more competitive market. The vendor enjoys the commercial advantage of knowing that its customers have relatively few places to go. This is a dangerous environment in which to develop an industry committed to excellence.

A company's willingness to do business with adult entertainment does not, in and of itself, constitute a impressive technological accomplishment. We should be grateful for competent service providers that understand our industry. We should also expect them to be competent.

If we're paying for technology, we ought to demand excellent technology. If we're paying for distribution, we ought to demand excellent distribution. If we're paying for financial services, we ought to demand reliability, transparency and professional service. The fact that somebody else won't take our money doesn't

mean we should be enthusiastic about giving it to somebody who provides an inferior product.

Our exclusion from certain markets should make us more demanding of the companies operating within ours, not less.

From Workarounds to Architecture

There is a significant difference between finding a way to accomplish something and developing a sustainable infrastructure for accomplishing it. Our industry has become remarkably proficient at the former. A distribution channel disappears, and we find another one. A service provider changes its terms, and we migrate. A platform changes its policies, and we reorganize our businesses accordingly.

The ability to adapt is admirable. But there comes a point at which repeatedly demonstrating our ability to recover from the same category of problem becomes a rather expensive substitute for solving it.

Imagine a city whose residents have become exceptionally proficient at repairing their houses after every flood, yet whose municipal government has never seriously considered investing in drainage. Eventually, you'd have to question the allocation of resources.

Much of our technological investment ought to be directed toward building durable commercial infrastructure rather than perpetually compensating for its absence. That means thinking about interoperability, portability, redundancy, industry standards and the ownership of essential technologies. It also means recognizing that some problems are more economically addressed collectively than individually.

There is little commercial wisdom in having a thousand independent businesses each devote resources to solving substantially the same infrastructure problem. We can compete vigor-

ously in the marketplace while cooperating on the mechanisms that enable the marketplace to exist.

Airlines compete for passengers without requiring each airline to invent its own air traffic control system. Why should the concept of shared infrastructure strike us as revolutionary?

Independence Is Not Isolation

I want to be careful here, because there is a tendency in conversations about the adult industry's independence to drift toward an almost romantic notion of technological separatism. I have no desire to see us establish an inferior version of every technology already available to the rest of the world merely because it belongs to us. We shouldn't reinvent the Internet. We shouldn't abandon established technical standards. We shouldn't develop proprietary alternatives to perfectly good technologies solely for the satisfaction of putting our names on them.

Independence is a question of commercial optionality. Can we continue operating if a vendor changes its policies? Can we move our intellectual property and business data to another provider? Can we reach our customers through alternative distribution channels? Can we negotiate commercial arrangements without the implicit threat that declining the terms might put us out of business?

A company doesn't have to own everything it uses. It ought, however, to have a meaningful degree of control over the things upon which its existence depends. Sometimes that control comes through ownership. Sometimes it comes through competition among vendors, open standards, contractual protections or the availability of credible alternatives.

We should participate in the broader technological economy from a position of strength rather than dependency. There is nothing incompatible about demanding fair treatment from mainstream institutions while simultaneously developing alternatives

to them. In fact, the existence of credible alternatives might make those institutions more interested in treating us fairly.

Necessity Is Still With Us

The circumstances that made adult entertainment entrepreneurs resourceful haven't entirely disappeared. We still face commercial exclusion. We still encounter technological restrictions. We still operate within an unusually complicated network of regulatory, cultural and institutional considerations.

What has changed is the extraordinary range of tools available to us. For many kinds of software, reusable components and mature development tools have lowered the barriers to building a product. Computing infrastructure is available on demand. Open technical standards allow independent developers to build sophisticated products without starting from scratch. Emerging technologies are making commercial opportunities accessible to organizations that would previously have lacked the resources to pursue them. We have access to capabilities that earlier generations of adult entertainment entrepreneurs could scarcely have imagined.

And yet a substantial portion of our entrepreneurial conversation remains devoted to the optimization of businesses that already exist. I wonder what some of our industry's pioneers would have built if they'd had access to the technology available to us today. I suspect they would have been interested in more than improving the click-through rate on a banner ad.

Necessity was our mother. The question is whether we've inherited her imagination.

CHAPTER 4

The Twenty-Year Trap

“Sometimes the most valuable thing on a website is the thing that isn't there.”

It's possible to visit certain adult websites today and experience the technological equivalent of finding a perfectly preserved McDonald's from 2003. The furniture has been replaced. The menu has been updated. Somebody has installed a flat-screen television. But the underlying architecture of the business hasn't changed appreciably in two decades.

Much of what passes for technological progress in adult entertainment consists of attaching contemporary technologies to antiquated commercial assumptions. We've increased video resolution. We've improved compression. We've made websites responsive to different screen sizes. We've automated many administrative functions. These are worthwhile accomplishments. But making an old idea work more efficiently doesn't necessarily make it a better idea.

A great deal of the adult Internet remains philosophically trapped in an era when the predominant commercial objective of a website was to acquire traffic and subsequently figure out somewhere else to send it. Twenty years later, we're still moving people around the Internet with an enthusiasm that would suggest we're in the transportation business.

The Internet as Real Estate

Early commercial websites were frequently designed according to a fairly understandable economic proposition: every available portion of the screen represented potentially monetizable real

estate. The top of the page could accommodate an advertisement. So could the bottom. So could the right-hand column. So could the left-hand column. If you ran out of real estate, you could always open another window. The desktop computer was the predominant environment in which these experiences were designed. Websites were conceived as pages, and those pages were frequently treated as electronic equivalents of printed publications.

The problem with this analogy is that a printed advertisement generally doesn't interfere with your ability to turn the page of a magazine. The Internet made it technologically possible for advertising to interfere with practically everything. And we were rather enthusiastic about exploring those possibilities.

At some point, the adult website became less of a destination than a collection of monetization mechanisms occasionally interrupted by entertainment. The architecture itself encouraged this transformation. Every additional advertisement represented a prospective source of revenue. Every additional link represented a prospective commercial transaction. Every additional page represented another opportunity to generate impressions.

The apparent economic incentive was to make the environment increasingly complicated. The customer's incentive was precisely the opposite.

The Consumer Has Changed

One of the most important developments in the evolution of consumer technology has been the progressive disappearance of the computer from the computing experience. Consider the original experience of watching video on the Internet. You were acutely aware that you were operating a computer. You dealt with software compatibility, connection speeds, codecs, file formats, browser configurations and the occasional realization that you had downloaded something you probably shouldn't have. Watching a video was a technological activity.

Today, people expect to touch an image and watch something. The sophistication of the technology responsible for making that possible is largely irrelevant to the consumer. In fact, the better that technology works, the less likely the consumer is to notice it. That is a remarkable accomplishment in product design. One of the achievements of modern consumer technology is eliminating much of the need for the consumer to understand how it works.

Yet much of the adult Internet remains an environment in which customers must actively negotiate the machinery of the business. They must distinguish genuine playback controls from advertisements. They must determine which links lead to the entertainment and which lead somewhere else. They must navigate promotional offers, dismiss unwanted windows and occasionally ascertain whether the website they're visiting is still the website they intended to visit.

We've taken an activity that should require approximately one finger and turned it into a minor technical qualification.

The Click Is Not the Customer

I suspect one of the more damaging intellectual developments in Internet commerce was the elevation of the click from a measurable event to an economic objective. Clicks are useful things to measure. They can indicate interest, intention, successful navigation and the effectiveness of an advertisement. They can also indicate confusion, frustration, accidental interaction or a desperate attempt to make something disappear.

A click is an action. It isn't necessarily an accomplishment.

Imagine a restaurant that evaluated the quality of its service according to how many times customers had to summon the waiter. The restaurant might conclude that its most successful evening was the one during which nobody received the correct

order. The absurdity becomes rather obvious when applied to an ordinary commercial environment.

Yet online, we routinely celebrate engagement metrics without sufficiently examining what the customer was actually attempting to accomplish. A person who visits ten pages isn't necessarily more satisfied than a person who visits two. A person who spends twenty minutes navigating a website hasn't necessarily had a better experience than somebody who accomplishes the same objective in twenty seconds.

In an entertainment business, there is value in the time a customer spends enjoying the entertainment. There may be less value in the time that customer spends trying to get to it. We ought to distinguish between the two.

The Tyranny of the Template

Another unfortunate characteristic of the adult Internet is the degree of visual and functional similarity between ostensibly competing businesses. Visit enough websites in a particular category and you'll encounter variations of substantially the same interface. The placement of the thumbnails. The categories. The advertising positions. The video page. The related content. The subscription offers. Sometimes the differences between competing businesses appear to consist primarily of a logo and a slightly different shade of blue.

There are practical reasons for this. Templates reduce development costs. Familiar interfaces can improve usability. Established design conventions allow consumers to navigate an unfamiliar website without having to learn an entirely new system. I am not suggesting that every entertainment company needs to reinvent the play button. But there is a difference between adopting useful conventions and surrendering the identity of your product to a template.

If a consumer cannot meaningfully distinguish the experience of one entertainment provider from another, it becomes more difficult for either provider to establish a differentiated commercial proposition. The products risk competing primarily on availability, price and quantity. That is an extremely uncomfortable position for an industry already struggling with the perceived abundance of its product. The greater the apparent interchangeability of what we're selling, the harder it becomes to command a premium price.

Design, in this context, is not decorative. Design is economic differentiation.

The Mobile Phone Is Not a Small Computer

The arrival of the smartphone should have prompted a fundamental reconsideration of the adult entertainment experience. Instead, much of our industry's initial response consisted of figuring out how to make desktop websites fit on smaller screens. That was an engineering problem masquerading as a product strategy.

A smartphone isn't simply a computer with a smaller display. It is a different environment of consumption, with different physical characteristics, different privacy considerations and different patterns of interaction. The circumstances in which people use their phones differ from those in which they use desktop computers. So do their expectations of convenience, navigation, responsiveness and control. A product designed specifically for mobile consumption may require an entirely different organizational philosophy from the desktop product with which it shares its intellectual property.

The same principle applies to connected television. A website that works perfectly well on a laptop may be an absolutely miserable experience on a sixty-five-inch television operated from ten feet away. The challenge isn't merely to make the pixels fit. It's to understand the experience appropriate to the device.

This is why I find the phrase *mobile-friendly* somewhat underwhelming. In an industry selling digital entertainment, I would hope we've progressed beyond the stage at which being friendly to the customer's device constitutes a noteworthy accomplishment.

Advertising That Nobody Sees

The phenomenon of consumers tending to overlook advertising-like elements on websites has been documented since the 1990s. Researchers refer to it as *banner blindness*. In 2018, the Nielsen Norman Group revisited its earlier findings and documented the persistence of this behavior across desktop and mobile environments.[1]

Think about that from the perspective of an adult publisher. We devote valuable portions of our websites to advertisements that consumers have spent years learning to ignore. We respond to this phenomenon by making advertisements increasingly conspicuous. The consumer responds by becoming increasingly proficient at ignoring them.

Occasionally, an advertisement becomes sufficiently intrusive that ignoring it is no longer possible. At that point, we've succeeded in attracting the consumer's attention by degrading the experience that attracted the consumer in the first place. This is a peculiar commercial achievement.

Advertising is supposed to create value for the advertiser, generate revenue for the publisher and subsidize the experience for the audience. When the execution undermines the interests

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1. Jan Panero Benway, “Banner Blindness: The Irony of Attention Grabbing on the World Wide Web,” *Proceedings of the Human Factors and Ergonomics Society Annual Meeting* 42, no. 5 (1998): 463–467. https://doi.org/10.1177/154193129804200504. Kara Pernice, “Banner Blindness Revisited: Users Dodge Ads on Mobile and Desktop,” Nielsen Norman Group, April 22, 2018. https://www.nngroup.com/articles/banner-blindness-old-and-new-findings/. These studies examine general web behavior, not adult-industry-specific advertising performance.

of all three parties, perhaps the execution deserves reconsideration.

We'll devote much of Part IV to the economics of advertising, because the industry has an opportunity to reconsider not only the technologies through which it delivers advertising, but the fundamental relationship between advertising and entertainment. For now, I'll simply propose that an advertisement occupying space on a website should not automatically be considered a productive use of that space.

The Economics of Subtraction

Business owners frequently associate improving a product with adding something to it. Another feature. Another menu. Another promotional opportunity. Another integration. Another reason for the developer to increase the invoice. There is less enthusiasm for examining what might be accomplished by removing things. But subtraction can be a legitimate form of innovation.

Remove an unnecessary step from a transaction. Remove a redundant navigational element. Remove an advertisement that generates insignificant revenue at the expense of customer satisfaction. Remove a requirement that forces the consumer to disclose information the business doesn't need. Each of these decisions can create economic value.

The challenge is that the benefits of subtraction are often less immediately visible in conventional accounting than the benefits of addition. If you introduce another advertising placement, you can measure the revenue it generates. If you eliminate an advertising placement, the resulting improvements in customer satisfaction, repeat visits, brand perception and willingness to subscribe may be distributed across several different areas of the business.

One is immediately identifiable as income. The other requires a more sophisticated understanding of the economics of the customer relationship.

Consider a hypothetical website receiving one million page views per month. An advertising placement with an effective net publisher CPM (revenue per thousand impressions) of one dollar, assuming one billable impression on every page view, contributes one thousand dollars in monthly revenue.

Now suppose that removing that placement and improving the overall viewing experience produces two hundred additional paying customers at ten dollars per month. The business has generated two thousand dollars in additional monthly subscription revenue, replacing one thousand dollars in advertising revenue. That is an increase of one thousand dollars in monthly revenue before additional subscription-related costs and any other changes in revenue. At ten dollars per subscriber, one hundred additional paying customers would replace the lost advertising revenue before those costs. The threshold for maintaining profit could be higher.

I'm not suggesting that removing a banner advertisement will necessarily produce two hundred subscribers. That is precisely the sort of proposition a business ought to test rather than accept on faith. What I'm suggesting is that the apparent value of an advertising placement cannot be determined exclusively by measuring the revenue generated by that placement. We must also consider the economic opportunities its presence might be costing us.

Sometimes the most valuable thing on a website is the thing that isn't there.

The Professional Entertainment Test

Anyone operating an adult entertainment website ought to conduct a simple exercise. Temporarily forget what your competitors

are doing. Forget the prevailing conventions of the adult Internet. Forget what your advertising representative has recommended. Forget what your website template was originally designed to accommodate.

Now imagine that the entertainment you're presenting is an expensive Hollywood production. Imagine that artistic effort, professional expertise and financial investment went into its creation.

Would you be satisfied with the manner in which your website presents it? Would you be comfortable showing the interface to the people who financed the production? Would you consider the viewing experience consistent with the value of the entertainment? Would you recommend that your own business partners spend their evening watching something on it? If the answers are uncomfortable, the exercise has probably been worthwhile.

There is no intellectually defensible reason that the standards of professional digital entertainment should suddenly deteriorate when the subject matter becomes sexual. A camera, a storage server and a video compression algorithm perform the same basic technical functions regardless of the subject matter. The basic technological requirements for delivering an exceptional viewing experience are substantially indifferent to the nature of the entertainment, even when its legal, privacy and safety requirements differ. The distinction exists principally in our expectations of ourselves.

Escaping the Trap

The Twenty-Year Trap is not fundamentally a technological problem. It is a management problem.

We have inherited a commercial architecture developed under a particular set of historical circumstances. We've become familiar with its economics, proficient in its operation and understandably reluctant to interfere with the mechanisms upon which

our revenues depend. But familiarity is not evidence of commercial superiority.

An entrepreneur starting an adult entertainment company today, with no inherited website, no existing advertising arrangements and no institutional attachment to the conventions of the early Internet, might design a business that looks very different from the ones we continue to operate. That's an exercise worth undertaking even if we've been in business for twenty years.

Start with the entertainment. Imagine the best possible way for a customer to discover it, experience it, pay for it and return to it. Then determine the technological and commercial infrastructure necessary to make that experience economically sustainable.

That's a fundamentally different process from starting with the infrastructure we already have and attempting to determine how much additional money we can extract from it. The first approach begins with an opportunity. The second begins with an inheritance.

We should be grateful for what the previous generation of adult Internet entrepreneurs built. We shouldn't feel obligated to spend the next generation living in it.

CHAPTER 5

The Disruptors Got Comfortable

“An organization can become so proficient at protecting its present that it effectively mortgages its future.”

Every revolutionary eventually faces a rather inconvenient question: What happens when the revolution succeeds?

The entrepreneur who once regarded the established order as an obstacle to commercial progress may discover, after achieving a respectable degree of success, that the established order has become quite agreeable. Particularly when he owns a piece of it.

There is a wonderful irony in watching people who built their fortunes by challenging conventional business models become passionately defensive of the business models upon which their fortunes now depend. Yesterday's heretic becomes today's high priest. It happens in practically every industry, and adult entertainment is hardly immune to the phenomenon.

The trouble begins when the preservation of a successful business becomes intellectually indistinguishable from the preservation of the particular commercial arrangements that made it successful. The two are not the same thing. In fact, protecting one may eventually require dismantling the other.

The Seduction of Success

Failure is an effective incentive for experimentation. When something isn't working, there may be less organizational resistance to trying something different, provided the business still has the

resources to experiment. The entrepreneur can possess a certain freedom of imagination precisely because the existing circumstances are unsatisfactory.

Success complicates matters. A profitable business provides its owner with something substantial to lose. Employees depend upon it. Financial commitments accumulate. Commercial relationships become established. The entrepreneur develops a perfectly understandable appreciation for predictability.

What was once an experiment becomes an institution. The institution develops policies, procedures and financial projections based upon its continued ability to operate in substantially the same manner.

Eventually, somebody proposes doing something fundamentally different. The first question is no longer whether the idea is any good. The first question is what it might do to existing revenues. This is an entirely rational concern, but it can produce remarkably irrational long-term decisions.

An organization can become so proficient at protecting its present that it effectively mortgages its future.

The Cannibalization Problem

Suppose you own a successful adult entertainment company operating several subscription websites. You've invested substantial resources in acquiring customers, establishing recognizable brands and developing extensive libraries of proprietary content. Now suppose somebody proposes an advertising-supported entertainment service that would make a portion of that content available without a subscription. Your immediate concern would probably involve the possibility that some existing subscribers might cancel their memberships. It's a legitimate concern.

But there is another question worth asking. What happens if somebody else establishes a compelling advertising-supported

service and your customers cancel their memberships anyway? The strategic calculation changes.

The danger of cannibalization is frequently evaluated against an imaginary alternative in which the existing business remains undisturbed. That alternative may not exist.

In a competitive market undergoing technological transformation, the relevant question is not simply whether a new product might interfere with an existing source of revenue. It is whether the business would be better positioned if it controlled the product responsible for that interference.

Netflix could have devoted its organizational intelligence to protecting the economics of mailing DVDs to people's homes. Instead, as we saw in Chapter 2, it introduced streaming in 2007 while continuing to operate its DVD-by-mail service. It discontinued that service on September 29, 2023.[1] The company didn't abandon the entertainment business. Over time, it abandoned an increasingly obsolete method of conducting it.

We need to develop a similar intellectual distinction between the businesses we're in and the particular mechanisms through which we currently make money.

The Traffic Aristocracy

The evolution of the adult Internet produced its own commercial establishment. Businesses accumulated substantial audiences. Advertising networks developed extensive relationships with publishers and advertisers. Affiliate arrangements matured. Large organizations acquired smaller ones. Distribution became

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1. Netflix, Inc., *Annual Report on Form 10-K for the Year Ended December 31, 2006*, Item 1, https://www.sec.gov/Archives/edgar/data/1065280/000119312507042689/d10k.htm; *Annual Report on Form 10-K for the Year Ended December 31, 2023*, Item 7, https://www.sec.gov/Archives/edgar/data/1065280/000106528024000030/nflx-20231231.htm. The transition took place over many years.

increasingly concentrated in certain parts of the market. The outsiders developed insiders.

There is nothing inherently objectionable about this. Successful businesses are entitled to benefit from their accomplishments, and scale can create genuine economic efficiencies. But scale can also create an institutional preference for preserving the conditions under which that scale was achieved.

A company whose commercial power derives from controlling the movement of traffic has a perfectly understandable interest in an economy that continues to attach importance to the movement of traffic. A producer whose business depends heavily upon a particular distribution arrangement may be reluctant to experiment with alternatives that threaten that relationship. A service provider whose revenues depend upon a complicated commercial process may have less enthusiasm for simplifying that process than its customers do.

These are not necessarily conspiracies. They're incentives.

One of the most useful things an entrepreneur can learn is to examine the economic incentives behind the advice being offered by somebody else. The person explaining why something cannot be done may possess genuine expertise. He may also have a financial interest in your not doing it.

The Industry Convention Paradox

Industry conventions can be enormously valuable environments for establishing relationships, discovering technologies and conducting business. But there is a limitation inherent in any gathering predominantly populated by people whose commercial interests are tied to the existing configuration of an industry. Ask a room full of successful adult Internet entrepreneurs how the adult Internet should evolve, and many of the answers will understandably involve improvements to the adult Internet as it currently exists.

How do we acquire more customers? How do we improve conversion rates? How do we generate more advertising revenue? How do we reduce operational expenses? These are perfectly sensible questions. They are also questions whose underlying assumptions deserve occasional interrogation.

Suppose the most significant commercial opportunity facing an adult film producer has relatively little to do with acquiring additional website traffic. Suppose the most valuable technology an advertising company could develop would substantially reduce the number of advertisements its publishers display. Suppose the future of a particular subscription business involves selling something other than subscriptions.

How much of our collective intellectual energy is devoted to exploring possibilities that don't fit comfortably within the existing commercial vocabulary of the industry? There is a difference between a conference about improving the business and a conference about reinventing the business. We could probably use more of the latter.

Optimization Is Not Reinvention

The distinction between optimization and innovation deserves particular attention because the two are frequently confused. Optimization involves improving the performance of an existing system. Reinvention involves reconsidering the system itself.

A company might devote substantial resources to improving the percentage of visitors who complete its registration process. Another company might determine that its product can be delivered without requiring an account in the first place, while still meeting applicable age-verification and other legal requirements. The first company has optimized a commercial process. The second has questioned whether that process is necessary.

Both approaches can create economic value. A well-managed company should be capable of doing both. But there is a danger

in becoming so proficient at optimization that the organization ceases to exercise its capacity for reinvention. The company becomes exceptionally good at answering questions that nobody has recently bothered to reconsider.

There is intellectual satisfaction in improving something by five percent. There ought to be more excitement in discovering that the entire thing might be unnecessary.

The Economics of Institutional Inertia

Established organizations have a natural tendency to favor activities whose commercial results can be predicted with reasonable confidence. An advertising campaign can be evaluated against historical performance. A software upgrade can be assessed according to anticipated operational savings. An expansion of an existing product line can be modeled using the company's experience with comparable products.

An entirely new business proposition is more difficult to evaluate. There may be no relevant historical performance data. There may be no established market against which to measure the opportunity. There may not even be an appropriate department within the organization to evaluate the idea. Consequently, genuinely innovative proposals can appear financially inferior to incremental improvements simply because the potential benefits of incremental improvements are easier to calculate. The tension between exploring new possibilities and exploiting established ones has long been recognized in research on organizational learning.[2]

The absence of a reliable financial projection is not necessarily evidence of the absence of a commercial opportunity. Sometimes it reflects how new the opportunity is. That does not mean

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2. James G. March, “Exploration and Exploitation in Organizational Learning,” *Organization Science* 2, no. 1 (1991): 71–87. https://doi.org/10.1287/orsc.2.1.71. The application to adult entertainment is the author’s own.

the opportunity is sound; it means the business may need to learn through carefully bounded experiments rather than rely exclusively on historical projections.

An entrepreneur who insists upon historical proof of every future possibility will be confined to investing in variations of things somebody has already accomplished. That's a perfectly respectable investment philosophy. It's a lousy innovation strategy.

The Independent Entrepreneur's Advantage

Here is where the smaller independent businesses in adult entertainment possess an advantage that should not be underestimated. A large company may have substantial resources, but it also has institutional commitments. The independent entrepreneur may lack the financial resources of a larger competitor while possessing greater freedom to reconsider the fundamental nature of the business.

A studio with an extensive catalog, thousands of subscribers and an elaborate distribution arrangement cannot necessarily change its commercial strategy without affecting a substantial number of existing relationships. An independent producer developing a new brand may have fewer restrictions upon what that brand can become. An established advertising network may be reluctant to introduce technologies that threaten the economics of its existing inventory. An independent developer has no corresponding obligation.

The asymmetry is important. The larger organization may have greater resources. The smaller organization may have greater optionality. And in an environment undergoing technological transformation, optionality can be a valuable commercial asset.

The independent entrepreneur should resist the temptation to regard becoming a smaller version of an established competitor

as the ultimate objective of the business. Why reproduce somebody else's limitations at a fraction of their scale? The more interesting opportunity may be to build something the established competitor cannot easily build without interfering with its own business.

Permission to Experiment

Established adult entertainment companies ought to make a modest but deliberate organizational commitment to experimentation. I don't necessarily mean establishing an elaborate research laboratory or hiring somebody with the word *innovation* in an unnecessarily complicated job title. I mean providing capable people with the resources, time and authority to investigate commercial propositions that might not conform to the company's existing business model.

Give a developer the opportunity to reconsider an interface without requiring that every existing advertising placement be preserved. Allow a producer to experiment with an unconventional distribution arrangement. Give somebody responsibility for examining how emerging technologies might create entirely new categories of revenue rather than merely reduce the expense of existing operations. Establish experimental budgets whose success is not determined exclusively by immediate profitability, with defined limits and criteria for deciding whether to continue.

A failed experiment can produce valuable information. What doesn't produce much information is refusing to conduct the experiment because the outcome cannot be guaranteed.

Companies spend substantial sums maintaining technologies they already understand. They ought to spend something acquiring an understanding of technologies that might eventually replace them.

The Self-Disruption Test

Every established business in adult entertainment ought to conduct a rather uncomfortable strategic exercise. Imagine that somebody has given an intelligent, well-financed entrepreneur the explicit objective of making your company commercially irrelevant. This person has no attachment to your business model. No obligation to preserve your margins. No interest in maintaining your existing relationships. No sentimental appreciation for the technologies upon which you've built your business.

What would that entrepreneur do? Would the competitor offer a better entertainment experience? Eliminate unnecessary intermediaries? Introduce a different pricing model? Develop a more convenient distribution mechanism? Provide greater economic participation to performers and producers? Build technology that makes your service unnecessary?

Write down the most credible answers. Then ask yourself an even more uncomfortable question. Why aren't you doing those things?

Not every hypothetical competitive threat deserves an immediate commercial response. Businesses must exercise judgment in determining which possibilities are sufficiently credible to warrant investment. But the exercise exposes something important about the organization's strategic thinking. It forces management to evaluate the business from the perspective of somebody who has no financial or emotional obligation to preserve it in its current form.

I call this the *Self-Disruption Test*. The answers might constitute the beginnings of your next business plan.

The Luxury We Cannot Afford

The adult entertainment industry faces enough external obstacles without manufacturing additional ones through intellectual complacency. We cannot reasonably complain about the conser-

vatism of banks, advertisers, technology companies and distribution platforms while exercising precisely the same conservatism in the management of our own businesses.

We cannot demand that the rest of the commercial world reconsider its assumptions about adult entertainment while refusing to reconsider our own assumptions about adult entertainment. And we cannot continue congratulating ourselves for having disrupted conventional entertainment economics thirty years ago if our principal commercial ambition today is to protect the economics we established in the process.

There is something rather embarrassing about a revolutionary who spends the remainder of his career defending the barricades. The entrepreneurial spirit that created the modern adult entertainment industry was never supposed to become a historical exhibit. It was supposed to remain a permanent characteristic of the business.

Comfortable businesses can be wonderful things to own. Comfortable entrepreneurs are another matter entirely.

CHAPTER 6

Age Verification Is Not an Innovation Strategy

“But let's not confuse the entrance to the theater with the show.”

If somebody were to attend a series of adult entertainment industry conferences without knowing anything about the business, they might reasonably conclude that we were in the business of verifying people's ages. It's become one of the predominant subjects of our technological conversation, one of our most urgent regulatory concerns and, increasingly, one of the principal considerations influencing our commercial decisions. There are perfectly legitimate reasons for this.

Children should not have access to adult entertainment. I don't consider that proposition particularly controversial, nor do I believe that defending the existence of adult entertainment requires defending its accessibility to children. The operative word in *adult entertainment* is, after all, adult.

But I am becoming increasingly concerned that an industry once distinguished by its technological imagination is allowing its technological agenda to be determined almost entirely by legislators. When did satisfying the requirements of government become the extent of our entrepreneurial ambition?

Compliance is a responsibility. It is not a competitive advantage in itself, a product development philosophy or a particularly compelling vision for the future of entertainment. Nobody ever built a revolutionary entertainment company by aspiring to become the most efficiently regulated entertainment company in the world.

The Responsibility We Should Have Owned

The adult entertainment industry made a significant strategic mistake by failing to take sufficiently ambitious ownership of the age-verification problem before governments began imposing their own solutions. For years, a familiar mechanism for restricting access to adult websites consisted of asking visitors whether they were eighteen years of age. The technological sophistication of this arrangement was roughly equivalent to putting a sign on the door of a liquor store asking children not to come inside.

We had developed remarkably sophisticated systems for identifying advertising opportunities, tracking consumer behavior, measuring conversions, authenticating subscribers and calculating commissions. Yet when it came to determining whether somebody was old enough to consume our product, much of the industry was apparently satisfied with the honor system.

There were legitimate technological, financial and privacy-related reasons why developing more effective systems was complicated. Complicated problems, however, are supposed to be of interest to entrepreneurs.

We could have devoted substantially more of our collective technological intelligence to developing reliable, convenient and privacy-conscious methods of establishing adulthood. We could have become the recognized experts in a category of technology whose commercial applications extend beyond adult entertainment. Instead, we now find ourselves responding to requirements developed by people who frequently possess less expertise in digital entertainment than we do.

On June 27, 2025, the United States Supreme Court upheld, against a facial First Amendment challenge, Texas's age-verification requirement for certain websites distributing sexually explicit material harmful to minors. In *Free Speech Coalition, Inc. v. Paxton*, the majority concluded that the law survived intermediate scrutiny. The dissent raised substantial concerns about the

burdens imposed upon adults seeking access to constitutionally protected expression.[1]

The decision did not resolve every legal or technological question surrounding age verification. But it underscored the importance of an issue our industry can no longer afford to regard exclusively as somebody else's political agenda. We ought to be helping design the solutions.

The Difference Between Age and Identity

Suppose I walk into an establishment that is legally permitted to serve alcoholic beverages. The establishment has a legitimate interest in determining whether I am old enough to purchase a drink. It doesn't necessarily have a legitimate interest in maintaining a permanent record of my home address, my driver's license number, the precise time I arrived, the drinks I ordered and every other establishment in which I've purchased a drink.

There is a distinction between demonstrating eligibility for a transaction and establishing a permanent record of the identity of the person conducting it. That distinction becomes particularly consequential in adult entertainment. A customer may have entirely legitimate reasons for wanting to establish their eligibility to consume a product without disclosing their identity to the company providing it.

Privacy is not evidence of criminal intent. Nor is a consumer's reluctance to disclose personal information evidence that the consumer is attempting to circumvent an age restriction. Somebody who objects to uploading a photograph of a driver's license to an unfamiliar website may simply possess a perfectly reason-

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1. *Free Speech Coalition, Inc. v. Paxton*, No. 23-1122, U.S. Supreme Court, June 27, 2025, slip opinion, Parts II–III; Kagan, J., dissenting. https://www.supremecourt.gov/opinions/24pdf/23-1122_3e04.pdf. The ruling concerns Texas H.B. 1181 and does not establish that every age-verification law or implementation is constitutional.

able understanding of what can happen to information once it has been uploaded to an unfamiliar website.

The objective of an age-verification system should be to establish, with an appropriate degree of reliability, whether an individual satisfies the relevant age requirement. The objective should not automatically become the identification of the individual. Those are different technological problems. And solving the second when we only need to solve the first can introduce unnecessary commercial risks.

The Database Nobody Should Want

Consider the potential consequences of a substantial data breach involving an adult entertainment company. A conventional retailer might lose customer names, addresses and purchasing histories. An adult entertainment company could expose information of greater personal sensitivity. The consequences might extend to employment, personal relationships, reputations and, in certain parts of the world, the physical safety of the individuals involved. The financial and legal consequences for the business could also be devastating.

This raises an interesting question: Why would an adult entertainment company want to possess more personally identifiable information than it actually requires to conduct its business?

Information has traditionally been regarded as a commercial asset. But information can also be a liability. Every additional piece of sensitive personal information a company collects represents something it must secure, manage and potentially account for in the event of unauthorized disclosure.

The most reliable way of ensuring that a particular piece of customer information isn't stolen from your database is not to put it in your database in the first place. This is a compelling application of the Economics of Subtraction we discussed in Chapter 4.

Collect less. Retain less. Expose less. Design systems around the minimum amount of information necessary to accomplish their legitimate commercial and regulatory objectives.

This isn't merely a philosophical argument about privacy. It's a proposition concerning risk management, operational expense and consumer confidence. A company that can establish its customers' eligibility without unnecessarily accumulating their sensitive personal information may have a more attractive business proposition than a company that cannot.

The Technology Is Becoming Available

Digital identity technologies are becoming increasingly sophisticated, including methods that allow individuals to demonstrate particular facts about themselves without necessarily disclosing all the information contained in their identity documents. The underlying concept is relatively straightforward. A trusted entity establishes that an individual satisfies a particular requirement. The individual is subsequently able to present a digitally verifiable assertion of that fact to another entity. An entertainment company could, in principle, receive reliable confirmation that a prospective customer is eighteen years of age or older without receiving the customer's exact date of birth, residential address or driver's license number.

The World Wide Web Consortium's *Verifiable Credentials Data Model v2.0*, published as a W3C Recommendation on May 15, 2025, explicitly discusses the privacy advantages of issuing age-threshold credentials rather than disclosing dates of birth.[2] In July 2025, the European Commission introduced a blueprint for a privacy-preserving age-verification solution based on tech-

2. World Wide Web Consortium (W3C), *Verifiable Credentials Data Model v2.0*, W3C Recommendation, May 15, 2025, §8.3, “Personally Identifiable Information,” and §§8.4–8.5 on correlation. https://www.w3.org/TR/2025/REC-vc-data-model-2.0-20250515/. A credential format alone does not guarantee privacy or regulatory compliance.

nology related to its European Digital Identity Wallet initiative. The objective is to enable people to demonstrate that they satisfy an age requirement without disclosing unnecessary personal details to the online service they're accessing.[3]

These are no longer exclusively theoretical discussions among cryptographers. Governments, standards organizations and technology companies are actively developing the underlying infrastructure. Why shouldn't adult entertainment companies be among the most enthusiastic and technologically sophisticated participants in that development? We have an unusually compelling commercial requirement for reliable proof of adulthood combined with an unusually compelling commercial requirement for consumer privacy. That makes our industry a potentially fascinating environment for developing better solutions.

Of course, the existence of a digital credential doesn't automatically make a system secure, anonymous, legally sufficient or immune to misuse. Credentials must be trustworthy. Systems must address impersonation, unauthorized sharing and fraudulent documents. Verification methods must be accessible to legitimate adults who may lack particular devices or forms of identification. The organizations responsible for issuing and accepting credentials must be accountable for their conduct. And, importantly, a system that protects privacy in one part of the transaction can still compromise it in another.

These are engineering and institutional challenges. They're precisely the sort of challenges that ought to stimulate entrepreneurial interest.

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3. European Commission, “Minimising the risks children and young people face online,” July 14, 2025. https://commission.europa.eu/news-and-media/news/minimising-risks-children-and-young-people-face-online-2025-07-14_en. The announcement describes a prototype and blueprint, not a guarantee of universal deployment or acceptance.

The Absurdity of Repeated Verification

Imagine a shopping mall in which every store selling an age-restricted product operated its own independent system for establishing the identity and age of its customers. At one store, you photograph your driver's license. At another, you provide your telephone number. At a third, you submit a photograph of your face. At a fourth, you establish another account with another company responsible for evaluating your credentials. You haven't accomplished anything commercially interesting yet. You've merely established, four different times, that you're old enough to go shopping.

From the perspective of the individual merchant, each verification process might appear entirely reasonable. From the perspective of the customer, the collective experience is ridiculous. This is an infrastructure problem disguised as a collection of individual compliance problems.

A more sophisticated approach would involve interoperable systems in which adults could obtain trusted proof of their eligibility and present that proof to participating services, subject to appropriate security requirements and applicable law. The credential might be reusable without the individual having to repeatedly submit the underlying identity documents. The individual presentations should, wherever technically and legally feasible, avoid creating a mechanism through which unrelated entertainment companies or verification providers can assemble a comprehensive history of the customer's activities.

The objective is convenience without surveillance.

Interoperability is not the same thing as centralized control. I am not particularly enthusiastic about the prospect of a single company becoming the obligatory intermediary between every adult consumer and every adult entertainment business in the world. We have enough experience with commercial gatekeepers to understand the dangers of creating another one.

Open standards, competing credential providers and transparent technical requirements would provide a more attractive foundation for such an ecosystem. The infrastructure should facilitate the transaction, not acquire ownership of the customer.

The Device as Part of the Solution

Much of the discussion surrounding online age verification has proceeded from the assumption that the individual website must be the principal technological environment in which verification occurs. That assumption deserves examination.

The devices through which consumers access entertainment have become remarkably sophisticated instruments for managing identity, authentication, payments and security. People routinely use their phones to authorize financial transactions, access confidential information, unlock secure applications and demonstrate possession of digital credentials. Why shouldn't those capabilities contribute to the responsible delivery of adult entertainment?

Consider the possibilities for connected television. A television is a particularly inconvenient device upon which to enter complicated passwords, complete forms or submit identity documents. A smartphone, on the other hand, is exceptionally well suited to many of those activities. A properly designed system could allow an adult to authorize an appropriately restricted viewing session through a personal device, while the television remains what it does best: a screen.

Such a system would still require careful consideration of shared household devices, session security, parental controls, applicable legal requirements and the possibility of unauthorized access. Establishing that the owner of a television is an adult does not establish that every person watching that television is an adult. Nor should device-level verification automatically be regarded as a substitute for obligations that the law places upon individual publishers.

Nevertheless, there is an enormous opportunity to reconsider how browsers, operating systems, smartphones, televisions and entertainment platforms might cooperate in establishing responsible access. We should be having serious conversations with the companies that manufacture these devices and develop their operating systems. Not simply asking them to tolerate our existence. Proposing technologies that help them address legitimate concerns about our existence within their ecosystems.

There is a difference between approaching a technology company with a complaint and approaching it with a solution.

The Commercial Opportunity Beyond Pornography

One of the more peculiar things about our preoccupation with age verification is that we continue to discuss it almost exclusively within the context of adult websites. The ability to establish that somebody satisfies an age requirement has commercial applications throughout the economy. Alcohol sales. Gambling. Age-restricted retail products. Certain financial services. Ticketing. Online communities. Age-specific discounts and entertainment experiences. The particular legal requirements differ, but many of the underlying technological problems are related.

A company that develops an exceptionally reliable, privacy-conscious and convenient method of establishing eligibility for age-restricted transactions may discover that its commercial opportunities extend beyond the industry in which the technology was originally developed. Wouldn't that be an interesting reversal of our current circumstances?

Instead of adult entertainment companies petitioning mainstream technology providers for access to their infrastructure, mainstream businesses might find themselves adopting technology developed in response to the requirements of adult entertainment. It wouldn't be the first time. And there is no compelling reason it should be the last.

Compliance as a Design Constraint

An architect designing a new building must account for building codes, fire safety, accessibility and a range of other regulatory requirements. Nobody commissions an architect, however, with the exclusive instruction to produce a building that satisfies the building code. The client wants a building in which people can live, work, conduct business or experience something extraordinary.

The regulatory requirements are constraints within which the architect exercises imagination. They are not substitutes for imagination.

We ought to approach the development of adult entertainment products in substantially the same manner. Age verification, performer consent, intellectual property protection, consumer privacy, financial regulation and other legitimate requirements should be incorporated into the architecture of our businesses. They should influence the design of our products without becoming the entire purpose of their design.

An excellent entertainment experience should be designed to accommodate its responsibilities from the beginning. This requires collaboration between engineers, designers, legal professionals and people who actually understand the entertainment business. It is more ambitious than purchasing another piece of compliance software and hoping that somebody else has adequately addressed the problem.

What We Should Be Demanding

Our industry should develop a more ambitious position on age verification than either unquestioning compliance or unconditional opposition. We should be demanding systems that are effective in restricting access by minors, proportionate in their collection of personal information, accessible to legitimate adult consumers and sufficiently secure to justify the confidence

placed in them. We should be advocating technical interoperability rather than unnecessary duplication. We should be insisting upon independent evaluation of the effectiveness, accuracy, privacy protections and security of the technologies we adopt.

A system should not be considered successful simply because it rejects a substantial number of people. We ought to know whether it is rejecting the appropriate people. Nor should we celebrate a system's convenience if that convenience comes at the expense of its effectiveness. And we should be participating directly in the development of the standards upon which these technologies will depend.

If our industry becomes the commercial environment in which some of the world's most sophisticated privacy-preserving eligibility technologies are developed, tested and responsibly deployed, we will have accomplished something more significant than satisfying a regulatory requirement. We will have contributed something useful to the evolution of digital commerce itself. That's innovation.

We Have an Entertainment Industry to Build

I don't want to spend the next twenty years attending adult entertainment conferences at which the most intellectually stimulating conversation concerns the latest method of determining somebody's age. I want to talk about the future of filmmaking. The future of television. The future of advertising, interactive entertainment, digital ownership, independent publishing and the relationship between creative talent and technology.

I want to see entrepreneurs develop businesses that couldn't have existed five years earlier. I want to see independent producers acquire technological capabilities previously available only to major corporations. I want to see our industry's engineers build things sufficiently impressive that people outside our industry become interested in them. And I want the entertainment itself to become more commercially valuable, more profes-

sionally presented and more intellectually respected as the product of a creative economy.

We have responsibilities to fulfill before we can deliver that entertainment. By all means, let's fulfill them. Let's develop exceptional technologies for fulfilling them. Let's establish standards sufficiently ambitious that the rest of the digital economy might learn something from us.

But let's not confuse the entrance to the theater with the show. The customer didn't come to admire the ticket booth.

PART II

HOW WE CHEAPENED DESIRE

“Price is what you pay;
value is what you get.”

Benjamin Graham
as recalled by Warren Buffett
Berkshire Hathaway 2008 shareholder letter

CHAPTER 7

The Free Porn Fallacy

“Free is a price.
Cheap is a perception.”

There is no such thing as free pornography. There is pornography for which the consumer isn't directly charged, which is an entirely different proposition.

Somebody paid for the camera. Somebody paid the performers. Somebody paid for the location, the lighting, the editing, the software, the servers and the bandwidth necessary to deliver the finished product. Somebody invested time, money, imagination and professional expertise in creating something that somebody else wanted to see. The fact that the person watching it didn't reach into his pocket doesn't invalidate any of those expenditures.

Yet somewhere in the evolution of the adult Internet, we managed to transform a method of distribution into a cultural assumption about the value of the product itself. Porn is free.

Not *this particular film is being made available to you without charge.* Not *this entertainment is being subsidized by advertising.* Not *this producer has elected to make a portion of its intellectual property freely available.* Just porn is free.

We've effectively allowed a pricing strategy to become the definition of an entire category of entertainment. This represents one of the most consequential marketing failures in the history of our business.

The Most Expensive Word in Our Vocabulary

In 2009, Chris Anderson, then editor-in-chief of WIRED, published a book entitled *Free: The Future of a Radical Price*,

examining the commercial possibilities of giving products away in an increasingly digital economy.[1] Anderson wasn't advocating commercial charity. He was examining the circumstances under which making something available without charge could generate economic value elsewhere.

The economics of digital distribution had made this proposition particularly interesting. Once a piece of software, a recording or a digital publication had been created, the incremental cost of distributing another copy can be very small compared with the cost of manufacturing and distributing another physical product. But low marginal cost is not the same thing as no cost. And the ability to distribute something inexpensively doesn't establish that the thing being distributed possesses little economic value.

A pharmaceutical company may spend hundreds of millions of dollars developing a drug that costs relatively little to manufacture on a per-unit basis. The economics of the business cannot be understood by examining the manufacturing cost of an individual tablet. The same principle applies, on a different financial scale, to intellectual property. The cost of delivering another digital copy of a film tells us remarkably little about the investment necessary to create the film.

The adult industry embraced the economics of inexpensive digital distribution with enthusiasm. What we failed to appreciate sufficiently was the distinction between the declining cost of distributing our intellectual property and the declining perceived value of that intellectual property. One represented a technological accomplishment. The other represented a commercial failure.

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1. Chris Anderson, *Free: The Future of a Radical Price* (New York: Hyperion, 2009). ISBN 978-1-4013-2290-8. https://search.worldcat.org/title/262885036.

We Taught Them Not to Pay

I find it somewhat amusing when people in the adult entertainment business complain that consumers have become unwilling to pay for pornography. Who the hell taught them that?

For years, substantial portions of our industry have devoted substantial resources to communicating the proposition that pornography is available in unlimited quantities without charge. We advertised it. We optimized websites around searches for it. We distributed it. We competed against one another on the volume of it we could make available. Then we expressed disappointment when consumers accepted the proposition we had spent years communicating to them.

This wasn't entirely the industry's own doing. Unauthorized distribution, piracy and the emergence of enormous content aggregation platforms fundamentally altered the commercial environment in which legitimate producers operated. Many businesses had little practical choice but to adapt to circumstances they hadn't created. Nevertheless, adaptation eventually became participation. And participation eventually became institutional acceptance.

The problem wasn't that we made entertainment available without charge. The problem was that we frequently failed to establish a sufficiently compelling distinction between the entertainment we gave away and the entertainment we expected somebody to purchase. The consumer encountered substantially similar products presented through substantially similar interfaces, with one rather conspicuous difference. One wanted money. The other didn't. We shouldn't be particularly surprised by the outcome.

Zero Is Not Just Another Number

In 2007, researchers Kristina Shampanier, Nina Mazar and Dan Ariely published a study in the journal *Marketing Science* exam-

ining consumer behavior when the price of a product reaches zero. Their experiments suggested that consumers respond to free products in ways that cannot be explained entirely by the conventional economics of a price reduction. Removing the price can also increase the product's perceived attractiveness.[2] The experiments were not specific to adult entertainment; their relevance here is the potential influence of zero pricing on consumer choice. Zero, psychologically, is not necessarily just another point on a pricing scale.

This helps explain why competing against something freely available can be more difficult than competing against something merely inexpensive. If one entertainment service costs ten dollars and another costs five, the consumer may evaluate the relative merits of the two products. When one of the services costs nothing, the nature of that evaluation changes. The consumer may never seriously investigate the alternative.

For an adult entertainment producer, this presents a strategic challenge. How do you establish the value of a product in an environment where the consumer can satisfy at least part of the underlying demand without spending anything?

The answer cannot consist entirely of insisting that your product deserves to be paid for. The consumer is not responsible for preserving the economics of your business. He is responsible for determining whether what you're offering is sufficiently valuable to justify what you're asking him to pay. That's a distinction we would do well to remember.

Television Figured This Out

For most of the history of commercial broadcast television in the United States, audiences were not directly charged for individual

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2. Kristina Shampanier, Nina Mazar and Dan Ariely, “Zero as a Special Price: The True Value of Free Products,” *Marketing Science* 26, no. 6 (2007): 742–757. https://doi.org/10.1287/mksc.1060.0254.

programs. That didn't make television programming worthless. Some of the most commercially valuable entertainment franchises in history were built through a system in which the audience exchanged attention rather than money for access to programming.

Advertisers financed the experience. The audience supplied the attention. The producers created the entertainment that made the attention commercially valuable. There was a recognizable economic relationship among the three parties.

More importantly, the absence of a direct charge to the viewer did not generally diminish the status of the entertainment. Audiences did not necessarily regard a television series as inherently inferior to a theatrical motion picture simply because the television series was being made available without a separate admission fee. There were certainly differences in production budgets, artistic ambitions and commercial requirements. But the television industry developed its own standards of excellence, its own stars, its own prestigious awards and its own enormously valuable intellectual property. The advertising-supported model became a legitimate method of financing professional entertainment.

And here is where I believe the adult industry made a particularly unfortunate mistake. We adopted the concept of advertising-supported entertainment without sufficiently adopting the standards of professional advertising-supported entertainment. As the advertising figures in the introduction illustrate, there is a case for developing a more valuable commercial experience rather than simply adding more inexpensive advertising placements. We will examine that opportunity and its economics in Part IV. Instead of developing a viewing experience comparable to television, we frequently developed websites on which the entertainment appeared to be little more than an excuse to display advertisements.

That's a fundamentally different commercial arrangement. One monetizes the audience's appreciation of the entertainment. The other monetizes the audience's proximity to it.

The Difference Between Free and Cheap

There is a distinction I've introduced earlier in this book that deserves another look.

Free is a price. Cheap is a perception.

The implications of confusing the two are enormous. Imagine a luxury hotel offering a complimentary bottle of champagne to a guest. The champagne arrives in an ice bucket, properly chilled, accompanied by appropriate glassware and presented with the same attention to detail the hotel devotes to everything else. The guest isn't charged for the champagne. Nevertheless, the experience reinforces the perceived quality of the hotel.

Now imagine the same hotel handing its guest a warm bottle in a plastic grocery bag at the reception desk. The financial arrangement hasn't changed. The product may not even have changed. The experience certainly has.

Presentation communicates value independently of price.

The adult entertainment industry has devoted a great deal of attention to the price of its product and less attention to the circumstances under which the customer develops an understanding of its value. A film presented through an elegant interface, with exceptional playback quality, thoughtful organization and professionally integrated advertising communicates something about the company responsible for presenting it. The same film presented amid flashing advertisements, misleading links, intrusive overlays and unwanted browser windows communicates something different.

It may be the same film. But it isn't the same product.

The Content Commodity

I've become increasingly uncomfortable with the indiscriminate use of the word *content* throughout the entertainment business. It's a perfectly useful technical term. It's a rather dreadful marketing philosophy.

A film is a film. A photograph is a photograph. A publication is a publication. A performance is a performance. Content, on the other hand, is whatever happens to occupy the space available for containing something. The word is remarkably indifferent to the nature, quality or significance of the thing being contained.

When an entertainment company begins to think of its creative output primarily as content, there is a corresponding temptation to evaluate its intellectual property according to quantities. How many videos do we have? How many new scenes are being uploaded? How many hours of entertainment are available? These figures may have legitimate operational significance. They tell us less about whether anybody particularly cares about what we're producing.

A library of ten thousand films is not necessarily more commercially valuable than a library of one hundred exceptional films. A consumer's attachment to a particular performer, filmmaker, genre, series or entertainment brand cannot always be reduced to the volume of material available. Hollywood understands this well. The commercial value of a recognizable entertainment franchise isn't determined exclusively by the number of hours it occupies. It derives from the audience's relationship with the intellectual property. That's a fundamentally different source of value from the sheer abundance of intellectual property.

The adult industry needs to become more interested in creating things people recognize, remember and seek out by name. Otherwise, we risk reducing the product of our creative industry to interchangeable inventory. And interchangeable inventory tends to compete on price.

The Audience Isn't the Inventory

There is another consequence of an entertainment economy organized predominantly around the acquisition and monetization of traffic. The customer gradually becomes understood less as a person with whom the company might establish a continuing commercial relationship and more as a unit of advertising inventory. A visitor arrives. The business determines how many impressions, clicks, referrals or other monetizable events can be generated before that visitor disappears. The individual transaction may be profitable.

But what has the business accumulated in the process? Has it established a recognizable relationship with the audience? Has it increased the likelihood that the customer will return? Has it created an appreciation for the entertainment it produces? Has it developed any meaningful degree of loyalty? Or has it merely extracted a small amount of money from somebody's temporary presence? These are entirely different measures of commercial accomplishment.

A business that establishes lasting relationships with its customers possesses something potentially more valuable than a business that must perpetually reacquire strangers. The economics of the former can improve over time as the relationship matures. The economics of the latter remain heavily dependent upon the continuing availability and affordability of traffic.

A million strangers are not necessarily worth more than a hundred thousand people who particularly like what you do. We need to develop a greater appreciation for the distinction between an audience we have acquired and an audience we have earned.

The Entertainment Subsidy

Rather than thinking of advertising-supported adult entertainment as free pornography, we should think of it as subsidized

entertainment. This may sound like a relatively insignificant distinction in terminology. Commercially, it represents a substantial change in perspective. A subsidy implies that something possesses an economic cost and that somebody has undertaken to absorb some or all of that cost on behalf of the consumer. It implies an identifiable relationship between the financing mechanism and the product being financed.

Consider the possibilities. An advertiser might subsidize access to a film. A subscription service might subsidize freely available programming as a means of introducing prospective customers to its brand. A producer might make an earlier production available without charge to stimulate interest in a subsequent release. A company might offer advertising-supported and subscription-supported versions of substantially the same entertainment, allowing the consumer to determine which financial arrangement best accommodates his preferences.

None of these strategies inherently diminishes the value of the entertainment. The effectiveness of the arrangement depends upon the economics of the subsidy, the quality of the product and the manner in which the relationship is communicated to the consumer.

The critical question is whether the business has developed a sustainable mechanism for compensating the people and organizations responsible for creating the entertainment. If it has, the fact that an individual viewer isn't directly paying for access may be entirely irrelevant. If it hasn't, the distribution model is eventually going to encounter a rather inconvenient economic reality. Creativity has expenses.

Why I'm Giving This Book Away

At this point, some readers may find it entertaining that I've devoted an entire chapter to discussing the dangers of devaluing intellectual property in a book whose digital editions I'm giving away. The decision is entirely deliberate. I want these ideas to

circulate. I want them discussed, criticized, expanded upon and, wherever appropriate, implemented. Charging twenty dollars for this book would create an unnecessary commercial obstacle between the ideas and the people I want to encounter them.

My objective in distributing the digital editions freely is not to maximize revenue from the sale of books. My objective is to maximize the distribution of ideas. The price reflects that objective. It doesn't reflect my assessment of the value of the intellectual effort involved in producing the book.

Nor do I intend to present it as something less than a professionally published book simply because the reader isn't being charged. It should have the intellectual substance, editorial standards, typography and production quality that one would expect from a serious commercial publication. The absence of a price should not be the absence of a standard. That is precisely the proposition I am making about adult entertainment.

Give something away because doing so serves an identifiable commercial, strategic or intellectual purpose. Don't give it away because you've become convinced that nobody would pay for anything better.

Making Something Worth Paying For

There is an unfortunate tendency in discussions of the economics of adult entertainment to frame the future as a battle between free content and paid content. I think that's the wrong battle. The more interesting distinction is between differentiated entertainment and interchangeable entertainment. Between products with recognizable identities and products whose principal distinguishing characteristic is their availability. Between experiences consumers deliberately seek out and experiences they happen to encounter.

An industry capable of creating exceptional products can develop a variety of mechanisms for financing their creation and

distribution. Advertising. Subscriptions. Individual purchases. Licensing. Sponsorships. Memberships. Combinations of these arrangements. The appropriate model will depend upon the product, the audience and the economics of the business.

There is no universally correct price for entertainment. But there ought to be a universally understood principle underlying the business of producing it. The thing we're creating has value. We should establish commercial arrangements that acknowledge it, technological environments that communicate it and professional standards that justify it.

I'm not particularly interested in convincing the world that pornography shouldn't be free. I'm more interested in convincing our industry that it shouldn't be cheap.

CHAPTER 8

The Economics of Too Much

“The Internet made everybody a distributor.
It didn't make everybody an editor.”

If somebody were to open a restaurant featuring a menu containing fifty thousand entrées, I doubt many of us would regard the size of the menu as evidence of exceptional culinary standards. I'd be more interested in whether the chef knew how to prepare a decent steak.

Yet in adult entertainment, we seem to have developed an almost religious appreciation for the sheer quantity of our product. Thousands of videos. Millions of photographs. Countless hours of entertainment. New material uploaded every minute of every day. The numbers are impressive. What they actually accomplish commercially deserves closer scrutiny.

At some point in the evolution of the adult Internet, abundance became not merely a technological advantage but a difficult economic condition. We developed the capacity to deliver practically unlimited quantities of entertainment without developing an equally sophisticated understanding of how to preserve its individual value. The result is an industry in which the growing availability of the product can make any particular example of it less commercially significant.

We've become proficient at producing more of something consumers already have more of than they could ever consume. Perhaps we ought to examine the economics of that accomplishment.

The End of Scarcity

For much of its commercial history, adult entertainment benefited from a certain degree of scarcity. Physical products had to be manufactured. Publications had limited circulation. Films had finite theatrical runs. Videocassettes occupied physical space and required physical distribution. The consumer's access to entertainment was constrained by geography, availability, economics and, in our particular business, a variety of social and legal considerations. These limitations were frequently inconvenient for both producers and consumers. They also contributed to the commercial value of the product.

An adult magazine containing exclusive photographs offered something that couldn't necessarily be obtained elsewhere. A particular film might require a trip to a specialty retailer. A publication featuring a recognizable performer could command substantial interest among people who had relatively few opportunities to encounter that performer's work. Digital distribution fundamentally altered those circumstances. The limitations associated with physical manufacturing and distribution became less significant. Entertainment could be delivered across borders, on demand and repeatedly, subject to distribution rights and applicable law.

This was an remarkable technological accomplishment. But it introduced a commercial problem for which much of our industry was intellectually unprepared. How do you preserve the value of something when its availability is practically unlimited? The answer involves reconsidering what exactly it is that possesses value.

The Things That Didn't Become Abundant

In 1971, the economist and computer scientist Herbert A. Simon articulated a principle that would become increasingly relevant to the commercial evolution of the Internet: “A wealth of information creates a poverty of attention.”[1]

Simon recognized that an increase in the availability of information doesn't produce a corresponding increase in the human capacity to absorb it. The abundance of one resource creates greater competition for another. The adult entertainment industry provides a useful illustration of this principle.

The number of films a consumer can access has increased enormously. The number of hours available in his day hasn't. Neither has his capacity to establish meaningful attachments to an unlimited number of performers, entertainment brands or individual productions.

Technology has made the entertainment abundant. It hasn't made the audience's attention abundant. And yet our industry frequently conducts itself as though increasing the supply of entertainment will somehow increase the supply of attention available to consume it.

There is a limit to how much entertainment any individual can experience. The capacity to produce and distribute entertainment can grow far faster than the time available to consume it. That creates an interesting economic imbalance. The more entertainment available to the consumer, the greater the importance of giving the consumer a compelling reason to select yours.

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1. Herbert A. Simon, “Designing Organizations for an Information-Rich World,” in Martin Greenberger, ed., *Computers, Communication, and the Public Interest* (Baltimore: Johns Hopkins Press, 1971), pp. 40–41. https://gwern.net/doc/design/1971-simon.pdf.

The Abundance Tax

Every additional product introduced into a crowded marketplace potentially increases the difficulty of discovering the products already there. That doesn't mean additional competition is undesirable. Competition can produce substantial benefits for consumers and provide powerful incentives for innovation. But abundance introduces costs that are not always apparent to the businesses responsible for creating it.

A producer releases a film. In addition to the expenses associated with creating and distributing the film, the producer must now devote resources to making somebody aware that the film exists. The greater the volume of competing entertainment, the more challenging that proposition may become. Marketing expenditures may increase, and promotional periods can become more complicated. The commercial life of an individual release may be shortened by the continual arrival of competing releases.

The producer is not simply financing the creation of entertainment. The producer is financing its emergence from obscurity.

I would describe this phenomenon as the *Abundance Tax*: the additional commercial burden associated with making an individual product discoverable, recognizable and desirable in an environment characterized by an overwhelming supply of alternatives. Like the Exclusion Premium discussed earlier, the Abundance Tax doesn't necessarily appear as a discrete entry on a financial statement. It can manifest itself in customer acquisition costs, promotional expenditures, declining visibility, pressure on pricing and the increasingly abbreviated attention available to individual products.

It is particularly unfortunate that the industry frequently responds to this problem by producing even more material. There is a certain economic perversity in attempting to overcome the consequences of abundance by contributing further to the abundance.

The Difference Between a Library and a Warehouse

I've encountered entertainment businesses that seem enormously proud of the number of videos in their possession. That's perfectly understandable. Acquiring, organizing and maintaining an extensive collection of intellectual property represents a substantial undertaking. But a collection of intellectual property doesn't automatically constitute an attractive entertainment product.

A warehouse contains things. A library helps people discover them.

The distinction is more important than it might initially appear. A sophisticated entertainment library provides context. It establishes relationships among individual works. It recognizes the importance of organization, presentation, search, recommendation and editorial judgment. It helps the consumer navigate abundance rather than simply confronting him with it.

This is one of the reasons I believe the adult industry needs to rediscover the commercial importance of editorial intelligence. What makes a particular film interesting? Who directed it? What distinguishes the production from other productions? Why might somebody who appreciated one film be interested in another? These are ordinary questions throughout the broader entertainment business. They're questions that frequently receive remarkably little attention in adult entertainment, where the principal means of distinguishing one production from another may consist of a thumbnail and a collection of descriptive keywords.

A library of ten thousand films, intelligently organized and thoughtfully presented, could be an valuable commercial asset. Ten thousand films dumped into an endless grid of thumbnails constitute a different proposition. Storage capacity is not editorial intelligence.

The Commercial Value of Curation

There's a reason people continue to visit museums in an era when they can view photographs of practically every famous painting in the world on their phones. The museum offers more than access to the paintings. It offers selection, context, organization and an interpretation of the relationships among the works being presented. The curator contributes something that doesn't necessarily exist within any individual painting. Judgment.

The same principle applies to bookshops, music services, film festivals and numerous other businesses engaged in the commercial organization of creative products. The greater the availability of the underlying material, the more valuable intelligent assistance in navigating that material can become. There is an opportunity here that I believe adult entertainment has substantially underdeveloped.

Imagine an entertainment service distinguished not by the number of films it possesses, but by its ability to identify exceptionally good films. Imagine programming organized around the work of particular filmmakers, the history of particular genres, significant productions, noteworthy performances and emerging creative talent. Imagine a publisher whose recommendations possess sufficient credibility that consumers deliberately visit the publisher to discover something worth watching.

The publisher would be creating value independently of its ownership of the underlying intellectual property. It would be providing an editorial service. In an economy characterized by abundance, somebody capable of helping people distinguish between the worthwhile and the mediocre possesses a potentially valuable commercial proposition.

The Internet made everybody a distributor. It didn't make everybody an editor.

Too Much Choice, Too Little Guidance

The psychological consequences of an abundance of alternatives have been the subject of extensive academic research. The popular interpretation of this research is that people become overwhelmed when presented with too many choices. The reality is somewhat more nuanced.

A 2010 meta-analysis published in the *Journal of Consumer Research* found that the average effect of so-called choice overload was close to zero across the studies examined, with substantial variation among individual circumstances.[2] The analysis covered 63 experimental conditions involving 5,036 participants; it did not establish a universal penalty for offering more choices.

An abundance of choices isn't inherently detrimental. The nature of the choices, the difficulty of comparing them and the circumstances of the decision are worth examining rather than assuming that more options are necessarily worse. That's a useful distinction for entertainment businesses. I'm not suggesting that an adult streaming service would necessarily become more successful by arbitrarily eliminating ninety percent of its library. I'm suggesting that its commercial value may depend more upon how effectively customers can navigate that library than upon its absolute size.

A customer who knows precisely what he wants may appreciate an enormous selection. A customer who is uncertain what he wants may appreciate intelligent recommendations, editorial selections or thoughtfully organized programming. The same entertainment library can accommodate both customers. But doing so requires an understanding of the customer experience that extends beyond developing a search engine and arranging the results according to their upload dates. We ought to be investing

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2. Benjamin Scheibehenne, Rainer Greifeneder and Peter M. Todd, “Can There Ever Be Too Many Options? A Meta-Analytic Review of Choice Overload,” *Journal of Consumer Research* 37, no. 3 (2010): 409–425. https://doi.org/10.1086/651235.

more intellectual effort in the science and art of entertainment discovery.

The Industrialization of Forgettable Entertainment

One of the unfortunate consequences of a business environment that rewards continual production is the tendency to regard the individual production as increasingly expendable. The commercial objective becomes maintaining the flow of material. Another release. Another upload. Another promotional opportunity. Another reason for the customer to return.

There is nothing inherently objectionable about establishing a consistent production schedule. Television networks, newspapers and recording companies have built successful businesses around regular programming and publication. But there is a difference between maintaining a consistent creative output and manufacturing entertainment primarily to satisfy the commercial requirement for something new. The latter creates a rather uninspiring set of incentives.

Why devote additional resources to improving a production that will be promoted for a brief period before disappearing into a library containing thousands of substantially similar productions? Why establish a recognizable identity for a film that the distribution system will principally present as another thumbnail? Why invest in developing the reputation of a filmmaker when the consumer may never even encounter the filmmaker's name?

The architecture of distribution can influence the economics of production. When the commercial environment makes it difficult to distinguish exceptional work from ordinary work, it can diminish the incentive to produce exceptional work. This creates a particularly unfortunate cycle. The entertainment becomes less differentiated. The consumer becomes less attached to individual productions. The commercial incentive to differentiate subsequent productions declines.

Eventually, the industry becomes highly productive without necessarily becoming more creative. We shouldn't confuse the two accomplishments.

The Economics of the Event

Consider the commercial machinery surrounding the release of a major motion picture. Months before the film becomes available, the entertainment company begins establishing its identity. The title acquires significance. The performers participate in publicity. Trailers introduce the audience to the production. Interviews, reviews, promotional campaigns and release dates contribute to the perception that something noteworthy is about to happen. The film becomes an event.

The commercial importance of this process extends beyond the immediate sale of tickets. It creates anticipation. Anticipation is a valuable commercial resource because it establishes value before the consumer has actually experienced the product. An audience interested in a forthcoming production has begun to establish a relationship with that production in advance of its release.

Contrast this with an entertainment economy in which the predominant promotional proposition consists of informing customers that several hundred additional videos have been uploaded. The first approach creates interest in something specific. The second creates awareness of additional inventory.

There are undoubtedly adult productions whose economics wouldn't justify an elaborate promotional campaign. But there is no compelling reason that independent producers, publishers and performers cannot develop more sophisticated strategies for establishing anticipation around their work. A recognizable series. A carefully planned release. An exclusive interview. A behind-the-scenes documentary about the production process. A continuing relationship between a filmmaker and an audience. These aren't exclusively Hollywood privileges. They are com-

mercial techniques available to anybody interested in developing the identity of an entertainment product.

We've devoted a great deal of attention to determining how consumers find films after they're released. Perhaps we should devote more energy to giving consumers reasons to look forward to them.

Artificial Intelligence and the Coming Avalanche

The economics of abundance become more complicated when we consider the emerging capabilities of generative artificial intelligence. The cost and complexity associated with producing certain forms of digital material can decline as tools improve. Individuals and organizations can generate certain kinds of images, audio, video, promotional materials and other creative assets with resources that would previously have been insufficient to accomplish comparable results. These developments present legitimate commercial opportunities. They also present the potential to increase the supply of digital entertainment far beyond anything the industry has previously experienced.

What happens to a business model predicated upon the quantity of available material when the quantity of available material becomes practically limitless? What happens when the ability to produce another thousand images ceases to constitute a noteworthy technological or commercial accomplishment? What happens when synthetic material becomes sufficiently abundant that the authenticity of a human performance becomes a meaningful commercial distinction?

The opportunities will not necessarily belong exclusively to the companies capable of generating the greatest volume of artificial entertainment. They may belong to the companies capable of establishing what is authentic, distinctive, trustworthy, legally authorized and worth experiencing. The rights of performers, the authorization of synthetic representations, intellectual property protections and the provenance of creative work will become in-

creasingly important components of that commercial environment. We'll examine these issues in greater detail later in this book.

For now, any company whose principal competitive advantage consists of its ability to produce more digital material than its competitors ought to spend some time reconsidering the durability of that advantage. The future may be unforgiving to businesses whose only answer to abundance is additional abundance.

Measuring What Deserves to Exist

Entertainment executives should reconsider some of the measurements they employ in evaluating the performance of their businesses.

The number of productions released is an operational measurement. The number of people who deliberately seek out a particular production tells us something about its commercial significance.

The size of a library is an inventory measurement. The proportion of that library that continues to generate revenue or attract audiences over time tells us something about the enduring value of the intellectual property.

The number of visitors acquired tells us something about the effectiveness of customer acquisition. The number of visitors who return specifically because of an attachment to the entertainment tells us something about the effectiveness of the entertainment.

An executive interested in establishing a durable entertainment business ought to be interested in that second category of measurements. What proportion of our library is commercially productive? Which productions continue to attract audiences long after their release? Which performers, filmmakers or series generate recognizable consumer loyalty? Which creative invest-

ments have produced enduring value rather than temporary increases in activity?

There may be perfectly legitimate reasons to produce material that generates revenue for relatively brief periods. But if every production requires immediate replacement by another production to sustain the economics of the business, the organization may be accumulating less durable commercial value than its volume of activity might suggest. It may be running an entertainment treadmill rather than building an entertainment library.

The Things We Cannot Manufacture in Bulk

There are certain commercially valuable characteristics of entertainment that remain stubbornly resistant to industrial-scale manufacturing. A reputation. A distinctive artistic identity. An audience's trust. The anticipation surrounding a particular release. The credibility of an editorial recommendation. The relationship between a performer and the people who appreciate that performer's work.

These things take time to develop. They depend upon consistency, judgment, creative intelligence and the cultivation of relationships. They cannot simply be uploaded to a server. That makes them valuable economic assets in an environment where practically everything else can be.

The future of adult entertainment may depend upon our ability to identify and develop those sources of value that survive the disappearance of traditional scarcity. We cannot reasonably expect consumers to become interested in paying for abundance when abundance is the one thing the Internet provides in practically limitless quantities. We can, however, give them something worth distinguishing from that abundance.

The industry has spent much of its technological history solving the problem of how to make more entertainment available to more people. We've been remarkably successful. Perhaps the next great challenge is figuring out how to make the entertainment matter.

There is no shortage of things to watch. There is an extraordinary opportunity to create things worth remembering.

CHAPTER 9

The $50,000 Film in a Fifty-Cent Website

“Resolution is a technical specification.
Quality is an experience.”

Suppose an adult film producer spends fifty thousand dollars making a movie. Professional performers are hired. Locations are secured. Somebody takes care in selecting the cameras, lenses, lighting equipment and production personnel. There are expenses associated with transportation, accommodations, editing, sound, color correction, insurance and the administrative machinery involved in producing entertainment professionally. The finished production represents the collective efforts of a number of talented people.

Then somebody uploads it to a website that looks as though it was designed by a disgruntled employee of RadioShack during the Clinton administration. There are advertisements flashing on either side of the picture. The video player is visually indistinguishable from the ones used by several thousand other websites. The promotional thumbnail has been automatically extracted from the film. The title is barely distinguishable from the surrounding advertisements. An assortment of unrelated promotional offers competes for the viewer's attention.

Fifty thousand dollars' worth of creative effort has just been introduced to the consumer through fifty cents' worth of imagination. And somewhere, an executive is wondering why people aren't willing to pay more for professionally produced adult entertainment. I might have a suggestion.

The Last Inch of the Investment

Consider the attention devoted to the visual quality of contemporary film production. Camera manufacturers compete vigorously over resolution, dynamic range, color reproduction and low-light performance. Filmmakers invest in lenses whose individual costs can exceed the entire development budget of the website upon which their work ultimately appears. Professional expertise is devoted to ensuring that the finished image communicates precisely what the filmmaker intended. Then the production reaches the consumer through a technological environment over which the filmmaker may have exercised virtually no creative influence. This strikes me as a peculiar discontinuity in the production process.

We regard the camera as a creative instrument. We regard the video player as a technical utility. Yet the consumer never sees the camera. The consumer sees the video player.

The final inch of the commercial transaction, the point at which all that investment in creative quality becomes an actual consumer experience, is frequently the portion of the transaction to which the producer has devoted the least attention.

Imagine a recording artist spending six months in a state-of-the-art studio perfecting an album, only to insist that the record company distribute it exclusively through inexpensive speakers mounted in a vending machine. The recording might be magnificent. Nobody would know.

The value of an investment in production quality is partially dependent upon the ability of the distribution environment to communicate that quality to the consumer. This ought to be a fundamental consideration in the economics of producing entertainment.

The Environment Is Selling Something

In 1992, marketing researcher Mary Jo Bitner published an influential paper in the *Journal of Marketing* examining what she termed *servicescapes*: the physical environments in which commercial services are experienced.[1] The underlying proposition is that the environment in which a service is delivered can influence how customers evaluate the service itself.

A restaurant communicates something about the anticipated quality of its food before the customer has taken a bite. A hotel communicates something about the anticipated quality of its accommodations before the guest has entered a room. These businesses are selling expectations alongside their actual products. The furniture, lighting, cleanliness, organization and appearance of the establishment contribute to the customer's initial assessment of what the business is likely to provide.

Although Bitner's original framework concerned physical environments, its application to digital entertainment is worth considering. The website is our establishment. The interface is our interior design. The video player is our theater. The process through which the customer establishes an account, pays for entertainment or begins watching a film is our customer service experience. Every one of these elements communicates information about the business responsible for the entertainment.

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1. Mary Jo Bitner, “Servicescapes: The Impact of Physical Surroundings on Customers and Employees,” *Journal of Marketing* 56, no. 2 (1992): 57–71. https://doi.org/10.1177/002224299205600205.

Research into website credibility has similarly demonstrated the relevance of visual design to consumers' judgments about online services. A 2002 study involving 2,684 participants found that visual appearance was the most frequently mentioned factor in their credibility comments.[2] That finding concerns perceived credibility, not proof of a site's actual trustworthiness. Before a prospective customer has watched a single film, the business has already communicated a great deal about itself. The question is whether that information is consistent with what the business would like the customer to believe.

A Rolex on a Folding Table

Imagine two identical Rolex watches. One is displayed inside an elegant jewelry store, under appropriate lighting, accompanied by knowledgeable sales personnel and presented in the manufacturer's packaging. The other is being sold on a folding table in a parking lot. Assume, for the sake of argument, that both watches are genuine.

The difference in the commercial circumstances surrounding the two transactions would substantially influence the confidence many prospective customers have in the product. The watch hasn't changed. The environment in which the consumer evaluates the watch has changed.

The adult entertainment business is especially susceptible to this phenomenon because many of our transactions involve significant questions of consumer trust. Is this website legitimate? Will the video actually play? Is the material being distributed with the authorization of the people who own it? Is the billing arrangement what it appears to be? Will my personal information be pro-

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2. B. J. Fogg, Cathy Soohoo, David Danielsen, Leslie Marable, Julianne Stanford and Ellen R. Tauber, *How Do People Evaluate a Web Site's Credibility? Results from a Large Study* (Stanford Persuasive Technology Lab, Consumer WebWatch and Sliced Bread Design, 2002), p. 4. https://credibility.stanford.edu/pdf/How_Do_People_Evaluate_a_Web_Site%27s_Credibility_v37.pdf.

tected? The customer may have no immediate means of independently answering these questions.

Consequently, the characteristics of the commercial environment can acquire great significance. A professionally designed website doesn't establish that a business is trustworthy. Unscrupulous businesses can certainly employ talented designers. But an unnecessarily suspicious-looking commercial environment is a rather peculiar choice for a legitimate company attempting to establish trust. Especially when that company intends to ask somebody for money.

The Presentation Deficit

I call the difference between the quality of an entertainment product and the quality of the environment in which it is delivered as the *Presentation Deficit*. It represents the extent to which a business fails to communicate the value of its intellectual property through the consumer experience.

A studio might produce exceptional films while operating an embarrassingly inadequate streaming service. An independent performer might establish a strong relationship with an audience while relying upon a commercial platform that treats every performer as essentially interchangeable. A publisher might possess a historically significant collection of adult films while presenting them without meaningful editorial context, accurate credits or appropriate attention to playback quality. In each circumstance, an underlying asset possesses characteristics that the distribution environment fails to communicate adequately.

The business has invested in creating or acquiring value without making a corresponding investment in revealing that value to the consumer. This is not exclusively an aesthetic problem. It can become a financial problem.

Suppose a studio invests an additional ten thousand dollars in improving the production quality of its films. If the consumer

cannot meaningfully distinguish those improvements within the viewing environment, what becomes of the anticipated commercial return on that investment? The additional expenditure may have produced genuine artistic value. The distribution environment may nevertheless prevent that value from being fully realized commercially. The Presentation Deficit is, in this respect, a problem of investment efficiency.

High Definition, Low Expectations

There is a certain absurdity in advertising a film as being available in 4K resolution when the surrounding viewing experience appears to have been assembled in approximately 480p.

Resolution is a technical specification. Quality is an experience.

A film can possess high image resolution while being delivered through an unreliable streaming service, an inadequately designed player or an interface that continually interferes with the viewer's enjoyment of the entertainment. The consumer may encounter buffering, inconsistent audio levels, awkward navigation, unnecessary interruptions or playback controls that behave differently depending upon the device being used. None of these deficiencies necessarily appears on the list of specifications accompanying the production. All of them contribute to the customer's assessment of the product.

There is a management principle here that extends beyond adult entertainment. The quality of a commercial experience is not determined exclusively by the quality of its most expensive component. A restaurant with an exceptional chef and dreadful service remains a restaurant with dreadful service. An airline with magnificent aircraft and an intolerable boarding process remains an airline with an intolerable boarding process.

Customers experience businesses in their entirety. They don't calculate an average of the individual departmental accomplish-

ments. We should stop congratulating ourselves for the sophistication of our production technology while treating the technology responsible for delivering the production as an incidental expense.

When Advertising Becomes the Set Decoration

The contrast between many adult websites and contemporary advertising-supported streaming services is revealing. Watch a film on Paramount+ or Peacock through one of their advertising-supported arrangements. The service may interrupt the entertainment with commercials. It may promote other programming. It may introduce additional commercial elements into the viewing experience. But the presentation of the film generally remains recognizably consistent with the presentation of professional entertainment.

The movie isn't surrounded by flashing rectangles. There aren't advertisements pretending to be playback buttons. The screen doesn't resemble the window of a pawnshop. The advertising has an identifiable place within the experience. It doesn't necessarily become the visual identity of the experience.

Commercial television spent decades conditioning audiences to understand the relationship between entertainment and advertising. We know what a commercial break is. We understand that advertisers contribute to the financing of programming. We may prefer fewer advertisements, but the underlying arrangement is hardly unfamiliar. An appropriately integrated video advertisement is part of an established entertainment vocabulary. A collection of blinking banners surrounding a professionally produced film belongs to an entirely different vocabulary. And that vocabulary communicates less flattering things about the product.

I am not suggesting that every adult entertainment business must adopt precisely the same advertising model. I am suggest-

ing that advertising should be designed with an appreciation for the value of the entertainment it exists to finance.

The advertiser deserves an opportunity to communicate with the audience. The publisher deserves compensation. The audience deserves an entertainment experience. These objectives needn't be mutually exclusive.

The Advertising Revenue Nobody Accounts For

Suppose a publisher operates a website that generates one million monthly page views. There are three display advertising positions, each producing an effective net cost per thousand impressions (CPM) of one dollar, with a paid impression from each position on every page view. Under these deliberately simplified assumptions, the publisher generates three thousand dollars per month from those placements. The calculation assumes full paid delivery across all three positions and is illustrative, not an estimate of prevailing rates or profit.

The revenue is identifiable. It appears in a report. It can be deposited in a bank account. Consequently, the three advertising positions are understood to be worth three thousand dollars a month.

But what if their presence is adversely affecting the commercial value of the entertainment business itself? What if the advertisements are discouraging repeat visits, reducing subscription conversions, interfering with the company's ability to establish a premium brand or making the website less attractive to potential licensing and sponsorship partners? Those costs are more difficult to identify.

The advertising report doesn't provide a column for the customers who decided the website looked too disreputable to give it their credit card information. It doesn't identify the prospective subscriber who found the viewing experience sufficiently irritating to abandon the transaction. And it certainly doesn't calculate the

long-term economic consequences of continually presenting valuable intellectual property in an environment that communicates relatively little respect for it.

Those effects cannot simply be assumed to exceed advertising revenue. They must be investigated. But we should at least acknowledge their existence as possibilities. The value of an advertisement cannot be intelligently determined without considering its effect on the commercial environment in which it appears. A publisher interested exclusively in maximizing the income generated by individual advertising positions may inadvertently diminish the income-generating potential of the business as a whole. That is a rather expensive way of making three thousand dollars.

The Filmmaker's Name

There is another aspect of the Presentation Deficit that deserves attention: the manner in which we communicate the identity of the people responsible for creating the entertainment. Watch a motion picture through a mainstream entertainment service and you'll generally have access to information about the production. The title. The director. The performers. The release date. The running time. A synopsis. Sometimes reviews, awards, production information and recommendations for related films.

These details contribute to the identity of the work. They also contribute to the development of reputations. A consumer who particularly appreciates the work of a filmmaker must first be given the opportunity to discover who the filmmaker is.

The adult entertainment industry has produced talented directors, cinematographers, editors, writers and performers. Yet much of our digital distribution infrastructure communicates surprisingly little about their creative contributions. We reduce productions to categories, keywords, thumbnails and occasionally rather imaginative descriptions written primarily for the benefit

of search engines. This is no way to build an enduring creative industry.

The technical information necessary to organize and discover entertainment should not replace the editorial information necessary to appreciate it. Every legitimate production deserves accurate attribution consistent with the rights, agreements, professional names and privacy preferences of the people responsible for its creation.

Attribution is more than professional courtesy. It is a mechanism through which creative people can accumulate commercial value over the course of their careers. And an industry that makes it unnecessarily difficult for creative talent to establish enduring reputations is undermining one of its own most important economic assets.

Excellence Doesn't Have to Be Expensive

Improving the presentation of adult entertainment does not necessarily require enormous financial resources. An elegant interface needn't be an elaborate interface. An intelligently organized library needn't contain millions of films. Professional typography, appropriate spacing, consistent visual organization, reliable playback and a coherent approach to advertising are not privileges reserved for companies with enormous technology budgets. In many circumstances, simplicity is less expensive to implement than the unnecessarily complicated environments we've created.

There is an important distinction between the absence of resources and the absence of judgment. Some businesses genuinely lack the resources necessary to develop sophisticated proprietary technology. Others have devoted substantial resources to developing terribly unsophisticated experiences. The first problem may be addressed through better access to affordable technology. The second requires a somewhat different solution.

Management.

A small independent entertainment company with good judgment, thoughtfully selected technology and a clear understanding of its audience can produce a more compelling commercial experience than a much larger company that regards its website principally as an advertising delivery mechanism. That's an opportunity smaller businesses should take seriously. Professionalism is not necessarily a function of scale.

The Presentation Audit

Before investing additional money in production, entertainment companies should undertake a systematic examination of how their existing productions are being presented. Evaluate the experience on an ordinary customer's phone, computer and, where appropriate, television. Observe how long it takes to begin watching something. Examine the consistency and reliability of playback. Determine whether the advertising arrangements complement or interfere with the viewing experience. Evaluate the quality of the information accompanying individual productions.

Then examine the commercial consequences. Measure how frequently consumers abandon playback before it begins. Evaluate the relationship between advertising load and repeat visitation. Investigate whether improvements in presentation affect subscription conversions, viewing time and customer retention. Compare different versions of the experience under reasonably comparable conditions. Where possible, use controlled comparisons, account for differences in traffic sources and customer cohorts, and collect only the data necessary for the evaluation. And don't neglect the inexpensive research technique of asking actual customers what they think.

The audit should establish whether the commercial environment is adequately communicating the value of the entertainment being presented. This should be an ordinary management responsibility. It deserves the same seriousness with which a

producer evaluates production costs, negotiates distribution agreements or determines the allocation of an advertising budget.

We should regard the presentation of intellectual property as an investment in intellectual property. Not merely the expense of getting it onto somebody else's screen.

Give the Film a Theater

The adult entertainment industry has historically complained, often with justification, about the difficulty of receiving the same commercial consideration afforded to mainstream entertainment. But there is one aspect of that consideration over which we exercise a substantial degree of control. The consideration we afford our own product.

Many independent adult publishers have discretion over whether they surround an expensive production with distracting advertisements, even when changing established revenue arrangements is difficult. Legitimate studios can often organize their libraries more intelligently, identify creative talent with appropriate consent and invest in a better viewing experience. We face plenty of genuine external limitations. The aesthetic limitations we impose upon ourselves needn't be among them.

I would like to see an industry in which a beautifully produced adult film is presented with the same professional consideration as a beautifully produced documentary, independent feature or television series. Not because we're attempting to convince anybody that pornography is something other than pornography. Because pornography is the entertainment we've chosen to produce, and we ought to possess enough professional pride to present it exceptionally well.

If you're going to spend fifty thousand dollars making a movie, for Christ's sake, give it a fifty-thousand-dollar attitude.

Give it a title that matters. Give its creators the recognition they've earned. Give the audience an experience worthy of the investment. Give the advertiser a legitimate place in the commercial arrangement.

And give the film something it has deserved from the moment somebody decided it was worth making.

A goddamn theater.

CHAPTER 10

Digital Slumification

“The neighborhood matters even if you own the nicest house on the street.”

Nobody opens a luxury hotel with the intention of eventually operating a fleabag motel. It happens gradually. A little less attention is devoted to maintenance. Management discovers that certain expenses can be eliminated without an immediate decline in revenue. The furniture becomes outdated. The carpeting deteriorates. The quality of the clientele's experience becomes increasingly subordinate to the economics of keeping the rooms occupied.

Individually, each decision might have appeared financially defensible. Collectively, those decisions transformed the nature of the business. Something similar has occurred throughout substantial portions of the adult Internet.

We have experienced what I call *Digital Slumification*: the progressive deterioration of a digital commercial environment through the accumulation of individually rational but collectively destructive business decisions.

Another advertising placement. Another promotional overlay. Another third-party script. Another redirect. Another technological deficiency nobody considers sufficiently important to correct.

Eventually, the consumer finds himself in an environment nobody would have deliberately designed from scratch. Yet somebody owns it, somebody operates it and somebody is apparently satisfied with it. That last part bothers me more than the first two.

Nobody Designed This Mess

The deficiencies of poorly maintained digital environments are frequently attributable to years of additions rather than a single instance of bad design. The original website might have been perfectly respectable. Then the advertising department wanted another placement. The marketing department wanted another promotional mechanism. An affiliate partner wanted another integration. Management wanted another source of revenue. The developer accommodated these requests. Nobody was necessarily responsible for determining whether the cumulative result was consistent with the company's original commercial proposition.

The website became a compromise among the interests of everybody involved in operating it. Everybody, perhaps, except the customer.

This is one of the more significant management failures associated with digital businesses. Individual departments are frequently given authority over particular components of the customer experience without anybody being given sufficient authority over the experience in its entirety.

The advertising department can demonstrate that its latest initiative generated additional revenue. The marketing department can demonstrate that its promotional overlay generated additional registrations. The development department can demonstrate that it successfully implemented the requested features.

Everybody has accomplished something. The website has become worse.

And because everybody can demonstrate the success of their individual contribution, determining who is responsible for the deterioration of the product becomes difficult.

The Neighborhood You've Created

If you operate an entertainment website, you are responsible for more than the entertainment physically residing on your servers. You're responsible for the commercial neighborhood in which that entertainment exists. The advertisements you accept, the businesses to which you refer customers, the technologies you integrate and the behavior of the companies permitted to operate within your environment all contribute to the character of your establishment. The consumer doesn't necessarily distinguish among the various organizations responsible for what appears on his screen. Nor should he be expected to.

If an advertisement on your website behaves deceptively, the fact that the advertisement was supplied by a third-party network may be of interest to your attorneys. It is of less interest to your customer. He was visiting your website. You introduced him to the advertiser. Your reputation was involved in the transaction.

The notion that publishers bear little responsibility for the quality of the advertising appearing within their publications is peculiar when examined against the history of professional publishing. A magazine publisher exercises editorial judgment over the material appearing in the magazine. A responsible television network establishes standards for the commercials it broadcasts. Why should the digital publisher regard the commercial elements of its product as somebody else's responsibility?

We have effectively rented portions of our commercial environment to organizations whose objectives may bear relatively little relationship to the long-term objectives of our businesses. Then we've expressed surprise when those organizations behave like tenants with short-term leases.

The Forty-Seven Landlords

The modern website can be a complicated technological arrangement. A customer visits a single address, but the resulting

experience may involve technologies supplied by numerous independent organizations. Advertising networks. Analytics providers. Content delivery services. Payment processors. Affiliate systems. Embedded media providers. Marketing platforms. Authentication services. There is nothing inherently objectionable about this. Specialization allows businesses to benefit from capabilities they could not economically develop themselves.

But the integration of numerous independent technologies introduces a management responsibility that many businesses have underestimated. Somebody has to govern the relationships among these technologies.

Who is permitted to execute software within the customer's browser? What information is being collected? What happens if an external service fails? What effect does each integration have upon performance, security and privacy? Who determines whether a third-party technology continues to justify its presence six months after it was introduced?

A website that depends upon numerous outside organizations without exercising sufficient oversight over their contributions begins to resemble a building in which every tenant has been given permission to modify the plumbing. Eventually, something is going to leak.

The customer may have no direct contractual relationship with many of these companies. In many cases, he doesn't even know they exist. His relationship is with the publisher. The publisher ought to behave accordingly.

When Deception Becomes a Design Philosophy

Perhaps the most depressing manifestation of Digital Slumification is the degree to which certain commercial interfaces have become deliberately misleading. An advertisement resembles a playback button. A button ostensibly intended to close a promotional window opens another one. A link suggests that it will

deliver a particular product but delivers something entirely different. A subscription can be established in seconds but requires an unnecessarily inconvenient process to cancel.

In 2022, the U.S. Federal Trade Commission published a report entitled *Bringing Dark Patterns to Light*, examining digital design practices that interfere with consumers' ability to make informed commercial decisions.[1] These practices are hardly exclusive to adult entertainment. They occur throughout electronic commerce. But that doesn't make their presence in our industry any less objectionable.

There is a distinction between an interface that has been poorly designed and an interface that has been skillfully designed to mislead somebody. The latter represents the deliberate application of professional intelligence to the deterioration of the customer relationship. I find that more disturbing.

Imagine discovering that the architect of a department store had been instructed to design the exits in such a manner that customers would accidentally enter the jewelry department whenever they attempted to leave. We would not congratulate the architect on his ability to generate additional foot traffic.

Yet online, the commercial vocabulary surrounding such practices can make them sound almost sophisticated. Engagement optimization. Conversion enhancement. Retention strategies.

There is an extraordinary amount of bullshit that becomes intellectually respectable once somebody attaches a marketing term to it.

A misleading button is a misleading button. A customer attempting to leave is a customer attempting to leave. An accidental transaction is not evidence of commercial excellence. We need to become more discriminating about what we regard as a successful interaction with a customer.

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1. U.S. Federal Trade Commission, *Bringing Dark Patterns to Light*, staff report (September 2022). https://www.ftc.gov/reports/bringing-dark-patterns-light.

The Broken Button Nobody Fixes

Not every instance of Digital Slumification is deliberate. Much of it is simply neglect. A video fails to play on a particular device. A navigation menu doesn't behave properly. An advertisement obscures a portion of the interface. A registration form produces an incomprehensible error message.

Somebody reports the problem. Somebody else determines that fixing it isn't urgent. The website continues to generate revenue. And therein lies the problem.

The continued generation of revenue can conceal the progressive deterioration of a business. A restaurant with dirty bathrooms may continue to sell hamburgers. That doesn't establish that the bathrooms have no effect upon its reputation. It establishes that some customers are willing to tolerate them in exchange for a hamburger. The distinction is important.

A customer may tolerate a technological deficiency because he particularly wants the entertainment available through a website. Management may interpret that tolerance as evidence that the deficiency doesn't matter. What management cannot necessarily see is how many customers would have returned more frequently, purchased additional entertainment or recommended the service had the deficiency not existed.

We tend to measure the behavior of the customers who survived the experience. The ones who didn't are more difficult to account for.

Technological Housekeeping

The professional maintenance of a digital entertainment environment should be regarded as an ordinary operating expense. Not an occasional emergency. Not something undertaken exclusively when the website stops generating money. Not a collection of responsibilities assigned to whichever developer happens to be available. It should be an identifiable management function.

There are now well-established technical methodologies for evaluating important aspects of the digital customer experience. Google's Core Web Vitals, for instance, measure aspects of loading performance, responsiveness and visual stability through Largest Contentful Paint (LCP), Interaction to Next Paint (INP) and Cumulative Layout Shift (CLS).[2] For an entertainment business, these measurements should be supplemented by examinations of video startup times, buffering, playback failures, accessibility, device compatibility and the reliability of the commercial transactions associated with the entertainment.

None of this is particularly exotic. An entertainment company ought to know whether its customers can successfully experience its entertainment. That shouldn't constitute an ambitious research proposition.

Business owners should recognize the distinction between testing a website and actually using it. A developer testing whether a particular feature functions correctly may not encounter the same experience as a prospective customer arriving through an advertisement, using an ordinary mobile phone and attempting to watch a film.

The developer knows where everything is. The customer doesn't. The developer understands what the software is supposed to do. The customer simply encounters what it actually does.

Executives should periodically experience their own businesses without the privileges, familiarity and technical conveniences associated with being executives. Use an ordinary customer account. Attempt to find something interesting. Watch it. Purchase something. Contact customer service. Cancel a subscription. Discover what it's like to be on the receiving end of your own business decisions. You might find the experience educational.

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2. Google, “Web Vitals,” *web.dev*, accessed November 27, 2026. https://web.dev/articles/vitals.

Advertising With Architectural Standards

When a municipality permits businesses to erect signs, it may establish restrictions concerning their size, placement, illumination and proximity to other structures. The purpose is not necessarily to prevent businesses from advertising. It is to prevent the cumulative effect of unrestricted advertising from destroying the character and functionality of the environment. Digital publishers would benefit from a similar philosophy.

Establish architectural standards for advertising. Determine which formats are appropriate for the entertainment environment. Establish acceptable advertising loads. Require clear distinctions between commercial messages and functional elements of the interface. Prohibit behavior that interferes with ordinary navigation or misrepresents the nature of a transaction.

The Coalition for Better Ads has developed standards based upon research into consumer preferences, identifying advertising experiences that fall below its threshold of acceptability. Its web standards address, among other formats, intrusive pop-up ads, video ads that autoplay with sound and excessive advertising density.[3] The existence of such research is significant because it provides an alternative to evaluating advertising formats exclusively according to the revenues they generate. These standards distinguish between different viewing environments; they are not a blanket prohibition on video advertising. There is commercial intelligence available to publishers interested in understanding the relationship between advertising and consumer experience. We ought to use it.

An advertising representative should not be the sole authority on whether a particular advertising format belongs on an entertainment website. His responsibility is to sell advertising. The

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3. Coalition for Better Ads, “Better Ads Standards” and “The Research,” accessed November 27, 2026. https://www.betterads.org/standards/; https://www.betterads.org/research/.

publisher's responsibility is to operate an entertainment business. Those responsibilities overlap, but they are not identical.

The Landlord's Test

Here is a simple exercise for anyone operating a commercial entertainment website. Imagine that your website is a physical establishment.

Every advertisement is a sign. Every link is a doorway. Every promotional window is a salesperson approaching your customer. Every loading delay is a queue. Every broken feature is a piece of malfunctioning equipment. Every misleading transaction is an interaction with an employee who has misrepresented something to a customer.

Now mentally reconstruct your establishment. What kind of business have you created?

Would customers be comfortable spending time there? Could they distinguish the employees from the salespeople representing other companies? Would they know which doors lead to the products they intended to purchase? Would they feel comfortable providing their financial information? Would the establishment inspire confidence in the quality of the entertainment? Would they want to come back?

Most importantly, would you be proud to put your name on the building?

I suspect some digital entrepreneurs would be less enthusiastic about the commercial environments they've created if those environments existed in three dimensions. The abstraction of the Internet has allowed us to tolerate conditions we would find absolutely intolerable in a physical business. The *Landlord's Test* is intended to eliminate that abstraction.

The Reputation of the Neighborhood

Digital Slumification can have consequences extending beyond the individual companies responsible for it. Every unpleasant experience a consumer has with a particular category of commercial service contributes, potentially, to the expectations that consumer brings to other businesses operating within the same category. A legitimate adult publisher may encounter customers who are reluctant to subscribe because they have experienced questionable billing practices elsewhere. A professionally operated entertainment service may encounter customers who are apprehensive about clicking playback controls because they've learned, through previous experiences, that clicking something resembling a playback control can have unexpected consequences. A responsible business may encounter consumers reluctant to provide information because another business handled similar information irresponsibly.

The reputation of an industry is, to some extent, a shared commercial asset. It can be diminished by businesses that derive immediate economic benefits from practices whose longer-term consequences are distributed throughout the industry. Economists would recognize aspects of this phenomenon as a negative externality. The organization responsible for generating the cost does not necessarily bear the entirety of that cost. The rest of us inherit a portion of it.

This represents an especially compelling argument for the development of voluntary professional standards, meaningful accountability and better commercial practices throughout adult entertainment. Not because every company should operate identically. Because every legitimate company has an economic interest in the broader reputation of the marketplace in which it operates.

The neighborhood matters even if you own the nicest house on the street.

Renovation Is Not Redecoration

The solution to Digital Slumification is not necessarily a redesign. A new logo, an updated color scheme and a more contemporary collection of icons may make a deteriorating commercial environment look temporarily more attractive. They may do little to address the conditions responsible for its deterioration. If the business continues to reward departments for maximizing individual sources of revenue without regard to their cumulative effect upon the product, the newly designed website will gradually acquire many of the deficiencies of the old one. The problem resides in the management philosophy.

Before redesigning a digital entertainment business, its management should establish some fundamental operating principles. The entertainment should be the principal attraction. Commercial communications should be recognizable as commercial communications. Navigation should be predictable. Transactions should be transparent. Consumer privacy should be respected. The business should accept responsibility for the behavior of technologies operating within its environment. And somebody with sufficient authority should be responsible for protecting the integrity of the entire customer experience.

That last responsibility is important. Somebody has to possess the authority to tell the advertising department that another advertisement doesn't belong on the page. Somebody has to possess the authority to tell the marketing department that another promotional window is unnecessary. Somebody has to possess the authority to tell management that a proposed source of immediate revenue is inconsistent with the long-term commercial interests of the business. Otherwise, every available portion of the product will eventually be negotiated away.

The Standard We Establish

The adult entertainment industry has a frustrating tendency to evaluate itself according to the standards of other adult entertainment businesses. If our websites are slightly better than our competitors' websites, we consider ourselves technologically advanced. If our advertising is slightly less intrusive than everybody else's advertising, we consider ourselves consumer-friendly. If our billing practices are slightly more transparent than the least transparent practices in the industry, we consider ourselves trustworthy. That's a rather unambitious competitive philosophy.

Being the best-maintained building in a deteriorating neighborhood does not necessarily make you the proprietor of a magnificent building. Our standards should derive from what is technologically possible, commercially intelligent and professionally desirable. Not merely from what our competitors have gotten away with.

I would like to see adult entertainment businesses establish digital environments sufficiently sophisticated that their quality becomes noteworthy independently of the nature of the entertainment they provide. I would like to see mainstream technology companies examine the interfaces, advertising systems and consumer experiences developed within our industry and discover something worth learning.

We've been there before. We can get there again. But first, we need to stop regarding the deterioration of our own commercial environments as an unavoidable consequence of doing business.

Nobody says pornography has to look like a bad neighborhood. That's something we did to it. And it's something we can undo.

CHAPTER 11

Traffic Is Not an Audience

“Anybody with sufficient money can purchase a crowd. Building an audience is an entirely different art.”

I've always found it peculiar that people in the adult entertainment business speak so enthusiastically about traffic. Traffic is something I generally try to avoid. It's what happens when a large number of people are attempting to get somewhere else. And perhaps that is a more appropriate description of the commercial phenomenon we've been celebrating than we care to acknowledge.

For much of the history of the adult Internet, traffic has been treated as the predominant measure of commercial significance. Websites are evaluated according to the number of visitors they receive. Advertising networks distinguish themselves according to the volume of traffic they can deliver. Entrepreneurs attend conventions to discuss its acquisition, distribution and monetization. We've developed an entire commercial vocabulary around the movement of people. We've devoted less attention to giving those people a reason to stay.

There is a fundamental difference between traffic and an audience. Traffic passes through. An audience shows up.

The distinction may ultimately determine whether you're building a valuable entertainment business or merely operating a commercially productive intersection.

Nobody Has a Favorite Billboard

Imagine asking somebody to identify their favorite television series, favorite recording artist, favorite filmmaker or favorite magazine. Most people could provide reasonably thoughtful answers. Now ask them to identify their favorite highway billboard. You'll probably encounter less enthusiasm.

The billboard may have been viewed by millions of people. It may have generated substantial advertising revenue. Its location may possess enormous commercial value. But the billboard hasn't necessarily established a relationship with the people who've encountered it. An entertainment business ought to aspire to something more significant than being located along a heavily traveled highway.

Yet substantial portions of our industry have adopted precisely that commercial philosophy. Acquire an advantageous position within the movement of Internet users. Present them with something sufficiently interesting to attract their attention. Monetize that attention before they continue on their way. There is nothing inherently wrong with operating such a business. But we should understand what kind of business we're operating.

A publisher that generates revenue primarily through the temporary acquisition and redistribution of Internet users possesses a fundamentally different commercial asset from a publisher whose audience deliberately seeks out its entertainment. One possesses access to a flow of customers. The other possesses a relationship with customers. The durability of those assets can differ enormously.

The Audience You Have to Buy Again Tomorrow

Suppose two hypothetical adult entertainment companies each receive one million visits per month. The first company acquires the overwhelming majority of its visitors through paid advertising, affiliate arrangements and commercial referrals. The second ac-

quires a substantial proportion of its visitors through direct navigation, recommendations, subscriptions and the voluntary return of people familiar with its entertainment. Both companies report one million visits. Both might generate comparable revenues during a particular month. But the underlying economics of their businesses could be different.

The first company must continually invest in reconstructing its audience. If the commercial arrangements responsible for delivering visitors become more expensive or less effective, its revenues may deteriorate accordingly. The second company possesses an additional resource: people who have independently developed a reason to return. That doesn't make the second company's audience permanent. Relationships require maintenance, competitors emerge and consumer preferences change. Nevertheless, the company has accumulated something that may reduce its dependence upon the continual purchase of attention.

The first company is financing its next encounter with a customer. The second is benefiting from its previous encounters. That's an important difference.

In 2003, marketing scholars Sunil Gupta and Donald R. Lehmann published a paper entitled *Customers as Assets*, examining the relationship between the long-term economic value of customers and the value of the businesses serving them.[1] The proposition has interesting implications for adult entertainment. A business's commercial value cannot always be adequately understood by examining how much money it generated last month. We should also be examining its ability to generate money next month without having to begin the entire process of customer acquisition again.

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1. Sunil Gupta and Donald R. Lehmann, “Customers as Assets,” *Journal of Interactive Marketing* 17, no. 1 (2003): 9–24. https://doi.org/10.1002/dir.10045.

The Economics of Rented Attention

There are perfectly legitimate reasons to purchase advertising. An excellent product can remain commercially insignificant if nobody knows it exists. New businesses need mechanisms for introducing themselves to prospective customers. Established businesses need opportunities to reach additional audiences. The problem begins when purchasing attention becomes the principal means by which a company maintains its commercial relevance.

I would distinguish between two forms of advertising expenditure. The first is an investment in developing a relationship. The second is an expense associated with renting somebody's attention for a limited period. Both can produce revenue. Both can be appropriate under particular circumstances. But their long-term consequences may be different.

Suppose I spend a thousand dollars introducing prospective customers to an entertainment service. Some of those customers become sufficiently interested in the service that they return voluntarily, purchase additional entertainment, recommend the service to other people or develop an appreciation for the brand. The original expenditure may continue producing economic benefits long after the advertising campaign has concluded.

Now suppose I spend a thousand dollars attracting visitors who generate some immediate advertising revenue and disappear without developing any particular attachment to the business. The campaign may be profitable. But when the campaign ends, so does much of its commercial significance.

The distinction is between purchasing attention and investing in an audience. An entrepreneur who understands that distinction might evaluate the success of an advertising campaign according to more meaningful criteria than the price of an individual click.

The Cheapest Customer Can Be the Most Expensive

Consider two hypothetical advertising campaigns. The first costs five thousand dollars and generates fifty thousand visits. The second also costs five thousand dollars but generates only ten thousand visits. The first campaign delivers visitors at ten cents each. The second delivers them at fifty cents each. If the predominant objective is acquiring traffic inexpensively, the first campaign appears more successful.

Now suppose the first campaign ultimately produces fifty paying customers, while the second produces two hundred and fifty. The first campaign has spent one hundred dollars acquiring each paying customer. The second has spent twenty dollars.

Suppose further that each acquired customer generates sixty dollars in contribution margin over the duration of the relationship, before customer acquisition expenses. The first campaign produces three thousand dollars in contribution margin against an acquisition expense of five thousand dollars. The second produces fifteen thousand dollars against the same expense. Under these hypothetical conditions, the first campaign leaves a deficit of two thousand dollars after acquisition costs; the second leaves a surplus of ten thousand dollars. These are campaign-level results before other costs, not measures of company-wide profit.

This is hardly a revolutionary mathematical discovery. Yet it exposes a rather unfortunate consequence of evaluating advertising according to measurements that bear an incomplete relationship to the commercial objectives of the business.

Cheap traffic isn't necessarily inexpensive. Expensive traffic isn't necessarily expensive.

The economic significance of the visitor depends upon what happens after the visitor arrives. And, in an entertainment busi-

ness particularly interested in establishing durable relationships, what happens after the visitor leaves.

The Audience Equity Principle

Here is a concept that deserves greater consideration throughout the adult entertainment industry: *Audience Equity*. By Audience Equity, I mean the prospective economic value a business develops through its ability to attract, retain and sustain voluntary relationships with people who recognize and appreciate its product. It is related to the established marketing concept of customer equity, but I would extend its application beyond people who have already purchased something.

An advertising-supported entertainment service may develop commercially significant relationships with people who never pay directly for its programming. A publication may develop an influential readership whose value extends beyond subscription revenue. An independent performer may develop an audience whose appreciation creates opportunities across several different commercial platforms. An entertainment company may possess a reputation sufficiently strong that people deliberately seek out its productions regardless of where those productions are distributed.

These relationships represent potential sources of commercial value. Not because the business owns the people involved. Because the business has earned a degree of their attention, confidence and preference.

Audience Equity should not be mistaken for an asset that can simply be assigned an arbitrary financial value and deposited on a balance sheet. It is a strategic concept. Its economic significance must be evaluated through evidence: recurring consumption, customer retention, voluntary recommendations, purchasing behavior, advertising-supported engagement and the continuing ability of the business to reach its audience.

The objective is to develop a commercial resource that grows through successful interactions rather than one that must be perpetually replenished through purchased encounters. A business with substantial Audience Equity may be able to introduce a new product without purchasing every initial impression. A business without it may have to buy an audience for every single thing it produces.

The Brand Nobody Remembers

One of the more interesting tests of the commercial significance of an entertainment website involves asking its customers a remarkably simple question. What was the name of the last website you visited? A consumer might remember the entertainment. He might remember a particular performer. He might remember what he searched for. But can he remember the company that provided it? If he cannot, the publisher may have successfully delivered an entertainment experience without establishing much of a commercial identity in the process. That's a substantial missed opportunity.

Consider the importance mainstream entertainment companies attach to ensuring that their identities accompany their productions. Studio logos, opening sequences, recognizable programming brands and consistent promotional identities contribute to the relationship between the audience and the organization responsible for the entertainment. These aren't merely decorative elements. They allow the company to accumulate recognition across successive commercial encounters. A customer who appreciates one production can associate that appreciation with the organization responsible for it. The organization can benefit from that association when it releases something else.

But when entertainment is distributed through environments in which its origin is difficult to determine, the consumer's appreciation may produce relatively little enduring commercial value

for its creator. The film gets watched. The brand gets forgotten. The producer must subsequently finance another introduction.

This is one of the dangers associated with reducing our intellectual property to anonymous inventory distributed through interchangeable interfaces. A producer should be interested in more than whether somebody watched the film. The producer should be interested in whether somebody knows whose film they watched.

Distribution Without Disappearance

There is commercial value in making entertainment available through multiple distribution channels. I have no particular objection to an independent producer distributing legitimate, authorized material through third-party services. Those services may provide access to audiences the producer could not otherwise reach economically. But the terms of that relationship deserve careful examination.

Does the distribution environment communicate the identity of the producer? Does it appropriately identify the creative talent responsible for the entertainment? Does it allow an interested consumer to discover additional work from the same source? Does the producer receive meaningful information about the performance of the intellectual property, consistent with appropriate privacy protections? Or does the distribution arrangement principally contribute to the recognition of the intermediary?

Imagine a recording artist whose songs are played extensively on the radio but whose name is never announced. The radio station benefits from having desirable programming. The advertisers benefit from the presence of an audience. The audience enjoys the music. The artist may receive compensation under the relevant commercial arrangements. But the artist has been deprived of something important to the development of a career: the opportunity to become recognizable to the people who appreciate the work.

The commercial economics of distribution should account for that opportunity. A producer should negotiate not only for compensation, but also for the conditions under which the intellectual property is presented and attributed. There is a difference between distributing your product and disappearing into somebody else's.

The Affiliate Relationship Reconsidered

Affiliate marketing has played an important role in the development of the adult Internet. It allowed relatively small businesses to develop extensive distribution relationships without necessarily possessing the financial resources required to establish conventional advertising operations. The model can align commercial incentives in particularly productive ways. A publisher introduces a prospective customer to another business and receives compensation according to the agreed terms of the relationship. When those arrangements work well, all parties benefit.

But we should examine the types of consumer relationships these arrangements encourage. An affiliate compensated principally for generating an immediate transaction has a perfectly understandable incentive to concentrate on generating that transaction. The entertainment company, however, may have an economic interest in the quality and durability of the relationship established through it.

A subscription acquired through a misleading promotional offer may generate the same initial commission as a subscription acquired through an accurate recommendation. The subsequent commercial consequences may be entirely different. One customer may develop an appreciation for the entertainment. The other may cancel, request a refund or conclude that the company has misrepresented its product. If the financial arrangements reward the initial transaction without adequately considering its subsequent consequences, the commercial incentives of the parties may become misaligned. This deserves attention.

There are opportunities to develop affiliate arrangements that recognize the commercial value of qualified introductions, satisfied customers and continuing relationships, rather than exclusively rewarding the mechanical accomplishment of getting somebody to click or purchase something. The affiliate should be compensated fairly for creating value. The advertiser should understand what kind of value has been created. And the customer should receive what he was led to expect.

An affiliate relationship becomes more interesting when the affiliate operates as a trusted source of recommendations rather than a contractor hired to deliver strangers.

The Privacy Paradox

Any discussion of developing customer relationships within adult entertainment must acknowledge an important characteristic of our audience. Many of our customers don't particularly want to be known. That is entirely reasonable. A person can appreciate a publication without wanting the publisher to maintain an elaborate record of his activities. A consumer can regularly return to an entertainment service without wanting to receive promotional messages about it. An audience can possess commercial significance without becoming a database of personally identifiable information. We need to distinguish the establishment of a relationship from the accumulation of surveillance capabilities.

The conventional marketing response to the problem of customer retention is frequently to collect additional information. Obtain an email address. Establish a profile. Track behavior. Develop increasingly sophisticated mechanisms for contacting the customer. Some of these practices, when responsibly implemented and voluntarily accepted, can provide legitimate value to both businesses and consumers. But the adult entertainment industry has particularly compelling reasons to exercise restraint.

A customer may value the ability to return anonymously more highly than the convenience of receiving personalized promo-

tional communications. That preference should not automatically be regarded as a deficiency in our marketing capabilities. It may represent an important characteristic of the product we're selling. Discretion itself can contribute to Audience Equity.

The customer who trusts a business to respect his privacy may have a greater incentive to return than the customer who suspects that every interaction is being recorded for purposes he doesn't understand. We should become exceptionally good at developing relationships with people without requiring those people to surrender an unreasonable degree of their privacy.

The objective is to earn their return. Not to acquire the technological ability to follow them around.

Measuring the Audience Instead of the Traffic

The development of more sophisticated entertainment businesses requires a corresponding development in the sophistication of the measurements employed by management. I would encourage executives to investigate several questions. What proportion of our visitors returns voluntarily, to the extent that this can be estimated without intrusive tracking? How frequently do people search specifically for our brand, performers or productions? How many paying customers remain commercially active after the initial purchase? How much revenue do we generate from relationships established in previous periods? Which distribution channels produce the most durable customer relationships? Which advertising campaigns generate business that would not otherwise have occurred?

That last question is more difficult than it sounds. In 2015, economists Randall A. Lewis and Justin M. Rao published research in *The Quarterly Journal of Economics* demonstrating the considerable statistical difficulties associated with accurately measuring the financial returns of advertising, even through large-scale randomized experiments.[2] The availability of enormous quantities of data does not automatically produce an equally enormous quantity of reliable commercial intelligence.

A visitor arriving through a particular advertisement might have visited anyway. A customer credited to a particular promotional campaign might already have been familiar with the business. A subsequent purchase might have resulted from several previous interactions rather than exclusively from the final advertisement somebody happened to click. Our measurements should recognize these limitations.

Where practical, businesses should employ controlled experiments, compare groups of customers acquired through different channels and evaluate commercial outcomes over meaningful periods. Comparisons between channels alone do not establish causation; experiments should account for uncertainty and differences in customer populations. And they should accomplish this using measurement practices proportionate to their legitimate requirements and respectful of consumer privacy.

The objective is not to accumulate the largest possible collection of statistics. It is to develop a better understanding of the business.

The Thirty-Day Silence

Here is another strategic exercise for entertainment executives. Imagine that, for thirty days, your business cannot purchase any

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2. Randall A. Lewis and Justin M. Rao, “The Unfavorable Economics of Measuring the Returns to Advertising,” *The Quarterly Journal of Economics* 130, no. 4 (2015): 1941–1973. https://doi.org/10.1093/qje/qjv023.

additional traffic. Your existing website remains operational. Your intellectual property remains available. Your legitimate distribution agreements remain in place. Customers can still find you, recommend you and return to you. But you cannot purchase another click, impression or commercial referral.

What happens? Does your business continue attracting audiences? Do people deliberately seek out your productions? Do existing customers return? Does your brand possess sufficient recognition to continue generating commercial activity? How much of your revenue survives?

I would call this the *Thirty-Day Silence Test*. I'm not suggesting that businesses actually discontinue successful advertising campaigns merely to satisfy an intellectual exercise. The objective is to examine the hypothetical consequences of losing access to purchased attention.

A business that would experience a substantial decline might still be a perfectly legitimate and profitable business. But its management should understand the degree to which its commercial performance depends upon the continuing availability of a particular external resource. That knowledge ought to influence decisions concerning investment in intellectual property, brand development, distribution, advertising and the customer experience. The test is particularly useful for entrepreneurs who believe they're building an entertainment company when much of their commercial infrastructure has actually been optimized around traffic acquisition.

What remains when the traffic stops arriving? That may tell you something rather important about what you've built.

Give Them a Reason to Come Back

There is an enormous difference between a person who returns to an entertainment service because an advertisement persuaded him to and a person who returns because he missed it. The

latter represents a particular kind of commercial accomplishment. It means the business has established a recognizable place within somebody's preferences.

People develop favorite restaurants. Favorite publications. Favorite television programs. Favorite recording artists. These attachments can be durable. They can survive changes in distribution technologies, fluctuations in advertising expenditures and the arrival of an enormous number of competing products. But they are not acquired automatically. They develop through the consistent delivery of something people consider worth returning for.

The entertainment industry understands this principle well enough to invest substantial resources in the development of memorable characters, recognizable personalities, distinctive creative identities and continuing relationships with audiences. We ought to become more interested in accomplishing something similar.

I want our industry to produce films that people remember by name. I want it to develop entertainment brands that people deliberately seek out. I want independent producers to possess audiences whose loyalty survives a change in distribution arrangements. I want talented performers and filmmakers to accumulate reputations that extend beyond the commercial environments in which their work happens to appear. And I want entertainment executives to become as enthusiastic about the development of an audience as they've historically been about the acquisition of traffic.

Because the ultimate measure of an entertainment business isn't how many people it can persuade to arrive. It's how many people it can give a reason to return.

Anybody with sufficient money can purchase a crowd. Building an audience is an entirely different art.

CHAPTER 12

The Price of Having No Price

“Anticipation doesn't require artificial scarcity.
It requires something worth anticipating.”

One of the more entertaining characteristics of the luxury goods business is its ability to persuade intelligent people to spend large sums of money on things whose functional equivalents can be purchased for less. A ten-thousand-dollar watch doesn't provide ten thousand dollars' worth of additional accuracy. A two-hundred-dollar bottle of wine doesn't necessarily provide twenty times the pleasure of a ten-dollar bottle. A first-class airline passenger arrives at precisely the same destination as somebody sitting in the vicinity of the lavatory.

The businesses responsible for these products understand something that the adult entertainment industry appears to have substantially underestimated. People don't establish the value of a product exclusively by evaluating its functional utility. If they did, much of the luxury goods industry would disappear by Thursday. People purchase experiences, distinctions, conveniences, associations, assurances and occasionally the rather satisfying knowledge that they've acquired something exceptional. The commercial sophistication of an industry can often be measured by its ability to identify and develop these additional sources of value.

Our industry has spent much of its recent history doing precisely the opposite. We've taken a diverse category of entertainment and reduced much of its commercial proposition to a remarkably narrow function. Then we've competed to provide that

function as inexpensively as possible. What an astonishing failure of imagination.

What Are We Actually Selling?

In 1988, marketing scholar Valarie A. Zeithaml published an influential examination of the relationships among price, perceived quality and perceived value in the *Journal of Marketing*.[1] Her work helped articulate an important distinction: the value a consumer assigns to a product involves an assessment of what is received relative to what is surrendered in obtaining it. That assessment needn't be exclusively financial. Time, inconvenience, uncertainty and effort can all influence the attractiveness of a commercial proposition.

This provides an interesting perspective from which to examine adult entertainment. Suppose two companies provide access to comparable films. One offers an inconvenient, poorly organized, advertising-intensive viewing experience. The other offers reliable playback, excellent presentation, intelligent recommendations, responsible privacy protections and a recognizable standard of creative quality. The second company may charge more for its entertainment while providing greater value to a particular customer. The difference resides in the totality of the commercial experience.

If we insist upon defining the product exclusively as the video, we substantially underestimate the number of things for which a consumer might willingly pay. Convenience has value. Discretion has value. Reliability has value. Trust has value. The ability to find something exceptional without spending forty minutes looking through things that aren't particularly exceptional has value.

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1. Valarie A. Zeithaml, “Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence,” *Journal of Marketing* 52, no. 3 (1988): 2–22. https://doi.org/10.1177/002224298805200302.

Our industry ought to become more interested in identifying the things that make the entertainment experience valuable beyond the mere availability of the entertainment.

The Price Is Part of the Message

In 1989, marketing researchers Akshay R. Rao and Kent B. Monroe published a review of research examining how price, brand names and store names influence consumers' perceptions of product quality.[2] Their analysis found positive relationships between price and perceived quality, and between brand names and perceived quality, across the consumer-product research they examined. The association with store name was not statistically significant, and the authors cautioned that the evidence was concentrated in relatively inexpensive, frequently purchased goods rather than services.

This doesn't mean that increasing the price of a mediocre product will magically transform it into an attractive commercial proposition. Perceived quality is not the same as actual quality. Nor does it establish that consumers consistently prefer more expensive products. Price can nevertheless communicate information about a product before the consumer has acquired sufficient experience to evaluate the product independently.

When a company establishes a price, it is making a statement about what it believes it is offering. That statement can be reinforced or contradicted by everything else the company does. A beautifully presented entertainment service charging a premium subscription price might communicate a coherent commercial proposition. An inadequately designed service charging the same price might communicate little more than an ambitious financial aspiration on the part of its owner.

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2. Akshay R. Rao and Kent B. Monroe, “The Effect of Price, Brand Name, and Store Name on Buyers’ Perceptions of Product Quality: An Integrative Review,” *Journal of Marketing Research* 26, no. 3 (1989): 351–357. https://doi.org/10.1177/002224378902600309.

The price must be supported by the product. But the product must also support the price. Adult entertainment companies should devote more attention to establishing that relationship. Pricing should emerge from an understanding of what makes the product valuable, rather than from a cursory examination of what everybody else in the industry happens to be charging.

The Eternal Going-Out-of-Business Sale

There is something peculiar about a business that continually advertises its products as being available at extraordinary discounts. An exceptional promotional offer can be an effective commercial instrument. An exceptional promotional offer available every day of the year becomes somewhat less exceptional. Eventually, the advertised discount ceases to communicate an opportunity and begins to communicate the ordinary price of the product. The customer learns.

If a subscription is perpetually advertised at seventy-five percent off, a consumer may reasonably conclude that the supposedly undiscounted price has relatively little commercial significance. The business has established two prices. One is what it claims the product is worth. The other is what it apparently believes people will actually pay. The greater the disparity between the two, the more difficult it may become to communicate a credible assessment of the product's value.

Discounting can serve legitimate strategic purposes. It can introduce customers to a product, stimulate demand during particular periods, reward existing customers or provide access to audiences who might otherwise be unable to afford the entertainment. But perpetual discounting deserves examination. Is the business using price reductions to accomplish identifiable commercial objectives? Or has the business become dependent upon continually representing its ordinary commercial proposition as an extraordinary bargain?

If your product has been on sale since the Obama administration, perhaps it isn't on sale. Perhaps that's simply its ordinary selling price.

The Bargain Basement of Entertainment

One of the more interesting attributes of a premium product is the extent to which its producer refuses to participate in certain commercial comparisons. An exceptional restaurant doesn't necessarily regard the price of a hamburger at a fast-food establishment as the appropriate basis for determining the price of its own entrées. The restaurant understands that it is offering a different experience. There may be some functional similarity between the products. But functional similarity doesn't necessarily establish commercial equivalence.

The adult entertainment industry frequently behaves as though every company producing or distributing sexually explicit entertainment is competing within substantially the same commercial category. Consequently, the existence of enormous quantities of freely available pornography becomes a psychological constraint upon the pricing decisions of companies producing entirely different entertainment experiences. I think that's a mistake.

The existence of free music hasn't eliminated the commercial market for concert tickets. The existence of free photographs hasn't eliminated the commercial market for professional photography. The existence of an abundance of freely accessible writing hasn't eliminated the commercial market for books. The existence of a functional substitute doesn't necessarily eliminate the value of a differentiated product. It does, however, make differentiation rather important.

A company cannot reasonably expect to charge a substantial premium for entertainment that the consumer perceives as being substantially interchangeable with entertainment available else-

where. That's the problem we ought to be solving. Not the existence of free pornography.

The Premium Proposition

Suppose an independent adult entertainment company decides that it wants to establish a premium brand. What does that actually mean? Does it mean producing films with larger budgets? Employing recognizable performers? Offering higher-resolution video? Charging more for subscriptions? Possibly. But none of those characteristics, individually, necessarily constitutes a compelling premium proposition.

The more interesting question concerns the particular combination of benefits the company can provide that a sufficiently interested audience cannot easily obtain elsewhere. Perhaps it involves an identifiable creative philosophy. Perhaps it involves access to the work of particular filmmakers, thoughtfully curated programming or a commitment to the technical quality of the viewing experience. Perhaps it involves the confidence that the entertainment has been produced and distributed responsibly, with appropriate authorization and meaningful professional standards. Perhaps it involves an exceptional degree of consumer privacy.

Premium entertainment needn't be more extravagant. It should be more distinctive in ways that matter to the people consuming it.

Entrepreneurs contemplating premium brands should begin by identifying the reasons their customers might legitimately consider the products exceptional. Establish those characteristics. Communicate them. Demonstrate them consistently. Then determine the price the market is prepared to support.

Putting the word *premium* on a website doesn't constitute the development of a premium entertainment product any more than putting the word *gourmet* on a can of beans constitutes the de-

velopment of a culinary philosophy. The adjective has to be earned.

Must Everybody Have a Subscription?

The recurring subscription has become such an established feature of digital entertainment that we occasionally neglect to examine whether it represents the most appropriate commercial arrangement for a particular product. Subscriptions can be attractive to businesses. They provide a degree of revenue predictability. They can facilitate continuing relationships with customers. They may allow producers to finance programming over extended periods rather than depend entirely upon individual transactions. But the characteristics that make subscriptions attractive to the publisher aren't necessarily the characteristics that make them attractive to the consumer.

A person interested in watching a particular film may have relatively little interest in establishing an ongoing financial relationship with the company responsible for distributing it. That person represents a legitimate commercial opportunity. Yet if the exclusive means of accessing the film involves purchasing a recurring membership, the company may effectively eliminate that opportunity.

Imagine a bookstore that refused to sell you a book unless you agreed to purchase another book every month until you instructed it to stop. The arrangement might appeal to particularly enthusiastic readers. It would be a rather peculiar exclusive business model for the entire publishing industry.

There is room within adult entertainment for a more sophisticated variety of commercial arrangements. Individual purchases, temporary access, advertising-supported programming, premium memberships, special releases, bundles and licensing arrangements may all be appropriate under different circumstances. The objective should be to develop a financial relationship compati-

ble with the customer's interest in the product. Not to force every expression of interest into the same financial relationship.

Recurring revenue is a wonderful thing. Recurring obligations are viewed somewhat differently by the people responsible for paying them.

The Customer Who Would Have Paid Something

One of the more interesting weaknesses of rigid pricing structures is their inability to accommodate the variation in consumers' willingness to pay. Consider a hypothetical studio with three thousand prospective customers interested in a particular production. One thousand would willingly purchase the film for fifteen dollars. Another thousand would willingly pay five dollars but would decline the fifteen-dollar offer. The remaining thousand would watch the production if access were subsidized by advertising.

If all one thousand customers willing to pay fifteen dollars actually purchase at that price, the company generates fifteen thousand dollars in gross revenue. If it makes the production immediately available without charge, it may sacrifice some or all of the direct purchase revenue it could otherwise have generated. Neither outcome is necessarily optimal.

A more sophisticated arrangement might involve differentiated access, release periods, supplementary features or other meaningful distinctions that accommodate different consumer preferences. The fifteen-dollar customer might purchase early access or an enhanced edition. The five-dollar customer might purchase ordinary access at a later date. The advertising-supported customer might encounter the production through a subsequent release. This resembles the logic of release windowing long employed by the motion picture industry. The underlying intellectual property can generate economic value through several commercial arrangements over the course of its useful life. The difficulty, of course, involves designing distinctions sufficiently meaningful

that the availability of less expensive alternatives doesn't simply eliminate the demand for more expensive ones.

If all three groups respond exactly as assumed, the first two release windows together could generate twenty thousand dollars in gross purchase revenue, plus whatever net advertising revenue the third generates. This is not a profit calculation: it excludes costs and assumes the later offer does not displace earlier purchases. Actual consumer behavior would need to be tested. But the underlying opportunity deserves attention.

There are people who won't purchase a thirty-dollar subscription but might purchase a five-dollar film. There are people who won't purchase the five-dollar film but will willingly watch a professionally integrated commercial. There are people who will pay more for an exceptional experience if we give them a compelling reason to do so. An entertainment company ought to be interested in developing commercially sustainable relationships with all three.

Why We Should Bring Back the Movie Premiere

One of the things the adult industry lost in its transition toward continuously available Internet entertainment was a meaningful sense of occasion. A new production once had the potential to represent something more significant than an addition to an expanding library. It could be an event. The release of a film provided opportunities for publicity, discussion, anticipation and commercial activity concentrated around a particular moment. The Internet hasn't eliminated the possibility of creating those occasions. It has simply made it easier not to bother.

Why shouldn't a particularly ambitious adult production have a digital premiere? Why shouldn't a studio establish a release date, introduce audiences to the people responsible for the production, provide editorial material about its development and create an appropriately designed online experience surrounding its debut? Why shouldn't consumers who particularly appreciate

the work of a filmmaker have opportunities to participate in special releases?

The commercial opportunities associated with an event can extend beyond the initial viewing of the film. Sponsorships, interviews, authorized supplementary material, special editions and subsequent distribution arrangements can all contribute to the economics of an individual production. The value resides partially in transforming the consumption of entertainment into an experience associated with a particular occasion. We've become so accustomed to the Internet's ability to make everything available all the time that we've underestimated the commercial possibilities of making certain things available at a particular time.

Anticipation doesn't require artificial scarcity. It requires something worth anticipating.

The Commercial Life of a Film

There is another opportunity inherent in reconsidering the economics of an individual production. A film can generate revenue over an extended period through different commercial arrangements. The first sale needn't be its only sale. The initial subscription release needn't exhaust its commercial possibilities. The production might subsequently become available through authorized advertising-supported services, curated collections, licensing arrangements, retrospective programming or special editions. Different audiences may discover the same work at different points in its commercial life.

Yet much of the adult Internet operates according to a production philosophy that treats recently released material as valuable and older material as increasingly incidental. That's a rather unambitious way of managing intellectual property. Consider a publisher possessing a catalog of professionally produced entertainment accumulated over twenty years. The company has potentially acquired a valuable collection of assets. But if management evaluates those assets principally according to the dates

on which they were uploaded, it may have substantially underestimated their commercial possibilities.

A sophisticated entertainment company should be capable of introducing older work to new audiences. It should be capable of identifying productions whose enduring artistic, historical or commercial significance warrants renewed attention. It should recognize opportunities to restore, remaster and redistribute appropriate material, subject to the necessary rights, permissions and applicable performer consent requirements. The cost of producing the film has already been incurred. The opportunity to develop additional legitimate sources of revenue from it may remain.

We should become more proficient at managing the commercial lives of our productions. Making another film is not always the most intelligent way to make more money from filmmaking.

Artificial Scarcity Is No Substitute for Excellence

I want to distinguish the commercial possibilities of differentiated access from the less admirable practice of manufacturing inconvenience in the hope that consumers will pay to eliminate it. There is a difference between charging for an enhanced entertainment experience and deliberately making the ordinary entertainment experience unnecessarily unpleasant. A business might establish an advertising-supported service and a subscription service without advertising. That's a recognizable commercial arrangement. But if the advertising-supported experience is deliberately made intolerable to encourage subscriptions, the company has effectively developed a product whose commercial attractiveness depends upon the inadequacy of another product it provides. I find that philosophy rather uninspiring.

The free-to-consumer experience ought to be good. The premium experience ought to be better in ways that justify its price. Both should reflect professional standards. The customer shouldn't have to pay somebody to stop abusing him.

Similarly, artificial countdowns, nonexistent deadlines and manufactured claims of exclusivity may occasionally encourage immediate transactions, but they can also undermine the credibility upon which durable commercial relationships depend. There are more intelligent ways to establish value than pretending something is about to disappear.

Create something distinctive. Give it an appropriate commercial identity. Let the customer determine whether the experience is worth the price. That arrangement seems more conducive to developing an entertainment business people might actually want to return to.

The Value Ladder

I propose that entertainment companies develop a *Value Ladder*. The concept is related to established marketing approaches involving differentiated product tiers, but I would emphasize a particularly important principle in applying it to adult entertainment. Every level of the ladder should constitute a legitimate product in its own right.

The advertising-supported experience should provide professionally presented entertainment. The individual purchase should offer a clearly identifiable benefit to somebody interested in a particular production. The subscription should provide meaningful continuing value. A premium membership should offer genuinely distinctive benefits rather than merely remove inconveniences deliberately introduced into the lower levels. The objective is to accommodate differences in consumer preferences without communicating that customers who spend less money deserve to be treated with less professional consideration.

A person watching an advertising-supported production today may become a paying customer tomorrow. A person purchasing individual films may subsequently develop an interest in membership. A person subscribing to a particular service may discover an appreciation for a particular filmmaker whose subsequent

work becomes available through another commercial arrangement. These relationships can evolve. The business should facilitate their evolution rather than attempt to extract the maximum possible amount of money from every individual interaction.

A customer is not necessarily declining to purchase your entertainment when he declines a particular method of purchasing it. Perhaps he simply doesn't like the method.

Don't Apologize for Charging Money

I have enormous enthusiasm for the commercial possibilities of freely accessible entertainment. I also have enormous enthusiasm for the proposition that creative people should be adequately compensated for what they create. There is no contradiction between those positions.

There are circumstances under which distributing intellectual property without directly charging the audience constitutes an intelligent business decision. There are circumstances under which charging a substantial price for exceptional entertainment constitutes an equally intelligent business decision. What concerns me is the extent to which parts of our industry appear to have developed an almost apologetic attitude toward the latter proposition. As though the existence of freely available pornography obligates every producer to justify the impertinence of asking somebody to pay for professionally created entertainment.

You have no obligation to compete with every other business that provides something functionally similar to what you provide. You have an obligation to understand your costs, understand your audience, establish a compelling commercial proposition and determine whether the resulting business is economically sustainable. That may involve serving a smaller audience exceptionally well. It may involve producing fewer films with greater individual significance. It may involve establishing commercial

arrangements that differ substantially from the prevailing arrangements of the industry.

There is nothing inherently unambitious about developing a business whose products are purchased by a relatively small number of people who particularly appreciate them. Some entrepreneurs spend their entire careers attempting to acquire enormous audiences without ever developing something those audiences consider sufficiently valuable to purchase. Others build remarkable businesses by establishing precisely that appreciation among fewer people. I'd be particularly interested in understanding the economics of the latter.

Establish the Value First

The adult entertainment industry has become remarkably proficient at changing prices. We can introduce another promotional offer, reduce the cost of a subscription, increase an affiliate commission or establish another free distribution arrangement with administrative efficiency. Changing the perceived value of the product is more complicated.

It requires creative intelligence. Professional judgment. An understanding of consumer behavior. Technological sophistication. Consistent commercial conduct. And occasionally the courage to stop competing according to terms established by companies whose products we have no particular desire to imitate.

We shouldn't begin every commercial discussion by asking how much money people are willing to spend on pornography. That's an excessively broad question about an insufficiently differentiated category of entertainment. We should be asking how much value we can create for particular audiences through particular products delivered in particular ways. The price becomes more interesting once we've answered that question.

Our objective should not be to make pornography expensive. It should be to create entertainment whose commercial value is sufficiently apparent that its price makes sense.

Sometimes that price will be fifty dollars. Sometimes it will be five dollars. Sometimes an advertiser will pay it. Sometimes we'll give the entertainment away because doing so accomplishes something more valuable than selling it. The important thing is that the decision should be ours, informed by an intelligent commercial strategy rather than dictated by an inherited assumption that what we produce isn't worth very much.

We don't need an industry-wide price increase. We need an industry-wide increase in imagination.

CHAPTER 13

Somebody Has to Pay for the Show

“If we want ambitious productions,
we need commercial arrangements
capable of financing ambition.”

There is a wonderfully uncomplicated economic reality underlying the entire entertainment business that occasionally gets lost amid our rather sophisticated conversations about technology, traffic and monetization. Somebody has to pay for the show.

The audience doesn't necessarily have to pay for it. The distributor doesn't necessarily have to pay for it. The advertiser doesn't necessarily have to pay for it. But somebody has to. And if the commercial arrangements under which the entertainment is produced and distributed fail to compensate adequately the people responsible for creating it, the quality, quantity or sustainability of that entertainment will eventually suffer.

This isn't a particularly complicated economic theory. It's arithmetic.

Yet Portions of the adult entertainment industry have developed commercial arrangements in which practically everybody involved in the distribution of the product has figured out how to make money from it, while the people responsible for creating the product are still trying to figure out how to finance the next one. That's an interesting way to organize a creative economy.

The Producer at the Bottom of the Food Chain

Consider the commercial journey of an adult film. There is a producer responsible for financing the production. There are performers and other creative professionals responsible for its execution. There may be distributors, publishers, advertising networks, affiliates, hosting companies, payment processors and numerous other organizations participating in the subsequent commercial exploitation of the finished product. Each performs a potentially legitimate economic function. Each has expenses. Each has a reasonable expectation of compensation.

But the producer occupies a distinct position within this arrangement. The producer may have incurred the greatest initial financial risk before anybody else involved in the subsequent commercial arrangements had determined whether the product would generate any revenue whatsoever.

The hosting company generally gets paid for hosting. The payment processor generally gets paid for processing. The advertising intermediary gets compensated according to its commercial arrangements. The producer, meanwhile, may be waiting to discover whether the thing that made all these subsequent transactions possible will ever recover the cost of its creation.

This is hardly unique to adult entertainment. The economics of motion picture production have historically involved complicated relationships among the financing, creation, distribution and commercial performance of films.[1]

But the enormous abundance of adult entertainment, combined with its comparatively inexpensive digital distribution, has created circumstances in which the people responsible for financing original productions can find themselves in particularly uncomfortable commercial positions.

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1. Harold L. Vogel, “Making and Marketing Movies,” in *Entertainment Industry Economics: A Guide for Financial Analysis* (Cambridge University Press, 2020), 134–204. https://doi.org/10.1017/9781108675499.005.

The industry needs to examine whether its economic arrangements sufficiently reward the creation of the intellectual property upon which those arrangements depend. Because without the intellectual property, we're all in the business of distributing absolutely nothing.

The Film That Made Everybody Money

Imagine a hypothetical production that costs twenty-five thousand dollars to make and another five thousand dollars to prepare, promote and distribute initially. The producer has thirty thousand dollars invested in the film.

Over the course of its commercial life, the production generates considerable activity across several legitimate distribution channels. Advertising is displayed. Subscriptions are acquired. Hosting fees are incurred. Payment transactions occur. Affiliates earn commissions. Eventually, forty thousand dollars in gross revenue, counted once rather than adding transfers between intermediaries, can be attributed to the commercial exploitation of the production. That sounds rather encouraging.

But suppose the producer's contractual share of that revenue, after the applicable distribution arrangements and deductions, amounts to twenty thousand dollars. The film has generated forty thousand dollars in commercial activity. The producer has a ten-thousand-dollar shortfall against the initial investment, assuming no other receipts or costs. Depending upon their respective costs and compensation arrangements, several of the other companies participating in the distribution of the film may nevertheless have made money.

Now imagine this pattern occurring repeatedly throughout a production company's catalog. The producer is effectively financing the inventory upon which other businesses depend without necessarily receiving sufficient compensation to continue financing it. There is nothing inherently objectionable about the other

businesses earning money. The problem concerns the sustainability of the arrangement in its entirety.

We shouldn't evaluate the health of an entertainment economy exclusively according to the profitability of its distribution infrastructure. A thriving distribution industry attached to a financially deteriorating production industry is not necessarily a thriving entertainment industry. It may simply be consuming its underlying capital.

Revenue Is a Terribly Seductive Number

One of the more entertaining characteristics of entrepreneurial conversation is the enthusiasm with which people announce their revenues. I rarely encounter the same enthusiasm for discussing their margins. A company generating a million dollars in annual revenue sounds impressive. A company spending a million and twenty thousand dollars to generate that revenue sounds less impressive. They're potentially the same company.

The distinction between revenue and profit becomes particularly important in digital entertainment because there are so many different entities capable of claiming that a particular commercial activity generated revenue. A film generates advertising revenue. A website generates subscription revenue. An affiliate generates commissions. A distributor generates licensing income. A payment processor generates transaction fees.

Some of these figures represent different stages in the movement of the same money. Adding them together indiscriminately can produce a rather misleading impression of the economic value being created. More importantly, none of those figures necessarily tells us whether the initial creative investment was financially successful.

I would encourage producers to become more interested in the economics of individual productions. How much did the production actually cost? How much additional expenditure was

necessary to make it commercially available? What proportion of the resulting revenue ultimately returned to the business responsible for financing it? How long did that take? What obligations remain associated with the production? And what continuing commercial value does the company retain?

These are ordinary questions of financial management. Yet the sheer volume of activity generated by the Internet can make relatively ordinary financial questions surprisingly difficult to answer.

A million views may constitute a technological accomplishment. They may constitute a marketing accomplishment. Whether they constitute a financial accomplishment remains to be established.

The Recoupment Gap

I describe the difference between the total recoverable investment in a production and the net financial proceeds actually returned to the entity financing it as the *Recoupment Gap*, whenever those proceeds fall short of the investment. The concept is an application of the established financial principle of recoupment. Its significance for adult entertainment concerns the relationship between the apparent commercial success of a production and its actual ability to finance subsequent creative activity.

A film can be enormously popular without being particularly profitable for its producer. A distribution arrangement can generate wide visibility without generating sufficient compensation. A publisher can report impressive audience statistics without providing the underlying rights holders with a meaningful understanding of the economic performance of their intellectual property. The Recoupment Gap forces us to examine those distinctions.

Suppose a production requires a total initial investment of thirty thousand dollars. Under one distribution arrangement, the

producer ultimately receives three dollars in net contribution toward recovering that investment for every qualifying transaction, after the applicable variable costs. Ten thousand such transactions would be necessary to recover the initial expenditure, assuming no additional fixed costs.

Under another arrangement, the net contribution is thirty cents. The required number of transactions increases to one hundred thousand. Both arrangements could be commercially viable under different circumstances. But the second places greater demands upon the distribution system.

An entrepreneur considering the production of additional films ought to understand precisely which economic circumstances the business requires in order to survive. And perhaps more importantly, whether those circumstances are becoming more or less attainable over time.

Financing the Next Film With the Last One

There is a particularly attractive characteristic of a healthy creative business. The work it has already produced can help finance the work it hasn't produced yet. A successful film generates revenue. Some of that revenue compensates the people who participated in its creation. Some recovers the investment. Some supports the continuing operation of the business. Some may become available to finance another production.

Over time, an intelligently managed library of intellectual property can contribute to the financial resilience of the organization responsible for creating it. The producer gradually accumulates commercially productive assets. That's an enormously appealing model for an independent creative enterprise. But it depends upon the producer retaining sufficient economic participation in the subsequent commercial life of those assets.

If the principal financial benefits associated with the exploitation of a production continually accrue elsewhere, the producer's

capacity to finance subsequent work may remain limited regardless of the popularity of the existing catalog. The business may be forced to seek additional external financing, reduce production expenditures, sell valuable rights or increase the volume of relatively inexpensive productions to maintain its cash flow. Eventually, the producer's creative decisions become increasingly subordinate to the immediate financial requirements of staying in business. The economic arrangement begins influencing the artistic output.

This is why the question of how we compensate creators cannot be separated from the question of what kind of entertainment industry we want to become. If we want ambitious productions, we need commercial arrangements capable of financing ambition.

The Myth of the Predictable Hit

The motion picture business has never been particularly accommodating to people who demand predictable commercial outcomes. In 1999, economists Arthur De Vany and W. David Walls published an examination of uncertainty in the movie industry, exploring the highly variable distribution of box-office revenues and the difficulty of reliably predicting commercial success.[2] The attraction of filmmaking is accompanied by a substantial degree of financial uncertainty.

Audiences are wonderfully inconvenient in that respect. They don't necessarily appreciate the things that producers, distributors, financiers and marketing executives have collectively determined they ought to appreciate. A modestly financed production can become successful. An elaborately financed production can

2. Arthur De Vany and W. David Walls, “Uncertainty in the Movie Industry: Does Star Power Reduce the Terror of the Box Office?” *Journal of Cultural Economics* 23, no. 4 (1999): 285–318. https://doi.org/10.1023/A:1007608125988.

generate great enthusiasm among the people involved in financing it and remarkably little enthusiasm anywhere else.

Although research into mainstream theatrical releases cannot automatically be generalized to adult entertainment, the underlying management problem is familiar. Creative businesses make financial commitments before they know precisely how the audience will respond. This is one reason I find the idea of evaluating every creative project according to its immediate commercial performance somewhat problematic.

A business needs to recover its investments over time. It doesn't necessarily need every individual creative investment to produce identical results. An entertainment company can maintain a collection of productions with different budgets, creative objectives, commercial expectations and potential audiences. Certain productions may generate dependable revenue. Others may establish the identity of the brand. Others may introduce emerging talent or explore creative directions whose commercial significance remains uncertain.

The management of a creative business involves judgment about the portfolio as a whole. Not merely an obsession with whether every individual film produced an immediate profit.

The Economics of Courage

Exceptional entertainment can be difficult to finance because it occasionally requires somebody to take an exceptional risk. The producer may have to finance a project whose commercial prospects cannot be established through an examination of previous projects. The filmmaker may want to explore a different approach. The publisher may recognize a potentially valuable audience whose preferences are not adequately represented in the company's existing statistics. Somebody has to authorize the expenditure. This is where the economics of the industry begin influencing the boundaries of its imagination.

A financially secure entertainment company can occasionally afford to discover that it was wrong. A company operating perpetually on the edge of insolvency possesses less freedom to experiment. That doesn't necessarily make its management less intelligent or its creative personnel less talented. It makes the consequences of an unsuccessful experiment substantially more severe.

The capacity to absorb an intelligent failure is an important commercial resource. And it is a resource we undermine when the financial arrangements surrounding original entertainment leave its creators with insufficient participation in the benefits of their successful work. An industry that rewards the distribution of intellectual property more generously than its creation, relative to the respective costs and risks involved, should not be particularly surprised if ambitious people become increasingly interested in distribution rather than creation.

Capital migrates toward opportunity. Talent does, too.

When Everybody Takes a Percentage

I have no philosophical objection to intermediaries. A competent intermediary can provide extraordinary commercial value. A distributor can introduce entertainment to audiences a producer could not otherwise reach. An advertising network can establish relationships with advertisers a small publisher could not economically acquire independently. A payment processor can provide essential financial infrastructure. These businesses deserve to be compensated for the value they create.

But percentages possess an interesting psychological characteristic. Individually, they can appear relatively insignificant. Collectively, they can become rather substantial. A producer agrees to one distribution fee. Another commercial relationship introduces another expense. A promotional arrangement creates another deduction. Financial processing introduces additional costs. Eventually, the economic proposition the producer origi-

nally contemplated may bear relatively little resemblance to the amount of money ultimately received.

The important consideration isn't simply how many intermediaries participate in a transaction. It's whether each intermediary creates sufficient incremental value to justify the cost of its participation.

A distributor retaining fifty percent of the proceeds while generating business that would otherwise be inaccessible may represent an exceptionally attractive commercial partner. A distributor retaining ten percent while contributing practically nothing of commercial significance may represent an extraordinarily expensive one. The percentage itself doesn't answer the question. The value created does.

We should become more sophisticated in evaluating these relationships. What can this organization accomplish that we cannot? What additional revenues can it reasonably generate? What costs or risks can it meaningfully reduce? What commercial opportunities might we surrender by entering the arrangement? And what would the economics of the business look like if the arrangement didn't exist?

Those questions ought to precede the negotiation of the percentage. Not follow it.

The Importance of Commercial Transparency

The relationship between the people creating entertainment and the people distributing it becomes particularly complicated when one party possesses substantially more information about its commercial performance than the other. A producer licenses a collection of films to a distribution service. The service knows how frequently those films are viewed, how they contribute to customer acquisition, how they are promoted and, to varying degrees, what revenues are associated with them. The producer may receive a payment and a relatively uncomplicated financial

statement. The producer is subsequently expected to determine whether the distribution arrangement represents an attractive commercial proposition. On the basis of what?

There are legitimate complexities associated with attributing revenue to individual productions, particularly within subscription services containing extensive libraries of entertainment. A customer may subscribe because of several films, several performers or an appreciation for the service in its entirety. There may be no objectively correct method of allocating every dollar of subscription revenue among every production the customer encounters. Nevertheless, difficulty is not a compelling argument for opacity.

Distribution agreements should establish intelligible methods of compensation, reporting obligations, clearly defined deductions, appropriate accounting practices and meaningful mechanisms for resolving discrepancies. Where commercially appropriate, rights holders should possess access to the information necessary to evaluate the performance of their work. That information needn't include the identities or sensitive personal activities of individual viewers. Commercial transparency and consumer privacy are entirely compatible objectives.

A producer doesn't necessarily need to know who watched a film. The producer has a compelling interest in knowing whether the film was watched.

The Subscription Accounting Problem

Subscription entertainment introduces a fascinating economic problem. Suppose a service contains ten thousand films and charges its customers a monthly membership fee. How much of that membership fee should be attributed to any particular film? The simplest approach might involve allocating revenue according to the number of times each film is watched. But consider the limitations of that arrangement.

A particular production might attract a customer to the service even though the customer ultimately spends more time watching other productions. Another production might contribute to the customer's decision to retain a subscription without being watched particularly frequently. An extensive collection of historically significant films might enhance the perceived value of the service even if individual selections generate relatively modest viewing statistics. Different productions contribute to the commercial attractiveness of a library in different ways.

There is considerable opportunity for the development of more intelligent compensation and measurement arrangements. Minimum licensing guarantees, fixed-fee arrangements, usage-based compensation, performance bonuses and hybrid arrangements can each distribute commercial risk differently. No single arrangement will necessarily be appropriate for every producer, distributor or production. But the economics should be intelligible to the parties involved. And the metrics employed should reflect, as accurately as practical, the kinds of value the parties have agreed to compensate.

A payment formula isn't necessarily fair simply because a computer calculates it. The commercial intelligence resides in the design of the formula.

Own the Future of What You Make

One of the more consequential decisions a producer can make concerns the ownership and licensing of the intellectual property created through the production. Selling all applicable rights to a film may provide immediate compensation and eliminate certain commercial uncertainties. Retaining those rights may preserve opportunities for future revenue while leaving the producer responsible for additional risks and expenses. Licensing the film under limited terms may create an arrangement somewhere between those alternatives. Each decision can be legitimate.

But the long-term implications deserve considerable attention. A producer who relinquishes valuable rights in exchange for immediate income may subsequently discover that the intellectual property has acquired greater commercial significance. Conversely, a producer who retains rights without possessing the resources or expertise necessary to exploit them may discover that ownership alone doesn't pay the electricity bill.

The objective isn't necessarily to own everything indefinitely. The objective is to understand what you're surrendering, what you're retaining and what commercial opportunities those decisions create or eliminate.

The relevant agreements should also respect the rights, consent and contractual expectations of the performers and other creative professionals involved. Ownership of a particular commercial asset must not be confused with unrestricted ownership of the people whose contributions made it possible. We'll examine those issues in greater detail later in this book.

For now, I would encourage producers to regard intellectual property decisions as fundamental strategic decisions. The terms negotiated today may determine the nature of the business twenty years from now.

The Second-Production Test

I propose another exercise for evaluating the commercial arrangements surrounding original entertainment. I call it the *Second-Production Test*.

Imagine that a company produces a film and that the film performs according to management's reasonably anticipated commercial expectations. After compensating the people involved, satisfying contractual obligations, paying distribution expenses and accounting for the costs of operating the business, what resources remain available to finance another production? If the

answer is consistently very little, management should investigate why.

Perhaps the initial production budget is excessive relative to the market being served. Perhaps the company's pricing arrangements are inadequate. Perhaps its distribution relationships are unnecessarily expensive. Perhaps the entertainment isn't reaching a sufficiently interested audience. Perhaps the business is retaining insufficient economic participation in the intellectual property it creates.

There may be perfectly legitimate strategic reasons for producing a film that doesn't recover its own investment. A company might be introducing a new brand, fulfilling a broader commercial arrangement or deliberately financing an artistic experiment. But those decisions should be deliberate. A company shouldn't discover, after producing several hundred films, that its method of making films is economically incompatible with its ambition to make more of them.

The Second-Production Test examines the regenerative capacity of a creative business. Does the commercial success of its existing work contribute to the financial possibility of its future work? That's a question every entertainment company ought to be capable of answering.

An Economy Worth Creating For

I would like to see adult entertainment develop an economic environment in which talented people have compelling commercial reasons to produce exceptional work. An environment in which a successful film can contribute meaningfully to the financing of another successful film. An environment in which distributors, technology providers, advertisers and other intermediaries recognize that their long-term commercial interests depend upon the existence of a financially sustainable creative economy. An environment in which creative professionals can establish endur-

ing careers rather than simply participate in a succession of individually compensated transactions.

This doesn't require everybody to make the same amount of money. It doesn't require the elimination of every intermediary. It doesn't require the industry to abandon freely accessible entertainment. It requires an intelligent understanding of where economic value originates, how it moves through the commercial ecosystem and whether sufficient resources ultimately return to the activities upon which the ecosystem depends.

We can develop sophisticated advertising technologies. We can build magnificent distribution platforms. We can establish financial arrangements capable of generating enormous quantities of commercial activity. But if the people responsible for making the entertainment cannot afford to continue making it, the sophistication of those accomplishments becomes somewhat academic.

The future of the entertainment business depends upon its capacity to finance the imagination of the people who create entertainment.

Somebody has to pay for the show. We should build an industry in which the show can pay for the next one.

CHAPTER 14

The Piracy Paradox

“The distinction isn't the price of the entertainment.
It's the authority to establish the price.”

One of the more peculiar developments in the economics of adult entertainment is the emergence of a commercial market for the unauthorized distribution of our own intellectual property. It's bad enough that somebody can steal your movie. It's more disturbing when an entire commercial infrastructure develops around the infringing copy, complete with advertising representatives, sophisticated technology, affiliate relationships and revenue opportunities for practically everybody except the people who made it.

The unauthorized distribution of adult entertainment has become sufficiently commonplace that we occasionally discuss it as though it were a naturally occurring phenomenon. Something unfortunate about the Internet. Something to be accommodated. Something that everybody experiences and nobody can do much about.

But piracy is not a technological inevitability in the same sense that gravity is a physical inevitability. It is a commercial activity facilitated by technology, influenced by consumer behavior and sustained, in many instances, by identifiable economic incentives. And economic incentives are precisely the sort of things entrepreneurs ought to understand.

The Difference Between Generosity and Theft

Throughout this book, I've expressed enthusiasm for the commercial possibilities of freely accessible entertainment. I want to

make an important distinction. I have no objection whatsoever to a producer making a film available without charge. I object to somebody else making that decision on the producer's behalf.

The distinction isn't the price of the entertainment. It's the authority to establish the price.

If I decide to give away a thousand copies of a book, I've made a publishing decision. If somebody takes a thousand copies from my warehouse and distributes them without my authorization, something substantially different has occurred. The recipient may have acquired precisely the same book at precisely the same price. But the economic circumstances under which the transaction occurred are entirely different.

The right to determine the commercial arrangements surrounding one's intellectual property is an important component of the value of owning intellectual property in the first place. An entrepreneur who loses that authority hasn't merely lost a potential sale. He may have lost control over the timing, presentation, positioning and commercial identity of the product.

A film intended for a carefully organized premium release can suddenly become available through an unauthorized distribution channel before the producer has recovered any meaningful portion of the investment. The entire commercial strategy surrounding the production may be compromised. That is more consequential than somebody simply watching a movie without paying for it.

The Million-Dollar Arithmetic Problem

Suppose a film normally sells for ten dollars and somebody discovers that it has been downloaded without authorization a hundred thousand times. There is an understandable temptation to announce that the producer has suffered a million dollars in lost sales. Possibly.

But that calculation assumes that every unauthorized download represents a distinct customer who would otherwise have purchased the film at its established price. That's an ambitious assumption about consumer behavior. Some of those individuals might have purchased it. Others might have watched something else. Some might never have considered purchasing it under any circumstances.

Determining the economic consequences of piracy requires an understanding of what would have occurred in its absence. Economists refer to that hypothetical alternative as the counterfactual. The difficulty, of course, is that we can't observe both versions of the same transaction. Research into the economic consequences of digital piracy has consequently produced estimates that vary according to the product, market, methodology and circumstances being examined.

In 2014, Brett Danaher and Michael D. Smith published a study examining digital movie sales following the shutdown of the file-sharing service Megaupload. Their findings suggested that the shutdown contributed to an increase in digital movie purchase and rental revenues for the studios examined.[1]

A 2010 review by Felix Oberholzer-Gee and Koleman Strumpf documented divergent estimates of sales displacement, particularly in recorded music. Those findings should not be treated as a universal loss rate for adult films.[2]

The evidence gives us good reason to take piracy seriously without indulging in financially extravagant assumptions about every unauthorized download. We don't strengthen our commercial arguments by exaggerating them.

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1. Brett Danaher and Michael D. Smith, “Gone in 60 Seconds: The Impact of the Megaupload Shutdown on Movie Sales,” *International Journal of Industrial Organization* 33 (2014): 1–8. https://doi.org/10.1016/j.ijindorg.2013.12.001.

2. Felix Oberholzer-Gee and Koleman Strumpf, “File Sharing and Copyright,” *Innovation Policy and the Economy* 10 (2010): 19–55, sec. IV. https://doi.org/10.1086/605852.

An adult producer attempting to evaluate the consequences of piracy should be interested in determining how much legitimate business is actually being displaced, how the unauthorized distribution affects the commercial positioning of the product and whether the expense of addressing it is justified by the potential economic benefits. The objective is to protect the business. Not to produce the largest possible number for a press release.

The Damage That Doesn't Appear in the Calculation

There is another problem with evaluating piracy exclusively according to lost sales. Some of its consequences have relatively little to do with whether a particular consumer would have purchased a particular film.

Imagine a producer establishing an ambitious new entertainment brand. Considerable resources have been devoted to developing its visual identity, its creative philosophy, its commercial positioning and the environment in which its films will be presented. The producer wants audiences to associate those films with a recognizable standard of excellence.

Unauthorized copies subsequently appear through a collection of unrelated websites. The films may have been compressed, edited, renamed or stripped of their original credits. They may be surrounded by advertising the producer would never have accepted. They may be presented in contexts fundamentally inconsistent with the identity the company intended to establish.

The producer has lost something more complicated than revenue. The producer has lost a degree of control over the public representation of the work. This is an involuntary version of the Presentation Deficit we examined earlier.

An unauthorized distributor can diminish the perceived quality of an entertainment product without having invested a penny in

creating it. And the consumer encountering that product may have no meaningful understanding of the distinction between the experience authorized by the producer and the experience manufactured by the distributor. The reputational consequences can therefore extend to the legitimate business. Our industry's understanding of piracy ought to encompass these effects.

A film is not merely a collection of images that somebody has acquired the ability to reproduce. It is an identifiable creative work with a commercial identity. That identity deserves protection, too.

When the Pirate Is a Better Retailer

There is an uncomfortable question legitimate entertainment companies should occasionally ask themselves. Why might somebody prefer the unauthorized version of their product? The obvious answer is price. But price isn't necessarily the only answer.

Suppose a consumer wants to purchase a particular film and discovers that the legitimate distributor requires a recurring subscription, doesn't accommodate the customer's preferred payment method, provides unreliable playback or offers an unnecessarily complicated purchasing experience. An unauthorized source may present fewer obstacles. This doesn't justify the unauthorized distribution. It does, however, provide the legitimate business with information about the inadequacy of its commercial proposition.

The recording industry encountered variations of this problem during its transition toward digital distribution. Consumers had developed an interest in acquiring individual recordings electronically while many established commercial arrangements remained organized around the sale of physical albums. The emergence of legitimate digital music services helped accommodate a form of consumption for which there was already substan-

tial demand. The industry didn't eliminate unauthorized copying altogether. It developed commercially attractive alternatives to it.

There is an important entrepreneurial lesson here. Copyright enforcement and product development should be complementary activities. A producer can pursue the removal of unauthorized copies while simultaneously developing a legitimate entertainment experience sufficiently attractive that consumers have affirmative reasons to prefer it.

Reliable access. Superior playback. Accurate attribution. Transparent billing. Appropriate privacy protections. Confidence in the authorization and authenticity of the material. An intelligently organized library. These characteristics contribute to the value of legitimate distribution.

We should be attempting to make the authorized product demonstrably superior to the unauthorized one. If the principal advantage of purchasing your product is that doing so doesn't violate somebody's copyright, you may have more work to do on the product.

The Industry That Adapted

In 2014, legal scholar Kate Darling published a study entitled *IP Without IP? A Study of the Online Adult Entertainment Industry* in the *Stanford Technology Law Review*.[3] Darling used qualitative research to examine how adult entertainment businesses adapted to an environment in which conventional copyright protections had become increasingly difficult to enforce effectively. Among the responses identified was a movement among businesses studied toward forms of entertainment whose value depended more heavily upon the experience associated with them.

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3. Kate Darling, "IP Without IP? A Study of the Online Adult Entertainment Industry," *Stanford Technology Law Review* 17 (2014): 655 ff. https://ssrn.com/abstract=2198934.

This is an important distinction. A digital file can be copied. The entire commercial relationship surrounding the file cannot necessarily be reproduced with comparable ease.

Consider the difference between possessing a recording of a performance and participating in an authorized event involving the people responsible for that performance. Consider the difference between acquiring a copy of a film and having access to an intelligently curated entertainment service whose editorial judgment you appreciate. Consider the difference between possessing an individual recording and having an enduring relationship with a creative professional whose subsequent work you look forward to experiencing.

The underlying intellectual property remains important. But additional economic value resides in circumstances that aren't necessarily contained within the file itself.

This doesn't mean filmmakers should abandon the production of recorded entertainment or that every studio should suddenly enter the business of providing interactive experiences. It suggests that entertainment companies ought to examine how much of their commercial proposition consists exclusively of providing access to reproducible digital files. The more of the business's value that resides outside the file, the less likely unauthorized reproduction of the file is to reproduce the entire business.

The Economics of the Irreplaceable

What can your entertainment business provide that somebody cannot obtain simply by making a copy of something you've produced? I find that question more interesting than many of our conventional discussions about content protection.

A distinctive editorial perspective cannot necessarily be reproduced by copying an existing publication. A filmmaker's continuing creative output cannot be reproduced by acquiring a collection of previously released films. An established reputation for

reliability, professional conduct and responsible production cannot be downloaded from a server. Nor can the confidence developed through years of satisfactory interactions with a particular business.

These are characteristics of the enterprise itself. They represent sources of value accumulated over time. The company that possesses them is selling something more substantial than access to its inventory. It's selling the benefits of having a continuing relationship with the organization responsible for that inventory.

This connects directly to our earlier discussion of Audience Equity. An unauthorized distributor may temporarily copy or distribute an entertainment company's intellectual property. Acquiring the audience's attachment to the company is a more complicated undertaking.

The objective of a sophisticated entertainment business should be to develop both. Own valuable intellectual property. And become an organization whose continuing activities possess value independently of any particular example of that intellectual property.

The Commercial Infrastructure of Piracy

We occasionally discuss piracy as though its commercial existence depends entirely upon the actions of individual consumers. Some commercially significant unauthorized distribution of entertainment, however, involves organizations operating recognizable businesses. They may acquire advertising revenue, sell memberships, collect referral commissions or generate income through other commercial arrangements associated with the distribution of material.

This introduces an interesting strategic consideration. If unauthorized distribution becomes commercially unattractive, certain organizations will have less incentive to undertake it. The issue

extends beyond the relationship between the producer and the person watching the film. It involves the financial infrastructure surrounding the unauthorized distributor.

Advertising companies, publishers and other service providers ought to exercise appropriate diligence concerning the businesses with which they establish commercial relationships. An advertiser financing an unauthorized entertainment service may be helping to undermine the economic environment within which the legitimate producers of that entertainment operate. An advertising intermediary deriving revenue from infringing material may simultaneously be serving legitimate businesses whose commercial interests are adversely affected by that infringement. These relationships deserve greater scrutiny.

Of course, the mere allegation of infringement should not automatically establish that infringement has occurred. There are legitimate licensing arrangements, disputed ownership claims, lawful exceptions to copyright protection and circumstances in which the apparent absence of authorization may reflect incomplete information. Professional standards require procedures for evaluating claims fairly and correcting mistakes. But professional standards should also require that credible evidence of unauthorized distribution receive meaningful attention.

We shouldn't have to finance the deterioration of our own intellectual property economy through the advertising infrastructure we've developed to sustain it.

Copyright Is Not Consent

There is a distinction of particular importance in adult entertainment that deserves explicit acknowledgment. The unauthorized distribution of a copyrighted film and the distribution of intimate material without the consent of the person depicted are related but fundamentally distinct problems. They may occur simultaneously. They may also occur independently.

Copyright concerns legal rights associated with creative works. Consent concerns the authorization and autonomy of the individuals involved. A person may possess certain intellectual property rights without possessing unrestricted authority to use another person's likeness, disclose their private information or distribute intimate material beyond the scope of applicable consent and law. Conversely, a person depicted in intimate material may have compelling grounds for seeking its removal without owning the copyright in that material.

These distinctions matter enormously. For an entertainment company, unauthorized distribution may primarily represent a financial and strategic injury. For an individual whose intimate material has been distributed without authorization, the consequences may include serious personal, professional and psychological harm. The latter cannot adequately be understood through the conventional arithmetic of lost sales. Nor should addressing it depend exclusively upon whether somebody can establish ownership of a copyright.

The industry's systems for managing intellectual property must recognize these different interests. Responsible publishers should maintain accurate records concerning rights and permissions, establish accessible mechanisms for reporting unauthorized material and treat credible concerns involving consent and personal safety with appropriate urgency. Protecting intellectual property should never become an excuse for diminishing the rights of the people whose participation made the intellectual property possible. We'll examine those responsibilities in greater depth later in this book.

The Technology of Provenance

The increasing sophistication of digital media presents us with an interesting opportunity to improve the manner in which intellectual property is identified and managed. Digital fingerprinting, watermarking, authenticated metadata and emerging prove-

nance technologies can contribute to the identification of creative works and the investigation of unauthorized distribution. Each addresses somewhat different problems.

A digital fingerprint may help identify matching or similar material. A watermark may provide information concerning the origin or distribution of a particular copy. Authenticated provenance records may contribute to an understanding of a work's history and the claims made about its origin.

None of these technologies independently establishes every legal right or permission associated with a production. Nor can they guarantee that unauthorized copying will cease. But they can contribute to a more sophisticated commercial infrastructure for managing intellectual property.

I would like to see our industry develop greater interoperability among the systems responsible for identifying productions, recording licensing information and evaluating legitimate distribution arrangements. A film should possess an identity that survives its movement among authorized commercial environments. Its title, professional credits, rights information and relevant distribution permissions should not have to be reconstructed independently by every publisher encountering it.

That information should be maintained responsibly, with careful consideration of performer privacy and the sensitivity of underlying records. Public identification of a creative work does not require public disclosure of the private information associated with its creation.

The commercial possibilities extend beyond copyright enforcement. Better identification could facilitate legitimate licensing, revenue attribution, catalog management, historical preservation and the discovery of previously produced entertainment. Imagine an industry in which licensing a film becomes easier because its commercial identity and the appropriate channels for obtaining permission are readily ascertainable. That is a more

ambitious technological objective than simply developing another mechanism for locating unauthorized copies.

The Cost of the Cure

There is a temptation, particularly among businesses understandably frustrated by piracy, to evaluate content protection technologies according to the severity of the restrictions they impose. It is tempting to assume that the more difficult something is to copy, the more secure the product becomes. But what happens when those restrictions also make the legitimate product unnecessarily difficult to use?

The paying customer encounters limitations on compatible devices, inconvenient authentication requirements, restrictions on ordinary playback or unreliable access to entertainment for which payment has already been collected. Meanwhile, the unauthorized version may be unaffected by some of those inconveniences. The legitimate business has introduced a competitive disadvantage into its own product while attempting to protect that product from competition.

There are circumstances under which robust content protection measures are commercially justified. There are also circumstances under which the cost of implementing and maintaining those measures, including the inconvenience imposed upon legitimate customers, deserves closer examination.

The decision should be informed by the actual risks associated with the distribution arrangement. An unreleased production, an internal review copy and a film deliberately made freely accessible may warrant substantially different protection strategies. We should resist the temptation to adopt the most restrictive available technology merely because it appears to communicate the greatest seriousness about intellectual property.

Security is an engineering discipline. It isn't a contest to determine who can inconvenience the customer most effectively.

The Control Dividend

I propose another concept for evaluating the economics of intellectual property: the *Control Dividend*. By the Control Dividend, I mean the additional strategic value derived from retaining meaningful authority over the commercial presentation, timing, licensing and distribution of one's creative work. It is not a separate accounting category. It describes the economic possibilities that remain available because certain commercial decisions have not been surrendered to somebody else.

A producer who retains appropriate distribution rights may be able to negotiate additional licensing arrangements. A publisher who controls the timing of a release may be able to develop meaningful anticipation around it. A studio capable of determining where and how its productions appear may be better positioned to protect the reputation of its brand. These opportunities possess potential commercial value even before they generate identifiable revenue.

Unauthorized distribution can compromise that value. So can poorly negotiated licensing arrangements. A producer may voluntarily surrender precisely the commercial flexibility that an unauthorized distributor would otherwise undermine. The distinction, naturally, is that a negotiated surrender of rights may provide compensation sufficient to justify the decision. But the producer ought to understand what has been surrendered.

The value of intellectual property includes the commercial decisions it makes possible. Not merely the income it happens to generate today.

Make Legitimacy an Advantage

I would like to see legitimate adult entertainment become more readily distinguishable from its unauthorized alternatives. Not through moral lectures directed at consumers. Through the development of demonstrably superior businesses.

A legitimate publisher should be capable of communicating appropriate professional credits for its entertainment, consistent with performers' consent and privacy. It should be capable of establishing confidence in the authorization of the material. It should offer reliable technology, accurate information and transparent commercial arrangements. It should have meaningful procedures for addressing concerns about the material it distributes.

The experience should communicate that somebody takes responsibility for the product. That somebody knows where it came from. That somebody has considered the rights of the people involved. That somebody will still be accountable tomorrow for the transaction conducted today. These are commercially valuable distinctions. We should develop them sufficiently well that they become recognizable characteristics of legitimate adult entertainment.

The authorized version should not merely be an option the consumer is legally entitled to watch. It should be the version the consumer would prefer to watch.

The Right to Give It Away

I intend to make the digital editions of this book freely available. I want people to distribute it, share it, discuss it and introduce its ideas to audiences I might never independently reach. The commercial value of this particular undertaking resides substantially in the circulation of its ideas. But that is a decision I have made concerning the distribution of my work. It doesn't establish an obligation upon every other author to make the same decision. Nor does my willingness to distribute the book freely diminish my interest in accurate attribution, the integrity of its text or the circumstances under which it is represented to readers.

I want the book to travel. I don't particularly want somebody removing my name from it, rewriting its arguments and selling the resulting publication as his own intellectual accomplishment. There is an enormous difference between encouraging the circu-

lation of creative work and abandoning the rights associated with its creation. The adult entertainment industry ought to be capable of embracing the former without accepting the latter.

We should possess the commercial freedom to sell our work, license it, subsidize it, experiment with its distribution or give it away whenever doing so serves a purpose we consider worthwhile. That freedom is one of the principal reasons intellectual property deserves protection.

The future I envision for adult entertainment is not one in which every film sits behind an elaborate technological fortress. It's one in which creative people possess greater authority over the economic lives of the things they create.

Let the entertainment travel. Let the technology evolve. Let the audience grow. But let the people who made the movie have a meaningful say in what happens to it.

CHAPTER 15

The Price of Distrust

“The customer is purchasing confidence alongside entertainment.”

There is a peculiar commercial disadvantage associated with operating a legitimate business in a marketplace populated by businesses that haven't always behaved legitimately. You inherit a degree of suspicion that may have absolutely nothing to do with your own conduct, your own product or the manner in which you intend to operate your company.

An adult entertainment entrepreneur can invest substantial resources in developing an exceptional product, establishing responsible billing practices, protecting consumer privacy and conducting business with absolute integrity, only to discover that prospective customers approach the business with reservations acquired through their experiences with somebody else.

In effect, the entrepreneur begins the commercial relationship in debt. Not financially, but reputationally. Before the business can establish the value of its product, it may first have to establish that it can be trusted to deliver the product under the circumstances it has advertised. The customer must overcome an apprehension that a comparable business in another category of entertainment might never have encountered.

This is an economic problem of real significance, and I don't believe our industry has devoted nearly enough attention to understanding it.

The Economics of the Used Car Lot

In 1970, economist George A. Akerlof published a paper entitled “The Market for 'Lemons': Quality Uncertainty and the Market Mechanism,” which would become one of the most influential examinations of the consequences of imperfect information in commercial transactions.[1]

Akerlof used the market for used automobiles to illustrate a problem of asymmetric information. The seller of a used automobile generally knows more about its condition than the prospective buyer. Because buyers cannot always distinguish a reliable automobile from a defective one, they may be unwilling to pay a price reflecting the actual quality of the better automobiles.

The consequences extend beyond the immediate transaction. Sellers possessing genuinely superior automobiles may find the prices consumers are prepared to offer insufficient to justify selling them. Under certain conditions, the inability of buyers to distinguish good products from inferior ones can diminish the economic viability of providing good products in the first place.

Think about the implications of that for adult entertainment. A consumer encountering an unfamiliar adult website may have little reliable information about the legitimacy of the business, the accuracy of its promotional claims, the quality of its entertainment or the integrity of its financial arrangements. Even an exceptionally well-operated business may initially be evaluated according to the consumer's understanding of the marketplace as a whole.

If consumers become accustomed to exercising caution when conducting business with adult entertainment companies, the legitimate operators inherit the commercial consequences of practices in which they may never have participated.

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1. George A. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism,” *The Quarterly Journal of Economics* 84, no. 3 (1970): 488–500, esp. 489–490. https://doi.org/10.2307/1879431.

This creates an unfortunate economic environment for companies interested in establishing higher professional standards. Their investments in excellence may not immediately produce a corresponding improvement in the willingness of consumers to conduct business with them, because those consumers cannot readily distinguish the investments from the claims made by companies that haven't undertaken them.

The superior product must overcome the reputation of the inferior marketplace.

The Transaction That Never Happened

One of the difficulties associated with measuring the economic consequences of distrust is that many of the transactions affected by it never occur.

A customer visits a website, discovers a film he would like to watch and considers purchasing a subscription. The price is reasonable, the entertainment appears interesting and the customer possesses the financial means to complete the transaction. But something about the website makes him uncomfortable. Perhaps he has reservations about the billing arrangements or concerns about the information he's being asked to provide. Perhaps an experience with another adult website several years earlier has made him reluctant to establish another membership.

He leaves.

The business may record the visit as another unsuccessful conversion, but that measurement tells us remarkably little about what actually happened. Management might respond by reducing the subscription price, increasing its promotional efforts or purchasing additional traffic, none of which necessarily addresses the reason the customer declined to complete the transaction.

Imagine attempting to resolve a problem of commercial credibility by offering a larger discount. In certain circumstances, the

discount might reinforce the very suspicion responsible for the problem.

Research into electronic commerce has recognized the relationship between consumer trust, perceived risk and the willingness to conduct transactions online. In a 2003 study published in the *International Journal of Electronic Commerce*, Paul A. Pavlou examined these factors alongside the perceived usefulness and ease of use of electronic commerce technologies.[2]

The implications for our business deserve serious examination. A website can be technically sophisticated, attractively priced and relatively easy to use while still failing to establish sufficient confidence to persuade a prospective customer to conduct a transaction.

The missing ingredient may have nothing to do with the quality of the entertainment.

The Distrust Discount

I describe one of the economic consequences of this phenomenon as the *Distrust Discount*: the reduction in the commercial value a business can realize because prospective customers perceive a degree of uncertainty or risk associated with conducting business with it.

Unlike a conventional promotional discount, the Distrust Discount is not necessarily a reduction in the advertised price. It can manifest itself through lost transactions, increased customer acquisition expenses, lower conversion rates, reluctance to establish continuing financial relationships and the additional resources required to demonstrate commercial legitimacy.

Consider two hypothetical entertainment companies offering comparable products at the same price. Both attract ten thou-

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2. Paul A. Pavlou, “Consumer Acceptance of Electronic Commerce,” *International Journal of Electronic Commerce* 7, no. 3 (2003): 101–134. DOI: 10.1080/10864415.2003.11044275.

sand prospective customers during a particular period. One converts four percent of those visitors into paying customers, while the other converts two percent.

At twenty dollars per customer, the first company generates eight thousand dollars in initial gross revenue. The second generates four thousand.

Now suppose, purely for purposes of illustration, that the difference in conversion rates is attributable to differences in consumer confidence rather than entertainment quality, pricing or the composition of the audiences. The second company has effectively surrendered four thousand dollars in potential initial gross revenue without reducing its advertised price by a single penny. That is a difference in revenue, not necessarily profit.

In practice, isolating the financial consequences of trust from other influences upon consumer behavior is complicated. These hypothetical figures should not be mistaken for empirical findings. The example simply illustrates why commercial credibility deserves to be regarded as an economically productive characteristic of a business rather than an abstract matter of reputation.

We devote substantial resources to measuring the effectiveness of advertisements, yet rarely seem equally enthusiastic about measuring the effectiveness of our own credibility.

The Peculiar Vulnerability of the Adult Consumer

Purchasing adult entertainment involves privacy considerations that may be less pronounced in the purchase of ordinary consumer products. A person buying a refrigerator has relatively little reason to be concerned about somebody discovering that he owns a refrigerator. An individual purchasing adult entertainment may attach substantial importance to the confidentiality of the transaction.

That sensitivity changes the economics of the relationship. The potential consequences of an irresponsible commercial interaction can extend well beyond the amount of money involved.

A questionable charge on a financial statement, an unsolicited promotional email, an unnecessary disclosure of personal information or the compromise of sensitive customer records may create problems that the consumer considers substantially more consequential than the cost of a subscription.

For the entertainment company, the transaction might represent twenty dollars in monthly revenue. For the consumer, it might involve more than twenty dollars' worth of perceived personal risk.

An intelligent commercial strategy should recognize this asymmetry. We cannot adequately understand the reluctance of certain consumers to purchase adult entertainment by examining their willingness to pay alone. We must also consider what they believe they are placing at risk.

This is one of the reasons privacy should be understood as a component of the entertainment product itself. A company that demonstrates discretion, collects only the information necessary to conduct its business and establishes transparent financial arrangements may be providing something for which consumers assign real value.

The customer is purchasing confidence alongside entertainment.

The Membership Nobody Knows How to Cancel

I find it difficult to imagine a more self-defeating commercial practice than making it unnecessarily difficult for customers to terminate a subscription.

The business may retain some revenue that it would otherwise have lost. Its short-term financial reports may consequently appear more encouraging. But what has the company accom-

plished in terms of establishing a relationship with the customer? It has effectively communicated that the customer's interests become secondary once the company obtains the ability to charge him.

Now consider how that customer evaluates the next opportunity to purchase adult entertainment. His experience may have taught him to approach recurring billing arrangements with suspicion, regardless of which company is offering them.

The business responsible for the original inconvenience may have preserved an additional month's revenue while contributing to the deterioration of consumer confidence in an entire category of commercial transactions. This is a remarkably shortsighted way to conduct business.

Cancellation should be regarded as an ordinary component of a legitimate subscription relationship. A company should be interested in understanding why customers discontinue their memberships, and it may have perfectly sensible reasons to offer alternatives. But there is a substantial difference between attempting to retain a customer through the creation of additional value and attempting to retain a customer through the creation of additional obstacles. One involves improving the commercial proposition. The other involves interfering with the customer's ability to decline it.

I would much rather operate a business from which customers can easily depart and to which they occasionally return than one from which customers escape with a determination never to come back.

The Commercial Value of Being Accountable

Suppose an independent entertainment company decides to distinguish itself through an unusually transparent approach to conducting business.

Its subscription terms are readily understandable. Its advertised prices accurately reflect the anticipated charges. Its customer service is accessible. Its privacy practices are communicated in ordinary language. Its policies concerning the authorization of entertainment are clearly established, and its procedures for addressing legitimate complaints are reasonably straightforward.

None of these characteristics would necessarily strike an experienced businessperson as revolutionary. They constitute relatively ordinary expectations of professional commerce. Within a marketplace where consumers may have developed apprehension about such matters, however, their consistent execution could become an important source of competitive differentiation.

Accountability also changes the relationship between a business and its employees. When management regards customer service as a genuine commercial responsibility, the information acquired through complaints can become enormously useful. A billing problem may reveal an inadequately designed purchasing process. A recurring playback complaint may expose a technical deficiency. A frequently misunderstood promotional offer may indicate that the marketing department has failed to communicate the product accurately.

A complaint is often an inexpensive form of market research delivered by somebody who has already demonstrated sufficient interest in the product to attempt to use it.

The alternative is to regard customer service as a necessary administrative expense whose principal objective is to make dissatisfied people disappear. That philosophy may reduce the inconvenience experienced by management while concealing information that could have improved the business.

The customer who takes the trouble to explain what's wrong is more useful than the customer who quietly concludes that the company isn't worth his time.

When Trust Cannot Be Advertised

There is an important distinction between communicating that a company is trustworthy and providing the consumer with credible reasons to believe it.

The Internet is generously populated with declarations of commercial excellence. Everybody is secure. Everybody is reliable. Everybody offers exceptional service, unbeatable value and an unwavering commitment to customer satisfaction.

What a magnificent commercial civilization we would inhabit if all those statements were accurate.

The difficulty with unsupported promotional claims is that they are available to businesses of every conceivable quality. A company that has invested substantial resources in responsible commercial practices can make precisely the same claims as a company that has invested nothing in them. Economically, this makes the claims relatively weak instruments for distinguishing the two businesses.

More meaningful assurances generally require something beyond declarations. Clearly stated contractual terms, verifiable professional credentials, credible independent assessments, consistent customer experiences and a demonstrated willingness to correct mistakes provide information that an unsupported marketing assertion does not.

The particular challenge for adult entertainment is developing credible assurances without compromising the privacy of its customers or the safety of its creative professionals. A company should be capable of demonstrating that it maintains responsible operating practices without publicly exposing the sensitive records associated with those practices. Independent assessments, appropriately limited disclosures and carefully designed verification mechanisms can contribute to that objective.

Trustworthy conduct and credible evidence of trustworthy conduct are different accomplishments. An ambitious entertainment company should be interested in both.

The Missing Culture of Criticism

The broader entertainment industry benefits from an extensive culture of independent criticism. Films are reviewed, performances are evaluated and commercial products are compared by publications whose judgments can influence consumer behavior. These institutions are imperfect, occasionally infuriating and by no means immune to commercial influence, but they perform a potentially valuable economic function. They help reduce uncertainty.

A consumer contemplating an unfamiliar film can investigate what other people thought of it. A reader considering a book can consult a critic whose judgment has proved useful in the past. A prospective customer can evaluate competing entertainment products without necessarily purchasing all of them.

Adult entertainment has its own history of criticism, trade journalism and consumer publications. I would like to see that tradition assume greater significance within the contemporary digital economy.

There is an opportunity for sophisticated editorial businesses that independently evaluate entertainment, technologies and commercial services. Such businesses could help audiences discover noteworthy productions while also helping legitimate companies distinguish themselves through characteristics other than promotional expenditure.

But editorial independence is essential to the commercial significance of the arrangement. A publication whose favorable assessments can simply be purchased has substituted another advertising mechanism for the very service it claims to provide.

The Organisation for Economic Co-operation and Development (OECD), an international organisation concerned with economic and public policy, has published guidance concerning the integrity of online consumer ratings and reviews, including the challenges associated with misleading or manipulated assessments.[3] These concerns deserve particular attention in an industry where affiliate relationships can create financial incentives for publishers to recommend the businesses they review.

There is nothing inherently incompatible about earning referral revenue and conducting responsible editorial evaluations. The economic relationship should, however, be clearly disclosed to readers, and compensation should not determine the substance of an evaluation.

The opportunity is to develop sources of information that people trust sufficiently to consult before making commercial decisions. That trust may ultimately constitute a more valuable asset than any individual commission.

The Economics of Keeping Your Word

One of the less glamorous characteristics of excellent businesses is their consistency. They make reasonably understandable commitments and then develop the organizational competence necessary to fulfill them repeatedly.

This requires more than the occasional display of exceptional customer service. It requires designing products, financial arrangements, operating procedures and technological systems in such a manner that ordinary interactions reliably produce the results customers have been led to expect.

A customer who purchases a film should receive the film under the advertised terms. A producer who licenses intellectual

3. OECD, *Good Practice Guide on Online Consumer Ratings and Reviews*, OECD Digital Economy Papers, no. 288 (Paris: OECD Publishing, 2019). https://doi.org/10.1787/0f9362cf-en.

property should receive compensation according to the applicable agreement. A performer should be able to rely upon the permissions and obligations established in the relevant contractual arrangements. An advertiser should receive an accurate accounting of the services purchased.

The common characteristic of these relationships is predictability. Predictability reduces the amount of time, money and attention each party must devote to protecting itself from the possibility that the other party will fail to fulfill its obligations.

Consider how much commercial activity becomes unnecessarily expensive when businesses cannot confidently rely upon one another. Additional legal expenses, extensive verification procedures, financial reserves, contractual safeguards and prolonged negotiations may all become necessary under conditions of persistent distrust.

Some of these protections will always be appropriate. Commercial sophistication does not require naïveté. But the reputation of a reliable organization can reduce certain costs and uncertainties associated with establishing and maintaining business relationships.

Professional integrity is therefore not merely a desirable moral characteristic of an enterprise. It can be an economically productive one.

The Trust Balance Sheet

I would encourage entertainment executives to undertake a periodic assessment of what might be described as their *Trust Balance Sheet*.

This is not a proposed modification to conventional financial accounting. It is a management exercise intended to identify the practices through which a business accumulates or diminishes confidence among the people with whom it conducts business.

Begin with the commitments the organization makes to customers, employees, performers, producers, advertisers and commercial partners. Determine whether those commitments are sufficiently understandable and whether the business possesses the operational capabilities necessary to fulfill them consistently.

Examine the circumstances under which complaints arise. Investigate the frequency of billing disputes, refund requests, unresolved technical problems and discrepancies in commercial reporting, relative to the number of relevant transactions or interactions. Wherever practical, evaluate the underlying causes rather than simply counting the number of incidents.

A company should also investigate the experiences of people who considered conducting business with it but ultimately declined. Voluntary customer research, carefully designed usability studies and appropriately privacy-conscious analysis may reveal uncertainties that conventional performance reports fail to identify.

The exercise should distinguish investments in genuine reliability from investments in the appearance of reliability. An impressive privacy statement doesn't compensate for irresponsible data management. A prominently displayed customer service address doesn't accomplish much if nobody responds to the correspondence. A carefully worded contractual commitment has relatively little commercial significance if the company lacks the organizational ability to honor it.

Management should emerge from the exercise with a clearer understanding of where the business creates confidence, where it introduces uncertainty and what improvements might produce measurable commercial benefits.

I suspect some businesses would discover that their most productive marketing investment has relatively little to do with marketing.

A Reputation We Can Afford

There is an unfortunate tendency to interpret calls for greater professionalism within adult entertainment as attempts to acquire moral approval from people outside the industry. That isn't what I'm advocating.

I have no expectation that improving customer service will persuade every religious organization to embrace pornography, nor do I believe that the development of superior payment technologies will resolve every ideological disagreement concerning the existence of adult entertainment. Those aren't the commercial objectives under consideration.

I'm interested in establishing an environment in which adults can confidently conduct legitimate transactions with entertainment businesses, creative professionals can rely upon the agreements under which they work, and entrepreneurs can distinguish the quality of their operations from the inadequacies of their competitors.

The industry has a substantial economic interest in making such distinctions possible. When consumers cannot readily identify the businesses worthy of their confidence, the businesses that have invested in earning that confidence may fail to realize the full economic benefits of their efforts.

We cannot eliminate every suspicion associated with adult entertainment, and we shouldn't spend our entire entrepreneurial lives attempting to satisfy people who have no intention of becoming customers.

But we can establish commercial practices that give the people who actually want our products compelling reasons to trust the businesses providing them. That is an entirely reasonable ambition for a mature entertainment economy.

I'd like to see an industry in which the most valuable assurance a company can provide isn't an elaborate collection of badges, disclaimers, promotional guarantees or carefully con-

structed legal language. I'd like it to be the recognizable name of the company itself, supported by years of professional conduct sufficiently consistent that customers know what to expect.

The reputation of an entertainment business should become one of the things its competitors cannot easily reproduce, its distributors cannot inadvertently diminish and its management cannot afford to squander.

We have spent decades attempting to persuade consumers to trust us with their credit cards. Perhaps it's time we became equally interested in building businesses worthy of their confidence.

CHAPTER 16

We Did This to Ourselves

“We don't need permission to become better at our own business.”

One of the least enjoyable privileges of owning a business is eventually having to acknowledge that some of its problems are attributable to the person who owns it.

It's more satisfying to identify external explanations for commercial disappointments. The economy is unfavorable. The competition is unscrupulous. Consumers have become unreasonable. Technology is changing too rapidly. Government regulation is becoming increasingly burdensome. The people who used to buy our products have apparently lost their appreciation for them.

In adult entertainment, we have the additional luxury of possessing an unusually extensive collection of legitimate grievances. Financial discrimination, restrictive advertising policies, unauthorized distribution, technological exclusion and regulatory uncertainty provide us with plenty of material for explaining why conducting business has become difficult.

The danger is that legitimate grievances can become intellectually convenient explanations for problems they didn't necessarily create.

Nobody at a bank decided that our websites should be cluttered with intrusive advertisements. No legislator instructed us to reduce professionally produced films to anonymous thumbnails. No religious organization required us to develop commercial arrangements that make customers apprehensive about purchas-

ing subscriptions. Hollywood didn't insist that we stop experimenting with the future of entertainment technology.

We made many of those decisions ourselves. And while acknowledging that fact may be uncomfortable, I find it more encouraging than the alternative. If every significant problem facing our industry originated outside it, our commercial future would depend almost entirely upon persuading other people to behave differently. Fortunately, a substantial number of improvements remain within our authority to undertake.

We don't need permission to become better at our own business.

The Seductive Comfort of Being the Underdog

Adult entertainment has historically possessed something of an outsider identity. Generations of entrepreneurs built businesses despite encountering hostility from institutions that ordinarily facilitate commercial activity. There is remarkable entrepreneurial achievement in that history, and I have no desire to diminish it.

But there is a psychological danger in becoming excessively attached to the identity of the underdog. Eventually, the circumstances against which an organization defines itself can become more important to its identity than the accomplishments toward which it ought to be working.

A company can become so accustomed to explaining its difficulties in terms of external hostility that it gradually loses the habit of examining its own conduct. Criticism of the business becomes indistinguishable from criticism of the industry. Questions concerning professional standards are interpreted as attacks upon the legitimacy of the product. People who challenge established commercial practices are occasionally treated as though they lack loyalty to the community in which they operate.

That's an intellectually impoverishing environment for entrepreneurs.

The legitimacy of adult entertainment does not establish the legitimacy of every business practice associated with it. Defending an industry's right to exist does not require defending every decision made by the people conducting business within that industry.

We ought to possess sufficient confidence in the legitimacy of our profession to examine its deficiencies without interpreting every such examination as an existential threat.

Genuine loyalty to an industry occasionally requires being among its most inconvenient critics. If you believe a business possesses enormous unrealized potential, accepting its inadequacies out of professional solidarity is a rather peculiar way of demonstrating that belief.

The Industry Standard Defense

There is a phrase frequently employed in business to justify things that might otherwise be rather difficult to justify. Industry standard.

The phrase can have legitimate technical significance. An industry standard may establish interoperability, provide a recognized framework for safety or enable independent organizations to develop products that function together.

But in ordinary commercial conversation, the phrase is frequently used to communicate something less impressive: everybody else is doing it.

A particular advertising format is industry standard. A particular financial arrangement is industry standard. A particular degree of technological inconvenience is industry standard. The implication is that the prevalence of a practice somehow establishes its commercial intelligence.

Imagine an automobile manufacturer defending an unreliable transmission on the grounds that its competitors manufacture similarly unreliable transmissions. The explanation might provide useful information about the state of the automobile industry, but it would hardly constitute an attractive selling proposition.

The prevailing standard of an industry should be understood as a description of its current circumstances, not necessarily a prescription for its future.

This is especially important in adult entertainment because of the unusual commercial circumstances under which many of our conventions developed. Practices originally adopted in response to limited financial resources, technological constraints or distribution difficulties may have been perfectly reasonable at the time. Their continued existence decades later deserves an independent evaluation.

Perhaps the circumstances that originally justified them no longer exist. Perhaps superior alternatives have become available. Perhaps the costs associated with continuing the practice now exceed the costs of abandoning it.

We shouldn't have to establish that something is unprecedented before determining that it is worthwhile.

An entrepreneur who regards the prevailing standards of his industry as the limits of his ambition has effectively outsourced his imagination to his competitors.

When the Numbers Become the Problem

Consider an entertainment company whose management evaluates the success of its website primarily through advertising impressions, visitor volume and immediate revenue.

The people responsible for advertising naturally attempt to increase advertising impressions. The people responsible for marketing naturally attempt to increase visitor volume. The people responsible for commercial operations naturally attempt

to maximize immediate revenue. Each department is behaving rationally within the circumstances management has established.

Now suppose the cumulative effect of these efforts is a deterioration of the viewing experience, declining consumer confidence and an increasingly interchangeable entertainment product. Management may express disappointment with the results while continuing to reward precisely the activities responsible for producing them.

This is where an understanding of organizational systems becomes important.

In *Out of the Crisis*, W. Edwards Deming emphasized the responsibility of leadership for the systems within which employees perform their work. His principles of quality management recognized that many deficiencies arise from organizational conditions that individual workers lack the authority to change.[1]

The application to adult entertainment is instructive. An advertising representative cannot necessarily protect the integrity of the customer experience if his compensation depends exclusively upon the sale of additional advertising inventory. A developer cannot necessarily simplify an interface if management requires the preservation of every existing commercial integration. A producer cannot necessarily improve the quality of a film if the financial arrangements governing its distribution provide insufficient resources to justify the improvement.

We can spend a great deal of time encouraging people to produce better results without examining whether we have established circumstances conducive to producing them. The problem may reside less in the competence of the people involved than in the commercial instructions they've been given.

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1. W. Edwards Deming, *Out of the Crisis* (Cambridge, MA: MIT Press, 2000), discussion of common causes, special causes and management responsibility.

Excellence requires management to accept responsibility for the consequences of its own incentives.

The Business Plan Nobody Questioned

In 1977, organizational theorist Chris Argyris published an article in *Harvard Business Review* examining what he called double-loop learning. The concept distinguishes between correcting problems within an existing framework and reconsidering the assumptions underlying that framework.[2]

Suppose an entertainment company discovers that its advertising revenue is declining. Management responds by purchasing additional traffic, modifying advertising placements and negotiating alternative commercial arrangements. These activities may improve the performance of the existing business model.

But suppose management instead investigates whether the company's dependence upon that particular form of advertising represents a strategic weakness. It begins examining other ways of financing entertainment, alternative approaches to distribution and the commercial possibilities associated with developing a more loyal audience. The second approach requires questioning the assumptions that generated the original problem.

This distinction is particularly relevant to the adult industry because so many of our commercial discussions begin with an implicit acceptance of the business model itself. We investigate how to improve conversion rates without necessarily examining the attractiveness of the subscription arrangement. We investigate how to monetize additional page views without necessarily examining whether the website should be organized around page views. We investigate how to distribute more entertainment without necessarily examining whether producing more entertainment constitutes the most intelligent use of our resources.

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2. Chris Argyris, “Double Loop Learning in Organizations,” *Harvard Business Review* 55, no. 5 (September–October 1977): 115–125.

The proficiency with which we solve these problems may conceal our failure to ask more productive questions. An excellent business should possess the organizational ability to reconsider not merely how it conducts its activities, but why it conducts those particular activities in the first place.

That requires a management culture in which questioning an established commercial assumption is regarded as an intellectual contribution rather than an administrative inconvenience.

The Cost of Professional Silence

Every industry develops informal conventions concerning what its members are prepared to discuss publicly. There are subjects considered appropriate for conferences, publications and professional conversations, and there are subjects people tend to address privately, if at all.

The adult entertainment industry offers an irony in this respect. For an industry associated with the violation of social conventions, we can be remarkably sensitive about challenges to our own commercial conventions.

There are understandable reasons for exercising discretion. Professional relationships matter. Businesses depend upon one another. An entrepreneur may have legitimate concerns about jeopardizing an important distribution arrangement or commercial partnership by publicly questioning certain practices.

Nevertheless, an industry in which people privately recognize deficiencies but rarely discuss them openly may substantially diminish its collective capacity for improvement.

In his 1970 book *Exit, Voice, and Loyalty*, economist Albert O. Hirschman examined different responses available to people experiencing the deterioration of organizations or commercial products. Among them are the decisions to abandon the organization or to attempt to influence it through criticism and participation.[3]

The distinction deserves attention within our industry. An exceptionally talented developer who becomes frustrated with the technological ambitions of adult entertainment companies may simply decide to work elsewhere. A dissatisfied producer may discontinue an ambitious category of filmmaking. A consumer who encounters consistently inadequate entertainment experiences may quietly abandon the businesses providing them. In each circumstance, the industry loses something without necessarily acquiring an understanding of why it was lost.

Constructive criticism provides information that departure alone may not provide. We should therefore become more receptive to the people who care enough about the business to explain what they believe is wrong with it. This doesn't require accepting every criticism as valid. It requires developing sufficient intellectual maturity to evaluate criticism independently of our feelings about the person offering it.

A professional community ought to be capable of disagreement without turning every disagreement into a dispute over professional allegiance.

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3. Albert O. Hirschman, *Exit, Voice, and Loyalty* (Harvard University Press, 1970).

The Talent We Never Attract

There is another commercial consequence of accepting unnecessarily modest professional standards that rarely appears in discussions of the industry's performance. What kind of people are we failing to attract?

Imagine a gifted young software engineer evaluating opportunities within the entertainment technology business. She has an interest in sophisticated media interfaces, distributed computing, digital privacy or interactive entertainment. She wants to work on technically challenging problems and contribute to products capable of influencing the future of digital media.

Our industry possesses plenty of such problems. But does the commercial environment we present to prospective talent communicate the intellectual ambition necessary to attract somebody interested in solving them? The question applies equally to designers, filmmakers, writers, financial professionals and entrepreneurs.

An industry that continually presents itself through technologically outdated interfaces and unimaginative commercial propositions may inadvertently communicate that it has relatively little interest in sophisticated professional contributions.

Certainly, some people will choose not to participate in adult entertainment because of personal beliefs, cultural considerations or legitimate concerns about the professional consequences of doing so. We cannot eliminate all those considerations, nor should we expect everybody to share our enthusiasm for the business.

But we should be particularly concerned about losing people who have no fundamental objection to adult entertainment and simply find the opportunities available within it insufficiently interesting. That's a competitive failure we cannot attribute entirely to social prejudice.

I would like to see adult entertainment companies become environments in which an exceptional engineer could undertake extraordinary engineering, an ambitious filmmaker could exercise genuine creative imagination and an intelligent entrepreneur could develop commercial ideas sufficiently sophisticated to be interesting beyond the boundaries of our industry.

The best talent generally has alternatives. If we want some of that talent to choose us, we ought to give it something worth choosing.

The Collective Reputation Problem

Throughout this part of the book, we've examined several economic consequences of decisions made within adult entertainment: the commoditization of intellectual property, the deterioration of presentation quality, the dependence upon purchased attention and the accumulation of consumer distrust.

What makes these problems particularly complicated is that the companies responsible for contributing to them are not necessarily the companies that bear their full economic consequences. An individual publisher may generate additional revenue through an intrusive advertising practice while contributing to a broader deterioration of consumer expectations concerning adult websites. An irresponsible billing operation may extract considerable short-term revenue while making consumers apprehensive about subscribing to unrelated services. An unauthorized distributor may accumulate substantial audiences while diminishing the commercial incentives available to independent producers.

These are problems associated with the relationship between individual commercial incentives and collective economic interests. A business pursuing its immediate advantage may contribute to circumstances that make the broader marketplace less attractive, including for itself. Yet the financial incentive for any

individual company to discontinue a particular practice may be relatively weak if its competitors continue engaging in it.

This is one reason voluntary professional standards deserve serious consideration. A credible commitment among participating businesses to transparent advertising, responsible billing, appropriate authorization, consumer privacy and professional accountability could help establish commercial distinctions that are difficult for individual businesses to communicate independently.

Such an arrangement would require careful institutional design. It should not become a mechanism for established businesses to exclude competitors, coordinate prices or create unnecessary barriers to entry. Participation should be accessible, criteria should be transparent and claims of compliance should be subject to meaningful verification.

The objective is to improve the quality and credibility of commercial participation, not to establish another organization capable of determining who is entitled to participate.

There is an important difference between cooperating to improve the marketplace and cooperating to control it.

The Responsibility Ledger

I encourage every entertainment entrepreneur to undertake an exercise that brings together much of what we've discussed throughout these chapters. Call it the *Responsibility Ledger*.

Begin by identifying the significant obstacles confronting the business. These might involve declining subscription revenue, increasing distribution expenses, difficulties accessing financial services, unauthorized distribution, customer dissatisfaction or an inability to attract sufficiently qualified employees. For each obstacle, examine where the practical authority to influence its outcome resides.

Some problems are predominantly external. A particular financial institution may refuse to serve the business regardless of its professional standards. A distribution platform may impose restrictions the entrepreneur has little immediate ability to change. Certain legislative requirements may create unavoidable operational expenses.

Other problems are partially external but can be influenced through intelligent commercial decisions. A producer cannot independently eliminate unauthorized distribution throughout the Internet, but may be able to improve its rights-management practices, establish more attractive legitimate distribution arrangements and develop sources of value that unauthorized copies cannot readily reproduce.

Still other problems reside substantially within the authority of management. The quality of the website, the accuracy of promotional claims, the transparency of commercial arrangements, the treatment of customers and the allocation of technological resources are often matters over which the business exercises meaningful discretion. The exercise distinguishes the circumstances requiring external change from the circumstances requiring managerial action.

Then examine how the organization allocates its resources. How much management time is devoted to discussing circumstances it cannot readily change? How much is devoted to addressing deficiencies over which it already possesses considerable authority? What improvements are being postponed because management has become accustomed to regarding the industry's circumstances as universally unfavorable?

Assign responsibility for the improvements the business can realistically undertake. Establish the resources available to accomplish them, the expected outcomes, a realistic timetable and the means by which those outcomes will be evaluated.

This exercise should not become an occasion for assigning blame. Its value resides in identifying possibilities for action. An

entrepreneur may discover that the business possesses greater freedom to improve its circumstances than its conventional explanations for those circumstances would suggest.

Stop Waiting for the Industry

One of the more frequently expressed aspirations in business is the desire to see an entire industry change.

I understand the sentiment, but there is something rather impractical about waiting for several thousand independent organizations, each possessing different commercial interests, financial circumstances and institutional priorities, to arrive at a sufficiently coherent agreement concerning the future.

In many cases, meaningful change begins with somebody deciding that the prevailing circumstances are no longer acceptable for his particular business.

An independent publisher can establish better advertising standards without waiting for every advertising network to adopt them. A filmmaker can establish a distinctive approach to the presentation and promotion of productions without waiting for every studio to reconsider its marketing philosophy. A software developer can create a superior interface without waiting for an industry association to identify interface design as a commercial priority.

Those decisions can demonstrate possibilities that theoretical arguments alone cannot establish. If the improved product attracts an audience, if the alternative commercial arrangement proves financially sustainable, or if the new technology reduces operational expenses, the entrepreneur has produced evidence. Other businesses can examine that evidence, improve upon the original idea and adapt it to their own circumstances.

That's how entrepreneurial progress becomes contagious.

Conferences and professional associations can facilitate the exchange of ideas, but they cannot substitute for the execution

of them. There is a limit to what can be accomplished through discussions about the need for innovation. Eventually, somebody has to build something.

The End of the Autopsy

We've spent much of the first two parts of this book examining what happened to adult entertainment and why portions of its commercial environment have become less ambitious than they ought to be.

We have explored its history of technological experimentation, its evolution toward institutional complacency, its dependence upon infrastructure controlled by others and its tendency to undermine the perceived value of its own product. We've examined abundance, advertising, consumer distrust, intellectual property, pricing and the economic sustainability of creative work.

The purpose of this examination has never been to establish that the industry is hopelessly defective. Quite the contrary. I believe adult entertainment possesses extraordinary commercial possibilities precisely because so many important problems remain inadequately addressed.

An unnecessarily complicated customer experience is an opportunity for better design. A poorly compensated creative economy is an opportunity for more intelligent commercial arrangements. Dependence upon unsuitable technology is an opportunity for better engineering. A marketplace characterized by distrust is an opportunity for businesses capable of earning confidence. The problems constitute much of the entrepreneurial agenda.

We should also acknowledge that the industry contains businesses already demonstrating many of the qualities advocated throughout these chapters. There are responsible producers, sophisticated technology companies, imaginative publishers and exceptionally talented creative professionals who have refused

to accept the inadequacies of the broader marketplace as limitations upon their own ambitions. Their existence matters. It demonstrates that the circumstances facing adult entertainment do not produce uniform commercial outcomes and that professional judgment can influence those outcomes.

I have more interest in understanding what such businesses can become than in spending another fifty chapters documenting what other businesses have done wrong.

It is time to move from diagnosis to design.

An Ambition Worth Having

I would like our industry to develop a reputation for technological ingenuity, exceptional entertainment experiences, sophisticated commercial arrangements and a level of professional accountability that makes legitimate participation economically attractive.

I don't expect those ambitions to be realized simultaneously, universally or without considerable disagreement. Industries are complicated collections of independent interests, and the pursuit of excellence will inevitably mean different things to different businesses. But there ought to be some characteristics we can agree are worth pursuing. Creative professionals should have compelling reasons to create. Consumers should have compelling reasons to return. Entrepreneurs should have access to technologies that enable them to exercise meaningful control over their businesses. Commercial relationships should be intelligible, responsible and capable of sustaining the activities upon which they depend.

Those are not particularly extravagant expectations of an entertainment industry. What would be extravagant is our continued willingness to regard their fulfillment as an unrealistic ambition simply because the entertainment happens to be pornography.

The external obstacles confronting adult entertainment are real. They deserve intelligent advocacy, technological solutions and, where appropriate, vigorous legal and commercial responses. But we should never allow them to become the intellectual boundaries of our own ambitions.

We cannot control everything that happens to our industry. We can exercise greater control over what happens within it.

And if we have participated in the deterioration of the business, we possess an equally compelling opportunity to participate in its reinvention.

We did this to ourselves. Which means we have every reason to believe we can do something extraordinary next.

PART III

INDECENT EXCELLENCE

“Acceptance of me and Screw would be the kiss of death.”

Al Goldstein
Co-founder, SCREW

CHAPTER 17

Indecency Is No Excuse for Incompetence

“Indecency is the nature of our product.
Excellence should be the nature
of our business.”

I've never understood why the production and distribution of indecent entertainment should require any less professional intelligence than the production and distribution of decent entertainment.

The distinction between the two concerns the nature of the entertainment, not the competence of the people responsible for delivering it. Yet somewhere along the evolution of our industry, we seem to have acquired an astonishing tolerance for commercial, technological and aesthetic deficiencies that would be considered embarrassing in practically any other category of professional entertainment.

A film can be obscene and beautifully photographed. A publication can be offensive and brilliantly edited. A website can distribute sexually explicit entertainment while representing an exceptional accomplishment in software engineering, visual design and commercial architecture. There is no intellectual contradiction in any of these propositions.

The very juxtaposition of indecency and excellence presents us with one of the most interesting entrepreneurial opportunities in the entertainment business. The subject matter permits us to challenge conventions that more culturally conservative businesses might feel obligated to observe, while the professional

discipline with which we conduct the business should permit us to compete with the finest enterprises in the world.

That combination is the central proposition of this book. I call it Indecent Excellence.

Respectability Is Not the Objective

Let me establish something at the beginning of this discussion that I consider rather important. I have no interest in making pornography respectable.

Respectability is a social judgment, and social judgments concerning sexual expression vary enormously across cultures, religions, generations and individuals. The pursuit of universal respectability would require us to accommodate an extraordinary number of contradictory expectations, many of which concern the very existence of the entertainment rather than the manner in which it is produced.

Besides, there is something rather amusing about the notion of an industry historically associated with cultural rebellion devoting its entrepreneurial energies to acquiring the approval of the people against whom it originally rebelled. What interests me is professional excellence.

A business can conduct itself with integrity without producing entertainment that everybody considers morally acceptable. Its employees can exercise exceptional professional judgment while participating in the creation of material that certain people find offensive. Its technology can represent a significant engineering accomplishment without requiring the endorsement of anybody who objects to its application.

There is a distinction between the moral judgment somebody makes about an entertainment product and the professional judgment somebody makes about the enterprise responsible for it.

We ought to become comfortable insisting upon that distinction.

When I advocate higher standards in adult entertainment, I'm not suggesting that we become less adult. I'm suggesting that we become better at being an entertainment industry.

Excellence Is Not Elegance

There is a temptation to associate excellence with sophistication in its most conventional aesthetic forms. Expensive photography, fashionable typography, elaborate production values and beautifully designed environments are often employed to communicate that a product belongs to a superior commercial category.

These characteristics can be valuable, but they don't independently establish excellence. A deliberately crude comedy can be an exceptional piece of entertainment. An inexpensive documentary can possess greater intellectual and emotional significance than a motion picture produced with a budget of a hundred million dollars. A simple publication printed on inexpensive paper can demonstrate extraordinary editorial judgment.

Conversely, a magnificently designed website can be an incompetent commercial enterprise.

Excellence concerns how effectively something fulfills its purpose, the intelligence with which that purpose has been established and the discipline exercised in its execution. The aesthetic character of the product should emerge from the intentions of its creators and the expectations of its audience rather than from some universal conception of what expensive entertainment is supposed to look like.

This is an important consideration for adult entertainment because our industry accommodates a wide diversity of creative interests. Imposing a single aesthetic definition of quality upon that diversity would be both artistically undesirable and commercially foolish.

There is room for elaborate theatrical productions and deliberately minimalist ones. There is room for satire, absurdity, irreverence, artistic experimentation and entertainment whose appeal resides precisely in its rejection of conventional sophistication.

The standard I propose is not that everything should look expensive. It is that everything should be made with intelligence, presented appropriately and delivered competently.

An intentionally ridiculous product can be brilliantly executed. An unintentionally ridiculous business is another matter entirely.

The Eight Dimensions of Doing Something Well

In 1987, Harvard Business School professor David A. Garvin published an article in the *Harvard Business Review* examining eight dimensions through which companies might compete on quality. His framework distinguished among characteristics including performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality.[1]

The significance of Garvin's work lies partly in its rejection of quality as a single, vaguely defined characteristic. A product can excel in one respect while performing inadequately in another, and businesses can make deliberate strategic decisions concerning the particular dimensions of quality upon which they intend to compete. This has implications for digital entertainment.

A filmmaker may produce an artistically exceptional motion picture that is subsequently delivered through an unreliable technological environment. A publisher may provide magnificent playback technology while offering a poorly organized collection of entertainment. A commercially attractive subscription service may suffer from inadequate customer service or financial arrangements that undermine the confidence of its audience.

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1. David A. Garvin, “Competing on the Eight Dimensions of Quality,” *Harvard Business Review* 65, no. 6 (November–December 1987): 101–109.

The consumer encounters these characteristics collectively, even when the companies responsible for them operate independently.

We therefore need a more comprehensive understanding of what constitutes an excellent entertainment product. The quality of the film cannot be considered entirely independently of the quality of its delivery, nor can the quality of its delivery be considered entirely independently of the commercial arrangements through which the audience acquires access to it. An exceptional film accompanied by an unnecessarily unpleasant purchasing experience represents a partially successful entertainment proposition. The same applies to a magnificent interface that consistently fails to deliver reliable playback.

Excellence in digital entertainment requires us to recognize the interdependence of creative, technological and commercial performance. These are not simply separate departments within an organization. They are components of a product the consumer experiences as a whole.

The Seven Dimensions of Indecent Excellence

For purposes of developing a practical framework for our own industry, I would propose seven dimensions through which an adult entertainment enterprise might examine its pursuit of excellence. They are not intended as a universal certification system or as an alternative to established quality-management disciplines. They constitute an application of those broader principles to the peculiar circumstances of our business.

Creative Excellence. The intelligence, imagination and technical ability exercised in producing the entertainment itself. Creative excellence concerns the effectiveness with which a work realizes its intentions, rather than the amount of money expended in its production. It includes editorial judgment, originality, appropriate production standards and respect for the contributions of the people responsible for the finished work.

Technological Excellence. The competence with which entertainment is stored, processed, distributed, presented and experienced. This encompasses reliability, performance, interoperability, security, accessibility and the intelligent application of emerging technologies. The objective is to employ technology in ways that enhance the entertainment rather than continually reminding the audience of the technology required to deliver it.

Experiential Excellence. The quality of the relationship between the audience and the product. It begins with the discovery of the entertainment and extends through navigation, purchasing, playback, customer support and subsequent interactions. An excellent experience recognizes that the consumer's time, attention and privacy possess value independently of the revenue the business hopes to generate from them.

Commercial Excellence. The intelligence with which the enterprise creates, distributes and retains economic value. This includes sustainable compensation arrangements, appropriate pricing, financial transparency, responsible advertising and the development of business models capable of supporting future creative and technological investment. Commercial excellence requires understanding not simply how to generate revenue, but how to establish an economically durable enterprise.

Professional Excellence. The integrity and competence with which the organization fulfills its responsibilities to the people associated with it. This concerns the treatment of employees, performers, customers, producers and commercial partners. It encompasses meaningful consent, workplace safety, contractual accountability and the organizational ability to fulfill commitments consistently.

Institutional Excellence. The capacity of the enterprise to survive, learn and evolve beyond the immediate activities of its founders or managers. It includes the preservation of institutional knowledge, responsible governance, operational continuity and the development of systems capable of supporting growth without sacrificing the characteristics that made the organization successful.

Intellectual Excellence. The willingness and ability to question assumptions, investigate unfamiliar possibilities and develop commercially meaningful ideas. It is the dimension that prevents the pursuit of excellence from becoming a process of perfecting yesterday's business. Intellectual excellence requires curiosity, informed judgment and sufficient humility to recognize when an established practice has ceased to serve its intended purpose.

These dimensions are deliberately interrelated. A deficiency in one can undermine accomplishments in several others, while improvements in one can create opportunities elsewhere within the enterprise.

A technological improvement might reduce operating expenses, enhance the viewing experience and create additional resources for original production. A more intelligent licensing arrangement might improve compensation, strengthen professional relationships and provide the financial flexibility necessary to undertake creative experiments. Management should therefore examine excellence not as a collection of unrelated improvements but as a characteristic of the enterprise's overall design.

The Professional Floor and the Creative Ceiling

There is an important distinction between the minimum standard below which a professional business should not operate and the extraordinary accomplishments toward which an ambitious business might aspire.

I would describe these as the *Professional Floor* and the *Creative Ceiling*.

The Professional Floor consists of the fundamental conditions necessary for responsible commercial participation. Accurate billing, meaningful consent, lawful conduct, reasonable security practices, contractual accountability and reliable delivery of advertised services belong to this category.

These are not optional characteristics that a business should introduce when it becomes sufficiently profitable. Nor should their existence necessarily entitle an organization to characterize itself as exceptional. They are fundamental obligations associated with conducting the business.

The Creative Ceiling, by contrast, represents the extent of the enterprise's ambition. It concerns the possibilities management is prepared to investigate, the quality of the entertainment it wishes to produce, the sophistication of the technology it wants to develop and the degree to which it intends to distinguish itself from the competition.

Unlike the Professional Floor, the Creative Ceiling should continually move.

A small independent publisher may not possess the resources to develop proprietary video infrastructure, finance elaborate productions or establish a sophisticated international distribution network. There is nothing inherently unprofessional about operating within those financial limitations. The publisher can nevertheless conduct business responsibly, exercise intelligent editorial judgment and deliver an excellent product within the circumstances available to it.

We should never confuse limited resources with limited obligations. A company cannot reasonably claim that its budget entitles it to disregard the consent of performers or the accuracy of customer billing.

Equally, we should never confuse the fulfillment of basic obligations with extraordinary accomplishment. A business deserves no particular celebration for refraining from deceiving its customers. The distinction is important because we occasionally celebrate as innovation the introduction of practices that should have constituted ordinary professional competence years earlier.

Raise the floor. Then see how high we can build.

The Invisible Accomplishments

Some of the most impressive examples of excellence in a digital entertainment business are practically invisible to the audience.

A video begins playing without delay. The appropriate version of the film is delivered automatically to the device being used. The interface accommodates the characteristics of the display. The customer returns to the service and discovers that appropriate preferences have been retained. The financial transaction occurs accurately, and the entertainment remains available under the agreed terms.

The audience may devote very little conscious attention to any of these accomplishments. That's precisely the point.

Exceptional engineering often manifests itself through the absence of problems rather than through the presence of conspicuous technological features. A consumer shouldn't need an understanding of video compression, content delivery networks, adaptive streaming or browser compatibility to enjoy a film.

The sophistication belongs in the engineering. The simplicity belongs in the experience.

This introduces an interesting management challenge because organizations frequently devote greater attention to accomplishments that can be demonstrated in a promotional presentation than to accomplishments whose significance becomes apparent only through consistent operation. A new feature can be announced. A redesigned interface can be photographed. A

reduction in the frequency of playback failures may be enormously valuable to the business without providing the marketing department with particularly exciting material.

Nevertheless, the cumulative effect of hundreds of such improvements can fundamentally alter the quality of the product.

I encourage technology companies within adult entertainment to become as enthusiastic about the things their customers no longer have to experience as they are about the new things their customers can experience. A problem permanently eliminated may represent a greater engineering accomplishment than a feature subsequently advertised.

The Craftsmanship of Digital Entertainment

In his 2008 book *The Craftsman*, sociologist Richard Sennett examined craftsmanship as a commitment to the quality of work itself, extending the concept beyond traditional manual occupations to include contemporary professional and technological activities.[2]

I find that conception attractive in an industry increasingly dependent upon the production of intangible objects. The software developer constructs something that cannot necessarily be appreciated by examining its visible appearance. The editor organizes material into an experience whose effectiveness may depend upon decisions the audience never consciously recognizes. The engineer develops technological systems whose quality becomes apparent through their continued reliability.

These are forms of craftsmanship.

There is an enormous difference between developing a website that functions and developing a website whose construction reflects a profound understanding of what the audience is at-

2. Richard Sennett, *The Craftsman* (New Haven, CT: Yale University Press, 2008), p. 9.

tempting to accomplish. Both may satisfy the immediate requirements of the business. Only one necessarily demonstrates a commitment to the refinement of the work.

Craftsmanship also requires an intimate relationship with detail. A filmmaker understands the significance of lighting and composition. A typographer recognizes differences in spacing that many readers might never consciously identify. An engineer understands why an apparently insignificant delay in an interface can become frustrating when it is repeated throughout an experience. None of these considerations needs to become an obsession with perfection. Businesses must operate within financial and practical constraints, and there is an entirely legitimate entrepreneurial virtue in completing something rather than perpetually refining it.

But there is an equally legitimate virtue in caring about the difference between an acceptable result and an exceptional one.

The pursuit of craftsmanship is, in part, a refusal to make the customer's inability to identify a deficiency the justification for leaving it uncorrected.

Excellence Is Not Perfectionism

Entrepreneurs occasionally make the mistake of interpreting a commitment to excellence as an obligation to produce a flawless product before making it commercially available.

That interpretation can become expensive.

A company may devote months to refining a feature whose significance to its audience remains unestablished. A founder may postpone introducing a product because its visual identity fails to satisfy an elaborate collection of personal preferences. A development team may expend valuable resources resolving theoretical problems that never arise under actual operating circumstances. Excellence should not become the intellectual justification for failing to accomplish anything.

An ambitious business must possess the ability to distinguish between defects that make a product unsuitable for release, deficiencies that can be addressed through subsequent development and refinements whose commercial value remains uncertain.

There are circumstances under which the appropriate professional decision is to postpone a release. A serious security vulnerability, unresolved questions concerning consent or a payment system incapable of reliably processing transactions cannot responsibly be dismissed as opportunities for later improvement.

But an otherwise reliable entertainment service needn't postpone its existence because management has yet to settle upon the ideal appearance of a particular control. The discipline consists of understanding the consequences of the decisions.

I would much rather see an intelligently conceived product introduced responsibly, evaluated through actual experience and improved continuously than see an organization spend several years attempting to anticipate every conceivable expectation of an audience it has never served.

Perfectionism can become a form of managerial vanity. Excellence requires a continuing relationship with reality.

Why the Cheapest Solution Can Be the Most Expensive

The relatively modest financial resources available to many independent adult entertainment businesses make economic efficiency an important managerial consideration. There is nothing inherently objectionable about seeking inexpensive solutions to commercial and technological problems. I have considerable admiration for entrepreneurs capable of accomplishing impressive things with limited resources.

The difficulty arises when management evaluates the cost of a decision exclusively according to its immediate expenditure.

Suppose an independent publisher acquires an inexpensive website system that satisfies its initial requirements. Over time, the publisher discovers that the system is difficult to modify, unreliable under increasing demand and dependent upon a developer whose availability is inconsistent. Additional integrations become increasingly complicated, and the business begins accumulating expenses associated with maintaining a technological architecture that no longer serves its needs. The original purchase may have been inexpensive. The commercial consequences of the decision may not have been.

A more intelligent evaluation would consider the cost of acquiring the technology, maintaining it, adapting it, replacing it and conducting business within the limitations it imposes.

The same principle applies to production, distribution and financial arrangements. A cheap commercial service that compromises the company's ability to retain customers can become expensive. An inexpensive licensing agreement that unnecessarily restricts the future exploitation of intellectual property can become expensive. An inadequately designed internal process that requires employees to repeatedly correct the same errors can become expensive.

Excellence is compatible with economy. Indeed, some of the most important accomplishments of excellent businesses concern their ability to eliminate unnecessary expenditures through intelligent design.

The objective is not to spend more money. It is to become more sophisticated about understanding what things actually cost.

The Unfinished Product

An interesting characteristic of contemporary digital entertainment is that the product continues to exist as a managerial responsibility after it has been introduced to the marketplace.

A book printed in 1975 retains the characteristics it possessed when it was manufactured. A digital entertainment service introduced this morning can be modified this afternoon. Its technology, organization, commercial arrangements and available inventory can continue evolving throughout its existence. That represents a remarkable commercial privilege.

It also introduces an obligation that traditional conceptions of product development do not always accommodate. The enterprise must possess the resources and institutional discipline necessary to continue improving the product after the excitement associated with its introduction has subsided.

Launching a website is not the completion of a website business. It is the commencement of a relationship with the people who will use it. Management should therefore establish processes through which the organization acquires information about the performance of its products, investigates deficiencies and makes intelligent decisions concerning subsequent development.

These processes needn't become elaborate administrative systems. Within a small business, they may involve relatively straightforward discussions among the people responsible for technology, editorial decisions and customer relationships.

What matters is that improvement becomes an ordinary characteristic of operating the business rather than an occasional project undertaken when conditions become intolerable.

An organization that regards its product as permanently finished will eventually find itself operating in a marketplace that has continued developing without it.

The Excellence Audit

I propose that entertainment companies periodically undertake an *Excellence Audit* informed by the seven dimensions introduced in this chapter.

Unlike a conventional financial audit, this exercise would not attempt to establish the accuracy of accounting records. Nor would it reduce the organization to a single numerical quality score. Its purpose would be to identify the relationship between the ambitions of the enterprise, the characteristics of its products and the circumstances under which those products are created and experienced.

Begin by establishing what the business intends to accomplish. A specialist film publisher, an independent performer, an advertising company and a technology provider will possess substantially different objectives. Their respective definitions of excellence should reflect those differences. Then examine each dimension in relation to those objectives. Creative quality might be evaluated through informed editorial assessment and audience research. Technological performance might be evaluated through playback reliability, response times and compatibility. Commercial performance might be examined through contribution margins, customer retention and the sustainability of compensation arrangements. Professional conduct should be evaluated through evidence of responsible practices rather than promotional declarations.

The Professional Floor must be examined separately. Serious deficiencies concerning consent, safety, contractual integrity or security cannot reasonably be offset by exceptional financial performance or attractive visual design. A business cannot compensate for the violation of fundamental obligations by accumulating accomplishments elsewhere.

Once management has identified the principal deficiencies, it should determine which improvements would produce the great-

est commercial, creative or operational benefits. Assign responsibility, establish realistic priorities and identify the evidence that would demonstrate improvement. The objective is not to acquire a certificate announcing that the company has achieved excellence. It is to develop a clearer understanding of the work that remains to be done.

An honest Excellence Audit ought to produce some uncomfortable discoveries. If everybody emerges from the exercise convinced that the organization has already attained its full potential, I would question the quality of the audit.

The Courage to Be Excellent

There is a degree of entrepreneurial courage involved in attempting to establish standards substantially higher than those prevailing within one's immediate commercial environment.

The entrepreneur may discover that certain improvements are initially difficult to communicate to prospective customers. Employees may resist unfamiliar expectations. Commercial partners may be unwilling to modify established arrangements. Investors may question expenditures whose financial significance cannot be demonstrated immediately.

Some experiments will fail. That is why excellence cannot be reduced to an indiscriminate enthusiasm for quality. It must be accompanied by commercial intelligence, financial discipline and an understanding of the circumstances in which the business operates.

But the possibility that an ambitious undertaking might fail is not a compelling argument for abandoning ambition altogether.

The history of entrepreneurship is populated by people who recognized possibilities that established businesses had failed to recognize, or whose significance those businesses had failed to appreciate. Their accomplishments frequently began with dissatisfaction concerning something the prevailing commercial envi-

ronment considered perfectly adequate. I believe adult entertainment possesses an unusual abundance of opportunities of precisely that character. Our deficiencies are sufficiently numerous, our technological possibilities sufficiently extensive and our existing commercial conventions sufficiently established that imaginative entrepreneurs have an enormous amount of material with which to work.

We shouldn't regard that as an indictment of the industry's future. We should regard it as one of the most attractive characteristics of that future.

Without Apology

I would like the people responsible for adult entertainment to take enormous professional pride in what they do.

Not because they have acquired the approval of people who previously objected to their work. Not because they have managed to disguise the nature of their business beneath reassuring corporate terminology. And certainly not because they have somehow succeeded in making pornography less pornographic.

I would like them to take pride in the intellectual and creative significance of their accomplishments.

I want the software engineer to recognize the quality of the systems she has developed, the filmmaker to recognize the artistic intelligence exercised in his productions, the publisher to recognize the distinction of the entertainment environment it has established and the entrepreneur to recognize the durability of the business he has built. Those accomplishments deserve to be evaluated according to the same demanding professional standards we would apply to exceptional work in any other industry.

The fact that the entertainment is indecent makes its excellence no less significant. If anything, the commercial and institutional obstacles associated with its production make certain accomplishments all the more remarkable. There is no reason

adult entertainment cannot produce some of the finest engineers, most imaginative entrepreneurs and most accomplished creative professionals in the broader entertainment economy. There is no reason our technologies cannot influence other industries, our commercial ideas cannot inform other businesses or our achievements cannot contribute meaningfully to the evolution of digital media.

We needn't become respectable to accomplish any of those things. We need to become exceptional.

Indecency is the nature of our product. Excellence should be the nature of our business.

CHAPTER 18

Excellence Is Not a Luxury

“Excellence isn't the luxury.
Mediocrity is.”

One of the costlier misconceptions in business is the belief that excellence is something a company can afford to pursue once it becomes successful.

The struggling entrepreneur will improve the website when revenues increase. The independent producer will develop a more sophisticated approach to distribution when the company acquires additional financing. The publisher will invest in better technology when the audience becomes sufficiently large to justify the expenditure. The underlying assumption is that commercial success will eventually provide the resources necessary to become excellent, when it may be the absence of excellence that is preventing the business from becoming commercially successful in the first place.

I find this frustrating because some of the most meaningful improvements available to adult entertainment businesses require relatively modest financial investments. They require imagination, intelligent prioritization, an appreciation of the customer's experience and, occasionally, the willingness to discontinue something the company never should have been doing.

There is no question that capital can provide important advantages. Money can acquire sophisticated equipment, attract specialized talent, finance ambitious research and allow an organization to undertake experiments whose commercial consequences remain uncertain. But capital cannot independently establish the intelligence with which those resources are employed. An inadequately conceived business with five million

dollars at its disposal is simply an inadequately conceived business with the financial capacity to make more expensive mistakes.

The Beautiful Poverty of the Entrepreneur

One of the fascinating characteristics of entrepreneurship is the ingenuity occasionally produced by the absence of resources.

An established company contemplating a new product may assemble a development team, commission extensive market research, engage outside consultants and establish an elaborate administrative framework through which the project will proceed.

An independent entrepreneur confronting the same opportunity may have a laptop, a modest bank account and an exceptionally persuasive reason to figure something out before the rent is due. Neither circumstance guarantees a superior outcome. The established company may possess resources and expertise the independent entrepreneur cannot reasonably duplicate. The entrepreneur may recognize possibilities that the established company cannot investigate without navigating its own organizational complexity.

What interests me is the relationship between financial limitations and intellectual discipline.

A business with limited resources must become intelligent about identifying the things that matter. It cannot necessarily afford to develop every feature its founder considers interesting, serve every conceivable customer or maintain commercial activities whose financial significance remains questionable.

This can become an entrepreneurial advantage.

The small publisher that cannot afford to compete with a large entertainment platform on the quantity of its inventory might instead develop an exceptional editorial identity. The independent filmmaker unable to finance elaborate productions might distinguish his work through its originality, intimacy or creative

perspective. A modest technology company might concentrate its engineering resources upon solving one significant problem better than anybody else. These are not inferior versions of larger businesses. They are potentially superior businesses pursuing different commercial objectives.

The absence of capital becomes particularly problematic when an entrepreneur attempts to reproduce a business whose principal competitive advantage is the possession of capital.

Why undertake that competition on precisely those terms?

The Economics of Attention to Detail

Suppose an independent publisher operates a relatively simple website through which it distributes a carefully selected library of films.

The website contains several inconsistencies. Certain films are missing descriptions. Promotional images have been prepared in different dimensions. Some pages employ different terminology for identical functions. The navigation has gradually become more complicated as additional sections have been introduced.

None of these deficiencies necessarily prevents the website from operating. Collectively, however, they influence the character of the product. Correcting them may require neither a substantial financial investment nor the development of particularly advanced technology. It requires somebody to examine the website as a complete entertainment experience, identify the inconsistencies and undertake the work necessary to eliminate them.

This is an important distinction. There are improvements that require the acquisition of resources and improvements that require the more intelligent application of resources already available.

The latter deserve attention because management occasionally overlooks them while contemplating much more expensive

improvements. An entrepreneur might spend several thousand dollars acquiring a redesigned website while failing to establish consistent editorial standards for the material published through it. The company has acquired a new appearance without necessarily improving the organizational practices responsible for its previous deficiencies.

The same deficiencies gradually reappear within a more expensive technological environment.

Attention to detail is therefore not merely an aesthetic preference. It is an organizational capability that influences the effectiveness of virtually every subsequent investment in the business.

The Competence of Doing Less

In their 1996 book *Lean Thinking*, James P. Womack and Daniel T. Jones examined how organizations could improve economic performance by identifying the activities that create value and eliminating unnecessary expenditure and effort associated with its production.[1]

Although much of the intellectual development of lean management originated in manufacturing, its central concern has obvious relevance to digital businesses.

Every feature, administrative procedure, commercial integration and promotional initiative consumes some combination of money, time and attention. Some contribute meaningfully to the product. Others continue consuming resources long after anybody has established why they exist. Consider the website containing seventeen different navigational categories, several partially maintained promotional sections, three competing systems for organizing entertainment and a collection of features introduced over the course of successive redesigns.

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1. James P. Womack and Daniel T. Jones, *Lean Thinking: Banish Waste and Create Wealth in Your Corporation* (New York: Simon & Schuster, 1996).

Each may have been introduced for a perfectly sensible reason. Their cumulative existence may no longer constitute a sensible product. There is a financial cost associated with maintaining unnecessary functionality. Developers must accommodate it when making subsequent improvements. Employees must understand it. Customer service personnel must respond to the confusion it occasionally creates. Management must consider its implications whenever the business changes direction.

The organization may therefore be spending money to preserve characteristics of the product that simultaneously diminish the quality of the product.

Eliminating those characteristics can produce two benefits from the same managerial decision: an improvement in the experience of the audience and a reduction in the resources necessary to maintain that experience.

This is why I have considerable enthusiasm for intelligent simplicity. The best examples of simplicity aren't merely attractive. They're economically efficient.

The Maintenance Economy

There is an unfortunate tendency among entrepreneurs to become more excited about acquiring things than maintaining them.

A new website is exciting. Maintaining its underlying software is less exciting. Introducing a new collection of films is exciting. Correcting inaccurate information associated with existing films is less exciting. Developing a new customer service feature is exciting. Ensuring somebody actually responds to customers every day is less exciting. Unfortunately, the audience experiences the consequences of maintenance far more frequently than it experiences the excitement of management's latest acquisition.

A business that continually introduces new products while neglecting the maintenance of existing ones gradually accumulates responsibilities that compete for its available resources. Its development efforts become increasingly expensive because the people responsible for undertaking them must accommodate an expanding collection of unresolved problems. Software engineers commonly discuss certain aspects of this phenomenon in terms of technical debt. But the underlying principle extends throughout an entertainment enterprise.

There can be editorial debt in the form of poorly organized or inadequately documented collections of entertainment. There can be administrative debt in the form of incomplete contractual records or inconsistent operating procedures. There can be commercial debt in the form of distribution arrangements that have become increasingly unsuitable but remain difficult to replace.

These obligations can consume resources without necessarily generating additional value. I encourage businesses to regard maintenance as a productive economic activity rather than an unfortunate expenditure associated with things they have already purchased.

An accurately maintained catalog can be easier to license. A well-maintained technological environment can be easier to improve. Intelligently organized commercial records can facilitate negotiations that would otherwise require considerable administrative effort.

Maintenance preserves the commercial usefulness of previous investments. There is nothing particularly glamorous about that proposition, but it can be economically valuable.

What You Buy and What You Build

An important decision confronting any contemporary entertainment entrepreneur concerns the circumstances under which the

business should acquire existing technology rather than develop its own.

I find both extremes of this debate intellectually unsatisfying.

There are entrepreneurs who believe the possession of proprietary technology necessarily establishes a competitive advantage. They devote considerable resources to independently developing functionality already available through reliable, commercially appropriate alternatives.

There are also entrepreneurs who believe practically every technological responsibility should be delegated to another company, occasionally discovering that the cumulative effect of those decisions is the surrender of considerable authority over their own businesses. Neither ownership nor outsourcing independently constitutes an intelligent technology strategy.

The relevant consideration is the strategic significance of the capability under examination. If a particular technology performs a standardized function that several competent providers can deliver reliably and economically, acquiring that functionality may allow the business to devote its resources to more meaningful competitive distinctions.

If the technology fundamentally determines the identity of the entertainment product, the nature of its relationship with customers or the commercial independence of the enterprise, management may have compelling reasons to exercise greater control over it.

Even then, exercising control does not necessarily require developing every underlying component independently. A company can assemble an exceptional proprietary product using established technologies, open standards, appropriately licensed software and specialized services.

The intellectual accomplishment resides partly in understanding how those components should work together and where independent development will produce meaningful advantages.

An automobile manufacturer does not necessarily need to manufacture its own windshield wipers to establish a distinctive automotive experience.

But it ought to exercise considerable authority over the design of the automobile.

The Commercial Intelligence of Modularity

In his 1962 paper "The Architecture of Complexity," Herbert A. Simon examined characteristics of complex systems, including near-decomposability: components with stronger internal connections than connections to one another.[2] The implications for contemporary software architecture matter for independent businesses.

An entertainment platform constructed as an inseparable collection of technological functions can become difficult to modify. Replacing its video player may require changes throughout the publishing environment. Modifying the advertising system may affect unrelated aspects of the website. Introducing a new financial service may require substantial reconstruction of existing processes.

In a more intelligently organized architecture, these functions can be developed and maintained with greater independence, provided that the relationships between them are appropriately designed. The publisher might improve its playback technology without rebuilding its entire website. It might introduce alternative distribution capabilities without reconstructing its editorial systems. It might replace a commercial service that no longer satisfies its requirements without jeopardizing the continued operation of unrelated functions.

There are genuine engineering challenges associated with developing modular systems. Interfaces between components

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2. Herbert A. Simon, "The Architecture of Complexity," *Proceedings of the American Philosophical Society* 106, no. 6 (1962): 467–482, esp. 474–477.

must be designed intelligently, dependencies must be understood and the operational consequences of modifications must be evaluated. Excessive fragmentation can introduce complexities of its own.

Nevertheless, appropriate modularity offers an important economic advantage: the ability to improve one part of a business without necessarily purchasing the improvement of every other part at the same time.

For an independent entrepreneur, this can fundamentally change the financial accessibility of technological excellence. The company needn't finance the entire technological future of the business in a single undertaking. It can establish a coherent architecture and develop its capabilities progressively as commercial circumstances permit.

A business should be able to outgrow its technology without having to abandon everything it has built around it.

Standards Are a Form of Shared Capital

One of the extraordinary advantages available to contemporary technology entrepreneurs is the enormous collection of intellectual accomplishments upon which they can build without independently financing their original development.

The Internet itself represents a remarkable example. Open technical standards enable independently developed systems to communicate, exchange information and perform functions whose collective significance enormously exceeds the accomplishments of any individual organization.

A small entertainment publisher can employ technologies developed through decades of international engineering without possessing the financial resources that would have been necessary to develop those technologies independently.

This is a form of shared capital, although it does not appear as such on a company's conventional financial statements. Es-

tablished standards can provide access to an existing population of developers, compatible technologies, documentation and accumulated technical knowledge. Their intelligent adoption may reduce development expenses while increasing the range of commercial possibilities available to the enterprise.

Of course, an open standard and an open-source implementation are different things, and neither necessarily eliminates licensing obligations, security responsibilities or the expense of competent integration. The mere availability of a technology does not establish that it is appropriate for a particular business. But the distinction between benefiting from existing intellectual accomplishments and unnecessarily reproducing them is commercially important.

Innovation does not require inventing every component of the thing being innovated.

Indeed, some of the most interesting entrepreneurial opportunities involve assembling existing technological capabilities in ways their original developers may never have contemplated.

The independent entrepreneur should approach the technological achievements of the world not merely as finished products to purchase but as intellectual resources from which new products can be constructed.

The Excellence Multiplier

I propose a principle for evaluating investments in the improvement of an entertainment business: the *Excellence Multiplier*.

Certain investments produce benefits extending across several dimensions of the enterprise simultaneously. Others produce relatively isolated improvements whose effects are confined to the particular activity upon which the expenditure was made.

Suppose a publisher invests in establishing a consistent system for identifying, organizing and documenting its films. The

immediate accomplishment may appear largely administrative. Yet the same work could improve the ability of customers to discover entertainment, reduce the time employees spend locating information, facilitate commercial licensing arrangements, improve the accuracy of performance reporting and establish a foundation for subsequent technological development.

One intelligently conceived investment has improved several characteristics of the business.

Compare that with an expenditure of equal financial magnitude devoted to a visually impressive promotional feature whose commercial significance disappears when the promotion ends. Both expenditures may be legitimate. The distinction concerns the duration and breadth of their economic consequences.

The Excellence Multiplier is not intended to suggest that these benefits can always be reduced to a precise numerical formula. It is a principle of investment judgment: where practical, prioritize improvements that strengthen several strategically important capabilities and continue producing benefits beyond the immediate circumstances in which they were undertaken.

This is particularly valuable for independent businesses because it enables them to extract greater commercial significance from relatively limited resources. A company unable to finance ten separate improvements may be able to finance one intelligently designed improvement that makes several of the others possible.

An Experiment Is Not an Empire

Entrepreneurs have a wonderful capacity for mentally transforming an interesting idea into an international corporation before determining whether anybody wants the product.

The enthusiasm is understandable. It is one of the more enjoyable characteristics of entrepreneurship. But the financial consequences can become uncomfortable when an entrepre-

neur begins purchasing the infrastructure necessary to accommodate the imagined success of a business before establishing the attractiveness of its underlying commercial proposition.

Consider an independent publisher contemplating the introduction of a new subscription service. Rather than committing substantial resources to developing an enormous library, an elaborate technology platform and an extensive promotional campaign, the publisher might first introduce a thoughtfully constructed service addressing a clearly defined audience. The initial objective is to discover whether the proposition possesses commercial significance.

Do people appreciate the editorial approach? Are they willing to establish a financial relationship with the service? Do they return? What characteristics distinguish the experience from alternatives already available to them?

The answers should influence subsequent development.

There is no reason such an experiment must provide an inferior experience. Its scope may be limited, but the elements it does provide should be executed responsibly and competently. This distinction between limited scope and deficient execution deserves attention. A modest service that performs its intended functions exceptionally well can provide management with more useful information than an ambitious service that performs dozens of functions inadequately.

The latter introduces considerable uncertainty into the interpretation of its commercial results. If customers fail to return, management may have difficulty determining whether they disliked the underlying proposition or simply became frustrated with its execution.

An excellent experiment can therefore be more economically informative than an inadequately executed attempt to build an entire business. Start with something small enough to understand and good enough to matter.

The Discipline of Choosing

In 1992, Steven C. Wheelwright and Kim B. Clark published an examination of product development planning that emphasized the importance of managing development projects collectively in relation to available organizational resources and strategic objectives.[3]

Their work addresses a managerial problem familiar to practically every ambitious entrepreneur: the existence of more potentially attractive projects than the organization possesses the resources to undertake.

The difficulty is that each project can appear worthwhile when considered independently.

Developing an improved website might be worthwhile. Introducing a mobile application might be worthwhile. Producing additional original entertainment might be worthwhile. Establishing a new distribution partnership might be worthwhile. But undertaking all of them simultaneously may be an exceptionally unintelligent way to operate a small business.

The organization divides its resources among too many objectives. Development projects become delayed. Existing products receive insufficient attention. Employees find themselves continually moving among unrelated responsibilities, and management begins acquiring additional financial obligations to sustain activities whose commercial significance remains uncertain.

The problem isn't necessarily that the company has chosen bad ideas.

It may have failed to choose among good ones. An excellence strategy requires management to establish an order of importance. Certain projects provide foundations upon which sub-

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3. Steven C. Wheelwright and Kim B. Clark, “Creating Project Plans to Focus Product Development,” *Harvard Business Review* 70, no. 2 (1992): 70–82.

sequent projects depend. Others represent attractive opportunities whose pursuit should be postponed until the business possesses sufficient organizational capacity.

I encourage entrepreneurs to develop the discipline of identifying not merely what they intend to accomplish, but what they have deliberately decided not to accomplish yet. There is a considerable difference between abandoning an ambition and establishing an intelligent sequence for its realization.

The False Economy of Cheap Labor

An examination of excellence and financial efficiency would be incomplete without addressing the resources devoted to the people responsible for producing it.

Independent businesses frequently operate under genuine financial constraints, and there is nothing inherently inappropriate about negotiating compensation arrangements reflecting the circumstances of the business and the responsibilities involved.

But acquiring human intelligence exclusively according to the lowest available price can be an expensive managerial philosophy.

An inexperienced developer may charge considerably less than an experienced one while requiring substantially more time to produce a reliable result. An inadequately compensated creative professional may have little financial incentive to develop an enduring relationship with the enterprise. High employee turnover may deprive a company of institutional knowledge it must subsequently acquire again. The initial expenditure tells us relatively little about the complete economics of the relationship.

Businesses should also distinguish entrepreneurial resourcefulness from the transfer of commercial risk onto people who lack meaningful authority over the decisions creating that risk.

An entrepreneur may voluntarily invest hundreds of hours in an undertaking whose financial prospects remain uncertain be-

cause the entrepreneur possesses an ownership interest in its potential success. That does not establish an entitlement to equivalent sacrifices from employees or independent professionals who have not been granted comparable participation in the resulting economic value.

The pursuit of excellence should include an intelligent understanding of how talent is compensated, developed and retained.

Sometimes the most economical decision an entrepreneur can make is to pay the appropriate person what the work is worth and thereby avoid paying several other people to correct it.

The Minimum Excellent Product

The minimum viable product tests whether a business proposition works. But in entertainment, viability alone sets the bar too low. What we need is a Minimum Excellent Product: the smallest offering that genuinely demonstrates what the business aspires to become.

An independent publisher needn't launch with ten thousand films. It might establish an exceptional entertainment environment around fifty carefully selected productions. It needn't accommodate every conceivable technological feature. It should ensure that the functions it does provide operate intelligently and reliably.

The Minimum Excellent Product asks management to establish the smallest coherent entertainment proposition capable of demonstrating the professional and creative identity of the business.

Its boundaries are determined by financial and practical considerations. Its execution is governed by the Professional Floor and by the standards appropriate to the audience it intends to serve. The concept complements rather than replaces the conventional minimum viable product as a method of commercial

experimentation. It emphasizes a characteristic particularly important in businesses where the quality of the initial experience can substantially influence the customer's perception of the entire enterprise.

For an entertainment brand, the first impression is itself part of the commercial experiment.

If an entrepreneur intends to establish a reputation for intelligently curated films, exceptional playback or unusually responsible commercial practices, the initial product must provide sufficient evidence of those characteristics to make the experiment meaningful.

Otherwise, management may end up testing the audience's appetite for a product fundamentally different from the one it ultimately intends to provide.

The Minimum Excellent Product allows a small business to establish its ambitions without pretending it already possesses the resources of a large one.

It is modest in scope without being modest in conviction.

What Would You Do With Another Dollar?

I encourage entrepreneurs periodically to reconsider the allocation of resources within their businesses by asking a deceptively simple question.

If the company had one additional dollar available for improvement, where would that dollar produce the greatest benefit?

The answer might concern marketing. It might concern production, technology, customer service, employee development or the elimination of an unnecessarily expensive administrative process.

The important consideration is whether management can articulate why the expenditure would produce meaningful improvement in relation to the alternative uses of the money.

Then apply the question to an existing expenditure. Suppose the business is devoting resources to maintaining a website feature whose usefulness has never been adequately established. What could those resources accomplish if allocated elsewhere? Could they improve playback reliability, enhance the organization of the entertainment library or finance more effective customer research?

This exercise is an application of opportunity cost, one of the most fundamental principles of economics. Its practical significance resides in recognizing that every continuing expenditure represents the value of the best alternative use of those resources that the business has forgone.

I suspect many entertainment companies already possess financial resources that could contribute considerably more to the quality of their products without requiring an increase in their total expenditures.

The resources are simply occupied with activities whose continued existence management has never seriously reconsidered.

Before concluding that excellence is unaffordable, determine what the company is presently paying for mediocrity.

Small Is Not a Professional Classification

We should resist the tendency to interpret the size of an entertainment enterprise as a reliable indication of its professional significance.

A company employing three people can produce an exceptional product. A company employing three thousand can produce an embarrassing one. Their financial capabilities may differ enormously, but their respective commitments to intelligence, imagination and competent execution cannot be determined by examining their payrolls.

This is particularly important in an industry whose entrepreneurial history includes so many independent publishers, filmmakers, performers and technology developers.

We should not develop a conception of professional excellence that effectively reserves its pursuit for organizations possessing substantial financial resources. Doing so would unnecessarily diminish the ambitions of precisely the entrepreneurs most likely to challenge established commercial arrangements.

An independent business may have fewer customers, fewer productions and less sophisticated infrastructure than an established corporation. It may also possess a more distinctive identity, a closer understanding of its audience and a greater ability to modify its products in response to intelligent observations.

There are dimensions of excellence on which a small business can compete extraordinarily effectively.

The challenge is to identify them and pursue them with conviction, rather than spending the company's limited resources attempting to imitate superficial characteristics of organizations operating under fundamentally different economic circumstances.

I have no interest in seeing every independent adult entertainment enterprise become an enormous corporation. I would much rather see thousands of independent enterprises become exceptional examples of what they have chosen to be. That would constitute a far more interesting industry.

The Luxury We Cannot Afford

Excellence is occasionally expensive. Ambitious films require financing. Sophisticated software requires talented people. Responsible commercial operations require time, infrastructure and an organizational commitment to fulfilling obligations.

Nobody should interpret this chapter as suggesting that the financial constraints confronting independent entrepreneurs can always be overcome through enthusiasm and intelligent design.

But the cost of pursuing excellence deserves to be examined alongside the cost of failing to pursue it.

Unreliable technology can consume financial resources through repeated failures. Inadequate design can reduce the commercial effectiveness of every dollar spent attracting customers. Poorly maintained intellectual property can restrict future licensing opportunities. Inconsistent professional practices can increase administrative expenses, undermine relationships and diminish the value of a company's reputation.

These are real economic costs, even when they appear in financial statements under categories that conceal their underlying causes. The entrepreneur who regards excellence as an unnecessary expenditure may unknowingly be maintaining an extraordinarily expensive collection of deficiencies.

I therefore encourage the independent entertainment entrepreneur to abandon the idea that professional excellence belongs exclusively to the financially privileged. Determine what the business can accomplish with its available resources, establish a coherent set of priorities and execute the work with an intelligence and discipline appropriate to the ambition behind it.

As the business develops, its capacity to undertake more ambitious projects may increase. But its commitment to doing exceptional work should have been established long before those resources became available.

Excellence isn't the luxury.

Mediocrity is.

CHAPTER 19

Raise the Floor, Not the Barrier

“Capitalism is at its most interesting when the people who have acquired capital cannot prevent the people who haven't from outthinking them.”

One of the worst things that could happen to adult entertainment in the pursuit of professional excellence would be the establishment of an industry in which only wealthy people could afford to be professional.

That would represent a fundamental misunderstanding of everything I'm advocating in this book. The democratization of publishing and distribution is among the greatest accomplishments of the Internet. It enabled people with relatively modest financial resources to establish audiences, develop independent businesses and compete with organizations possessing advantages that would have been practically insurmountable a generation earlier.

Adult entertainment benefited enormously from that development. Independent filmmakers no longer needed the approval of major distributors to reach an audience. Performers acquired opportunities to exercise greater control over their careers. Publishers could establish entire commercial enterprises without purchasing printing presses, renting retail space or negotiating national distribution agreements. We should celebrate those accomplishments and aggressively protect the conditions that made them possible.

The problem with our industry isn't that it became too accessible to entrepreneurs. It's that we failed to develop sufficiently accessible ways for those entrepreneurs to operate at higher professional standards.

There is an important difference between making it difficult to enter a business and making it difficult to conduct that business irresponsibly.

The Entrepreneurial Birthright

Imagine somebody entering the adult entertainment industry today with a few thousand dollars, an intelligent commercial idea and no meaningful relationships with the established companies in the business. I want that person to have a fighting chance.

I want the possibility to exist that this completely unknown entrepreneur, operating from an apartment somewhere in Ohio, might develop an entertainment product that ultimately embarrasses a multinational corporation. I want the established businesses to experience the occasional discomfort of discovering that somebody they've never heard of has figured out something they haven't.

That's one of the healthiest characteristics of a competitive marketplace.

The history of entrepreneurship would be less interesting if every meaningful commercial accomplishment required the advance approval of the people already making money in the business. Established enterprises possess valuable experience, but they also possess established interests. Those interests don't necessarily include financing the people who might eventually make their products obsolete.

The accessibility of digital publishing introduced an important redistribution of entrepreneurial opportunity. The possession of a commercially interesting idea became more significant relative to the possession of an expensive distribution infrastructure.

Of course, the barriers didn't disappear altogether. Financial services, audience acquisition, technological expertise and regulatory obligations can still present formidable difficulties. Nevertheless, the ability to reach an audience without first establishing an institutional relationship with a traditional distributor remains a valuable characteristic of our business.

Any agenda for the professional advancement of adult entertainment must preserve that freedom. Otherwise, we risk creating precisely the sort of commercial establishment our predecessors spent decades attempting to circumvent.

I am not advocating the redistribution of commercial success. I am advocating the expansion of commercial opportunity. I have no objection to an entrepreneur becoming enormously wealthy through the development of an exceptional business, nor do I believe that an unsuccessful enterprise is entitled to survive at the expense of a successful one. Capitalism is at its most interesting when the people who have acquired capital cannot prevent the people who haven't from outthinking them. I want an industry in which success is earned through superior commercial intelligence, not secured through institutional privilege.

The Difference Between Qualification and Capitalization

A person's ability to finance an undertaking tells us something about that person's access to financial resources. It doesn't necessarily tell us much about his qualifications to undertake it. A millionaire can operate a fraudulent business. An independent entrepreneur with a modest bank account can operate an exceptionally responsible one. The professional distinction between them should be established through an examination of their conduct rather than their respective financial circumstances.

Yet industries occasionally develop institutional arrangements that treat the possession of capital as a substitute for profession-

al credibility. Expensive memberships, elaborate certification procedures, excessive administrative requirements and exclusive commercial relationships can gradually establish a marketplace in which the ability to finance participation becomes more significant than the quality of the participation itself.

Some requirements may serve entirely legitimate purposes. Others may originate in a sincere attempt to establish professional standards but produce consequences their designers failed to anticipate.

Consider a hypothetical industry certification program that costs ten thousand dollars annually to maintain. For a large entertainment corporation generating fifty million dollars in revenue, the expenditure represents just 0.02 percent of gross revenue. For an independent publisher generating fifty thousand dollars annually, it represents twenty percent of gross revenue. Both businesses are ostensibly subject to the same requirement. The economic consequences are radically different.

If the certification subsequently becomes a prerequisite for acquiring advertising relationships, financial services or access to essential technology, its designers have effectively introduced a substantial barrier to competition. The independent publisher may be every bit as capable of satisfying the underlying professional requirements as the established corporation, yet lack the financial resources necessary to demonstrate it through the designated process.

The OECD recognizes in its work on competition assessment that regulatory requirements can restrict market entry and that policymakers should examine whether their objectives can be accomplished through less restrictive alternatives.[1] The same intellectual discipline ought to inform the development of private professional standards.

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1. OECD, *Competition Assessment Toolkit: Principles. Version 4.0 (Volume I)* (Paris: OECD Publishing, 2019).

When we establish a requirement, we should understand both the behavior we intend to encourage and the people we may inadvertently exclude.

The Fixed Cost of Being Legitimate

Professional obligations frequently involve expenditures that don't increase or decrease proportionately with the size of the enterprise. A company may require legal advice, secure record-keeping systems, appropriate verification technologies, contractual documentation and mechanisms for addressing complaints regardless of whether it serves a thousand customers or a million.

Many of these expenditures are necessary. The problem is not their existence but the manner in which they are distributed throughout the economy.

A large corporation can spread the fixed costs of establishing a particular capability across an enormous volume of commercial activity. A small business may have to recover comparable initial expenditures from a fraction of that activity.

This is a familiar example of economies of scale, but its implications for independent entrepreneurship deserve attention. If every small publisher must independently construct the administrative and technological infrastructure necessary to operate responsibly, the aggregate expense of legitimate participation can become unnecessarily high.

The opportunity lies in making certain professional capabilities available as shared services. Consider the technological requirements associated with maintaining secure records of distribution permissions. An independent producer may have little reason to develop a sophisticated proprietary system for this purpose. What the producer needs is an affordable, reliable means of establishing and maintaining the relevant information, protecting it appropriately and retrieving it when necessary.

A properly designed service could provide that capability to hundreds or thousands of independent businesses, distributing the cost of its development and operation across a much larger commercial population. The underlying professional obligation remains intact. The expense of fulfilling it becomes more manageable.

That is precisely the sort of problem technology companies ought to be interested in solving.

We've become quite proficient at developing inexpensive ways for entrepreneurs to publish adult entertainment. We should become equally proficient at developing inexpensive ways for them to publish it responsibly.

Professionalism as Infrastructure

The conventional approach to improving industry standards frequently involves telling people what they ought to do. I have no fundamental objection to that approach, but I find it incomplete. Once we have established what people ought to do, there remains the rather interesting entrepreneurial question of how we might make doing it easier.

A small publisher should be able to establish transparent subscription arrangements without independently developing an elaborate financial management system. A filmmaker should be able to maintain accurate records of commercial permissions without becoming an information security specialist. An independent distributor should have access to reliable video technology without employing an entire engineering department. These are potential markets.

There is an enormous commercial opportunity in developing technologies that incorporate responsible professional practices into the ordinary operation of entertainment businesses. Rather than requiring entrepreneurs to acquire a series of unrelated products, administrative procedures and specialized capabilities,

we can design systems in which important responsibilities are supported by the underlying architecture.

A publishing system can make accurate attribution an ordinary component of adding a film to a catalog. A billing system can provide straightforward mechanisms for customers to manage their subscriptions. A distribution platform can accommodate appropriately documented licensing restrictions. A recordkeeping system can establish different levels of access to sensitive information according to the responsibilities of the people using it.

None of these features independently guarantees responsible conduct. A determined individual can misuse even a thoughtfully designed system. But intelligent engineering can reduce the number of circumstances in which responsible operation requires extraordinary administrative effort.

In this respect, the development of industry-specific technology can accomplish something more ambitious than improving operational efficiency. It can improve the accessibility of professionalism itself.

The most interesting technological achievement may not be a system that enables an enormous corporation to become more sophisticated. It may be a system that enables a thousand independent businesses to acquire sophisticated capabilities previously available only to enormous corporations.

Common Standards, Uncommon Products

One of the advantages of establishing common professional standards is that they can actually create more room for creative individuality.

Consider the relationship between technical standards and the design of an Internet website. The existence of established conventions governing how browsers communicate with servers does not require every website to look identical. On the contrary, those conventions make it economically practical for millions of

independently designed websites to operate within a shared technological environment. Their common infrastructure supports their individuality.

I want to see a similar philosophy applied to the professional infrastructure of adult entertainment.

We can establish intelligent conventions for identifying creative works, documenting distribution permissions, communicating financial arrangements and protecting sensitive information without imposing uniformity upon the entertainment itself. An independent filmmaker shouldn't have to conform to the aesthetic preferences of an industry association to participate in a reliable licensing system. A specialized publisher shouldn't have to adopt the commercial identity of a major distribution platform to benefit from established technical conventions.

Standardize the things that make independent businesses easier to operate. Leave the things that make them interesting to their respective imaginations.

This is important in adult entertainment, where the diversity of creative interests is itself a source of commercial value. Many successful independent businesses serve audiences whose preferences are inadequately addressed by larger organizations. Their specialization represents a competitive advantage rather than a deficiency requiring correction.

Professional standards should protect the people involved in creating and consuming entertainment while preserving the freedom of entrepreneurs to develop distinctive products.

I have no interest in an industry populated exclusively by beautifully designed, professionally operated businesses that are otherwise indistinguishable from one another.

When the Policeman Owns the Store

Industry self-governance can be a valuable alternative to unnecessarily burdensome external intervention. People working with-

in an industry frequently possess a more sophisticated understanding of its technological and commercial circumstances than the institutions attempting to regulate it. But there is an obvious complication when the people establishing the rules are simultaneously competing against the people required to observe them.

Imagine a group of established distribution companies organizing an association responsible for certifying the legitimacy of independent publishers. The association establishes requirements that happen to correspond closely to the commercial arrangements, technological systems and financial capabilities of its founding members.

An entrepreneur developing a fundamentally different approach to distribution may discover that the business cannot qualify, despite possessing the ability to satisfy the substantive professional objectives the certification was ostensibly created to protect.

Nobody need have deliberately intended to suppress competition. The founders may simply have assumed that the manner in which they conduct business represents the only intelligent way of conducting it. The result can nevertheless resemble a sophisticated form of commercial protectionism.

The governance of shared professional standards therefore deserves as much attention as the standards themselves. Who determines the requirements? Who evaluates compliance? How are conflicts of interest addressed? Can independent businesses challenge decisions without jeopardizing unrelated commercial relationships?

In *Governing the Commons*, Elinor Ostrom examined how communities developed institutions for managing shared resources, demonstrating in specific cases that effective governance need not depend exclusively upon centralized governmental authority or private ownership.[2] Although the circumstances she investigated differ from those confronting adult entertainment, her work provides a useful intellectual foundation for thinking about participation, accountability and institutional design.

An industry association should be capable of representing the interests of its established members without acquiring unnecessary authority over the commercial futures of their prospective competitors.

If we're going to establish mechanisms for demonstrating professional legitimacy, those mechanisms must themselves be legitimate.

A Standard Is Not a Business Model

There is another distinction worth making between establishing an appropriate professional outcome and prescribing the particular commercial or technological arrangements through which that outcome must be achieved.

Suppose we agree that a producer should maintain accurate documentation of applicable distribution permissions. That's a meaningful professional requirement. It does not necessarily follow that every producer must purchase the same recordkeeping software, employ the same administrative service or organize its business according to the preferences of the company providing those services.

There may be several equally reliable methods of fulfilling the obligation.

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2. Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press, 1990), chs. 2–3.

This distinction between prescribing an outcome and prescribing a method becomes especially important in an industry interested in technological innovation. An entrepreneur may develop a superior method of accomplishing something, only to discover that existing institutional requirements have been written so specifically around an incumbent technology that the improvement cannot readily be introduced. The professional standard, originally intended to improve the industry, has become an obstacle to improving it further.

There are circumstances in which specific technical requirements are necessary, particularly when interoperability, security or legal obligations depend upon them. But where legitimate alternatives exist, we should be careful about confusing a particular implementation with the objective it serves.

Require reliable results. Establish meaningful methods of evaluating those results. Allow entrepreneurs to investigate better ways of producing them.

That is an environment in which professional standards and technological experimentation can reinforce one another.

Proportionality Is Not Leniency

One of the more difficult aspects of developing professional standards concerns the differences among the businesses expected to observe them. A company operating a large international platform accepting material from thousands of independent contributors faces organizational challenges substantially different from those confronting a filmmaker distributing a small collection of original productions.

The nature and magnitude of their respective risks may differ. The technological systems appropriate to those risks may differ. The administrative procedures necessary to demonstrate responsible operation may differ.

This does not mean that the smaller business should be permitted to disregard fundamental obligations. The consent of a performer is no less significant because the producer operates a small company. A customer's privacy is no less important because relatively few customers use a particular service. The distinction concerns the means necessary to satisfy those obligations effectively.

The OECD's 2018 *Regulatory Enforcement and Inspections Toolkit* emphasizes the importance of relating enforcement activity to the actual risks involved and adjusting responses according to relevant circumstances.[3] That principle has useful applications beyond governmental regulation.

A minor administrative error discovered and promptly corrected does not necessarily warrant the same response as deliberate fraud. A company experiencing an isolated technical deficiency should not automatically be treated as though it has systematically disregarded its responsibilities.

Conversely, serious misconduct involving consent, exploitation, financial deception or threats to personal safety requires an appropriately serious response regardless of the financial circumstances or commercial significance of the business involved.

A credible professional environment must distinguish among mistakes, negligence and deliberate misconduct. It must also possess mechanisms for correcting inaccuracies in its own assessments.

Proportionality isn't an argument for weaker standards. It's an argument for exercising intelligence in their application.

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3. OECD, *OECD Regulatory Enforcement and Inspections Toolkit* (Paris: OECD Publishing, 2018), criteria 3–4.

The Case for Portable Professional Credentials

One possibility for the future of adult entertainment involves the development of professional credentials and verified commercial information that can be used across multiple independent services. At present, an entrepreneur establishing relationships with several distributors, technology providers or financial institutions may encounter overlapping requests for documentation. Each organization has legitimate reasons to evaluate its prospective commercial partners, but the cumulative administrative burden can become substantial.

Imagine an infrastructure in which appropriately verified information could, with the necessary authorization, be presented to different organizations without requiring the entire underlying verification process to be repeated unnecessarily. Such a system might reduce administrative expenses, simplify the establishment of new commercial relationships and make certain forms of professional credibility more portable.

The engineering and governance challenges would be substantial. Credentials would need to be appropriately limited in scope, securely managed and capable of being updated or revoked. Organizations relying upon them would need to understand precisely what had been verified, by whom and under what circumstances.

The system would also need to avoid becoming an enormous centralized repository of sensitive personal information or an industry-wide mechanism through which one commercial organization could effectively determine a person's ability to earn a living.

A portable credential should communicate an appropriately established fact. It should not constitute a transferable judgment about somebody's entire professional identity. Nor should participation in a particular credentialing system become the exclusive

means through which an otherwise qualified person can demonstrate legitimacy.

The aim is to reduce the unnecessary duplication of responsible procedures while preserving individual privacy, institutional accountability and commercial independence.

Done intelligently, such infrastructure could reduce the financial advantages established corporations possess in navigating complex administrative environments without reducing the underlying professional standards themselves.

The Economics of Helping Competitors

I suspect some entrepreneurs will find the idea of making professional technology more accessible to competitors rather unattractive.

Why should an established company participate in the development of infrastructure that makes it easier for other businesses to compete with it?

Because competition among legitimate businesses is not the only economic relationship those businesses have with one another. They also participate in a shared marketplace whose reputation, technological capabilities and commercial accessibility influence the opportunities available to all of them.

A publisher can benefit from an environment in which consumers possess greater confidence in purchasing adult entertainment, even when some of that confidence was earned through satisfactory experiences with competing publishers.

A technology company can benefit from the widespread adoption of interoperable technical conventions, even when it competes against other companies developing products that employ those conventions.

A producer can benefit from the existence of a sophisticated licensing economy populated by financially sustainable distribu-

tors, even when those distributors also provide opportunities to competing producers.

There are circumstances in which improving the commercial environment produces greater opportunities than preserving every existing competitive advantage within an inferior environment.

This does not mean businesses should surrender their proprietary technologies or abandon the distinctions upon which their commercial success depends. Nor should competitors cooperate in determining prices, allocating markets or excluding prospective entrants.

They should compete vigorously upon the quality and intelligence of their products. But there's no compelling reason they must also compete over who can most successfully navigate unnecessary administrative obstacles that contribute relatively little value to the entertainment economy.

We have plenty of more interesting things to compete about.

The Industry I Want to Enter Tomorrow

Imagine that you were entering the adult entertainment industry for the first time tomorrow. You have no established commercial relationships, no recognized brand and no institutional privileges. You have a limited amount of money and a reasonably intelligent idea.

What sort of industry would you want to encounter?

Presumably, you would want access to competent technology, intelligible commercial arrangements, reliable professional services and a meaningful opportunity to demonstrate the quality of your work. You would want to understand the obligations associated with operating responsibly, and you would want those obligations to be achievable without surrendering the independence of your enterprise.

You would also want some assurance that the businesses against which you compete are subject to comparable fundamental expectations. There is relatively little economic satisfaction in investing in responsible production, reliable technology and professional conduct while competing against businesses that acquire their advantages by disregarding those responsibilities.

The ideal marketplace would therefore be demanding about conduct and generous about opportunity. That's the combination I want us to achieve.

Our industry should become more difficult to operate in for people attempting to exploit performers, deceive customers or profit from unauthorized material. It should become easier for people attempting to create original entertainment, develop intelligent technologies and establish legitimate independent businesses. Those ambitions are entirely compatible. Indeed, the achievement of one could contribute substantially to the achievement of the other.

The greatest professional accomplishment of adult entertainment will not be the establishment of an exclusive commercial establishment populated by a relatively small number of sufficiently wealthy corporations. It will be the development of an entrepreneurial environment in which exceptional work can originate practically anywhere, responsible businesses can compete on the merits of their accomplishments, and the intelligence of an idea matters more than the financial status of the person who conceived it.

I don't want a more exclusive adult entertainment industry. I want a more accomplished one.

Raise the floor, not the barrier.

CHAPTER 20

The Experience Is the Product

“Anybody can hang a screen on a wall.
Build the theater.”

When you purchase a ticket to a movie theater, you aren't purchasing a motion picture. The theater has no intention of allowing you to leave with a copy of the film. What you've purchased is the opportunity to experience that motion picture under a particular set of circumstances, at a particular time, in an environment specifically designed for that purpose.

The dimensions of the screen, the quality of the sound, the comfort of the seating, the temperature of the auditorium and even the manner in which the theater manages the behavior of its other customers contribute to the value of the transaction. Two theaters can exhibit precisely the same motion picture and provide substantially different entertainment products.

The film is the same. What you've purchased is different.

This distinction has enormous implications for adult entertainment because so much of our commercial activity remains organized around the acquisition and distribution of digital files. We negotiate the rights to distribute them, establish the infrastructure necessary to deliver them and develop commercial arrangements through which people acquire access to them. But we devote comparatively little entrepreneurial imagination to the circumstances under which the audience actually experiences them.

We've become distributors of video when we ought to be designers of entertainment experiences.

What Disney Understands

Few people go to Disney World merely to examine the company's intellectual property. You can accomplish that less expensively by watching television at home.

The commercial significance of Disney's theme parks resides in the transformation of that intellectual property into an environment. Architecture, music, engineering, theatrical performance, hospitality and innumerable operational details contribute to an experience whose value cannot adequately be explained by examining the individual components.

In their influential 1998 article “Welcome to the Experience Economy,” published in the *Harvard Business Review*, B. Joseph Pine II and James H. Gilmore examined experiences as a distinct form of economic offering. Their argument concerned the opportunities available to businesses that deliberately create memorable experiences rather than limiting their commercial identities to the provision of goods or services.[1]

Entertainment companies would appear to possess a natural advantage in this economy. The creation of experiences is ostensibly what we've been doing all along. But the digitization of entertainment has introduced a curious complication. In making entertainment easy to reproduce and distribute, we have made it equally easy to regard its distribution as the entirety of the business. The experience becomes whatever happens to occur after the customer presses play.

Imagine if Disney operated according to that philosophy. The company might acquire a collection of amusement park rides, install them in a parking lot and devote its marketing resources to announcing how many rides were available.

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1. B. Joseph Pine II and James H. Gilmore, “Welcome to the Experience Economy,” *Harvard Business Review* 76, no. 4 (1998): 97–105.

The underlying attractions might be perfectly enjoyable, but the commercial proposition would bear little resemblance to what people understand a Disney experience to be.

We occasionally make a comparable mistake in digital entertainment. We assemble a collection of films, make them accessible through a website and assume that the quantity or quality of those films independently establishes the value of the business.

It establishes part of it. The remainder is ours to create.

The Theater With No Projectionist

There was a time when exhibiting a motion picture required a trained individual to operate the equipment responsible for presenting it. The projectionist understood that the audience's enjoyment of the film depended partly upon the competence with which it was exhibited. A damaged print, an improperly focused image or a malfunctioning projector could compromise months of creative work undertaken by people who had never visited that particular theater.

The contemporary equivalent of the projection booth is an assortment of software, servers, distribution networks, browsers and video playback technologies. The responsibilities haven't disappeared. They've been distributed among machines and the people who design them.

Yet many digital publishers seem to regard the video player as a relatively insignificant technological accessory. It is something acquired through an inexpensive script, included with a publishing system or provided by a third-party hosting company. As long as the video eventually appears on the screen, the technological requirement has ostensibly been satisfied.

From the perspective of the audience, however, the video player is one of the most important components of the entire entertainment experience. It is the mechanism through which the customer encounters the creative product. Its responsiveness,

reliability, visual behavior and available controls directly influence the relationship between the audience and the entertainment.

A publisher can invest substantial resources in everything leading up to that encounter and then effectively surrender responsibility for the encounter itself.

In 2012, researchers S. Shunmuga Krishnan and Ramesh K. Sitaraman presented a study at the Internet Measurement Conference examining the relationship between streaming video quality and viewer behavior. Their analysis of streaming records encompassed approximately twenty-three million video views involving 6.7 million unique viewers. Using quasi-experimental methods, they found evidence that longer startup delays increased viewer abandonment.[2]

The research wasn't specific to adult entertainment, and its numerical findings shouldn't automatically be treated as universal predictions of contemporary consumer behavior. Nevertheless, it provides empirical support for something every entertainment executive ought to appreciate: the technological quality of delivery can influence whether people consume the product at all.

A buffering problem isn't merely a technical inconvenience. It's a commercial event.

The Audience Shouldn't Have to Be an Engineer

One of the accomplishments of a well-designed technology is its ability to conceal the complexity of the work it performs.

When I turn on a television, I don't particularly want to spend the first fifteen minutes establishing the technical parameters under which I'm going to watch it. I want the thing to work. If

2. S. Shunmuga Krishnan and Ramesh K. Sitaraman, “Video Stream Quality Impacts Viewer Behavior,” *Internet Measurement Conference* (2012), 211–224.

adjustments are necessary, I want to be able to make them without acquiring an education in telecommunications.

The same expectation should apply to online entertainment. The audience shouldn't need to understand why a particular video is available at several resolutions, why its quality changes during playback or why a specific browser handles media differently from another. Those are engineering considerations that ought to be addressed, wherever practical, by the engineering.

This doesn't mean eliminating meaningful choices. Quite the contrary. An intelligent playback environment should provide the customer with greater authority over the experience while reducing the technical knowledge necessary to exercise it.

Automatic quality selection can coexist with manual resolution controls. Intelligent adaptation to different screen dimensions can coexist with user-selected viewing preferences. A thoughtfully organized interface can provide access to sophisticated features without obligating everybody to confront those features simultaneously.

There is a difference between making a technology simple and making it simplistic. A simplistic technology achieves apparent simplicity by eliminating capabilities. A genuinely sophisticated technology can achieve simplicity by organizing those capabilities intelligently.

The opportunity for adult entertainment is to develop playback environments that possess greater functionality without becoming correspondingly more complicated to operate. That's an interesting engineering problem, and one more deserving of our technological attention than devising another location in which to put an advertisement.

Who Owns the Remote Control?

One of the most curious characteristics of Internet video is that we have developed thousands of environments in which people

watch essentially the same technological medium, yet each environment may require the audience to learn a slightly different method of operating it.

Visit one website and the playback controls appear in a particular configuration. Visit another and several controls are missing. A third provides functionality the others don't. A fourth conceals certain features beneath menus the audience may never discover.

Imagine purchasing a television on which the remote control changes its configuration every time you change the channel.

We would immediately recognize the inconvenience. Yet variations of that inconvenience have become ordinary characteristics of online video. The conventional justification is that each publisher possesses its own technological environment and therefore its own method of presenting the entertainment. That's understandable from an architectural standpoint, but it raises a more ambitious question about how video technology might evolve.

Why shouldn't the audience have greater continuity in the manner in which it experiences entertainment?

A person may prefer a particular configuration of playback controls, a particular method of navigating through a film or a particular display arrangement. Under the prevailing model, many of those preferences belong to the individual website rather than to the person watching the video.

There is an opportunity to reconsider that relationship.

Imagine a playback environment in which appropriate user preferences could be retained across compatible devices and participating publishing environments. The publisher would continue to exercise authority over its intellectual property, commercial arrangements and brand identity, while the audience could enjoy a more consistent method of interacting with the entertainment.

Such an architecture would require thoughtful consideration of interoperability, authentication, publisher permissions and consumer privacy. It would also require careful distinctions between preferences that can safely be retained and sensitive information that should remain local to the device or be retained only at the customer's explicit request.

But the underlying possibility is worth investigating. We have spent decades developing ways for entertainment to travel across the Internet. Perhaps it's time we devoted comparable attention to developing ways for the experience of entertainment to travel with the audience.

A Screen Is Not a Screen Is Not a Screen

The evolution of personal computing has produced a diversity of display environments. A person can encounter the same film on a television, a desktop computer, a laptop, a tablet or a mobile telephone. The dimensions of those displays differ, as do the circumstances under which people use them.

Meanwhile, the entertainment itself may have been produced in any number of visual formats. Traditional widescreen filmmaking, older television formats, square compositions and vertically oriented video all impose different requirements upon the technologies responsible for presenting them.

The challenge isn't simply to make the video fit inside a rectangular box. It is to respect the visual composition of the work while adapting the surrounding experience to the device and the preferences of the audience.

A vertically composed video shouldn't necessarily be treated as a defective horizontal video. An archival production shouldn't have portions of its original composition removed merely because the contemporary display environment favors a different aspect ratio.

These decisions involve more than technical compatibility. They involve respect for the creative characteristics of the entertainment. There are legitimate circumstances in which a viewer may prefer to enlarge, crop or otherwise adjust the presentation of a film. The technology should accommodate appropriate choices without making irreversible or poorly communicated decisions on the viewer's behalf.

The future of video playback should involve a more intelligent relationship among the original work, the available display and the person experiencing it.

That relationship represents a substantial opportunity for innovation. The fact that a conventional video player can display a video does not establish that the problem of presenting video has been solved.

Accessibility Is Good Engineering

The conventional conception of a video audience occasionally assumes a remarkably uniform collection of human beings. Everybody can see the controls, everybody can operate them in the intended manner, everybody can hear the audio and everybody possesses the physical dexterity necessary to navigate the interface.

Real audiences are considerably more interesting than that. People may have visual, auditory or motor impairments. Others may be using devices whose characteristics make certain forms of interaction inconvenient. Some may prefer keyboard navigation, larger controls or alternative methods of obtaining information about a production.

The W3C has published guidance concerning media accessibility. Its 2015 Working Group Note, *Media Accessibility User Requirements*, addresses matters including captions, alternative media information, playback controls and the ability to navigate audiovisual content.[3]

Adult entertainment should not regard such considerations as being uniquely relevant to somebody else's audience. Adults with disabilities are adults, and their interest in entertainment deserves the same professional consideration as anybody else's.

Moreover, many accessibility improvements contribute to the overall quality of the product. Clearly organized controls, intelligible navigation, appropriate contrast and flexible interaction methods can improve the experience of people who might never identify themselves as requiring accessibility accommodations.

Good design frequently has a wider commercial significance than the particular problem it was originally intended to solve.

The Commercial Intermission

I have no objection to advertising as a means of financing entertainment. Some of the finest entertainment businesses in the world have been supported by advertising, and the arrangement can provide enormous benefits to audiences, publishers, advertisers and creative professionals.

But advertising within an entertainment environment ought to be designed with an understanding of the experience it interrupts.

The traditional motion picture theater understands something rather important about the audience's relationship with advertising. There is a distinction between the period preceding the en-

3. W3C, *Media Accessibility User Requirements*, Working Group Note, December 3, 2015, §§2–3.

tertainment and the entertainment itself. Television developed different conventions, accommodating commercial interruptions within programming whose structure frequently anticipated them.

Digital video presents us with opportunities to reconsider these conventions intelligently. An advertisement placed before a film may be appropriate under a clearly communicated, advertising-supported arrangement. A commercial interruption occurring at an unsuitable moment may diminish the value of the entertainment considerably more than its duration would suggest.

The cost of an interruption isn't necessarily measured in seconds. It can involve the destruction of anticipation, concentration or emotional involvement that took several minutes of creative work to establish.

This is particularly relevant to entertainment whose appeal depends upon immersion. A producer may have exercised considerable artistic judgment in establishing the rhythm of a film, only to have that rhythm subsequently reorganized by an advertising mechanism possessing no understanding of the work.

Advertising systems should become capable of accommodating the intentions of producers, the commercial needs of publishers and the expectations of audiences with greater intelligence.

That might involve appropriate limits on frequency, predetermined commercial breakpoints, sensible differences between short and long productions, or alternative advertising arrangements for different classes of service.

There is ample room for technological innovation here, and we'll devote considerable attention to it later in the book.

For now, the principle is straightforward. Advertising should finance the entertainment experience, not become its principal antagonist.

Personalization Without the Creepy Part

The technology exists to make digital entertainment increasingly responsive to individual preferences. Unfortunately, much of the commercial interest in personalization has developed around the ability of businesses to observe people rather than the ability of people to customize products.

Those are different technological objectives. A customer may appreciate the ability to retain preferred playback settings, organize favorite films, establish personal collections or resume a previously interrupted viewing session. None of those benefits necessarily requires the development of an extensive behavioral profile that can be employed for unrelated commercial purposes.

Adult entertainment possesses a compelling reason to investigate forms of personalization that place meaningful authority in the hands of the audience.

The information associated with an individual's entertainment preferences can be intensely private. The more useful we make certain forms of customization, the more important it becomes to establish intelligible boundaries around the collection, retention and use of the information that enables them.

A thoughtfully designed system might allow certain preferences to remain entirely on the customer's device. Other information could be synchronized through an account when the customer deliberately chooses that functionality. The availability of synchronization should not automatically authorize unrelated tracking, nor should the refusal of unnecessary data collection render ordinary playback inconvenient.

Imagine an entertainment environment that remembers precisely the things you want it to remember and forgets the things you never asked it to retain.

That would represent a far more interesting technological accomplishment than another system capable of determining what advertisements you might be susceptible to.

Personalization should feel like ownership of an experience rather than participation in somebody else's surveillance program.

The Problem With Measuring Pleasure

Digital entertainment companies have acquired extensive capabilities for measuring the behavior of their audiences. They can record playback events, calculate viewing duration, identify navigational patterns and examine the circumstances under which consumers discontinue their interactions with a product.

These capabilities provide valuable information, but they introduce a temptation to confuse observable behavior with the quality of the experience producing it.

Suppose two customers visit the same website. The first quickly discovers the film he intended to watch, experiences it without interruption and leaves satisfied. The second spends forty minutes navigating the website, opening different pages, encountering advertisements and attempting to locate something worth watching.

According to certain conventional engagement measurements, the second customer may appear considerably more valuable. He spent more time on the website, generated more page views and encountered more advertising.

Which customer actually had the better experience?

More importantly, which customer is likely to regard the business as a valuable source of entertainment in the future?

Time spent interacting with a product can indicate enjoyment, but it can also indicate difficulty. Repeated interactions can reflect enthusiasm or frustration. A high number of playback attempts can indicate the popularity of a film or the inability of the technology to deliver it successfully.

The data must be interpreted in relation to what the audience was attempting to accomplish. A business interested in experien-

tial excellence should therefore examine playback reliability, customer satisfaction, voluntary return behavior and the ease with which people achieve their intended objectives alongside conventional measurements of commercial activity.

It should also recognize that the shortest interaction can occasionally represent the most successful one.

We are in the business of providing entertainment, not detaining people.

The Entire Evening

One of the limitations of conventional digital product development is that companies tend to evaluate their products in isolation from the circumstances in which people use them.

The software engineer examines the player. The publisher examines the website. The advertising representative examines the commercial placements. The payment processor examines the financial transaction.

The audience experiences an evening.

Perhaps the customer wants to browse a collection of films without selecting one immediately. Perhaps a particular production has been anticipated for several days. Perhaps the customer intends to watch something on a television rather than a computer. Perhaps an interruption requires the viewing session to be resumed later.

These are ordinary human circumstances, yet they can reveal limitations in products whose individual components otherwise function adequately. A thoughtfully designed entertainment service should possess an understanding of how its various capabilities contribute to a coherent experience over time. Discovering a film, deciding to watch it, establishing legitimate access, experiencing it and subsequently returning to the service are related activities, even when they involve different technological systems.

We shouldn't oblige the audience to experience the organizational divisions of the businesses responsible for those systems.

This is one of the fundamental arguments for developing more intelligently integrated entertainment technologies. Integration needn't require a single company to own every underlying component. It requires the components to cooperate sufficiently well that the audience experiences a coherent product rather than an assortment of unrelated commercial services.

The integration should be apparent in the quality of the experience, not necessarily in the corporate identity of the organizations providing it.

Design for the Moment After the Movie

Entrepreneurs naturally devote considerable attention to the circumstances preceding a commercial transaction. Marketing, promotional offers, search visibility and purchasing mechanisms are all intended to bring the prospective customer to the point at which something of financial significance occurs.

But what happens after the entertainment has been experienced?

The customer has formed an impression of the business. That impression may involve the film itself, the ease with which it was discovered, the quality of its presentation, the behavior of the advertising and the confidence established through the company's commercial practices.

All those considerations will contribute to the customer's subsequent evaluation of the business.

This is where experiential excellence acquires its long-term economic significance. A company has an opportunity to establish a recognizable expectation concerning its future products. The customer who appreciated today's experience possesses a reason to consider tomorrow's offering before management has spent another penny attempting to acquire his attention.

That expectation becomes an important component of the brand. It also provides the company with a potential competitive advantage that cannot necessarily be reproduced by another publisher acquiring the same films.

A competing business might possess identical intellectual property. It might offer a lower subscription price or a larger catalog. But it must still compete against the expectations established through the customer's previous experiences with the original company.

The experience continues possessing commercial significance after it has ended.

Build the Theater

I believe the next generation of successful adult entertainment entrepreneurs will devote more attention to the architecture of the experience surrounding their entertainment.

Some will distinguish themselves through extraordinary editorial judgment. Others will develop exceptional playback technologies, more intelligent forms of commercial support, distinctive viewing environments or new relationships between the audience and the creative professionals responsible for the work.

The most interesting companies may combine several of those accomplishments.

What matters is that we recognize the creative opportunities residing beyond the production of the film itself. The publisher can be an artist of the entertainment environment. The software engineer can contribute to the emotional effectiveness of a creative work. The entrepreneur can develop commercial arrangements whose intelligence enhances rather than diminishes the pleasure of the audience.

These are not peripheral activities. They are part of the product.

We should stop imagining that the culmination of our technological ambition is the successful transmission of a video from a server to a screen. That's an engineering requirement, and an important one, but it represents the beginning of a much larger commercial opportunity.

The future of adult entertainment belongs to the businesses capable of transforming access into experience, experience into preference and preference into an enduring relationship with an audience.

Anybody can hang a screen on a wall.

Build the theater.

CHAPTER 21

Design Is a Business Decision

“A good designer should be capable of discussing money. A good accountant should be capable of understanding why something ugly might cost it.”

Somewhere in the development of the commercial Internet, the word *design* acquired an unfortunate association with decoration. Entrepreneurs would establish the commercial requirements of a website, determine its functionality, negotiate its advertising arrangements and select the underlying technology. Eventually, somebody would be asked to make the resulting contraption look attractive.

By the time the designer arrived, most of the important design decisions had already been made by people who didn't necessarily understand that they were making design decisions.

The positioning of an advertisement is a design decision. So is the number of steps required to complete a purchase, the organization of an entertainment library, the behavior of a video player and the information a customer must provide before acquiring access to a film. Each involves a decision concerning the relationship between the business and the person attempting to use its product.

These decisions possess economic consequences that extend well beyond the appearance of the website. They influence purchasing behavior, operating expenses, customer retention, technological requirements and the perceived identity of the enterprise.

Design is where commercial philosophy becomes tangible. It's where the things management claims to believe about its customers are translated into the things those customers are actually required to experience.

If you want to understand what an entertainment company genuinely considers important, don't necessarily read its mission statement. Spend twenty minutes using its website.

The Architecture of Priorities

Every commercial interface contains an implicit hierarchy of importance. Certain things occupy prominent positions, while others are difficult to locate. Certain activities are easy to perform, while others require considerable effort. Certain information is communicated immediately, while other information is concealed beneath layers of navigation.

These arrangements reveal the priorities of the organization responsible for them. An adult website that devotes half its available screen space to advertising has made a statement about the relative importance of its entertainment and its advertisers. A subscription service that makes purchasing a membership easy but canceling it difficult has communicated something about its conception of the customer relationship.

Neither statement needs to appear anywhere in the company's promotional literature. The design communicates it perfectly well.

The interesting managerial question is whether these priorities were established deliberately or emerged through a succession of unrelated decisions. A publisher may have added advertising placements over several years, each justified independently according to its anticipated financial contribution. Developers may have introduced additional functionality in response to requests from different departments. Marketing personnel may have established promotional requirements whose conse-

quences were never examined in relation to the product as a whole.

Eventually, the website becomes an archaeological record of management decisions rather than a coherent expression of management strategy.

This is one of the reasons a redesign can be such an intellectually revealing undertaking. Before anybody begins choosing colors or reorganizing navigation, the enterprise must determine what it actually wants people to accomplish and which commercial activities deserve priority.

Those are questions for management, not merely for the person responsible for drawing the buttons.

The Business Case for Design

In October 2018, McKinsey & Company published a report entitled *The Business Value of Design*, based upon an examination of the design practices and financial performance of three hundred publicly listed companies over a five-year period.[1]

The researchers identified a strong relationship between certain organizational approaches to design and superior financial performance. Among the characteristics associated with better-performing companies were the integration of design across different business functions, sustained engagement with customers and the evaluation of design with a degree of managerial seriousness comparable to that applied to other commercial activities.

The research reports associations rather than proving that particular design practices will independently produce a predetermined financial return. Nor should the results be applied indis-

1. Benedict Sheppard et al., *The Business Value of Design*, McKinsey & Company, October 25, 2018.

criminately to small adult entertainment enterprises operating under different circumstances.

Nevertheless, the underlying managerial proposition deserves attention. Design can influence the economic performance of a business sufficiently to warrant the involvement of its senior decision-makers.

That shouldn't be an especially controversial observation. We recognize that the design of a retail store can influence purchasing behavior and that the design of a manufacturing process can influence production expenses. Why should the design of a digital entertainment environment be treated as though its significance were primarily decorative?

An independent publisher contemplating an expenditure of ten thousand dollars on customer acquisition should be equally interested in whether its existing website effectively accommodates the customers it has already acquired.

A poorly designed purchasing process can diminish the productivity of every dollar spent promoting the product. An inadequately organized entertainment library can reduce the commercial usefulness of every dollar invested in acquiring intellectual property. A confusing administrative interface can increase the expense of employing the people responsible for operating the business.

In each instance, a design deficiency affects the productivity of an otherwise legitimate commercial investment.

The Artist and the Accountant

There is a persistent misunderstanding concerning the relationship between creative design and financial discipline. Designers are occasionally regarded as people whose preferences must be restrained by financially responsible executives, while financially responsible executives are occasionally regarded by designers

as people whose intellectual limitations must be accommodated through professional diplomacy.

Neither characterization is particularly useful. Good commercial design requires an understanding of economic circumstances. The designer should know what the business is attempting to accomplish, how the product generates revenue, what operational limitations exist and which aspects of the experience possess the greatest strategic significance.

Similarly, the financial executive should recognize that the appearance and behavior of a product can influence economic outcomes that may not be readily apparent in the company's current accounting records.

Suppose an advertising-supported publisher is considering placing an additional banner beside its video player. The advertising department can estimate the potential revenue associated with the available inventory. The designer may recognize that the placement will compromise the visual integrity of the playback environment, particularly on smaller displays.

Neither observation independently resolves the commercial question.

Management needs to consider the prospective advertising income alongside potential consequences for viewing behavior, customer satisfaction, page performance and the long-term identity of the brand.

The objective isn't to establish that aesthetics should always prevail over advertising revenue. There may be circumstances in which the advertising placement makes excellent commercial sense. The objective is to recognize that the design objection is itself a business consideration and deserves examination on those terms.

A good designer should be capable of discussing money. A good accountant should be capable of understanding why something ugly might cost it.

A Design Brief Is a Business Plan in Miniature

Before undertaking the development or redesign of an entertainment website, management should be capable of describing the product it intends to create in terms more substantial than a collection of desired features.

Consider the difference between commissioning a website that contains video playback, subscription functionality, advertising placements, user accounts and a searchable catalog, and commissioning an entertainment environment intended to become the preferred destination of a particular audience for a particular category of filmmaking.

The former describes a technological inventory. The latter establishes a commercial ambition.

That ambition ought to influence practically every subsequent design decision. If the publisher intends to distinguish itself through editorial sophistication, the organization of the catalog becomes strategically important. If it intends to compete through technological reliability, the playback experience deserves disproportionate attention. If it intends to provide an unusually discreet commercial relationship, its approach to authentication, billing and personal information becomes fundamental to the product's identity.

An intelligent design brief should identify the audience, explain the commercial proposition, establish the relative importance of different activities and articulate the characteristics through which the product intends to distinguish itself. It should also identify the financial, technological and professional constraints within which the design must operate.

Without that understanding, the designer is left to make strategic decisions through assumptions about the business.

That can produce attractive results, but it is a rather expensive way of discovering that management never adequately established what the business was supposed to be.

Originality in an Industry of Templates

The availability of inexpensive website templates has contributed to the accessibility of digital publishing. I have no desire to diminish their significance. A resourceful entrepreneur can establish a functioning commercial website without independently financing the development of every underlying component.

The difficulty arises when the template begins determining the character of the business.

An entrepreneur acquires a publishing system because it provides the necessary functionality. The system establishes a particular organizational structure, a particular method of presenting films and a particular arrangement of commercial activities. The entrepreneur subsequently begins organizing the business according to the capabilities and conventions of the software.

The technology has quietly become the business strategist. This is particularly problematic when hundreds of competing publishers employ substantially similar systems. Their respective brands may differ, and their entertainment libraries may contain different material, but their products behave similarly enough that the audience can move among them without encountering a meaningful distinction in the underlying experience.

At that point, the principal competitive differences may become price, inventory volume and promotional expenditure. The publisher has voluntarily surrendered several potentially valuable dimensions of differentiation.

Using a template is not inherently unimaginative. A skilled entrepreneur can adapt existing technology in ways that establish a distinctive identity and commercial proposition. But the decision to employ a template should be accompanied by an understanding of which characteristics of the business must remain independently determined.

The technology should accommodate the commercial imagination of the entrepreneur rather than establish its boundaries.

Nobody expects two restaurants to serve identical meals merely because their kitchens were constructed with similar equipment.

Design Has an Editorial Responsibility

There is more to the design of an entertainment service than making its inventory accessible. The manner in which material is organized communicates a judgment about its significance.

Consider a conventional film archive. If every production is presented through an identical thumbnail and a small collection of generic descriptive categories, the interface suggests that each work possesses roughly the same commercial identity as every other work. Its production history, creative intentions, cultural context and relationship to other films may become practically invisible.

An intelligently designed entertainment environment can restore some of those distinctions.

A retrospective might bring attention to a filmmaker's body of work. A collection organized around a particular period might establish historical relationships between productions. An editorial selection might introduce audiences to entertainment they would never have discovered through ordinary search results.

The underlying library hasn't necessarily changed. The commercial and intellectual possibilities of the library have.

This is where the responsibilities of the designer and the editor begin intersecting. The editor establishes relationships among creative works, and the designer develops an environment capable of communicating those relationships effectively.

The opportunity is particularly attractive for independent publishers because editorial distinction doesn't necessarily require exclusive ownership of an enormous catalog. Two publishers may possess access to many of the same films while developing substantially different entertainment experiences

through their respective methods of organization, contextualization and presentation.

The interface can become an expression of taste. That's a far more interesting competitive proposition than merely possessing another collection of videos.

Let the Customer Finish the Sentence

Entrepreneurs possess a familiarity with their products that can become a serious disadvantage when evaluating their design.

The founder knows where every feature is located because he participated in deciding where to locate it. The developer understands why a particular process requires several steps because she understands the underlying technical requirements. The people responsible for the advertising arrangements recognize the purpose of commercial elements whose behavior may be entirely bewildering to somebody encountering them for the first time.

The customer possesses none of that institutional knowledge.

An interface that seems perfectly intelligible to the people who built it may communicate something substantially different to the people for whom it was ostensibly built.

This is why actual observation of customers attempting to use a product can be so valuable. Instead of asking people whether they like a website, give them something to accomplish. Ask them to locate a particular production, understand the terms of a membership, adjust the playback environment or discover how to terminate a subscription.

Observe what happens.

The objective is not to demonstrate that customers are insufficiently intelligent to understand the product. It is to discover where the product fails to communicate the intelligence behind it. In April 2012, the United Kingdom's Government Digital Service published its *Government Design Principles* on GOV.UK, the government's online service and information portal. Its principles emphasize understanding the actual needs of users, employing research and empirical evidence to inform design decisions, eliminating unnecessary complexity and continuously refining products through observation and experimentation. Perhaps most relevant to our discussion is its insistence upon developing complete digital services rather than merely constructing websites.[2]

There is something faintly embarrassing about the possibility that a government department might approach the design of its digital services with more entrepreneurial imagination than an industry whose entire commercial future depends upon persuading people to enjoy themselves online.

We ought to be exceptionally good at this.

The Economics of a Missing Button

Imagine an independent publisher whose website receives frequent customer inquiries concerning how to change an account setting.

Each inquiry takes a customer service representative approximately six minutes to resolve. Over the course of a year, the company receives five thousand such inquiries.

That amounts to five hundred hours of customer service work devoted to explaining how to perform one relatively ordinary activity.

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2. Government Digital Service, *Government Design Principles*, GOV.UK, first published April 3, 2012, principles 1, 3, 4, 5 and 8.

If the fully allocated cost of providing that assistance is twenty dollars per hour, the inquiries represent ten thousand dollars in annual operating costs under this hypothetical example.

The company might be tempted to interpret the problem as evidence that it needs additional customer service personnel. But perhaps the appropriate solution is to make the account setting easier to find.

If an intelligently conceived interface improvement eliminates a substantial proportion of those inquiries, the company has improved the experience of its customers while freeing resources for other work or, where costs can actually be avoided, reducing operating expenses.

This is one of the more interesting aspects of design economics. An interface can either distribute work efficiently or create unnecessary work for everybody associated with the product.

A confusing purchasing procedure creates work for customers and customer service personnel. An inconsistently organized administrative interface creates work for employees. A poorly designed catalog creates work for editors and developers attempting to locate or correct information.

The cost of these deficiencies rarely appears in financial statements under the heading *Bad Design*. It appears in salaries, refunds, technical support, administrative expenses and commercial opportunities the business fails to realize.

Management should learn to recognize those expenditures for what they occasionally are: the continuing financial consequences of decisions that could have been made differently.

The Intelligent Use of Friction

Digital commerce has become enthusiastic about eliminating friction. Fewer clicks, faster transactions, simplified navigation and automated processes are generally regarded as desirable accomplishments.

For the most part, I agree. But there are circumstances in which friction performs an important professional function. A customer should have an opportunity to understand the financial consequences of a recurring membership before authorizing it. A producer should be required to address appropriate rights and consent considerations before distributing a film. A system responsible for managing sensitive information should not necessarily make every administrative action instantaneous.

The question isn't whether friction exists. The question is whose interests it serves.

Unnecessary friction interferes with an individual's ability to accomplish a legitimate objective. Protective friction helps ensure that an important decision is understood, properly authorized or safely executed.

There is a substantial difference between asking a customer to confirm an important financial commitment and obligating that customer to navigate seven unnecessary screens to terminate it.

One protects the integrity of the transaction. The other may protect the revenue of the business at the expense of the person conducting the transaction.

Adult entertainment provides an especially interesting environment in which to investigate this distinction. Our products involve considerations of privacy, consent, financial discretion and personal autonomy that deserve intelligent treatment within the design of commercial systems.

Rather than pursuing the indiscriminate elimination of every obstacle, designers should examine whether an obstacle contributes meaningful value, where that value resides and whether a less intrusive method could accomplish the same objective.

The best design makes ordinary activities easy and consequential decisions appropriately deliberate.

Consistency Without Conformity

A company develops a new website. Six months later, it introduces a subscription service. Subsequently, it launches a video application, establishes an administrative portal and develops several specialized tools for customers or commercial partners.

Each product may have been developed competently, yet the resulting collection can communicate surprisingly little sense of belonging to the same enterprise.

Terminology differs. Controls behave differently. Identical functions appear in unrelated positions. The visual character of each product reflects the preferences of the people responsible for developing it at different times.

The business has accumulated products without developing a design language. A coherent design language extends beyond the consistent application of a logo and a collection of corporate colors. It involves establishing intelligible conventions for the behavior, organization and presentation of the products associated with the company.

When a customer encounters a new service from a familiar enterprise, previous experience should provide some useful understanding of how that service operates. The customer shouldn't have to acquire an entirely new collection of interaction habits merely because the organization introduced another product.

For the company, consistency also possesses economic significance. Reusable design components, established interaction conventions and thoughtfully documented interface patterns can reduce the work associated with subsequent development. They can help independent developers produce products that feel coherent without requiring management to reconsider hundreds of relatively ordinary decisions every time something new is introduced.

But consistency shouldn't become an excuse for uniformity where different products require different experiences.

A commercial administration system and a motion picture playback environment perform different functions and deserve designs appropriate to their respective purposes. They can belong to the same enterprise without resembling identical rooms in an inexpensive hotel.

The objective is recognizable intelligence, not visual repetition.

The Trouble With Designing for the Competition

One of the first activities undertaken during the development of a commercial website is frequently an examination of competing websites.

This can be useful. Competitors may have developed intelligent solutions to problems the entrepreneur has yet to encounter. Their products can reveal established consumer expectations, commercially significant conventions and opportunities for improvement.

The trouble begins when the competitor becomes the principal source of the entrepreneur's imagination.

A competing publisher introduces a new feature, so management wants the same feature. Another adopts a particular visual arrangement, so the designer is instructed to reproduce something similar. A large platform reorganizes its entertainment library, and several independent businesses immediately reconsider their own organizational structures.

Eventually, the commercial marketplace develops the peculiar appearance of several thousand entrepreneurs independently attempting to become the same company.

This philosophy makes especially little sense for smaller businesses competing against organizations possessing substantially greater financial resources. The independent publisher is ef-

fectively inviting the larger company to determine both the nature of the competition and the methods through which it will be conducted.

A more interesting approach would involve studying the expectations competitors have established and then investigating which of those expectations might be intelligently challenged.

Perhaps the conventional interface contains functionality your audience doesn't need. Perhaps the dominant commercial arrangement is unsuitable for a specialized category of entertainment. Perhaps a different editorial structure would provide greater value to the particular consumers your business intends to serve.

Competitive research should contribute to the development of an independent point of view. It should not substitute for one.

Designing the Business Behind the Screen

In his June 2008 *Harvard Business Review* article "Design Thinking," Tim Brown examined the application of design-oriented methods to the development of products, services, organizational processes and business strategy.[3]

The broader significance of this approach is that design can be employed before an organization has settled upon the particular product it intends to develop.

This matters because some of the most interesting design problems confronting adult entertainment cannot be resolved by modifying the visible interface of an existing website.

Consider a producer frustrated by the difficulty of licensing films to independent publishers. A better-looking licensing portal might improve certain aspects of the process. But a more ambitious investigation might reveal problems involving the organiza-

3. Tim Brown, "Design Thinking," *Harvard Business Review* 86, no. 6 (June 2008): 84–92.

tion of commercial rights, the communication of licensing terms, the exchange of technical information and the manner in which payments are established.

The appropriate solution might involve redesigning the commercial relationship itself. Similarly, an entrepreneur dissatisfied with conventional subscription models needn't limit the investigation to improving the appearance of a membership page. The business might reconsider the kinds of access it provides, the obligations customers undertake, the circumstances under which payment occurs and the possibilities available for distributing entertainment under alternative arrangements.

The opportunity is to employ design as a method of discovering and constructing better business models.

That requires a different relationship between the people responsible for creative thinking, engineering and financial strategy. Rather than establishing the commercial arrangement first and subsequently asking the designer to accommodate it, the enterprise can bring those capabilities together while the arrangement is still being conceived.

Sometimes the most profitable thing a designer can redesign isn't the website.

It's the company.

Experiments Before Arguments

Design discussions can become remarkably expensive when they are conducted primarily according to the personal preferences of the people participating in them.

One executive prefers a particular arrangement. Another thinks it looks outdated. The founder dislikes a color. The marketing department believes the promotional element should be larger. The developer would prefer not to modify something that already functions.

Such discussions can continue indefinitely because their participants are frequently debating different objectives without explicitly identifying them.

Where practical, management should translate disagreements into questions that can be investigated.

If the concern involves whether customers can locate a function, observe customers attempting to locate it. If the concern involves the visibility of a commercial offer, evaluate whether the proposed arrangement improves meaningful commercial outcomes. If the concern involves whether a particular organizational structure improves film discovery, compare the experiences associated with alternative structures.

Not every creative judgment can or should be established through numerical experimentation. An editor may possess an informed conviction concerning the character of a publication. A designer may recognize aesthetic relationships whose commercial significance cannot easily be isolated. An entrepreneur may deliberately pursue an identity that differs from prevailing consumer expectations.

Data should inform judgment rather than eliminate the necessity of exercising it.

Experiments are most valuable when they address identifiable uncertainties. They become less valuable when management employs them to avoid making strategic decisions that require imagination, conviction or an understanding of the broader identity of the business.

An entertainment company should know which aspects of its product are subject to experimentation and which express the principles upon which it intends to establish its reputation.

Otherwise, it may gradually optimize itself into something nobody particularly intended to create.

A Place for Beauty

Having emphasized the functional and economic significance of design, I don't want to neglect one of its more delightful possibilities.

Things can be beautiful. A beautifully organized page, an elegantly constructed interface or a thoughtfully conceived motion picture presentation can possess a value that extends beyond the measurable efficiency with which somebody accomplishes a particular task.

Beauty can communicate care, character and imagination. It can give the audience a reason to appreciate the environment itself.

This is especially relevant to entertainment because the commercial purpose of the product isn't exclusively utilitarian. We are dealing with human beings who deliberately devote portions of their lives to experiences they find interesting, amusing, stimulating or pleasurable.

Why should the environments through which they acquire those experiences possess no aesthetic ambition of their own?

There is no requirement that the aesthetic be fashionable, expensive or conventionally sophisticated. A vulgar publication can be beautifully designed. A deliberately outrageous entertainment brand can possess magnificent visual intelligence. Minimalism, theatrical excess, satire and artistic irreverence can all provide legitimate foundations for compelling design.

What matters is the relationship between the aesthetic and the identity of the product.

I would hate to see adult entertainment acquire an industry-wide obsession with the visual conventions of fashionable technology companies. There is something profoundly uninteresting about the prospect of every adult website resembling an impeccably designed application for managing personal finances.

We should develop our own visual cultures, informed by the nature of the entertainment and the imaginations of the people creating it.

Professionalism doesn't require the elimination of personality. Good design can make personality commercially legible.

Give Design a Seat at the Table

If design is going to possess strategic significance within adult entertainment, it must become part of the process through which strategic decisions are made.

That does not necessarily require every independent publisher to hire a full-time design director or establish an elaborate department. In a small business, the responsibilities may be undertaken by the founder, a trusted external collaborator or several people possessing complementary professional abilities.

What matters is that the design implications of a decision are examined before the organization becomes irrevocably committed to it.

When negotiating an advertising relationship, consider how the resulting advertisements will affect the product. When acquiring technology, consider the experience its architecture permits or prevents. When establishing financial arrangements, consider the circumstances under which customers will encounter them. When developing an entertainment library, consider how its organization will communicate the value of the material it contains.

These responsibilities cannot adequately be discharged by asking somebody to improve the appearance of the result after the important commercial decisions have been finalized.

I would like the adult entertainment entrepreneur to become as interested in the design of the business as in the entertainment the business intends to distribute.

The website, the player, the payment experience, the administrative systems and the editorial environment are all expressions of decisions made about how the enterprise should operate and what it should mean to the people encountering it.

Design gives those decisions their visible and functional existence.

We shouldn't leave such an important commercial responsibility until the end of the meeting, when somebody finally remembers to ask what color the website ought to be.

CHAPTER 22

The Last Mile of Desire

“The promise of a remarkable future doesn't compensate the customer whose movie wouldn't play this afternoon.”

A filmmaker can spend six months developing a production, several weeks photographing it and another month editing it. A distributor can invest thousands of dollars acquiring the rights to exhibit it. A publisher can devote considerable financial resources to attracting an audience for it. And the entire commercial undertaking can be compromised in the three seconds following somebody's decision to press play.

There is something almost absurd about the disproportionate significance of that moment. An enormous collection of creative, financial and technological accomplishments converges upon an individual sitting in front of a screen, expecting something to happen. The individual has no particular interest in the organizational complexity behind the entertainment. Whatever the producer spent, whatever the publisher negotiated and whatever the engineers accomplished, the audience's immediate concern is whether the movie plays.

This is the last mile of desire: the final technological and experiential distance between an audience's intention to consume entertainment and its successful consumption.

The telecommunications industry has traditionally employed the expression *last mile* to describe the final connection between a communications network and the premises of its customers. In digital entertainment, I believe the expression deserves a somewhat broader interpretation. The final connection involves not only the delivery of information but its successful transformation into the experience somebody intended to have.

That distinction is commercially significant. Delivering the data necessary to watch a film and successfully enabling somebody to watch it are not necessarily the same accomplishment.

The Distance Between Available and Experienced

An entertainment company may possess a comprehensive understanding of the material available through its website without possessing an equally comprehensive understanding of what its customers are actually able to experience.

Its catalog contains ten thousand films. Its servers are operating. Its distribution provider reports satisfactory performance. Its financial systems are processing transactions. According to the administrative information available to management, the business appears to be functioning appropriately.

Meanwhile, a customer attempting to watch one of those films discovers that the audio doesn't synchronize properly with the picture on his particular device. Another encounters an advertisement that fails to conclude. Another attempts to resume playback after an interruption and discovers that the technology has forgotten where the interruption occurred.

The company's infrastructure may be available while portions of its product remain effectively inaccessible.

This is an important distinction between conventional infrastructure management and the management of an entertainment experience. The former is primarily concerned with whether the systems responsible for delivering the product are functioning. The latter must also establish whether their collective operation produces the intended result.

In telecommunications and multimedia engineering, this distinction is often examined through two related concepts: Quality of Service (QoS) and Quality of Experience (QoE). Quality of Service concerns measurable characteristics of technical performance, such as network throughput, delay and reliability. Quality

of Experience concerns the quality of the service as experienced by the person using it.

A network can perform satisfactorily according to certain technical measurements while the consumer experiences an inadequate product. Conversely, intelligent engineering can occasionally preserve a satisfactory experience despite unfavorable network conditions.

Entertainment executives should understand both concepts. But their ultimate commercial concern ought to be the latter.

Nobody purchases a subscription because the servers are experiencing a particularly satisfying afternoon.

The First Frame

In conventional commerce, the completion of a financial transaction provides a relatively clear indication that something has been purchased. Digital entertainment introduces another significant event: the moment at which the purchased or otherwise authorized entertainment actually begins.

The difference matters because the interval between intention and experience contains numerous opportunities for failure.

When somebody presses play, the browser may need to establish a connection with a server, retrieve information about the available video, determine which version is appropriate for the device and network conditions, initialize the necessary playback mechanisms and acquire sufficient media data to begin displaying the picture. Depending upon the commercial arrangement, an advertising system or authorization service may also participate in the process.

These are ordinary technological responsibilities, but their collective execution determines how quickly the customer encounters the entertainment.

Every additional dependency introduces another potential source of delay or failure. A publisher may have acquired excep-

tionally reliable video hosting while employing an advertising integration whose behavior prevents playback from beginning. The customer experiences the failure without necessarily understanding which company or component caused it.

In 2011, Florin Dobrian and seven fellow researchers presented a study entitled “Understanding the Impact of Video Quality on User Engagement” at the flagship annual conference of the Association for Computing Machinery (ACM) Special Interest Group on Data Communication (SIGCOMM). Their research examined relationships among streaming performance, different categories of video and the behavior of viewers. They identified buffering as an important factor associated with diminished engagement, while also finding that the relative significance of different quality characteristics varied by content type. The findings concern general streaming audiences, not adult entertainment specifically.[1]

The study provides a useful reminder that the technological significance of a delay cannot be evaluated independently of the circumstances in which it occurs.

A customer watching a lengthy documentary may tolerate an initial delay differently from somebody attempting to watch a short film. A person viewing a live event may assign unusual significance to continuity because an interruption can mean missing something that cannot immediately be recovered.

The appropriate engineering objectives should reflect the nature of the entertainment. For a publisher, the first frame deserves to be treated as a commercially meaningful milestone. The intention to watch has been successfully converted into the beginning of an experience. Until that moment, much of the business's previous commercial effort remains unrealized.

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1. Florin Dobrian et al., “Understanding the Impact of Video Quality on User Engagement,” *Proceedings of ACM SIGCOMM 2011* (2011): 362–373, especially 362–363.

The Resolution Obsession

The entertainment industry has become remarkably proficient at advertising the numerical dimensions of its pictures.

High definition. Full high definition. Approximately four thousand pixels across an image. Approximately eight thousand.

There is nothing inherently objectionable about improving picture quality, and certain categories of filmmaking can benefit enormously from advances in resolution. But resolution alone is an insufficient description of the quality of a viewing experience.

A beautifully preserved high-definition film delivered continuously may provide a substantially more satisfying experience than a higher-resolution version repeatedly interrupted by insufficient network capacity. A carefully encoded image can preserve important visual characteristics more effectively than an inadequately encoded image possessing greater nominal dimensions.

The original production, the encoding process, the characteristics of the display and the conditions under which the material is delivered all contribute to the resulting picture.

The International Telecommunication Union (ITU), a specialized agency of the United Nations concerned with information and communications technologies, has developed technical recommendations for evaluating the quality of streamed audiovisual media. Its Telecommunication Standardization Sector (ITU-T) P.1203 series provides models for estimating audiovisual streaming-session quality over reliable transport, accounting for audio and video encoding, startup delays and interruptions during playback. These models estimate technical aspects of the experience rather than every aspect of an individual viewer's satisfaction.[2]

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2. ITU-T Recommendation P.1203, *Parametric bitstream-based quality assessment of progressive download and adaptive audiovisual streaming services over reliable transport* (October 2017).

That broader approach deserves the attention of entertainment executives. Picture quality cannot be adequately established by placing an impressive number beside the title of a film.

We should be attempting to deliver the best sustainable experience under the circumstances available to the individual viewer. Sometimes that will involve the highest available resolution. Sometimes it will involve a more intelligent compromise among competing technical requirements.

The engineering challenge lies in recognizing the difference.

The Art of Adaptive Delivery

One of the more useful developments in Internet video distribution has been the ability to make multiple versions of a production available and adjust delivery according to changing circumstances.

Adaptive bitrate streaming generally involves encoding a video at different quality levels and organizing its delivery into portions that can be requested by the playback technology. Depending upon network conditions, available processing resources and the amount of media already acquired, the player can select among suitable versions as playback proceeds.

Hypertext Transfer Protocol (HTTP) Live Streaming (HLS), originally developed by Apple, is one widely employed approach to this form of media delivery. Its 2017 specification was published as Request for Comments (RFC) 8216, an informational document rather than an Internet Standards Track specification.[3]

The technological principle is straightforward enough, but its commercial implications are substantial. The audience needn't possess a perfectly stable Internet connection to experience a reasonably continuous film. Properly designed systems can re-

3. Roger Pantos and William May, *HTTP Live Streaming*, RFC 8216 (August 2017), §§1–2.

spond to changing conditions before those conditions necessarily produce interruptions.

Nevertheless, the existence of adaptive streaming technology doesn't establish that it has been intelligently implemented.

A player may begin with a quality level unnecessarily demanding for the viewer's connection. It may switch among available versions too aggressively, producing distracting changes in visual quality. It may remain at a reduced quality level longer than necessary, even after conditions have improved. The available versions of the production may themselves have been inadequately prepared.

These are questions of engineering judgment rather than merely questions of whether a particular technology has been adopted.

There are also creative considerations. Different productions contain different kinds of visual information. Material involving rapid movement, complicated lighting or substantial photographic detail may require different encoding decisions from relatively static material. Treating every production identically can produce unnecessary distribution expenses in some circumstances and inadequate picture quality in others.

The objective should not simply be to deliver the greatest quantity of information that the network can accommodate. It should be to preserve the characteristics of the work that matter to the audience, using the available technological and financial resources intelligently.

That is a much more interesting definition of video delivery than the successful transportation of a digital file.

When Geography Becomes a Commercial Problem

The Internet has created the impression that geography has largely ceased to matter in digital commerce.

It hasn't. The physical locations of servers, the organization of communications networks, the capacity of individual connections and the relationships among infrastructure providers can all influence the performance experienced by a viewer.

A publisher may discover that its entertainment plays exceptionally well for customers in one country while customers elsewhere encounter substantially different conditions. Even within the same country, performance can vary according to the networks and devices being employed.

A content delivery network (CDN) can address some of these difficulties by distributing content through geographically dispersed infrastructure. Depending upon the architecture, requested material may be delivered from locations more accessible to the viewer than the original storage environment.

But a CDN is not a magical device for eliminating every difficulty associated with video distribution. Cache behavior, network congestion, origin-server performance, authorization mechanisms and the circumstances of the customer's own connection can all influence the resulting experience.

The publisher should understand where its responsibilities end, where those of its service providers begin and whether the technologies involved provide sufficient information to investigate problems when they occur.

There is a commercial opportunity here for infrastructure companies interested in understanding the distinctive requirements of adult entertainment. Merely agreeing to host adult material does not necessarily establish that a company understands the economics or technical priorities of distributing it.

The next generation of specialized infrastructure should compete on its understanding of the entertainment business, not merely on its willingness to tolerate the entertainment.

The Customer Who Never Complains

An important limitation of conventional customer service information is that it disproportionately represents people who have decided that communicating with the business is worth the effort.

The person who experiences a playback failure and immediately visits another website may never submit a complaint. The customer who encounters several interruptions during a film may simply decline to return. The prospective subscriber who experiences an unreliable promotional preview may abandon the purchasing decision without communicating the reason.

A publisher relying exclusively upon customer complaints to establish the reliability of its entertainment may therefore possess a surprisingly incomplete understanding of the problem.

This is one reason measurement at the playback environment itself deserves greater attention.

A server can record that it delivered a requested file or segment. The playback system can potentially provide information about whether the material began playing, whether playback subsequently stopped because of an error and whether interruptions occurred during the session.

The difference is important because the successful delivery of information to a device does not independently establish the successful presentation of that information. A publisher ought to be capable of discovering that a particular video fails more frequently than other videos, that a particular integration introduces delays or that customers employing a certain category of device experience disproportionate difficulties.

The necessary information should be collected responsibly. Adult entertainment companies possess compelling reasons to avoid the unnecessary collection and retention of identifiable viewing histories. Diagnosing a playback problem does not automatically require establishing a permanent record of an individual's private entertainment preferences.

Technical measurement should be designed around the information necessary to improve the product, with appropriate aggregation, limited retention and safeguards against unrelated use.

There is a fundamental difference between knowing that your video player is broken and knowing everything about the person who discovered it was broken.

We need the former considerably more than we need the latter.

Measure the Failures That Matter

An entertainment executive examining the technical performance of a website should possess an understanding of several fundamental distinctions.

The first concerns the difference between an attempted playback and a successful start. A person may deliberately abandon an attempt before playback begins, or the technology may fail to produce a playable result. These circumstances should be distinguished where the available information permits, because they may involve different underlying problems.

Another concerns the interval between the initiation of a playback request and the appearance of the entertainment. If advertising precedes the film, management should understand both the time associated with the advertisement and the complete interval before the requested film begins. Otherwise, the technical reporting may conceal an important component of the audience's actual experience.

Interruptions during playback deserve similar attention. The number of buffering events provides one kind of information; their duration provides another. A single lengthy interruption can be more disruptive than several interruptions sufficiently brief to escape the viewer's attention.

Management should also examine playback failures occurring after a successful start, the quality levels actually delivered and the differences among devices, browsers and network environments.

These measurements are not interchangeable. A service can perform exceptionally well according to one while producing inadequate results according to another.

Suppose a publisher achieves an impressive average startup time. That average might conceal a relatively small but commercially significant population of customers experiencing severe delays. Examining the distribution of startup times, including the slower experiences near its extremes, can provide information the average alone conceals.

The commercial opportunity is often concentrated among the people receiving the worst version of an otherwise satisfactory product.

Before purchasing additional traffic, it might be worth discovering how many of the people already visiting the website are being failed by the technology.

The Economics of the Almost-Working Website

Consider a hypothetical publisher receiving one hundred thousand intentional playback attempts during a month.

Suppose eight thousand of those attempts fail because of identifiable technical problems. The publisher undertakes a series of improvements that reduces the failure rate from eight percent to two percent, while the number of attempted plays remains unchanged.

Assuming the recovered attempts all become successful starts, the business has gained six thousand successful playback starts without purchasing additional traffic or acquiring additional entertainment.

The financial significance of those additional starts depends upon the nature of the business. Some might generate advertising revenue. Some might contribute to subscriber satisfaction or future customer retention. Some might have little measurable immediate financial significance.

It would be inappropriate to assume that every recovered playback produces a particular amount of revenue without establishing the relevant commercial circumstances.

Nevertheless, the example illustrates an important distinction between acquiring new demand and becoming more competent at fulfilling existing demand.

A considerable proportion of entrepreneurial attention is devoted to persuading additional people to encounter a product. Comparable financial intelligence should be applied to improving what happens when they do.

The publisher should examine the cost of acquiring the additional six thousand successful starts through conventional promotional expenditure and compare it with the cost of obtaining them through technological improvement. That comparison should include the persistence of the improvement, its maintenance requirements and its potential effects upon future visits.

A marketing campaign may produce additional activity while the campaign continues. A well-executed engineering improvement may continue producing benefits long after its initial expense has been recovered.

Technology can be a means of improving the economics of customer acquisition without acquiring a single additional customer.

The Advertisement That Breaks the Movie

There is something especially frustrating about an entertainment experience being compromised by the very commercial mechanism intended to finance it.

A publisher introduces an advertising integration that promises additional revenue. The integration performs satisfactorily under certain circumstances but occasionally introduces delays, fails to retrieve an appropriate advertisement or encounters a compatibility problem. The resulting behavior prevents the requested entertainment from beginning.

Depending upon how the system was constructed, a failure in an ancillary commercial service has become a failure of the underlying entertainment product.

That is a managerial decision disguised as a technological accident.

Advertising arrangements should be engineered with an understanding of what happens when individual components fail. If an advertisement cannot be retrieved, the publisher should have deliberately established how the playback environment will respond. There may be contractual or financial reasons for different responses under different circumstances, but the outcome should not be left to an indefinitely spinning icon.

The same principle applies to other dependencies. An optional recommendation service should not ordinarily prevent a customer from watching a legitimately accessible film. A failure in a secondary reporting system should not necessarily interrupt playback. Nonessential functions should be designed so that their deficiencies do not automatically become deficiencies of the principal product.

Engineers sometimes describe this general characteristic as graceful degradation: the ability of a system to continue providing useful functionality when certain components become unavailable or perform inadequately.

The commercial importance of graceful degradation is that it protects the central proposition of the business from the unnecessary consequences of peripheral problems.

Of course, there are circumstances in which continued access would be inappropriate. Failures involving essential authorization, consent-related restrictions or security controls cannot simply be disregarded in the interests of uninterrupted entertainment.

The intelligent distinction is between systems whose successful operation is necessary for legitimate playback and systems whose failure should not ordinarily prevent it.

An entertainment company should know which is which.

Test the Product Where It Lives

One of the easiest ways to acquire an excessively optimistic understanding of a digital product is to test it exclusively under favorable conditions.

The developers possess relatively modern computers. The office has a reliable Internet connection. The browser has been updated. The people conducting the tests understand how the system is intended to operate. They may even be employing accounts possessing privileges unavailable to ordinary customers.

The product works magnificently. Then it encounters the public.

Real customers employ devices of different ages, display dimensions and processing capabilities. Their browsers may have different configurations. Their connections may fluctuate. They may move between wireless and mobile networks. They may encounter the website through technological environments the original development team never seriously considered.

A competent testing program should recognize the diversity of those circumstances.

This needn't require an independent publisher to construct an expensive technology laboratory. Many useful investigations can be undertaken through a modest collection of representative de-

vices, controlled network conditions, browser testing tools and systematic examination of actual performance information.

The important consideration is that management establishes meaningful priorities. Which devices account for substantial portions of the audience? Which problems prevent legitimate playback altogether? Which deficiencies introduce unnecessary interruptions? Which improvements would provide benefits across several environments?

Testing should also examine the circumstances under which something goes wrong. Disconnect a network temporarily during an authorized viewing session. Investigate whether a film can resume appropriately. Determine what happens when an advertisement is unavailable. Examine the behavior of the interface when the requested material cannot be played.

These are not exotic experiments. They are attempts to understand what the business is asking its customers to tolerate.

A test that demonstrates the product can work is useful. A test that establishes the circumstances under which it ceases to work may be considerably more valuable.

Excellence Under Unfavorable Conditions

The most revealing demonstration of technological sophistication may not be the operation of a product under ideal circumstances but its ability to remain useful when those circumstances deteriorate.

This applies throughout digital entertainment. An intelligently developed playback environment should accommodate reasonable fluctuations in network performance. Its controls should remain intelligible when a display becomes smaller. Its behavior should remain predictable when a customer interrupts an ordinary activity. Where appropriate, it should explain a failure rather than requiring the audience to speculate about what happened.

There is a creative dimension to this kind of engineering because it requires developers to imagine circumstances beyond the intended sequence of events.

People don't use products in the orderly manner illustrated in promotional demonstrations. They become distracted. They change their minds. Their devices lose connections. They press buttons in sequences nobody contemplated during the original development meeting.

The intelligence of the product becomes apparent in the manner in which it accommodates that unpredictability.

A business that designs exclusively for the ideal customer operating under ideal circumstances is designing for a convenient fictional character.

I would rather see us develop entertainment technologies for the complicated human beings who actually pay our bills.

Closing the Last Mile

I have enormous enthusiasm for the possibilities of new entertainment technologies. There are fascinating opportunities involving artificial intelligence, interactive media, immersive environments and increasingly portable forms of digital entertainment. We'll explore many of them throughout the remainder of this book.

But I would hate to see our industry become so fascinated with the technological possibilities of tomorrow that we neglect the technical obligations associated with the entertainment we distribute today.

The promise of a remarkable future doesn't compensate the customer whose movie wouldn't play this afternoon.

A producer's creative accomplishment deserves to survive its distribution. A publisher's commercial investment deserves a reasonable opportunity to produce a return. An audience's decision to spend part of its life experiencing our entertainment deserves

to be met with a degree of technological competence appropriate to that decision.

The last mile is where those interests converge. It is where the accomplishments of the filmmaker, engineer, publisher and entrepreneur become meaningful to somebody who may know nothing whatsoever about any of them.

We can spend millions of dollars manufacturing desire, stimulating interest and acquiring attention. But until that attention becomes an actual entertainment experience, we haven't fully delivered what our business exists to provide.

The most important distance in digital entertainment may ultimately be the shortest one: the distance between pressing play and having something worth watching.

CHAPTER 23

The Indecency Dividend

“We've already paid for the education.
It's time we collected the dividend.”

There are certain advantages to operating a business that respectable people would rather not discuss at dinner.

For one thing, the commercial opportunities available to us aren't necessarily the same ones being investigated by several thousand graduates of the nation's most prestigious business schools. There are technological problems we encounter that other industries have yet to confront, markets whose characteristics conventional entrepreneurs may poorly understand and commercial possibilities that remain relatively unexplored because the subject matter makes certain investors uncomfortable.

None of this guarantees success. The disadvantages associated with operating an adult entertainment business are sufficiently real, and sufficiently expensive, that I have no intention of romanticizing them. But it would be equally unintelligent to examine our unconventional position within the economy exclusively in terms of its disadvantages.

What if some of the very circumstances that have made adult entertainment difficult to operate have also positioned it to develop capabilities of exceptional commercial significance?

Our industry has spent decades accumulating specialized knowledge about digital distribution, consumer discretion, electronic transactions, independent publishing and the commercialization of personal interests that people may be reluctant to disclose publicly. Much of that knowledge was acquired under

circumstances considerably less accommodating than those enjoyed by conventional entertainment businesses.

There is potential economic value in that accumulated intelligence. The question is whether we recognize it, develop it and retain enough authority over its application to benefit from it.

That potential advantage is what I call the *Indecency Dividend*. The Exclusion Premium introduced in Chapter 3 describes the additional cost of exclusion. The Indecency Dividend describes the potential value of capabilities developed in response to those circumstances. One is a burden; the other is an entrepreneurial opportunity. There is no reason to assume the latter will outweigh the former.

The Advantage of Being Unfashionable

Entrepreneurs tend to congregate around fashionable opportunities. When investors become enthusiastic about a particular technology, enormous quantities of intellectual and financial resources migrate toward its development. New companies appear, conferences proliferate and otherwise intelligent people begin incorporating the same fashionable terminology into descriptions of businesses that previously had little relationship to it.

The resulting competition can be productive, but it can also become economically exhausting. Thousands of organizations investigate similar problems, pursue similar customers and compete for the services of the same relatively limited population of qualified people.

Meanwhile, less fashionable commercial environments may contain problems of comparable intellectual significance that attract a fraction of that attention.

Adult entertainment occupies an unusual position in this respect. It attracts considerable competition among people interested in producing and distributing the entertainment itself, yet

certain technological and institutional problems associated with the business remain insufficiently addressed.

The distinction matters. There may be thousands of companies competing to distribute adult films while relatively few are competing to fundamentally improve the architecture of adult film distribution. There may be enormous commercial interest in acquiring paying customers while substantially less intellectual investment is being devoted to redesigning the financial relationship between the customer and the entertainment provider.

An entrepreneur entering such a marketplace should investigate where competition is genuinely concentrated and where its apparent intensity conceals opportunities that remain inadequately explored.

The most interesting business in a crowded industry may be the one that solves a problem everybody in that industry has learned to tolerate.

When Your Problems Become Somebody Else's Future

In 1986, Eric von Hippel, a scholar of technological innovation at the Massachusetts Institute of Technology, published a paper entitled “Lead Users: A Source of Novel Product Concepts” in the journal *Management Science*.[1]

Von Hippel examined the importance of users whose needs anticipate those that may subsequently become more widespread. Because existing products frequently fail to accommodate their requirements, these users may have compelling reasons to develop solutions themselves. Their experiences can consequently provide valuable information about emerging commercial opportunities.

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1. Eric von Hippel, “Lead Users: A Source of Novel Product Concepts,” *Management Science* 32, no. 7 (1986): 791–805.

Consider the relevance to adult entertainment. Our industry has repeatedly encountered technological and commercial requirements whose significance extends well beyond the distribution of sexually explicit material. Consumers concerned about the confidentiality of entertainment purchases have needs that are not entirely unlike those of consumers purchasing other sensitive products or services. Independent publishers seeking alternatives to centralized distribution encounter problems shared by independent musicians, filmmakers, journalists and software developers.

The details differ, sometimes substantially. But beneath those differences are common questions concerning privacy, commercial independence, technological accessibility and the relationship between creators and their audiences.

An intelligently developed solution to one of these problems might therefore possess commercial significance beyond the industry in which it originated.

Consider the engineering challenge of developing an entertainment service that provides useful personalization without maintaining an unnecessarily extensive record of its customers' private activities. Adult entertainment has particularly compelling reasons to investigate that problem. But the resulting technological intelligence could also be useful to companies operating in healthcare, personal finance and other environments where the sensitivity of consumer information deserves exceptional consideration.

This doesn't mean adult entertainment should attempt to become a healthcare or financial services industry. It means the intellectual significance of our work should not necessarily be measured exclusively by the nature of its original application.

Sometimes the industry's peculiar requirements give us an opportunity to investigate tomorrow's general commercial problems considerably earlier than other businesses recognize their significance.

The Intelligence Acquired Through Inconvenience

There is a difference between possessing an advantage and having developed an ability to operate without one.

A publisher with unrestricted access to conventional advertising platforms may become exceptionally proficient at purchasing advertising through those platforms. A publisher excluded from them must investigate other ways of establishing relationships with an audience.

The former has acquired a valuable commercial capability. The latter may have acquired several.

An entrepreneur who cannot depend upon a single conventional distribution channel may develop a more sophisticated understanding of independent distribution, affiliate relationships, audience development and the economics of alternative commercial arrangements.

That understanding doesn't eliminate the original disadvantage. The excluded publisher may still spend considerably more money acquiring customers and may never achieve the distribution available to a comparable mainstream enterprise. But the capabilities developed while addressing the problem can possess value independently of the original circumstances.

In 2005, management scholars Ted Baker and Reed E. Nelson published research examining how resource-constrained entrepreneurs developed businesses by combining and employing resources that other organizations had overlooked or rejected. Their study, “Creating Something from Nothing: Resource Construction through Entrepreneurial Bricolage,” appeared in *Administrative Science Quarterly*.[2]

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2. Ted Baker and Reed E. Nelson, “Creating Something from Nothing: Resource Construction through Entrepreneurial Bricolage,” *Administrative Science Quarterly* 50, no. 3 (2005): 329–366.

The term *bricolage* describes, broadly, the practice of constructing something useful from the resources available rather than waiting to acquire the resources conventionally considered necessary.

That strikes me as an apt way to interpret aspects of adult entertainment's entrepreneurial history.

But resourcefulness is most valuable when the intelligence acquired through improvisation is subsequently converted into something the organization can use repeatedly. There is little enduring commercial advantage in solving the same emergency every Thursday afternoon.

The challenge is to transform improvised solutions into reliable capabilities, capabilities into products and products into assets whose economic significance survives the circumstances that originally required their development.

The Difference Between a Workaround and an Invention

Adult entertainment entrepreneurs have become rather accomplished at finding alternative ways of accomplishing things.

Unfortunately, an alternative way of accomplishing something isn't necessarily an invention.

If a financial service becomes unavailable and the entrepreneur simply finds another financial service, the business has resolved an immediate operational problem. That may represent a considerable accomplishment under the circumstances, but its long-term strategic significance could be relatively modest.

If the experience instead leads the entrepreneur to develop a more resilient financial architecture, one that reduces unnecessary dependencies and permits legitimate transactions to continue through appropriately authorized alternatives, the business may have accomplished something substantially more valuable.

The original problem has produced a new organizational or technological capability.

The same distinction applies to distribution. If an established platform becomes unavailable and the publisher merely migrates to another platform possessing comparable authority over its future, the publisher may have restored access without fundamentally improving its circumstances. If the experience leads the publisher to develop an architecture in which its audience relationships and intellectual property are more portable, the enterprise has learned something of greater commercial significance.

We should become less interested in celebrating our ability to circumvent the commercial inconveniences of the moment and more interested in understanding what those inconveniences reveal about the architecture of our businesses.

Every workaround ought to be examined for the possibility that it contains the beginnings of a better system.

Sometimes it won't. Sometimes the intelligent decision is simply to resolve the immediate problem and return to the activities upon which the business depends. But occasionally an entrepreneur encounters a deficiency whose solution could become more commercially significant than the business that initially encountered it.

Those are opportunities worth recognizing.

The Privacy Advantage

For much of the history of electronic commerce, the accumulation of consumer information has been regarded as an inherently desirable characteristic of digital business.

The more a company knows about its customers, the more effectively it can presumably advertise to them, recommend products, anticipate purchasing decisions and establish commercially valuable relationships.

There is considerable economic intelligence behind certain applications of that philosophy. But it becomes substantially less straightforward when the information itself creates risks that customers regard as intolerable.

Adult entertainment has a particularly interesting opportunity to develop commercial experiences in which discretion is not merely an administrative obligation but a desirable characteristic of the product.

Imagine a consumer being able to establish legitimate access to entertainment, retain useful playback preferences and conduct ordinary financial transactions without having to surrender unnecessary information about his personal interests. The company could compete partly upon the sophistication of its ability to provide useful services while limiting the amount of sensitive information it possesses.

The engineering involved could be more ambitious than conventional approaches to personalization.

A system that remembers everything doesn't necessarily represent a greater technological accomplishment than a system that intelligently understands what should be remembered, what should remain under the customer's control and what needn't be collected in the first place.

Such capabilities could become commercially valuable as consumers in other markets become more interested in the circumstances under which their information is acquired, retained and employed.

Our industry has no automatic claim to leadership in privacy technology. Indeed, portions of adult entertainment have provided compelling examples of precisely why better privacy technology is necessary.

But that makes the opportunity no less attractive. I would like to see adult entertainment become an industry from which other businesses learn how to handle sensitive consumer information

responsibly, rather than an industry whose mistakes continually become examples of how not to handle it.

A More Interesting Laboratory

One of the commercial advantages of a specialized entertainment business is the opportunity to investigate certain problems within a relatively well-defined environment.

An independent publisher experimenting with a new video interface doesn't necessarily need to satisfy every conceivable category of video consumption. It can concentrate upon the requirements of the entertainment it distributes and the circumstances in which its particular audience encounters it.

A technology company developing tools for independent producers can investigate the administrative difficulties associated with licensing, distribution and commercial reporting without first attempting to construct a universal system for every imaginable form of intellectual property.

Specialization can provide intellectual focus.

But the useful thing about investigating a problem within a specialized environment is that the resulting solution needn't always remain confined to that environment.

A video playback technology developed to accommodate the diverse formats and viewing preferences encountered within adult entertainment may contain capabilities relevant to other forms of digital media. An intelligent system for documenting the distribution permissions associated with audiovisual works could have applications in independent filmmaking generally.

An advertising architecture designed to provide greater control to publishers whose commercial requirements are inadequately addressed by conventional advertising networks might establish principles useful to other independent media businesses.

The challenge is to identify which characteristics of the solution depend upon the peculiarities of adult entertainment and which address more general technological or commercial problems.

That distinction should influence the architecture of the product from the beginning. Before committing resources to a broader market, establish which capabilities are transferable, whether there is genuine demand for them and what additional development, support or compliance expenses that market would introduce. Where appropriate, design capabilities that can function independently of their original commercial environment. Document them, protect the relevant intellectual property and employ technical conventions that permit their integration into other systems.

An invention needn't stop being useful to us simply because it becomes useful to somebody else.

The Danger of Inventing for Everybody

There is, however, an important qualification to this argument. Entrepreneurs developing technology for a specialized industry occasionally become so enthusiastic about its possible applications elsewhere that they neglect the customers whose problems originally justified its development.

A company begins by developing an intelligent solution to a specific problem. Somebody recognizes that the solution might possess broader commercial significance. Management subsequently expands the development agenda, modifies the product to accommodate unfamiliar requirements and begins pursuing markets whose circumstances it poorly understands.

Meanwhile, the original customers continue waiting for the solution they were promised.

The possibility of broader commercial applications should not become an excuse for abandoning the intellectual advantages of specialization.

One of the reasons a technology developed within adult entertainment might become valuable elsewhere is that its creators possess an unusually intimate understanding of the problems it addresses. Eliminating that focus prematurely can deprive the technology of precisely the characteristics responsible for its potential significance.

There is a distinction between developing a specialized product with transferable capabilities and attempting to develop a universal product before establishing the excellence of its original application.

We should be particularly cautious about interpreting acceptance by conventional industries as the ultimate validation of an accomplishment originating within adult entertainment.

A technology that substantially improves the economics of our own industry constitutes a worthwhile achievement even if nobody outside it ever employs the technology.

I have no desire to see adult entertainment become merely an inexpensive research laboratory whose most ambitious entrepreneurs eventually leave to serve more socially acceptable customers.

The industry deserves to benefit directly from the intelligence it develops.

The Commercial Value of Irreverence

There is another potential advantage associated with adult entertainment that is considerably more difficult to quantify.

Our industry has historically attracted people willing to question conventional judgments concerning what can be published, distributed, discussed or commercially developed. That

willingness to challenge assumptions is one of the more interesting characteristics of entrepreneurial intelligence.

But there is nothing particularly revolutionary about possessing unconventional attitudes toward sexuality while maintaining thoroughly conventional attitudes toward business.

A person can be astonishingly adventurous in his editorial decisions and remarkably conservative in his technological ones. A publisher can produce entertainment that challenges cultural expectations while operating a website indistinguishable from those of several hundred competitors.

Somewhere along the way, the industry separated its creative irreverence from its commercial imagination.

I would like to reunite them.

If we are willing to question established conventions concerning the nature of entertainment, why shouldn't we be equally willing to question established conventions concerning how entertainment is financed, distributed, presented and experienced?

The absence of certain cultural obligations can provide room for commercial experimentation. An independent adult publisher may possess greater freedom to develop an unconventional identity than a mainstream entertainment company responsible for accommodating numerous corporate relationships and carefully established public expectations.

That freedom should be exercised with intelligence. Recklessness is not the same thing as imagination, and the violation of legitimate professional obligations does not constitute an entrepreneurial accomplishment.

But there is considerable value in maintaining an organizational culture that doesn't automatically interpret unfamiliar ideas as inappropriate ones.

The world has enough companies employing interchangeable people to develop interchangeable products for interchangeable

markets. Adult entertainment ought to be capable of providing an occasionally interesting alternative.

Why Being First Isn't Enough

Earlier in this book, we examined the industry's historical relationship with technological innovation. We should now distinguish the intellectual accomplishment of introducing a technology from the economic accomplishment of developing an enduring business around it.

In 1988, Marvin B. Lieberman and David B. Montgomery published an influential examination of first-mover advantages in the *Strategic Management Journal*. Their research considered the circumstances under which pioneering firms might acquire enduring advantages, as well as circumstances under which later entrants could benefit from the work already undertaken by pioneers.[3]

Being first can create important opportunities. It can provide experience, establish commercial relationships and allow an enterprise to acquire assets before their significance becomes apparent to competitors.

But the pioneer may also incur considerable expenses educating the marketplace, resolving technological uncertainties and discovering which aspects of the original commercial proposition are unsuitable. A subsequent competitor can sometimes enter the market with a better understanding of those problems without having independently financed the experiences through which that understanding was acquired.

This distinction has particular significance for adult entertainment. There is little enduring economic consolation in developing an intelligent technology, watching its broader commercial significance become apparent and then discovering that organizations

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3. Marvin B. Lieberman and David B. Montgomery, “First-mover advantages,” *Strategic Management Journal* 9, special issue (1988): 41–58.

elsewhere possess substantially greater resources with which to exploit it.

Our industry should become more sophisticated about retaining the commercial benefits associated with its technological accomplishments.

That may involve developing appropriate intellectual property strategies, establishing recognizable product identities, maintaining documentation, cultivating technical expertise and creating commercial arrangements through which the original developers participate in the subsequent economic life of their work.

It may also involve deciding that certain technological accomplishments are most valuable when shared openly, allowing their widespread adoption to improve the commercial environment in which the originating business operates.

There is no universal answer. The important consideration is that these decisions be made deliberately. The ambition is not merely to demonstrate that adult entertainment was experimenting with an interesting technology before everybody else. It is to establish an industry whose technological accomplishments contribute meaningfully to its continuing commercial strength.

History is an interesting thing to make. It would be nice to make some money from it, too.

Calculating the Dividend

The Indecency Dividend should not be interpreted as a declaration that operating an adult entertainment business is inherently more profitable than operating a conventional one.

That would be an extraordinary claim for which I have no satisfactory evidence. Rather, it describes the prospective economic value of capabilities, opportunities and intellectual assets developed partly because of the industry's unconventional circumstances.

An enterprise might derive additional licensing income from a technology originally developed to address its own distribution requirements. It might reduce its exposure to commercial disruptions by developing more resilient operational capabilities. It might establish a distinctive market position through an understanding of consumer needs that conventional competitors have inadequately investigated.

Some of those benefits can be measured directly. Others reside in opportunities that have yet to be commercially realized.

The appropriate managerial question is whether the value created through those capabilities ultimately exceeds the expense of developing, maintaining and commercially exploiting them.

Imagine a publisher that spends fifty thousand dollars developing a specialized technological capability because conventional products fail to satisfy its requirements. Over several years, the technology generates one hundred thousand dollars in additional licensing revenue while contributing twenty-five thousand dollars in demonstrable operating savings to the original business.

If its additional maintenance, support and commercialization expenses amount to forty thousand dollars, the illustrative cumulative financial benefit would be thirty-five thousand dollars after the original development expenditure, before taxes and without discounting future receipts and expenditures.

That calculation would still need to account for the timing of expenditures and receipts, taxes where applicable, the best alternative use of the resources and other relevant financial considerations. Licensing receipts and demonstrable operating savings must be incremental and counted only once.

More importantly, it tells us nothing about the full economic effect of the institutional disadvantages that originally confronted the publisher. Those disadvantages may have imposed costs

considerably greater than the benefits ultimately realized through the technology.

The dividend should not be confused with an assertion that discrimination is economically desirable. Nor should the industry preserve unnecessary obstacles merely because certain entrepreneurs occasionally develop interesting solutions to them.

The opportunity is to retain the intelligence acquired in confronting those obstacles while continuing to eliminate the obstacles themselves.

Sell the Intelligence, Not Just the Entertainment

There is an additional commercial possibility available to adult entertainment companies that deserves greater attention.

They can develop businesses around the knowledge they possess. An experienced independent publisher may understand the economics of digital distribution in ways that could provide value to other publishers. An established producer may possess sophisticated operational knowledge concerning the management and licensing of creative works. A technology company may have developed expertise in accommodating the unusual commercial requirements of sensitive-content industries.

Those capabilities can potentially support new products, specialized services, licensing arrangements, professional education or other commercially legitimate activities.

The diversification should emerge from actual competence. There is already a sufficiently large population of people selling entrepreneurial expertise whose principal entrepreneurial accomplishment appears to be selling entrepreneurial expertise.

I'm interested in knowledge acquired through the work itself.

An engineer who has spent years resolving complicated problems associated with digital media delivery possesses something commercially valuable beyond the individual technologies already developed. The knowledge acquired during that work

may accelerate subsequent development, provide opportunities for collaboration and enable the enterprise to recognize possibilities that competitors lack the experience to identify.

Management should recognize that institutional knowledge is an asset requiring preservation. Document what the organization has learned. Understand why certain approaches succeeded and why others failed. Establish the conditions under which that intelligence can be transferred among the people responsible for subsequent work.

Otherwise, the business may continue encountering technologically interesting problems while failing to accumulate the intellectual benefits of resolving them.

What the Industry Can Teach the World

I would find it particularly satisfying if adult entertainment became recognized not merely as an industry that adopts new technologies but as an industry whose technological requirements contribute to their development.

There is no compelling reason the engineering accomplishments associated with our business should possess less intellectual significance than comparable accomplishments originating elsewhere. A sophisticated solution to a complicated distribution problem remains a sophisticated solution regardless of the entertainment being distributed.

Imagine an industry that contributes meaningful research concerning privacy-preserving personalization, interoperable media technologies, independent publishing infrastructure and the economics of digital entertainment. Its engineers participate in serious technical discussions. Its entrepreneurs introduce commercially significant ideas. Its creative professionals contribute to the evolution of the technologies through which their work is experienced.

I am not suggesting that every adult entertainment company suddenly establish a research laboratory. Many valuable intellectual contributions can originate in the ordinary work of exceptionally capable independent businesses. What matters is that the industry recognizes the significance of those contributions and develops ways of communicating them beyond the immediate circumstances in which they were made.

Publish the research. Document the engineering. Explain the commercial principles. Participate in the development of technical standards wherever the opportunity exists.

There is a distinction between promoting a product and contributing knowledge to a profession. We should become substantially more accomplished at the latter.

Collecting What We've Earned

The adult entertainment industry has paid an expensive tuition for its education in digital commerce.

We have encountered technological obstacles that required independent solutions, financial restrictions that encouraged alternative arrangements, distribution difficulties that stimulated entrepreneurial experimentation and consumer sensitivities that demand more intelligent approaches to privacy and commercial trust.

Some of the lessons acquired through those experiences may ultimately prove more valuable than the particular businesses through which they were learned.

But that value will not necessarily accrue to us merely because we acquired the knowledge first. It must be recognized, developed and converted into enduring professional and commercial capabilities.

We ought to understand the peculiar circumstances of our industry as something more than an assortment of disadvantages requiring perpetual accommodation. They have also provided us

with an unusual perspective on the architecture of digital commerce and the possibilities of independent entertainment.

I have no intention of apologizing for the industry in which that perspective was acquired, nor do I believe its significance depends upon our success in making it acceptable to the institutions that have historically excluded us.

The world may occasionally be uncomfortable with what adult entertainment produces. That doesn't prevent us from producing technologies, commercial ideas and intellectual accomplishments from which the world might learn.

We've already paid for the education.

It's time we collected the dividend.

CHAPTER 24

Technology Without Apology

“The subject of the video changes.
The mathematics doesn't.”

I've never been particularly fond of the expression *adult-friendly technology*.

It implies that somewhere in the development of an otherwise perfectly legitimate technological product, somebody has graciously decided to accommodate our existence. The technology may have been designed for another industry, developed around another business model and organized according to the commercial requirements of entirely different customers. Nevertheless, we're supposed to be delighted that we're permitted to purchase it.

I appreciate companies willing to conduct business with adult entertainment, particularly when their competitors refuse to do so. But permission to purchase a technology is a rather modest entrepreneurial ambition for an industry that once helped establish the commercial possibilities of the Internet.

At some point, we ought to become interested in developing technologies that don't merely accommodate our business but originate from an intelligent understanding of it. Technologies conceived around our requirements, informed by our experience and developed with the expectation that our industry deserves engineering of the highest professional caliber.

There is a substantial difference between a technology that tolerates adult entertainment and a technology designed for

adult entertainment. The former represents an accommodation. The latter represents an understanding.

I'd much rather build a business around the latter.

An Industry Deserving of Its Own Engineering

Nobody finds it particularly remarkable that the financial services industry has developed specialized technologies. Its transactions involve distinctive requirements concerning security, authentication, accounting and regulatory obligations. Similarly, healthcare has developed technological systems reflecting the sensitivity of medical information, the complexity of professional responsibilities and the consequences of inadequate engineering.

We recognize that these industries possess characteristics deserving specialized technological attention.

Adult entertainment possesses its own collection of such characteristics. Its intellectual property is susceptible to unauthorized distribution. Its audience has compelling reasons to expect discretion. Its producers must navigate questions concerning consent, authorization and the enduring consequences of distributing intimate material. Its publishers encounter commercial restrictions that rarely affect conventional entertainment businesses to the same extent.

These circumstances should influence the design of the technologies through which the industry operates.

Instead, independent entrepreneurs frequently assemble their businesses from products developed according to assumptions that bear little relationship to their actual circumstances. A generic publishing system is adapted for video distribution. An advertising mechanism is introduced because it happens to accommodate adult material. A financial service is employed because it represents one of the relatively few available alternatives. Additional technologies are subsequently introduced to compensate for the deficiencies of the existing ones.

The resulting business may function, sometimes remarkably well, but its architecture reflects a series of accommodations rather than a coherent understanding of the enterprise.

There is an opportunity to reconsider the entire technological environment of adult entertainment from the perspective of the people who actually operate within it. What would we build if we began with an understanding of the industry's requirements rather than a collection of technologies somebody else had already developed?

That question deserves to occupy the imagination of our engineers for the next decade.

Stop Buying Solutions to Somebody Else's Problems

The marketplace for business technology is populated by products whose developers have made perfectly intelligent decisions concerning the customers they intend to serve. The difficulties arise when entrepreneurs whose requirements differ substantially from those customers attempt to organize their businesses around the same products.

Consider a conventional video hosting service designed primarily for corporations distributing internal communications, educational institutions publishing instructional material and marketing departments producing promotional videos.

Its developers may have established excellent priorities for those applications. Yet an independent entertainment publisher could possess entirely different requirements concerning commercial advertising, control over distribution, the organization of intellectual property and the relationship between playback and monetization.

The hosting service isn't necessarily deficient. It was simply designed to solve a different collection of problems.

This distinction should inform the manner in which adult entertainment companies evaluate technological products. Compatibility with adult material is only one consideration. Management should also examine whether the underlying architecture supports the commercial independence of the enterprise, whether the available functionality reflects its actual operational needs and whether the technology can evolve in directions relevant to its ambitions.

A product that provides ninety features your company doesn't need while failing to provide three that fundamentally influence its commercial future may represent an exceptionally poor investment, regardless of how attractive its introductory price happens to be.

The adult entertainment entrepreneur should become a more demanding purchaser of technology. We shouldn't be so grateful for the opportunity to acquire a product that we forget to evaluate whether it's the right product.

The Customer as Inventor

In his 2005 book *Democratizing Innovation*, Massachusetts Institute of Technology professor Eric von Hippel examined how users participate in the development and modification of products rather than relying exclusively upon manufacturers to satisfy their requirements.[1]

His research offers an encouraging perspective for entrepreneurs operating within specialized industries. The people using a technology may possess important knowledge about their requirements that its original developers cannot readily acquire. Under certain circumstances, those users are particularly well positioned to recognize opportunities for improvement.

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1. Eric von Hippel, *Democratizing Innovation* (Cambridge, MA: MIT Press, 2005).

An independent adult publisher may understand deficiencies in conventional video technology that escape the attention of engineers developing products primarily for corporate communications. A producer may recognize opportunities for improving digital licensing that remain invisible to companies whose involvement with intellectual property ends when a file is uploaded.

There is an important source of innovative intelligence residing within the ordinary operation of our businesses.

Unfortunately, we don't always recognize that intelligence as an entrepreneurial resource. A publisher encountering a persistent technological deficiency may regard it as another inconvenience to be reported to a service provider, rather than as evidence of an inadequately served commercial market.

The complaint submitted to somebody else's technical support department might contain the beginnings of your next company.

We should establish closer relationships between the people experiencing the technological deficiencies of adult entertainment and the people capable of developing solutions to them. Producers, publishers, performers, advertisers and consumers all possess different forms of knowledge concerning the operation of the industry.

The engineer who can intelligently incorporate that knowledge into the design of a product acquires an advantage that cannot necessarily be purchased through more expensive development equipment or a larger programming department.

The Distinction Between Technology and Technological Leadership

An industry doesn't become technologically advanced merely because it employs advanced technology.

A retailer using artificial intelligence to prepare product descriptions may be making intelligent use of a commercially available capability. A company employing contemporary encryption methods may be fulfilling important security obligations. A publisher operating sophisticated video distribution software may be providing its audience with excellent service.

These accomplishments deserve recognition, but they don't independently establish technological leadership. Leadership involves influencing the direction in which technology develops. It involves recognizing problems that existing products inadequately address, establishing new possibilities and producing solutions that change the expectations of the people using them.

Our industry should aspire to both technological competence and technological leadership. Acquiring competence can frequently be accomplished through intelligent purchasing decisions, while leadership requires an institutional commitment to investigation, experimentation and original development.

We need companies whose principal technological ambition extends beyond keeping their websites operational. We need engineers who are encouraged to investigate questions for which management doesn't already possess an answer. We need entrepreneurs interested in developing technologies whose commercial significance may extend beyond their immediate businesses.

An industry that continually waits for useful technologies to become available elsewhere will inevitably remain dependent upon the imagination and priorities of other industries.

The Research Department Nobody Budgeted For

Research and development tends to conjure images of expensive laboratories, specialized personnel and large corporations whose financial resources permit them to investigate matters of uncertain commercial significance.

For an independent entertainment entrepreneur struggling to meet monthly operating expenses, the notion of establishing a research department may appear absurd. But research begins with an investigation, not necessarily a department.

An independent publisher might devote a few hours each month to systematically evaluating emerging playback technologies. A production company might investigate alternative methods of documenting the commercial permissions associated with its catalog. A developer might construct a small experimental application to determine whether a particular interaction can be handled more efficiently.

The financial requirements of these investigations needn't be extravagant. Their significance resides in establishing an ordinary organizational habit of examining possibilities that extend beyond the immediate operational requirements of the business.

There is considerable value in maintaining a written record of such work. Document the problem being investigated, the alternatives considered, the technologies employed and the results obtained. Record the unsuccessful approaches as carefully as the successful ones.

A failed experiment whose circumstances are adequately documented can contribute useful information to subsequent development. A failed experiment everybody immediately forgets is more likely to be purchased again at some point in the company's future.

In their 1982 book *An Evolutionary Theory of Economic Change*, economists Richard R. Nelson and Sidney G. Winter examined the significance of organizational routines, accumulated knowledge and innovation in understanding how firms evolve.[2] Their work provides a useful foundation for recognizing that the technological capabilities of an enterprise develop

2. Richard R. Nelson and Sidney G. Winter, *An Evolutionary Theory of Economic Change* (Cambridge, MA: Harvard University Press, 1982).

through continuing organizational activity rather than isolated moments of inspiration.

We ought to make the investigation of unfamiliar technological possibilities an ordinary activity of operating an entertainment business.

Even a small enterprise can afford curiosity, provided it exercises some intelligence about what its curiosity costs.

Put Something on the Screen

There is an enormous difference between discussing an interesting technological possibility and constructing something through which that possibility can be examined.

I have a strong preference for the latter.

An elaborate presentation describing the future of interactive entertainment may possess some intellectual significance. A functional prototype through which people can actually experience a proposed interaction provides a different kind of information altogether.

The prototype forces the entrepreneur to confront details that theoretical discussions conveniently permit him to ignore. How does the interface behave? What happens when the device changes orientation? How does the technology accommodate an interrupted connection? What information must be retained? Which components operate independently, and which require access to external services?

The act of building exposes the limitations of the idea while frequently revealing possibilities that weren't apparent when the idea was originally conceived.

This is particularly important in an industry where technological discussions can become remarkably enthusiastic about the potential of emerging technologies without establishing what commercially useful products those technologies might actually produce.

We can discuss the future of artificial intelligence, immersive entertainment and interactive media indefinitely. But at some point, an entrepreneur should be able to demonstrate something more compelling than his familiarity with the vocabulary surrounding them.

The demonstration needn't represent a finished product. It may establish only that a particular technological principle can be implemented successfully under controlled circumstances. That is nevertheless a useful accomplishment, provided we accurately communicate what has and has not been established.

A prototype demonstrates a possibility. A functioning production system demonstrates something further. Neither independently establishes commercial success.

Intellectual honesty requires distinguishing among them.

The Difference Between Experimental and Operational Technology

One of the responsibilities of technologically ambitious businesses is establishing clear boundaries between the environments in which they experiment and the environments upon which their customers depend.

An engineer may wish to investigate an unconventional approach to video playback. A publisher may want to explore an alternative recommendation system. A financial technology company may be considering a different architecture for managing transactions.

These investigations can be productive, but customers should not unknowingly become participants in poorly controlled experiments involving their money, privacy or access to purchased entertainment.

The industry can become more adventurous in its technological ambitions while becoming more disciplined in its methods of introducing technology.

Experimental functionality should be identified appropriately. Sensitive information should not be introduced into development environments without adequate justification and safeguards. Significant changes to operational systems should be evaluated before their introduction, and businesses should possess practical methods of recovering when something doesn't behave as intended.

Where customers voluntarily participate in testing, the nature and consequences of their participation should be communicated appropriately.

This is not an argument for organizational timidity. It is an argument for constructing environments in which experimentation can occur more freely because its consequences are understood and controlled.

A well-managed experimental environment enables an engineer to investigate possibilities that would be irresponsible to introduce directly into an operational product. Professional discipline expands the circumstances under which innovation becomes practical.

The entrepreneur should be ambitious about what the technology might accomplish and conservative about what it might inadvertently destroy.

Who Profits From the Invention?

The financial significance of technological leadership depends partly upon the commercial arrangements through which technological accomplishments are subsequently employed.

In 1986, economist David J. Teece published a paper entitled "Profiting from Technological Innovation: Implications for Integration, Collaboration, Licensing and Public Policy" in the journal *Research Policy*.[3]

Teece examined why the financial benefits associated with an innovation do not necessarily accrue to its original developer. Control of complementary assets, such as manufacturing capabilities, distribution arrangements and other resources necessary for commercialization, can influence who ultimately benefits from the invention, especially when innovations are easily imitated.

The implications for independent entertainment technology companies are substantial. A developer might create an exceptional video application but lack the commercial relationships necessary to introduce it to publishers. Another might develop an intelligent distribution mechanism while depending entirely upon an external platform whose policies determine whether the mechanism can continue operating.

In both circumstances, the developer possesses an invention without necessarily possessing an adequate strategy for realizing its commercial value.

Entrepreneurs should therefore investigate the economics of an innovation alongside its engineering. How will it reach the marketplace? Which other capabilities are required for its operation? Who controls those capabilities? Under what circumstances could the business become dependent upon organizations whose commercial interests differ from its own?

None of this requires the entrepreneur to own every component of the technology or every organization involved in its distribution. Intelligent collaboration can be enormously valuable. But the relationships should be established with an understanding of

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3. David J. Teece, "Profiting from Technological Innovation: Implications for Integration, Collaboration, Licensing and Public Policy," *Research Policy* 15, no. 6 (1986): 285–305.

how they influence the future economic possibilities of the enterprise.

Technological independence isn't a declaration of hostility toward commercial partners. It's an understanding of the authority those partnerships confer and the authority they require us to surrender.

Our Industry Should Have a Technical Literature

One of the characteristics of a mature technological profession is the existence of an intellectual record through which its participants communicate what they have learned.

Engineers publish technical papers. Researchers document experimental findings. Developers explain new architectures, establish reference implementations and contribute to discussions concerning interoperability and standards. Subsequent generations of professionals benefit from work undertaken by people they may never personally encounter.

Adult entertainment ought to develop a more substantial technical literature of its own.

I'm not referring to press releases announcing that somebody has introduced the world's most advanced entertainment platform. We already possess a sufficiently generous supply of those.

I'm referring to substantive technical publications that explain what has actually been accomplished, how the accomplishment was achieved, the problems it addresses and the limitations that remain.

A research paper examining the relationship between advertising architecture and playback performance could possess value to numerous independent publishers. A technical report investigating privacy-preserving methods of retaining user preferences could contribute to discussions extending beyond adult entertainment. A documented examination of licensing interoper-

ability could provide a foundation upon which other developers build.

These publications needn't be distributed exclusively through conventional academic journals. Professional repositories, institutional archives, technical conferences and independently published reports can all contribute to the preservation and circulation of useful knowledge.

The important distinction concerns the intellectual character of the work. A commercially affiliated author can produce meaningful technical research, provided the commercial affiliation is transparent, the claims are supportable and the publication contributes something more substantial than enthusiasm for the author's own products.

Our technological accomplishments deserve to be documented with the same professional seriousness we would expect from engineers working in any other field.

There is no compelling reason that a technical paper concerning the distribution of adult entertainment should require less intellectual rigor than a technical paper concerning the distribution of sports programming.

The subject of the video changes. The mathematics doesn't.

An Engineering Culture, Not an Engineering Department

The technological competence of an entertainment company cannot be determined merely by counting the number of engineers it employs.

A business can maintain an expensive development department while establishing organizational conditions that make meaningful innovation practically impossible. Its engineers may spend their time correcting recurring administrative problems, accommodating poorly conceived commercial requirements or maintaining systems management refuses to reconsider.

Conversely, a relatively small organization can accomplish interesting technological work when its engineers possess a clear understanding of the business, sufficient authority to investigate better approaches and management willing to consider the implications of what they discover.

What matters is the culture within which technological decisions are made. An engineering culture recognizes that a technical objection may contain important commercial information. It encourages the documentation of decisions, the evaluation of alternatives and the investigation of recurring deficiencies. It regards the elimination of unnecessary complexity as a legitimate accomplishment and understands that the long-term maintenance of a system deserves consideration during its original development.

It also establishes a productive relationship between engineers and the other professionals responsible for the entertainment product.

The filmmaker may understand aspects of audiovisual presentation the software developer has never considered. The advertising representative may recognize commercial requirements that influence the feasibility of an otherwise attractive technical solution. The performer may identify privacy or consent-related consequences that would remain invisible in a purely mechanical examination of the system.

Technological excellence emerges partly from the ability to incorporate these different forms of intelligence into the work.

The engineering department should not become an isolated institution responsible for constructing whatever the rest of the company happens to request. Its members should participate in determining which requests make sense and whether more intelligent alternatives are available.

That is how technology becomes an entrepreneurial capability rather than merely an operating expense.

Technology for People Who Don't Have Technology Departments

One of my ambitions for adult entertainment is to see sophisticated technological capabilities become accessible to entrepreneurs who lack the resources or inclination to become technology companies themselves.

An independent filmmaker may want to concentrate upon making exceptional films. A publisher may want to devote his intelligence to developing an editorially distinctive entertainment service. A performer may wish to manage an independent business without acquiring the technical expertise necessary to construct its entire digital infrastructure.

These people should be able to benefit from advanced technology without becoming experts in its implementation.

There is a substantial entrepreneurial opportunity in reducing the distance between sophisticated engineering and ordinary commercial operation. A technology can possess enormous architectural complexity while providing its customers with an exceptionally simple method of accomplishing something useful.

Indeed, the engineering accomplishment may be precisely what the customer is no longer required to understand.

But simplicity should not be achieved by depriving the entrepreneur of meaningful commercial authority. A product that makes distribution easy by requiring the publisher to surrender control over its advertising, customer relationships or intellectual property may have resolved one operational problem by introducing a considerably more consequential strategic one.

We should make sophisticated capabilities accessible while preserving the independence of the businesses employing them.

I would like to see the adult entertainment entrepreneur become capable of operating an exceptionally intelligent digital

business without spending half his professional life attempting to determine why the software doesn't work.

The technology companies should undertake that responsibility. That's what they're being paid to do.

The Importance of Unfashionable Inventions

The technological world has an unfortunate tendency to equate the significance of an invention with the novelty of the terminology associated with it.

A product incorporating artificial intelligence may attract more attention than an intelligently designed improvement to an ordinary administrative procedure. An immersive entertainment platform may generate greater enthusiasm than a technology that reliably resolves a persistent deficiency in conventional video distribution.

Yet the economic significance of an invention has relatively little obligation to correspond with its fashionable appeal.

Suppose an engineer develops a method of reducing the administrative work associated with licensing a film from two hours to ten minutes. The technology may employ no especially fashionable scientific principles. Nevertheless, its commercial significance could become substantial if the improvement is reliable, widely applicable and economical to implement.

The developer has produced an innovation with an identifiable relationship to the productivity of the business. Some of the greatest opportunities in adult entertainment may involve problems so familiar that nobody considers them sufficiently interesting to investigate. Inconsistent playback controls, inadequately organized catalogs, repetitive administrative work and fragmented technological services have become ordinary characteristics of doing business.

Their familiarity doesn't diminish their economic significance.

We should be careful not to develop such an enthusiasm for the spectacular possibilities of future technology that we overlook the commercially valuable possibilities residing in comparatively ordinary improvements.

The entrepreneur doesn't necessarily need to invent the future of civilization. Making an important part of somebody's business function intelligently for the first time can be a perfectly magnificent accomplishment.

No Apologies Necessary

Technology Without Apology expresses a conviction that adult entertainment deserves the same intellectual ambition, engineering sophistication and entrepreneurial imagination as any other legitimate category of entertainment.

That conviction should influence the way we develop products, acquire technologies, conduct research and communicate our accomplishments. It should influence our expectations of the companies providing our infrastructure and our understanding of the professional capabilities we can develop independently.

It should also influence the way we regard ourselves.

An engineer working in adult entertainment should not have to qualify the significance of an accomplishment by explaining that it was achieved *despite* the nature of the industry. A researcher should not have to disguise the original application of a technology to establish its intellectual credibility. An entrepreneur should not regard the eventual acceptance of his invention by a conventional industry as the moment at which it becomes professionally legitimate.

The accomplishment should be evaluated on its merits.

If we develop an exceptional method of delivering video, it is exceptional engineering. If we establish a more intelligent commercial relationship between independent publishers and advertisers, it is an accomplishment in business design. If we develop

technologies that better protect sensitive information or enhance the independence of creative professionals, those accomplishments deserve recognition according to their actual significance.

And when our work is inadequate, it deserves equally rigorous criticism.

Professional equality means being judged by demanding standards, not being exempted from them. We should welcome that judgment rather than continually requesting some special accommodation for the peculiarities of our business.

Adult entertainment has spent much of its commercial history negotiating for permission to employ the technologies of other industries. I believe the more interesting chapter of that history begins when other industries become interested in employing ours.

We don't need a technological future graciously made available to us by somebody else.

We need the intellectual ambition to build one.

PART IV

TAKING BACK THE BUSINESS

“There is only one valid definition of business purpose: to create a customer.”

Peter F. Drucker
The Practice of Management (1954)

CHAPTER 25

Whose Audience Is It Anyway?

“A million followers is an impressive number. It is not necessarily a million independently accessible relationships.”

Suppose you spend five years building an entertainment business. You finance original productions, develop a recognizable brand, establish a reputation among consumers and accumulate an audience of several hundred thousand people. Your films are popular, your distribution arrangements are producing revenue and your business appears to possess substantial commercial value.

Then somebody changes the terms of service.

Suddenly, the people who have spent five years enjoying your entertainment become considerably more difficult for you to reach. You may still own the films. You may still own the company. You may even own the trademark under which those people originally discovered you. But the mechanism through which your audience encounters your business belongs to somebody else, and that somebody has made a commercial decision in which you had no meaningful participation.

It raises a rather fundamental question about what you spent those five years building. Did you develop an independent entertainment business, or did you contribute to the development of somebody else's distribution platform?

The distinction may not have been particularly apparent while everybody was making money.

It becomes painfully apparent when somebody stops.

The Invisible Landlord

The digital economy has created a vast collection of businesses whose commercial existence depends upon properties they neither own nor meaningfully control. Unlike the traditional proprietor renting a physical location, however, the digital entrepreneur may not fully appreciate the significance of the arrangement until the relationship deteriorates.

A restaurant owner understands that the building belongs to somebody else. There is a lease, an identifiable property and a reasonably intelligible distinction between the restaurant business and the real estate through which it operates. The proprietor may have invested considerable resources improving the premises, but nobody ordinarily confuses those improvements with ownership of the building.

Digital distribution arrangements can obscure comparable distinctions. A publisher develops a channel on an entertainment platform, acquires followers through a social network, establishes subscriptions through a marketplace or accumulates an audience within a third-party application. Over time, the entrepreneur begins referring to those people as *our audience*, discussing their number as though it represented an asset securely belonging to the enterprise.

But what authority does the enterprise actually possess over its relationship with those people? Can it communicate with them independently? Can it introduce them to another product without obtaining the permission of the platform? Can it continue serving them if the existing commercial arrangement ends?

These questions concern something more fundamental than the percentage of revenue retained by the distributor. They concern the nature of the business itself.

An entrepreneur should understand whether the commercial relationships being developed belong to the enterprise or exist only within the temporary privileges extended to it by another organization.

The Economics of the Marketplace

There are perfectly intelligent economic reasons for entertainment businesses to participate in large distribution platforms.

An established platform can provide access to audiences an independent publisher would find prohibitively expensive to acquire. It can provide technological infrastructure, payment capabilities, discovery mechanisms and a degree of consumer familiarity that substantially reduces the difficulties associated with introducing a new product.

In their 2003 paper "Platform Competition in Two-Sided Markets," economists Jean-Charles Rochet and Jean Tirole examined markets in which an intermediary facilitates interactions among distinct groups of participants whose interest in the platform depends partly upon the participation of the other groups.[1]

The familiar example is a marketplace connecting buyers and sellers. Buyers appreciate the availability of numerous sellers, while sellers appreciate the presence of numerous buyers. The platform creates value by facilitating their interaction, and the resulting concentration of commercial activity can provide substantial benefits to both groups.

Entertainment platforms operate according to variations of this economic arrangement. Audiences are attracted by the availability of entertainment, producers are attracted by the availability of audiences and advertisers may be attracted by the commercial opportunities associated with both.

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1. Jean-Charles Rochet and Jean Tirole, "Platform Competition in Two-Sided Markets," *Journal of the European Economic Association* 1, no. 4 (2003): 990–1029.

There is nothing inherently objectionable about this relationship. A competent distribution platform can contribute enormous value to the businesses participating in it, and its owners deserve to be compensated for that contribution.

The strategic difficulty arises when the value of participating in the platform becomes so substantial that an individual participant loses the practical ability to operate independently of it.

The very characteristics that make a platform attractive can eventually make leaving it prohibitively expensive. The producer has developed an audience there, the publisher has organized its commercial operations around it and the advertiser has become accustomed to acquiring access to its customers through it. Each has invested in a relationship whose future depends partly upon decisions made elsewhere.

An intelligent platform strategy must therefore examine both the opportunities created through participation and the dependencies accumulated through success.

A Million Followers and Nobody to Call

There is a peculiar form of commercial poverty associated with possessing a substantial following but lacking an independent means of communicating with the people who constitute it.

Consider a publisher with a million followers on a social platform. Management regards that figure as evidence of the strength of the brand, and it may well represent an impressive marketing accomplishment. But the publisher's actual ability to reach those followers depends upon the technological and commercial decisions of the platform.

Not every follower necessarily encounters every publication. Changes in recommendation systems can alter the visibility of the publisher's work. Certain promotional activities may be re-

stricted. Access to the account may be suspended under circumstances the publisher cannot immediately resolve.

A million followers is an impressive number. It is not necessarily a million independently accessible relationships.

Now consider another publisher with a considerably smaller audience but an established website, recognizable commercial identity and a population of customers who have deliberately chosen to receive communications directly from the company. The publisher possesses several legitimate means of maintaining those relationships independently of any particular discovery platform.

Which enterprise possesses the stronger commercial position?

There is no universally correct answer. The first publisher may generate substantially greater revenue, enjoy extraordinary visibility and possess opportunities unavailable to the second. But the second possesses a kind of strategic independence that cannot be inferred from conventional audience statistics.

Earlier in this book, we distinguished traffic from audience. Now we must distinguish audience from *access to audience*. The existence of people interested in your entertainment doesn't necessarily establish that you possess the commercial authority or technological means to reach them.

That is a distinction an entertainment entrepreneur should understand before somebody offers to acquire the business.

The Gatekeeper Who Becomes a Competitor

Imagine an independent publisher distributing entertainment through a successful digital marketplace. The marketplace possesses information concerning which productions attract customers, which commercial arrangements generate revenue and

which categories of entertainment are becoming increasingly popular.

That information helps the marketplace operate more effectively. It may also help its management identify commercially attractive opportunities of its own.

What happens when the distributor decides to enter the production business? What happens when it begins offering products that compete with those of the independent companies whose activities helped establish the attractiveness of the marketplace?

This possibility is not unique to entertainment.

In 2018, Harvard Business School professor Feng Zhu and economist Qihong Liu published an examination of Amazon's entry into product categories occupied by independent sellers. Their research, “Competing with Complementors: An Empirical Look at Amazon.com,” appeared in the *Strategic Management Journal*.[2]

The researchers found that Amazon was more likely to enter successful product areas, illustrating the complicated relationship between a platform and the independent businesses whose products contribute to its value. In the circumstances studied, entry discouraged affected sellers from pursuing growth on the platform, while product demand increased and shipping costs to consumers declined. The interests of platforms, independent suppliers and customers do not necessarily coincide.

The relevance to adult entertainment is not that every distributor intends to become a competitor. It is that the possibility deserves consideration when an entrepreneur establishes commercial relationships with organizations possessing substantially greater information and control over the marketplace.

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2. Feng Zhu and Qihong Liu, “Competing with Complementors: An Empirical Look at Amazon.com,” *Strategic Management Journal* 39, no. 10 (2018): 2618–2642.

A distribution partner may simultaneously be a customer, a supplier, an intermediary and a potential competitor. Its commercial interests may correspond closely with yours today while diverging considerably tomorrow.

That does not make the organization dishonest. It makes the organization a business.

We should negotiate our relationships with other businesses on the reasonable assumption that their management will occasionally make decisions in the interests of their shareholders rather than ours.

Nobody Owns the Customer

The title of this chapter deliberately employs language that deserves some clarification. When entrepreneurs talk about owning their audiences or owning their customer relationships, we are employing a commercial shorthand that can become rather troublesome if interpreted literally.

Nobody owns the customer.

An individual purchasing entertainment retains the right to establish relationships with other businesses, discontinue an existing relationship, protect personal information and determine whether future communications are welcome. The commercial independence of the publisher should not be established at the expense of the personal independence of the consumer.

This distinction is particularly important in adult entertainment.

An individual may willingly purchase a film from a particular distribution service without consenting to receive communications from every company associated with the production. The customer may have chosen a particular payment arrangement because of its privacy characteristics. The transfer of personal information to another business may introduce risks the individual never contemplated when establishing the original relationship.

We should not interpret publisher independence as an entitlement to acquire every piece of information associated with the consumption of its entertainment.

What interests me is the ability of legitimate businesses to establish direct, voluntary relationships with people who want those relationships. A publisher should have opportunities to cultivate a recognizable commercial identity, communicate with consenting audiences and develop independent distribution arrangements without unnecessary interference.

The consumer should simultaneously possess meaningful authority over which of those relationships exist.

There is no contradiction between publisher autonomy and consumer autonomy. Properly designed commercial systems can strengthen both.

The Brand Behind the Platform

One of the more revealing characteristics of a successful entertainment marketplace is the extent to which consumers attribute their experiences to the marketplace rather than to the businesses supplying its entertainment.

A customer may watch numerous films produced by independent studios while remaining practically unaware of the existence of those studios. The marketplace controls the navigation, presents the material through its own technological environment, manages the financial transaction and organizes the subsequent recommendations.

From the perspective of the customer, the marketplace is the entertainment business.

The independent producer may have financed the creative work, but the distributor has acquired the continuing commercial relationship.

There are perfectly legitimate arrangements under which this division of responsibilities makes sense. A production company may have little interest in operating its own consumer-facing business and may prefer to concentrate exclusively upon developing entertainment for distribution by other organizations.

But that should be a deliberate strategic choice accompanied by appropriate compensation, not an accidental consequence of inadequate attention to the commercial identity of the work.

If the producer intends to develop an enduring brand, the manner in which its productions are identified and presented becomes strategically important. Accurate credits, recognizable branding and appropriate opportunities for audiences to discover additional work contribute to the accumulation of commercial value beyond the individual licensing transaction.

A producer should not necessarily insist that its identity dominate every environment in which its films appear. Nevertheless, it should understand the consequences of distribution arrangements under which that identity gradually disappears.

The film may be generating revenue today while the recognition associated with it accumulates entirely within somebody else's business.

The Right to Leave

One of the most important characteristics of a commercially healthy relationship is the existence of a practical alternative to continuing it.

That alternative needn't be especially attractive under ordinary circumstances. A publisher may have excellent reasons to remain with a particular distributor for many years. The distributor may provide superior technology, favorable financial arrangements and exceptional access to audiences.

Nevertheless, the existence of a credible alternative changes the nature of the relationship.

An entrepreneur who can realistically establish another distribution arrangement possesses a degree of negotiating flexibility unavailable to an entrepreneur whose departure would effectively terminate the business. The distinction influences the ability to evaluate contractual changes, negotiate compensation and respond to technological developments.

Economists frequently examine these circumstances through the concept of switching costs: the expenses, inconveniences and losses associated with moving from one product or service to another.

In its 2021 publication *Data Portability, Interoperability and Competition*, the OECD examined how the ability to transfer information and employ compatible systems can influence competition among digital platforms.[3]

The commercial significance extends beyond the inconvenience of moving data. A business may have accumulated years of intellectual property records, operational knowledge, commercial reporting and technological integrations within a particular environment. Reconstructing those capabilities elsewhere could require substantial financial resources and considerable time.

The practical cost of departure can therefore become an important characteristic of the original purchasing decision.

Before entering a distribution arrangement, management should understand what the company will retain if the arrangement ends. That includes the relevant intellectual property, operational records, contractual rights, legitimately transferable information and the technological capabilities necessary to continue conducting business.

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3. OECD, *Data Portability, Interoperability and Competition*, OECD Roundtables on Competition Policy Papers, no. 260 (Paris: OECD Publishing, 2021).

An attractive entrance should not distract an entrepreneur from examining the exit.

The Audience Continuity Test

The value of an audience relationship becomes particularly apparent when the circumstances through which it was established change.

An entertainment company can examine its exposure to that possibility through a practical exercise. Assume that its most important external distribution platform becomes unavailable tomorrow. The company retains its employees, intellectual property and financial resources, but can no longer operate through that particular platform.

What happens during the following thirty days?

Management should establish which portions of its audience could continue discovering and accessing its entertainment through legitimate alternatives. It should determine which commercial relationships could continue, which records would remain available and which technological capabilities would need to be replaced. It should examine the financial consequences of the interruption and estimate the resources necessary to restore a reasonable level of operation.

Call this the *Audience Continuity Test*. Unlike the earlier Thirty-Day Silence Test, which examines whether people will continue seeking out a business in the absence of its usual promotional activity, this exercise examines whether the business possesses the infrastructure and legitimate commercial relationships necessary to continue serving interested people when an intermediary becomes unavailable.

The distinction is important. An audience may remain intensely interested in a publisher whose ability to reach it has been compromised. Conversely, a publisher may possess excellent in-

dependent distribution infrastructure without having established an audience sufficiently interested in using it.

Both characteristics matter.

The exercise should not encourage management to remove personal information from systems without appropriate authorization or to violate existing contractual obligations. Its objective is to identify legitimate continuity capabilities before they become urgently necessary.

An entrepreneur should be able to explain how the business would survive the loss of an important commercial partner without having to conduct the actual experiment.

Multiple Doors to the Same Business

I have no objection to entertainment companies distributing their work through numerous independent platforms. Indeed, the intelligent use of multiple distribution channels can contribute substantially to the commercial strength of an enterprise.

The objective should be to ensure that those channels represent different ways of encountering the business rather than different businesses whose existence cannot survive independently of the organizations providing them.

An independent filmmaker might distribute productions through several licensed services while maintaining a recognizable presence of his own. A publisher might develop relationships with several discovery platforms while establishing a distinctive destination through which interested consumers can voluntarily engage with the brand.

These arrangements needn't diminish the value of the external distributors. They can increase the overall visibility of the entertainment while reducing the producer's dependence upon any particular commercial environment.

The appropriate balance will vary according to the nature of the business. An established subscription service may derive most of its value from direct relationships. A specialist production company may generate substantially greater returns through licensing. An emerging enterprise may initially depend upon a large marketplace while gradually developing independent capabilities.

The important consideration is whether management understands the strategic character of each channel.

Is it introducing new people to the brand? Is it providing infrastructure necessary to fulfill existing demand? Is it purchasing access to an audience for a particular period? Is it establishing a continuing commercial relationship, and, if so, with whom?

The answers should influence the manner in which the company evaluates the financial performance of its distribution arrangements.

A channel generating substantial immediate revenue may deserve less strategic dependence than a smaller channel contributing to the long-term durability of the enterprise.

The Business You Can Sell

Imagine two entertainment companies each generating a million dollars in annual revenue.

The first derives nearly all of its income through a single external platform. The platform determines how its entertainment is presented, manages customer access and possesses substantial discretion over the terms of the commercial relationship. The publisher has relatively limited independent distribution capabilities.

The second company generates comparable revenue through several distribution arrangements, retains appropriate authority

over its intellectual property and has established independent commercial relationships with a portion of its audience.

Both companies may be profitable. Both may possess excellent products. But a prospective purchaser examining their future earnings would have important reasons to evaluate them differently.

The first company's commercial prospects may depend disproportionately upon the continuation of an arrangement over which its management possesses relatively little influence. The second may have greater flexibility in responding to changes in the distribution environment.

Of course, business valuation involves numerous additional considerations, and diversification does not automatically establish a superior enterprise. The costs associated with maintaining several commercial channels could diminish profitability, while a particularly favorable long-term distribution agreement could provide meaningful stability.

The point is that revenue alone cannot adequately communicate the economic character of an entertainment business.

The durability of its commercial relationships, the transferability of its assets and the extent of its dependence upon individual organizations all influence the risks associated with its future earnings.

An entrepreneur who spends several years developing an audience should be interested in whether the economic benefits of that work can survive a change in distribution arrangements, ownership or management.

Otherwise, the company may be accumulating revenue without accumulating comparable enterprise value.

Taking Back the Relationship

Adult entertainment has spent decades developing methods of acquiring attention. We have become extraordinarily resourceful in attracting visitors, distributing promotional material, negotiating commercial placements and introducing our entertainment to people through environments operated by other companies.

Those are legitimate and potentially valuable capabilities. But acquiring attention should represent the beginning of an entrepreneurial undertaking rather than its conclusion.

The more ambitious objective is to establish businesses whose relationships with their audiences possess continuity, commercial significance and a degree of independence from the technologies initially responsible for bringing them together.

This is not an argument for abandoning distribution platforms or expecting every filmmaker to construct an independent global entertainment network. It is an argument for becoming more sophisticated about the authority we retain when establishing those relationships.

A good distributor can make your business larger. A good technology provider can make it more capable. An intelligent commercial partner can introduce opportunities you would never have discovered independently.

But those relationships should contribute to the development of your business, not gradually become substitutes for its independent existence.

Adult entertainment entrepreneurs should become more interested in the businesses they are building rather than merely the revenue they are generating. That requires preserving creative identities, developing legitimate customer relationships, understanding contractual dependencies and establishing technological capabilities that remain useful when commercial circumstances change.

It also requires recognizing that the people interested in our entertainment are more than units of traffic moving through somebody else's infrastructure. They are individuals who may have developed an appreciation for the things we create and who should possess the freedom to continue experiencing those things under circumstances they consider appropriate.

The audience doesn't belong to us, and it doesn't belong to the platform.

The relationship belongs to the people who choose to establish it. Our responsibility as entrepreneurs is to build businesses capable of sustaining it.

CHAPTER 26

Stop Renting Your Own Customers

“Buy introductions. Earn relationships.”

There is nothing unusual about spending money to acquire a customer. Spending money to acquire the same customer repeatedly strikes me as a considerably less intelligent commercial arrangement.

Yet much of the digital entertainment economy operates according to precisely that principle. A publisher purchases traffic, converts a portion of that traffic into paying customers and subsequently purchases additional traffic to bring some of those very same people back. The advertising intermediary gets paid each time, regardless of how much money the publisher previously invested in establishing the relationship.

Imagine a restaurant paying somebody to distribute promotional literature throughout the neighborhood. Among the people who respond is a gentleman who enjoys the food sufficiently to return the following Friday. As he approaches the restaurant, the person distributing the literature intercepts him, hands him another advertisement and subsequently invoices the proprietor for having acquired another customer.

The proprietor might reasonably question the economic intelligence of this arrangement. In digital commerce, we might give the intermediary a performance bonus.

The problem isn't necessarily that the intermediary has done anything improper. The problem is that the entrepreneur has

failed to distinguish the expense of establishing a customer relationship from the expense of maintaining access to one that already exists.

The long-term objective of customer acquisition should be to develop customers who no longer require acquiring.

Acquisition Is an Investment

In the early stages of developing an entertainment business, acquiring customers can represent an extraordinarily expensive undertaking. The enterprise has little recognition, an unproven reputation and relatively few opportunities to benefit from recommendations among existing customers. Advertising, promotional partnerships and affiliate arrangements may therefore be essential to its commercial development.

These expenditures should be evaluated as economic investments in future customer relationships, rather than merely as expenses associated with generating immediate transactions. That does not mean they should be capitalized for accounting purposes.

In their 1996 Harvard Business Review article, “Manage Marketing by the Customer Equity Test,” marketing scholars Robert C. Blattberg and John Deighton examined the allocation of resources between acquiring customers and retaining them. Their analysis encourages management to consider the continuing economic value of customer relationships when establishing marketing expenditures.[1]

That distinction is fundamental to the development of a sustainable entertainment enterprise. A customer may initially generate insufficient revenue to recover the expense of acquiring him, yet subsequent purchases could eventually make the relationship profitable. Conversely, a company can appear remark-

1. Robert C. Blattberg and John Deighton, “Manage Marketing by the Customer Equity Test,” *Harvard Business Review* 74, no. 4 (July–August 1996): 136–144.

ably successful at generating initial transactions while developing relationships that possess relatively little continuing value.

The acquisition expenditure makes financial sense only in relation to what the enterprise reasonably expects to earn as a consequence of it.

If management continually finances new promotional activity without investigating whether previous promotional expenditures have produced durable commercial relationships, the business may be confusing growth with the increasing circulation of money through its advertising budget.

An entertainment company should aspire to reach a point at which a meaningful proportion of its commercial activity originates from relationships it has already established.

The Revolving Door

The conventional traffic-oriented adult entertainment business frequently concentrates upon two immediate financial questions: how much does it cost to bring somebody to the website, and how much money can the website generate from that visit?

Both are legitimate questions. Neither adequately addresses the subsequent economic possibilities of the relationship.

Suppose a publisher acquires a visitor through an advertising campaign. The visitor discovers an interesting production, watches it and leaves. Several days later, the same person encounters another advertisement for the same website, returns and watches another production. The publisher records two successful advertising referrals, while the advertising intermediary receives compensation for both.

From the perspective of the advertising arrangement, everything may have worked exactly as intended.

From the perspective of the publisher, however, there is an opportunity to examine why the individual needed to be reac-

quired through an external commercial mechanism. Did the entertainment establish a sufficiently memorable impression? Was the publisher's identity communicated effectively? Did the customer have an appropriate way of discovering subsequent releases or returning independently?

There may be perfectly reasonable explanations for the second advertising expenditure. The additional advertisement may have reminded the individual of a publication he otherwise would have forgotten, introduced a production he wouldn't have discovered or encouraged a visit that wouldn't otherwise have occurred.

But those possibilities should be investigated rather than automatically assumed.

If a company repeatedly pays for access to an audience already familiar with its products, management ought to understand precisely what additional value those payments are purchasing.

Otherwise, the advertising budget becomes the financial equivalent of a revolving door through which the same customers continually enter at the publisher's expense.

The Mathematics of Coming Back

Consider two hypothetical subscription-based entertainment businesses, each acquiring a thousand customers at a cost of twenty dollars per customer.

Both spend twenty thousand dollars establishing their initial customer base. Each earns a monthly contribution of fifteen dollars per active subscriber after the direct expenses of providing the service, but before customer acquisition costs, additional retention expenditures and general overhead.

The first business retains eighty percent of its subscribers from one month to the next. The second retains ninety percent.

Assume all one thousand subscribers are active and paying in the first month, retention rates remain constant, and neither business adds new subscribers or reactivates former ones. The differences become increasingly significant as the original customer populations diminish.

Over twelve months, the first business generates approximately $69,846 in cumulative contribution from its original thousand customers. The second generates approximately $107,636. After subtracting the initial twenty-thousand-dollar acquisition expenditure, the respective contributions are approximately $49,846 and $87,636, before overhead and any additional retention expenditures.

The second company has generated approximately $37,790 more in contribution from an identical initial investment in customer acquisition, before any additional retention expenditures.

It didn't purchase additional traffic. It didn't acquire more customers. Under the assumptions of the example, it simply developed more enduring commercial relationships with the customers it already possessed.

Naturally, the actual economics of an entertainment business would involve considerably more variables. Retention rates change over time, customers occasionally return after leaving, the costs of maintaining relationships vary and different groups of subscribers may behave quite differently. The illustration uses expected subscriber counts, without rounding them to whole people each month. It makes no allowance for taxes or the time value of money and does not represent net profit.

Nevertheless, the financial significance of the underlying principle is difficult to overlook. Improvements in customer retention can increase the productivity of previous marketing expenditures as well as future ones.

In other words, improving the product today can make the money you spent advertising it yesterday a better investment.

A Customer Isn't an Impression

One of the unfortunate intellectual consequences of the industry's enthusiasm for traffic statistics is the tendency to evaluate every encounter with an audience as though it were an independent commercial event.

A page view is recorded. An advertisement is displayed. A video begins. Another visit occurs. Each event can contribute useful information, but the resulting statistics may reveal surprisingly little about the continuity of the underlying relationships.

Ten thousand visits from ten thousand people represent a different commercial circumstance from ten thousand visits generated by a thousand people who repeatedly seek out the same entertainment service.

Neither is inherently superior. A publisher conducting an introductory advertising campaign may be particularly interested in reaching a large population of unfamiliar consumers. An established entertainment service may derive substantially greater value from repeated visits among people who have developed an appreciation for its work.

Management needs to understand the difference because the two circumstances may require entirely different commercial investments.

If people are discovering the business but rarely returning, additional promotional expenditure might enlarge the population of people who experience the same deficiencies. If existing audiences return enthusiastically but relatively few new people discover the business, customer acquisition may deserve greater attention.

An aggregate traffic statistic can conceal both conditions.

The entrepreneur should become interested in the behavior of audiences over time, not merely in the volume of activity recorded during a particular accounting period. That requires a more

thoughtful approach to measurement, one that recognizes the commercial significance of recurring participation without unnecessarily compromising the privacy of the people participating.

We don't need to know everything about an individual to recognize that the business ought to provide compelling reasons for people to return.

The Advertisement That Takes Credit for Your Reputation

An especially interesting problem arises when advertising systems receive financial credit for transactions that would have occurred without them.

In 2015, economists Thomas Blake, Chris Nosko and Steven Tadelis published a study entitled “Consumer Heterogeneity and Paid Search Effectiveness: A Large-Scale Field Experiment” in the journal *Econometrica*.[2]

The researchers conducted experiments involving eBay's paid search advertising. In the circumstances examined, advertisements associated with the company's own brand name produced no detectable short-term incremental benefit. The research also identified important differences in advertising effectiveness among different categories of consumers.

The findings should not be interpreted as evidence that paid search advertising is universally ineffective. They concern a particular business, particular campaigns and particular experimental conditions. Nevertheless, the underlying measurement problem deserves attention throughout digital commerce.

Imagine somebody entering the name of your entertainment publication into a search engine. The individual already knows your brand and has apparently established an intention to locate

2. Thomas Blake, Chris Nosko, and Steven Tadelis, “Consumer Heterogeneity and Paid Search Effectiveness: A Large-Scale Field Experiment,” *Econometrica* 83, no. 1 (2015): 155–174.

it. A paid advertisement appears above the ordinary search results, the individual selects it and the advertising system subsequently receives credit for the visit.

What did the advertisement actually accomplish?

It may have helped the customer locate the website more efficiently or prevented him from encountering a competing offer. But it is also possible that the customer would have reached precisely the same destination without the expenditure.

The distinction concerns what advertising researchers describe as *incrementality*: the additional activity attributable to an advertising intervention beyond what would otherwise have occurred.

An advertisement receiving credit for a transaction is not necessarily responsible for creating that transaction.

For the entertainment entrepreneur, this distinction deserves examination wherever a commercial intermediary is compensated for bringing audiences to a business those audiences may already know. Advertising should be evaluated partly according to the additional demand it produces, not simply the existing demand it successfully intercepts.

Pay the Affiliate for the Business the Affiliate Creates

I have considerable respect for the economic intelligence behind performance-based affiliate marketing. It enables entrepreneurs to establish promotional relationships without necessarily assuming the entire financial risk associated with conventional advertising. A productive affiliate can introduce an entertainment business to audiences it would otherwise find extraordinarily difficult to reach.

The relationship can be particularly valuable to an independent publisher possessing excellent entertainment but relatively limited resources for promoting it.

The financial arrangements, however, should reflect the actual nature of the contribution.

Suppose an affiliate introduces a previously unfamiliar customer to a subscription service. The customer remains subscribed for eighteen months. Under a recurring commission arrangement, the affiliate receives a proportion of the revenue generated throughout that period.

There is nothing inherently unreasonable about the arrangement. The affiliate may have financed the initial promotional activity without receiving guaranteed compensation, and the continuing commission may provide an appropriate reward for having established a valuable customer relationship.

Now consider a different circumstance in which an existing customer repeatedly returns through an affiliate's promotional links, generating additional acquisition payments that bear little relationship to the creation of new business.

The two arrangements are economically different, even though both involve compensating an affiliate.

Publishers should develop an understanding of what they are purchasing through their promotional relationships. Are they compensating somebody for introducing new customers, generating additional transactions, restoring inactive relationships or providing continuing promotional services?

Each can constitute a legitimate commercial contribution. Problems arise when the compensation mechanism fails to distinguish among them.

Equally important is the publisher's obligation to honor the arrangements it establishes. Developing a direct relationship with an affiliate-referred customer should not become an excuse for

depriving the affiliate of compensation it legitimately earned under the agreement.

Commercial independence does not require commercial dishonesty.

The objective is to establish agreements that reward genuine contributions while preserving the publisher's ability to develop an enduring business around the audiences it serves.

Give People Something to Return To

We have become exceptionally enthusiastic about giving people reasons to visit websites. We should become equally enthusiastic about giving them reasons to visit the same website again.

There is an important creative distinction between those objectives.

A provocative advertisement can stimulate an immediate visit. A recognizable editorial identity can provide a continuing reason to visit. A promotional discount can encourage an initial transaction. A consistently excellent entertainment experience can establish an expectation that subsequent transactions will be worthwhile.

Retention begins in the conception of the product itself.

An entertainment service that releases interesting new productions according to an intelligible schedule gives its audience reasons to anticipate subsequent visits. A publisher developing a recognizable editorial perspective provides consumers with a reason to consult the publication when deciding what to watch. A service that organizes collections intelligently can create continuing opportunities to discover worthwhile entertainment within an existing catalog.

None of these activities requires the indiscriminate expansion of the entertainment library. Indeed, a publisher can sometimes

provide stronger reasons to return by becoming more intelligent about the entertainment it already possesses.

Consider the commercial possibilities of film retrospectives, interviews with creative professionals, curated programming, regularly scheduled premieres and thoughtful editorial coverage. These are familiar activities throughout conventional entertainment, yet their application to independent digital adult publishing remains an area worthy of considerably greater experimentation.

The publisher begins establishing a continuing cultural and commercial identity rather than merely maintaining a location at which videos happen to be available.

An advertisement can introduce somebody to that identity. It cannot manufacture the substance of it.

Retention Without Surveillance

There is a temptation to interpret the development of continuing customer relationships as an argument for collecting substantially greater quantities of personal information.

The conventional digital marketing apparatus encourages precisely that interpretation. Detailed customer profiles, behavioral histories, cross-device identification and increasingly elaborate targeting mechanisms are frequently presented as essential components of commercially sophisticated customer management.

Adult entertainment has compelling reasons to reconsider those assumptions.

A person may develop an enduring appreciation for an entertainment service without wanting the company to maintain a comprehensive record of his private activities. He may prefer to receive occasional notifications concerning a publication without consenting to the distribution of his information among numerous advertising companies.

Those preferences deserve more than reluctant accommodation.

In many circumstances, useful retention mechanisms can be developed without extensive behavioral surveillance. An individual may voluntarily subscribe to a discreet newsletter, bookmark a publication, establish preferred settings within a playback environment or request notifications concerning a particular filmmaker's subsequent releases.

The commercial relationship can become more useful while leaving important decisions concerning personal information under the individual's control.

There are technical opportunities here for developing better systems of preference management, authentication and communication. Rather than attempting to make the customer permanently identifiable throughout the digital advertising economy, the entrepreneur can concentrate upon making the entertainment service sufficiently valuable that the customer voluntarily chooses to maintain the relationship.

That approach may occasionally produce less extensive marketing information. It may also produce a relationship the consumer considers considerably more deserving of preservation.

A company should not need to follow its customers around the Internet to persuade them that it has something worth returning to.

The Customer You Should Let Go

Not every customer relationship deserves to be maintained at any expense.

An entertainment company may develop an audience whose preferences it cannot economically accommodate. It may encounter customers whose support requirements substantially exceed the contribution generated through their transactions. It

may discover that particular promotional arrangements attract individuals with little continuing interest in the product.

Management should understand these circumstances without interpreting them as a personal failure.

Customer retention is not an unconditional objective. Its financial significance depends upon the costs associated with maintaining the relationship and the benefits legitimately derived from doing so.

More importantly, some customers simply don't want to maintain the relationship.

They may have purchased the entertainment they wanted, lost interest in the product or decided to spend their money elsewhere. An intelligent entertainment business should accommodate that decision professionally.

The industry's occasional enthusiasm for making subscriptions difficult to cancel represents a particularly unfortunate misunderstanding of retention.

A customer whose membership continues because terminating it is unnecessarily difficult has not demonstrated an enduring appreciation for the product. The business may have temporarily preserved a financial transaction while destroying the possibility of a satisfactory future relationship.

A company that makes leaving easy may preserve something commercially valuable: the customer's willingness to return.

Entertainment businesses should distinguish retention attributable to satisfaction from retention attributable to inertia, confusion or contractual obstacles. The former may provide an indication of a product's continuing appeal. The latter can conceal deficiencies management desperately needs to understand.

The objective isn't to prevent customers from leaving. It's to develop something they would prefer not to leave.

Turn the Marketing Budget Inside Out

Consider the conventional allocation of financial resources within an independent digital entertainment business.

The company establishes an advertising budget to acquire customers. It establishes a technology budget to maintain the website. It establishes a production or licensing budget to provide the entertainment. Customer support, editorial operations and product development receive their respective allocations.

These categories may be administratively convenient, but they can obscure important relationships among the expenditures.

An improvement to the video player may contribute more to customer retention than an expensive promotional campaign. A better system for organizing films may increase the frequency of visits among existing customers. A clearer membership arrangement may reduce cancellations attributable to misunderstandings. An intelligently conceived editorial program may strengthen the identity of the enterprise sufficiently to reduce its dependence upon paid advertising.

Each represents a potential marketing investment, regardless of the departmental budget through which it was financed.

Entrepreneurs should examine the prospective economic contribution of such improvements alongside that of conventional advertising expenditures.

Suppose an entertainment company intends to spend twenty thousand dollars attracting additional subscribers. Its existing customer population is experiencing persistent difficulties with playback, account administration or discovering new releases. Under those circumstances, allocating a portion of the promotional budget to resolving those problems might represent an intelligent acquisition strategy as well as a retention strategy.

The improvements could increase the proportion of newly acquired customers who remain with the service while simultaneously improving the circumstances of existing customers.

The important consideration is that these alternatives be evaluated according to their expected contribution, implementation costs and associated risks, rather than according to the administrative convention that classifies one expenditure as marketing and another as engineering.

Sometimes the best place to spend your advertising budget is inside the product being advertised.

Build an Audience That Remembers You

There is something commercially magnificent about a business that people deliberately seek out.

Consider the difference between a customer encountering an entertainment service because an advertising system determined that the customer might be interested in it and a customer specifically deciding to visit that service because of an established appreciation for what it provides.

The former represents a valuable opportunity. The latter represents the cumulative effect of previous accomplishments.

The entertainment was sufficiently compelling to be remembered. The identity of the publication was sufficiently distinctive to be recognized. The experience was sufficiently satisfactory to justify repeating it.

Those accomplishments collectively contribute to what we earlier described as Audience Equity. They represent commercial value accumulated through the relationship between the enterprise and the people it serves.

Advertising can accelerate that accumulation, but it cannot permanently substitute for it. A company purchasing visibility without developing recognition may become dependent upon

continually purchasing more visibility. A company purchasing visits without developing reasons for subsequent visits may establish a similarly expensive dependency.

The strategic role of advertising should gradually evolve as an entertainment business matures. Initially, considerable expenditure may be devoted to introducing the company to unfamiliar audiences. Over time, management should examine whether the resulting relationships permit promotional resources to be redirected toward reaching additional audiences, introducing genuinely new products and developing other commercial opportunities.

That is how customer acquisition can contribute to the expansion of a business rather than merely finance the repetition of its existing activities.

The entrepreneur should occasionally examine the marketing budget and ask how much of it is being spent developing the future of the company and how much is being spent recovering the benefits of its past.

The answer might reveal more about the commercial intelligence of the enterprise than another month's traffic report.

There will always be legitimate reasons to advertise to people who already know your business. But if your customers repeatedly require purchasing because you have never given them sufficient reason to return independently, perhaps the deficiency resides somewhere other than your advertising strategy.

Buy introductions. Earn relationships.

Stop renting your own customers.

CHAPTER 27

Publisher Sovereignty

“Ownership and sovereignty are not necessarily the same thing.”

An independent entertainment publisher should possess the authority to determine what it publishes, how it presents its entertainment, how it generates revenue and under what circumstances it establishes commercial relationships with its audience.

That sounds suspiciously like a description of ordinary business ownership. Yet in digital entertainment, the authority to make those decisions is frequently distributed among several organizations, some of which have remarkably little interest in the long-term commercial ambitions of the publisher.

The hosting company determines what can be stored. The distribution provider determines the conditions under which it can be delivered. The advertising network influences how it can be monetized. The payment processor establishes the circumstances under which money can be collected. The software developer determines which commercial activities the underlying technology will accommodate.

The publisher owns the business, at least according to the documents filed with the appropriate government authorities. But the practical authority to operate that business may reside substantially elsewhere.

Ownership and sovereignty are not necessarily the same thing.

By *Publisher Sovereignty*, I mean the practical ability of an entertainment enterprise to exercise meaningful authority over its editorial, technological and commercial affairs, while fulfilling its legal, contractual and professional obligations.

It does not require complete independence from other businesses. It requires sufficient independence to determine the direction of one's own.

Independence Is Not Isolation

There is an important economic distinction between controlling an essential business function and performing that function independently.

An entertainment publisher needn't construct its own data centers, manufacture its own computer equipment or establish an international financial institution to exercise meaningful authority over its business. Indeed, attempting to accomplish all those things would probably constitute one of the more imaginative methods of going bankrupt.

Specialization is one of the principal accomplishments of commercial civilization. Companies develop expertise in particular activities and provide the benefits of that expertise to other enterprises. A competent distribution provider can deliver entertainment more efficiently than most independent publishers could accomplish through infrastructure they constructed themselves.

The question is not whether we should employ outside expertise. It is what authority we surrender in the process.

Economist Oliver E. Williamson examined the organizational implications of such decisions in his 1981 paper “The Economics of Organization: The Transaction Cost Approach,” published in the *American Journal of Sociology*. His work considers how the characteristics of transactions influence the economic suitability of different organizational and contractual arrangements.[1]

The underlying principle has considerable relevance to independent publishing. Purchasing a service involves more than comparing the immediate price of obtaining that service external-

1. Oliver E. Williamson, “The Economics of Organization: The Transaction Cost Approach,” *American Journal of Sociology* 87, no. 3 (1981): 548–577.

ly with the expense of performing the activity internally. It also involves examining the costs and risks associated with coordinating the relationship, adapting to changing circumstances and resolving disagreements.

An outside provider may offer an exceptionally attractive price while imposing restrictions that become expensive as the publisher's business develops. Conversely, a comparatively expensive provider may offer sufficient flexibility, reliability and operational independence to represent the more intelligent long-term investment.

The entrepreneur should evaluate the entire relationship rather than merely its monthly invoice.

Publisher sovereignty is not an argument against outsourcing. It is an argument against inadvertently outsourcing the strategic authority of the enterprise.

The Five Dimensions of Publisher Sovereignty

For practical purposes, I divide publisher sovereignty into five interdependent dimensions. Each concerns a different form of authority necessary to the operation of an independent entertainment business.

Editorial sovereignty is the authority to determine the creative and editorial identity of the publication. It includes the selection, organization and presentation of lawfully distributed entertainment, subject to the rights of the people associated with its production.

Technological sovereignty is the ability to determine how the underlying systems operate, to integrate appropriate technologies and to replace essential components without unnecessarily reconstructing the entire business.

Commercial sovereignty concerns the authority to establish pricing, develop revenue models, select advertising arrange-

ments and negotiate the terms under which the entertainment is commercially exploited.

Financial sovereignty concerns the visibility, accessibility and administration of the economic activity generated by the enterprise. It includes understanding where revenue resides, how it is calculated, when it becomes available and which organizations possess authority over its movement.

Informational sovereignty is the ability to maintain appropriate access to the records, operational knowledge and legitimately held information necessary to conduct the business, while respecting the privacy and rights of the individuals to whom that information may relate.

These dimensions cannot always be considered independently.

A publisher may possess considerable editorial freedom while lacking the technological capability to present its entertainment according to its preferences. It may establish its own subscription prices while having relatively little authority over when the resulting revenue becomes available. It may own an extensive film library while depending upon another company's software to establish which productions it is entitled to distribute.

A deficiency in one dimension can compromise the practical value of the others.

This is why publisher sovereignty deserves examination as an organizational principle rather than merely a collection of desirable technological features.

Own the Decisions, Not Necessarily the Machinery

There is a useful distinction in computing between the systems responsible for determining how activities should occur and the systems responsible for performing those activities.

Engineers frequently distinguish between a *control plane*, which manages policies, configurations and operational decisions, and a *data plane*, which performs the underlying movement or processing of information. The precise implementation varies according to the technology involved, but the conceptual distinction offers an interesting model for entertainment entrepreneurs.

A publisher might employ external infrastructure to store and distribute its films while retaining the authority to determine which films are available, where they can be exhibited, how access is authorized and which commercial arrangements accompany their distribution.

The infrastructure performs the work. The publisher determines the policy.

Consider video advertising. An independent publisher may have little interest in developing the entire technological apparatus necessary to deliver advertisements, collect performance information and manage compatibility across numerous playback environments. Those responsibilities can appropriately be undertaken by specialized technology providers.

But the publisher should have meaningful authority over which advertisements accompany its entertainment, how frequently they appear, which commercial relationships are permitted and how the resulting financial activity is evaluated.

The technology should execute the publisher's commercial decisions rather than unnecessarily substitute its own.

The same principle can be applied throughout the enterprise. An external authentication service can perform the technical work associated with verifying access privileges while the publisher establishes legitimate membership policies. A distribution provider can deliver films while the rights holder determines the circumstances under which their exhibition is authorized.

The important consideration is the location of decision-making authority.

I would rather control the architecture of a commercially intelligent entertainment business employing several outside technologies than own a building full of computer equipment through which I exercise very little commercial imagination.

The Difference Between Access and Control

Entrepreneurs frequently confuse access to administrative functionality with meaningful authority over the systems providing it.

A company acquires a sophisticated publishing platform. Its administrative interface permits employees to upload films, modify descriptions, establish prices and examine financial reports. Management concludes that the company possesses considerable control over its operations.

Then somebody attempts to accomplish something the original developers hadn't contemplated.

Perhaps the publisher wants to integrate an alternative advertising technology. Perhaps it wants to introduce a different commercial arrangement for a particular category of entertainment. Perhaps it needs to export an extensive collection of distribution records into another system.

Suddenly, the limitations of the arrangement become apparent.

The company possesses considerable authority to operate within the environment somebody else designed, but considerably less authority to alter the environment itself.

This distinction should become an ordinary consideration when acquiring business technology. An attractive administrative interface can communicate an impression of independence without necessarily providing it.

Management should investigate the availability of documented application programming interfaces (APIs), appropriate data export capabilities, integration options and configuration mechanisms. It should establish whether important operational records can be obtained in usable formats and whether essential functions can be performed through alternative technologies.

Those capabilities may appear relatively unimportant when the product is originally acquired. Their significance tends to increase as the business becomes more dependent upon it.

A technology that provides an adequate solution to today's operational requirements but establishes unnecessary restrictions upon tomorrow's commercial possibilities may represent a remarkably expensive form of convenience.

The Business Should Own Its Address

One of the simplest and most important elements of independent digital publishing is the establishment of a commercial identity that can survive changes in technology.

A domain name is not merely an address at which a website happens to reside. It can become the continuing public identity of an entertainment business, accommodating numerous technological and commercial transformations throughout the life of the enterprise.

The publishing software can change. The hosting infrastructure can be replaced. The design can be reconsidered. Entirely new entertainment products can be introduced.

The audience can continue locating the business at the same address.

This continuity deserves considerable attention because so many digital entrepreneurs establish their principal commercial identities within environments whose underlying addresses belong to other organizations. Their audiences recognize a channel

name, an account identifier or a profile within a marketplace, but the actual mechanism for locating that identity remains dependent upon the marketplace.

Establishing an independently controlled domain registration, maintaining appropriate access to its administrative credentials and protecting the associated brand identity should represent fundamental responsibilities of an entertainment enterprise.

The same principle extends to other important technological assets. Administrative access to hosting accounts, code repositories, licensed software, business communications and financial systems should reside within appropriately governed company arrangements rather than exclusively within the personal accounts of individual contractors or employees.

There is nothing particularly sophisticated about discovering that the person who built your website is the only person who knows how to access it.

Unfortunately, by the time an entrepreneur discovers the significance of that arrangement, the person responsible for it may be considerably less interested in answering the telephone.

Know Where Your Money Is

An entertainment business should be capable of establishing the financial consequences of its own commercial activities without depending exclusively upon the interpretation of the organizations responsible for collecting its revenue.

Consider an advertising-supported publisher receiving a monthly payment from a commercial intermediary. The intermediary determines which advertisements appear, records the associated activity, applies its financial calculations and remits the amount it concludes is payable to the publisher.

The publisher may possess relatively little independent information through which to evaluate the accuracy or completeness of that calculation.

Even when every participant conducts its affairs honestly, such an arrangement creates an informational disadvantage. Differences in measurement methodologies, contractual definitions, invalid-traffic determinations and reporting periods can produce discrepancies whose significance the publisher may be unable to investigate.

Financial sovereignty begins with understanding the economics of the transaction.

A publisher should know what activity generates revenue, how that activity is measured, which deductions are applied, how disputes are resolved and when the resulting money becomes available. Independent records should be maintained wherever practical, with appropriate consideration for privacy and the limitations of different measurement systems.

The same principle applies to subscription processing, affiliate compensation, licensing and other commercial arrangements.

Financial reports should permit an enterprise to understand more than the amount of money deposited into its account. They should provide sufficient information to reconcile the economic activity that supposedly produced it.

An entrepreneur cannot intelligently improve the profitability of a business if the relationship between its activities and its income remains substantially invisible.

The Sovereignty of Intellectual Property

An independent entertainment company should possess an authoritative understanding of the intellectual property it owns, licenses or otherwise has permission to distribute.

That may sound like an elementary administrative responsibility. In practice, the complexity of managing entertainment across different commercial environments can make it a substantial technological undertaking.

A production may be available under different licensing arrangements in different territories. Particular distribution rights may expire at different times. Promotional use may be authorized under circumstances that differ from those governing full-length exhibition. Contracts may establish obligations concerning attribution, compensation or the protection of sensitive material.

These distinctions should be reflected in the operational architecture of the business.

It is insufficient to maintain an extensive collection of video files if the enterprise cannot reliably establish the circumstances under which those files may legitimately be distributed.

The publisher's authoritative records should distinguish ownership from permission, permission from unrestricted use and the continued possession of a digital file from the continued authority to exhibit it.

Publisher sovereignty does not create rights the publisher never acquired. Nor does ownership of a production eliminate professional responsibilities toward the individuals associated with it.

The exercise of commercial authority must remain consistent with contractual obligations, applicable law, consent-related requirements and the legitimate rights of others.

An intelligent publishing system should help the enterprise administer those responsibilities rather than leave them scattered among correspondence, filing cabinets and the recollections of employees.

We'll examine these matters in considerably greater depth when we address responsible production, consent and content

provenance later in the book. For now, the important principle is that an independent publisher must possess both the authority to exercise its legitimate rights and the institutional intelligence to understand their boundaries.

Interoperability Is Economic Freedom

A technology becomes commercially restrictive when its replacement requires the unnecessary destruction or reconstruction of the activities organized around it.

Consider an entertainment company whose video library has been developed within a particular hosting environment. Over several years, the enterprise has accumulated thousands of productions, associated metadata, editorial collections and numerous external integrations.

Management identifies a more attractive distribution technology but discovers that migrating to it would require manually reconstructing much of the existing operation.

The original provider's competitive advantage may no longer reside primarily in the superiority of its service. It may reside partly in the expense of leaving it.

This is one reason interoperability deserves consideration as an economic characteristic of technology rather than merely an engineering preference.

In its 2012 publication *Cloud Computing Synopsis and Recommendations*, the United States National Institute of Standards and Technology (NIST) examined the opportunities, limitations and risks associated with cloud computing, including issues concerning portability and interoperability.[2]

2. Mark Badger et al., *Cloud Computing Synopsis and Recommendations*, NIST SP 800-146 (May 2012), sec. 8.3.4.

The fundamental commercial consideration remains relevant regardless of how substantially cloud technologies have evolved since that publication.

An enterprise benefits when its technological components can exchange information through documented conventions, when important records can be transferred appropriately and when alternative services can be introduced without unnecessarily compromising unrelated operations.

Open technical standards can contribute substantially to those capabilities. But the adoption of a standard does not automatically establish that a commercial product is meaningfully interoperable. Proprietary extensions, incomplete implementations and contractual restrictions can diminish the practical advantages associated with otherwise compatible technologies.

Nor does proprietary technology necessarily represent a deficiency. A developer may have created valuable intellectual property deserving appropriate commercial protection while still providing its customers with useful integration and migration capabilities.

The relevant question is whether the technological arrangement preserves reasonable freedom for the enterprise employing it.

Interoperability gives the entrepreneur the ability to improve individual portions of the business without having to reconsider its entire technological existence.

The Single Point of Commercial Failure

Engineers frequently investigate whether a system contains a component whose failure would prevent the entire system from functioning.

Such a component is commonly described as a *single point of failure*.

Entertainment entrepreneurs should apply comparable reasoning to their commercial arrangements.

What happens if the principal payment provider becomes unavailable? What happens if the organization responsible for distributing the company's films experiences a prolonged disruption? What happens if the individual maintaining essential software becomes incapable of continuing that work?

These are not exclusively technological questions. They concern the continuing existence of the enterprise.

A publisher may employ sophisticated redundant infrastructure while maintaining a commercial arrangement under which one organization possesses the practical ability to suspend nearly all of its revenue. It may preserve several copies of its film library while failing to maintain independent access to the information necessary to administer its distribution rights.

The technological architecture may be resilient while the business architecture remains remarkably fragile.

In February 2024, NIST published version 2.0 of its *Cybersecurity Framework* (CSF), adding a dedicated Govern function and giving greater emphasis to cybersecurity supply-chain risk.[3]

Although cybersecurity represents only one dimension of publisher sovereignty, the framework illustrates the importance of treating dependencies as matters of management rather than exclusively technical administration.

An entertainment company should establish which external relationships are essential, what consequences would follow their disruption and which measures could reasonably reduce the associated exposure.

That doesn't necessarily mean maintaining duplicate providers for every business function. The cost of such redundancy could exceed its expected benefits. In some circum-

3. NIST, *The NIST Cybersecurity Framework (CSF) 2.0*, NIST CSWP 29 (February 26, 2024).

stances, contractual protections, reliable backups, documented recovery procedures or a well-understood alternative may provide an appropriate degree of protection.

The objective is informed resilience rather than indiscriminate duplication.

The Sovereignty Audit

Publisher sovereignty should be capable of examination rather than merely proclamation.

An independent entertainment company can begin by documenting the essential functions of its business and identifying the organizations responsible for performing them. For each function, management should examine five practical questions:

1. Who has the authority to establish or modify the policies governing this activity?
2. Who possesses the assets, credentials and operational information necessary to perform it?
3. What legal, contractual or technological restrictions influence our ability to alter the arrangement?
4. What would it cost, financially and operationally, to replace the existing provider?
5. What would happen to the business while that replacement was being undertaken?

The answers can reveal dependencies whose commercial significance may not otherwise become apparent until an emergency occurs.

For a relatively small enterprise, the audit needn't involve an elaborate consulting engagement. A thoughtfully maintained internal document could provide a useful foundation for evaluating existing relationships, considering new technologies and establishing priorities for future development.

The exercise should distinguish deficiencies that require immediate attention from dependencies the enterprise has deliberately accepted because their economic benefits justify the associated risks.

A publisher may reasonably conclude that its current distribution provider offers exceptional value despite certain limitations. Another may decide that the absence of particular administrative capabilities creates an unacceptable strategic restriction. The appropriate decisions depend upon the circumstances of the individual business.

What matters is that management possesses the information necessary to make those decisions deliberately.

An entrepreneur who cannot identify where the authority over essential portions of the business resides is in a rather poor position to negotiate the future of that business.

Independence for the Independent

There is a danger that publisher sovereignty could become an ambition available primarily to companies possessing substantial financial and technological resources.

That would defeat much of its purpose.

Large entertainment enterprises can afford specialized development teams, independent distribution arrangements, sophisticated administrative systems and professional advisers capable of examining the commercial implications of technological contracts.

The independent filmmaker, specialist publisher or performer establishing an entrepreneurial business may possess none of those advantages.

Consequently, some of the most interesting opportunities for adult entertainment technology companies involve developing sophisticated infrastructure through which smaller enterprises

can exercise authority that would otherwise require substantial internal resources.

Shared infrastructure can reduce the cost of technological independence. Common technical standards can expand the availability of compatible services. Commercial products designed around publisher autonomy can provide independent businesses with capabilities previously available primarily to large organizations.

But these technologies must be constructed carefully. A company claiming to empower independent publishers while establishing unnecessary dependencies upon its own proprietary environment may simply be developing a more attractive form of the problem it claims to resolve.

The success of an infrastructure provider should be compatible with the continuing independence of its customers.

There is nothing economically contradictory about building a profitable company whose customers remain because its services are excellent rather than because departure would be ruinous.

Indeed, I find that a much more impressive entrepreneurial accomplishment.

Sovereignty Requires Responsibility

There is an uncomfortable qualification to the entire argument.

The greater the authority an entrepreneur possesses over a business, the less credible it becomes to attribute the deficiencies of that business to the decisions of other organizations.

A publisher exercising greater control over advertising arrangements must accept greater responsibility for the advertisements accompanying its entertainment. A company independently administering customer information must establish appropriate protections for that information. An enterprise developing its own

distribution policies must understand and honor the rights associated with the material it distributes.

Independence creates obligations.

We should not advocate publisher sovereignty as a means of escaping reasonable professional standards, legitimate contractual commitments or applicable legal requirements. Its purpose is to enable responsible enterprises to exercise meaningful authority over their affairs, not to provide irresponsible ones with greater opportunities to avoid accountability.

The ability to determine one's own commercial policies is valuable partly because it creates an opportunity to establish better policies than those imposed by conventional arrangements.

An independent publisher can choose to develop a more intelligent advertising environment. It can establish more transparent financial relationships, introduce better protections for sensitive information and present entertainment according to standards it considers worthy of its audience.

That is the interesting application of sovereignty.

Freedom from somebody else's bad decisions is useful. The ability to make better decisions is considerably more important.

Take Back the Business

The adult entertainment industry has become extraordinarily accomplished at participating in commercial arrangements developed by other organizations.

We have learned how to operate within their technologies, accommodate their restrictions, interpret their financial reports and reorganize our businesses when their policies change.

We should devote an equivalent amount of intelligence to establishing arrangements of our own.

We needn't abandon commercially valuable partnerships or undertake activities that specialized providers can perform more effectively. But we should determine which decisions are fundamental to the identity, profitability and continuing existence of our enterprises and establish technological and contractual arrangements that preserve meaningful authority over them.

The independent publisher should be more than the proprietor of an entertainment website. It should be the principal architect of the business conducted through that website.

Its technologies should serve its commercial imagination. Its advertising arrangements should reflect its understanding of the value of its entertainment. Its financial systems should provide meaningful insight into its economic activity. Its distribution partnerships should contribute to its development without unnecessarily determining the boundaries of its future.

Other organizations can provide much of the machinery necessary to accomplish these things.

But the business itself should remain ours to conceive, develop and direct.

That's what independence ought to mean.

CHAPTER 28

Beyond the Ad Network

“We don't need to destroy the advertising network.
We need to stop mistaking it for the
advertising business.”

There was a time when an entertainment publisher selling advertising understood that it was operating two businesses. One involved developing a publication that people wanted to experience. The other involved developing commercial relationships with companies interested in reaching those people.

The two businesses complemented each other, but each required a different kind of professional intelligence. An editor understood the audience. An advertising director understood the marketplace. Together, they developed a commercial proposition whose value depended upon the distinctive characteristics of the publication.

The Internet has made it possible to operate an advertising-supported publication without possessing much understanding of the advertising business at all. An entrepreneur establishes a website, introduces some code supplied by an advertising network and begins receiving money. The network acquires the advertisers, establishes much of the commercial machinery, administers the transactions and determines the compensation associated with the resulting activity.

There is considerable convenience in that arrangement. For many independent publishers, it has made an otherwise impractical business model economically accessible.

But convenience has an interesting way of becoming a substitute for competence. An industry that has outsourced much of its

advertising activity may eventually discover that it has also outsourced much of its understanding of advertising.

The publisher knows how to generate impressions. Somebody else knows how to sell them.

Perhaps it's time we became interested in learning the other half of the business.

How We Became Suppliers of Inventory

Consider the terminology associated with digital advertising. Publishers provide *inventory*, advertisers provide *demand*, and intermediaries develop mechanisms through which transactions between them can occur.

From an engineering and transactional perspective, the terminology makes perfectly good sense. Advertising opportunities are made available for purchase, and technologies facilitate their acquisition.

But there is something commercially unfortunate about the extent to which entertainment publishers have adopted this terminology as a description of their own businesses.

A motion picture is transformed into an opportunity to display an advertisement. A website becomes a location at which impressions can be generated. An audience becomes a quantity of commercially available attention. The characteristics that distinguish one entertainment experience from another may receive considerably less attention than the numerical volume of advertising activity each can produce.

The publisher begins competing as a supplier of advertising inventory rather than as an entertainment company offering advertisers access to a distinctive audience.

A magazine with a recognizable editorial identity can approach prospective advertisers with a commercial proposition extending beyond the number of copies it distributes. It can explain

the character of its readership, the environment in which advertisements will appear and the reasons an association with the publication might possess particular value.

An independent digital entertainment publisher ought to be capable of developing a comparable proposition.

Instead, many publishers surrender the task of establishing the commercial identity of their advertising opportunities to organizations whose business models benefit from making large quantities of inventory comparatively easy to purchase.

Standardization is useful to the marketplace. Differentiation is valuable to the publisher.

We should understand the potential conflict between those two objectives.

The Network Is Not the Enemy

Before proceeding further, I want to establish that this is not an indictment of advertising networks.

The economic contribution of a competent network can be substantial. An independent publisher possessing neither a sales department nor established advertising relationships can obtain access to commercial demand that would otherwise be difficult or expensive to develop.

The network can aggregate inventory from numerous publications, simplify transactions for advertisers, administer reporting and payments, and provide a useful mechanism for monetizing opportunities that publishers haven't independently sold.

These activities possess legitimate economic value.

An advertiser interested in reaching a million consumers may have little desire to negotiate individual agreements with fifty independent websites. Similarly, a publisher generating a relatively modest number of monthly advertising opportunities may find the

expense of developing an independent sales operation disproportionate to the revenue it could reasonably expect to generate.

The intermediary solves a genuine commercial problem.

What concerns me is the assumption that participation in an advertising network must constitute the entirety of a publisher's advertising strategy.

A hotel may distribute rooms through an international reservation service without surrendering its ability to accept reservations directly. A manufacturer may employ several distributors while maintaining relationships with its most important customers.

Why should an entertainment publisher regard the existence of an advertising network as evidence that it no longer needs to develop an advertising business of its own?

The network should be one of the commercial resources available to the publisher, not necessarily the institution around which its entire advertising economy is organized.

Separate the Sale From the Delivery

One of the more important technological distinctions in digital advertising concerns the difference between selling an advertisement and delivering it.

An advertising network typically provides some combination of commercial relationships, campaign administration, technological delivery, measurement and financial settlement. Because these activities are frequently packaged together, an entrepreneur may begin interpreting them as inseparable components of the same service.

They aren't.

An advertisement can be sold directly by a publisher and delivered through technology operated by a specialized provider. An advertising representative can negotiate a campaign without owning the infrastructure responsible for displaying it. A publish-

er can employ several sources of advertising demand while administering the resulting campaigns through a common technological environment.

The commercial and technological arrangements can be separated.

This distinction is especially relevant to digital video. In July 2008, the Interactive Advertising Bureau (IAB) introduced the Video Ad Serving Template (VAST) for public comment, an initiative intended to standardize communication between advertising servers and digital video players.[1] The specification, subsequently developed through IAB Tech Lab, provides a standardized means of communicating information concerning an advertisement, including its media resources, tracking requirements and certain aspects of its intended behavior.

The broader significance of VAST is that the technology delivering an advertisement needn't belong to the organization that originally sold it.

A publisher can negotiate a commercial arrangement with an advertiser and employ compatible advertising infrastructure to deliver the resulting campaign. It can similarly obtain advertisements through an intermediary and incorporate them into its playback environment, subject to technical compatibility and contractual arrangements.

VAST is not itself an advertising marketplace. It does not supply advertisers, establish prices, guarantee payment or determine the commercial value of an impression. It provides a technical mechanism through which certain advertising activities can be performed.

Understanding that distinction opens a much more interesting collection of entrepreneurial possibilities.

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1. IAB, “IAB Announces the Release of VAST for Public Comment,” July 29, 2008; IAB Tech Lab, *Digital Video Ad Serving Template (VAST)*.

The publisher doesn't necessarily need to become an advertising network to acquire greater independence in advertising. It may simply need to develop commercial capabilities separate from the technology responsible for executing them.

Who Establishes the Price?

Imagine a publisher operating an entertainment service through which several hundred thousand video advertisements can be delivered each month.

At present, the company supplies those advertising opportunities to a network. It receives compensation according to the commercial terms available through that arrangement and evaluates the success of its advertising activities largely according to the amount of money ultimately received.

Now suppose the publisher begins investigating the possibility of offering some of those opportunities directly to advertisers.

What would it charge? What would an advertiser actually be purchasing? Would the campaign appear before particular films, throughout an editorial collection or during a scheduled premiere? Would the advertiser receive exclusive placement within a particular category of programming? What reporting would be provided?

These questions force the publisher to develop a much more substantial understanding of its product.

Under the existing arrangement, the publisher has primarily been supplying opportunities for advertisements to appear. Under the proposed arrangement, it must develop an advertising product whose characteristics can be understood, evaluated and purchased by another business.

That is an entirely different intellectual undertaking.

The process may reveal commercial assets the publisher previously failed to recognize. A relatively small editorial collection

may attract an unusually consistent audience. A popular series may provide opportunities for recurring sponsorship. A scheduled event may offer an advertising environment substantially different from the routine presentation of an individual video.

The publisher has been selling the availability of attention when it might also have been selling the circumstances under which that attention occurs.

There is no guarantee advertisers will assign a premium to those circumstances. The proposition must be demonstrated commercially. But an entrepreneur who never develops the proposition can hardly conclude that the marketplace has rejected it.

Follow the Money

The economics of intermediary-based advertising deserve considerably more scrutiny than they ordinarily receive from independent publishers.

In 2020, the Incorporated Society of British Advertisers (ISBA), working with the Association of Online Publishers and professional services firm PricewaterhouseCoopers (PwC), published a study examining financial transparency throughout the programmatic advertising supply chain.

The researchers reported that approximately 51 percent of advertiser expenditure reached publishers in the transactions studied. Approximately 15 percent of expenditure could not be satisfactorily attributed to identified participants or costs within the supply chain.

A subsequent study, conducted in 2022 and published in January 2023, reported substantial improvements. The proportion of expenditure that could not be attributed declined to 3 percent, compared with 15 percent originally reported in 2020 (17 percent when restated to exclude agency fees, verification tools and ad

serving). The share reaching publishers increased to 65 percent, compared with 57 percent on the restated basis.[2]

These figures concern the particular mainstream advertising arrangements examined by the researchers. They should not be interpreted as representative estimates of adult advertising economics, nor should unattributable expenditure automatically be interpreted as evidence of dishonesty.

Nevertheless, the research illustrates the importance of understanding how advertising revenue moves between the company purchasing an advertisement and the company providing the environment in which it appears.

An advertiser may be paying considerably more for an advertising opportunity than the publisher receives. Some of that difference may represent entirely reasonable compensation for services involving sales, technology, campaign administration, verification and financial risk.

The important question is whether the publisher understands what those services cost and what commercial value it receives in exchange.

A network retaining a substantial proportion of advertising expenditure may nevertheless provide an excellent financial arrangement if it generates revenue the publisher could not otherwise obtain. Another intermediary retaining a smaller proportion may provide relatively little value if its contribution is readily replaceable.

The percentage alone tells us remarkably little without an understanding of the work being performed.

What I find unacceptable is the prospect of an entertainment publisher developing an entire business around advertising with-

2. ISBA and PwC, *Programmatic Supply Chain Transparency Study* (May 2020); *Second Programmatic Supply Chain Transparency Study* (January 2023), summary report.

out possessing sufficient information to understand the economics of its principal revenue source.

The Gross Revenue Illusion

Suppose a publisher receives a net publisher CPM of two dollars through an existing network arrangement: two dollars per thousand billable impressions after the network's deductions.

During a particular month, it supplies one million eligible advertising opportunities, 90 percent of which become billable impressions. In this illustration, that is 90 percent billable utilization, not merely the proportion of opportunities for which an advertisement is returned (fill rate). Its resulting revenue is $1,800.

The publisher subsequently develops a direct advertising arrangement under which it can sell billable impressions at a gross advertiser CPM of eight dollars. At first glance, the opportunity appears considerably more attractive.

But suppose the publisher can directly sell only 200,000 impressions during that month.

The campaign generates $1,600 in gross revenue. After $400 in expenses associated with selling, administering and delivering it, the publisher retains $1,200. Assuming those 200,000 billable impressions use exactly 200,000 eligible opportunities, if the remaining 800,000 opportunities are discarded, the independent arrangement has produced less contribution than the original network relationship.

Now suppose the publisher retains its network arrangement for those remaining opportunities. Assuming the same 90 percent billable utilization and two-dollar net publisher CPM, the network produces another $1,440.

The combined result is $2,640 after the stated direct campaign expenses, compared with $1,800 under the original arrangement.

The publisher has increased its monthly contribution by $840 without increasing the total number of available advertising opportunities.

The example is entirely hypothetical. It establishes no prevailing adult advertising rate and assumes comparable inventory, reliable collection of revenue, no additional network-related expenses and no additional effects upon viewing behavior. Contribution here is revenue less the specified incremental campaign expenses, before common operating costs and taxes. Recognized revenue and contribution are not necessarily cash receipts in the same month.

Its purpose is to demonstrate why the commercial objective should not necessarily be to replace intermediary advertising with direct advertising. The opportunity may reside in developing an intelligent combination of the two.

The publisher sells what it can independently sell at attractive margins and employs the network where the network provides superior economic value.

The business increases its contribution through better commercial management of its existing advertising opportunities rather than through the indiscriminate production of additional ones.

Reintroducing the Advertising Department

An interesting consequence of the industry's dependence upon automated advertising arrangements is that we have largely neglected the professional discipline of advertising sales within independent publishing.

When I refer to reestablishing an advertising department, I don't necessarily mean hiring a dozen salespeople, acquiring expensive office space and providing everybody with impressive titles.

An independent publisher might initially employ a single representative. Several complementary publications might share the services of a sales organization. A filmmaker operating a specialized entertainment channel might personally negotiate a limited number of sponsorship arrangements.

The organizational structure matters less than the professional capabilities being developed.

Somebody should understand what the publication offers advertisers. Somebody should be capable of communicating the characteristics of its audience without making unsupported claims or compromising consumer privacy. Somebody should understand campaign pricing, contractual commitments, creative requirements and the circumstances under which advertisements will be presented.

Most importantly, somebody should be interested in developing continuing relationships with advertisers rather than merely disposing of available inventory.

A professionally administered advertising operation should be capable of explaining why an advertiser might want to return.

Did the campaign achieve its stated objectives? Was it delivered according to the agreement? Were the advertisements presented in an appropriate environment? Was the reporting sufficiently reliable to support another commercial decision?

The publisher ought to be asking these questions of its advertisers with the same seriousness it applies to understanding the satisfaction of its entertainment audience.

Advertising is a professional service. The mere ability to display an advertisement doesn't establish that the service is being provided competently.

Make Advertising Something Worth Buying

There is little reason to expect an advertiser to pay a premium for something the publisher hasn't bothered to develop into a premium product.

Imagine attempting to sell sponsorship of a motion picture presentation without possessing meaningful control over the other advertisements appearing around it. The prospective sponsor asks whether a competitor's advertisement could immediately follow its own. The publisher doesn't know. The advertiser asks whether viewers will encounter additional promotional interruptions. The publisher isn't entirely certain. It asks whether the campaign can be limited to particular programming. The technology doesn't accommodate that request.

What exactly is the publisher attempting to sell?

Premium advertising involves more than increasing the price associated with an impression. It involves establishing a commercially intelligible product with identifiable characteristics.

The advertiser should know the nature of the placement, the circumstances of delivery, the applicable creative requirements and the information available for evaluating performance. The publisher should understand how the campaign will affect the entertainment experience and whether its compensation justifies that effect.

A commercial arrangement might include category exclusivity, sponsorship identification, agreed placement within a programming schedule or a specified number of appropriately measured video impressions.

Each characteristic introduces considerations concerning availability, contractual commitments and the ability of the underlying technology to fulfill the arrangement. They must be understood before they can be responsibly sold.

This is where engineering and advertising sales become particularly interesting collaborators. The engineer can develop capabilities that make new commercial products possible. The advertising representative can identify commercially valuable requirements that provide direction for subsequent engineering.

A publisher exercising authority over both activities can begin developing advertising products rather than simply accepting the products available through somebody else's marketplace.

The Advertiser We Never Approached

I am also interested in the possibility that the industry's dependence upon established advertising networks has narrowed its conception of who constitutes a potential advertiser.

Many adult publishers have organized their commercial expectations around the categories of businesses already purchasing advertising within adult entertainment. Those businesses represent genuine demand and should not be dismissed merely because they are familiar.

But their familiarity shouldn't establish the intellectual boundaries of our advertising marketplace.

There may be legitimate businesses whose products are relevant to particular adult audiences and whose management would consider suitable advertising arrangements if presented with a sufficiently professional proposition.

We won't know merely by observing which advertisers currently appear through existing networks.

The proposition must be developed honestly. Adult publishers should disclose the nature of their entertainment and advertising environment, respect the policies of prospective advertisers and refrain from misrepresenting placements as mainstream inventory.

Some companies will have no interest in advertising within adult entertainment under any circumstances. Others may have contractual or institutional restrictions preventing them from doing so. Those are genuine limitations upon the available market.

But I suspect there are also businesses that have never been presented with an adult entertainment advertising opportunity that resembles the sort of professionally conceived media purchase they ordinarily consider.

If the industry wishes to attract different kinds of advertising expenditure, it should investigate whether it is offering different kinds of advertising products.

An entrepreneur cannot reasonably expect a prospective advertiser to recognize value that the entrepreneur has made practically no effort to communicate.

Transparency Is Part of the Product

The direct sale of advertising introduces professional obligations that publishers may previously have delegated to their intermediaries.

Campaign activity must be measured according to intelligible definitions. Advertisers must be able to understand what they purchased and whether it was delivered. Invalid activity must be addressed appropriately. Commercial commitments must be honored, and discrepancies must be investigated rather than dismissed.

There are already important efforts throughout mainstream advertising to improve transparency concerning the identity of the organizations selling and reselling advertising inventory.

IAB Tech Lab has developed specifications including *ads.txt*, which enables participating publishers to identify authorized advertising sellers, and *sellers.json*, which helps advertising buyers

identify organizations participating in relevant programmatic transactions.[3]

These mechanisms address specific problems associated with the authenticity and transparency of advertising supply chains. They do not establish the overall quality of a publication or independently guarantee the accuracy of every reported advertising event.

Nevertheless, the philosophy underlying them deserves attention. Advertising buyers should possess meaningful information about what they are buying, from whom they are buying it and where their advertisements are intended to appear.

Adult entertainment should aspire to comparable professional standards.

An advertiser considering a substantial financial commitment ought to be able to evaluate the commercial proposition without relying entirely upon the assurances of the person selling it.

The publisher that develops a reputation for reliable delivery and intelligible reporting has accomplished something commercially valuable. It has reduced the uncertainty associated with purchasing its advertising.

That can become a competitive advantage in its own right.

The Small Publisher's Dilemma

The economics of establishing an independent advertising operation will not necessarily justify the undertaking for every publisher.

A small entertainment website may possess insufficient inventory to attract the sustained attention of advertisers. The expense of acquiring and maintaining commercial relationships could con-

3. IAB Tech Lab, *ads.txt: Authorized Digital Sellers* and *sellers.json: Supply Chain Transparency*.

sume much of the additional revenue available through independent sales.

There is no shame in recognizing that a network may provide the most intelligent arrangement under those circumstances.

But independence needn't be an exclusively individual undertaking.

Several independent publications could develop cooperative advertising arrangements, employ common sales representation or participate in shared technological infrastructure. Collectively, they might offer advertisers commercial opportunities of sufficient scale while retaining their respective editorial identities and meaningful authority over the advertisements accompanying their entertainment.

The important consideration is the governance of the arrangement. Publishers should understand how advertising is allocated, how prices are established, how financial proceeds are distributed and what authority they retain over participation. Any joint selling arrangement must respect applicable competition law; it should not become a mechanism for independent competitors to coordinate prices or exclude rivals unlawfully.

Otherwise, the cooperative enterprise may gradually evolve into another intermediary possessing substantially the same authority as the institutions it originally intended to supplement.

There is considerable room for entrepreneurial experimentation between the isolated independent publisher and the enormous centralized advertising marketplace.

We should investigate that territory rather than accept the assumption that the smallest participants in digital entertainment must surrender the greatest proportion of their commercial authority.

Become a Media Company Again

The most important change I am proposing isn't technological. It is a change in the manner in which the independent publisher understands its business.

An advertising-supported entertainment company should regard itself as a media company possessing commercially valuable relationships with two distinct constituencies. One consists of the people interested in experiencing its entertainment. The other consists of the businesses interested in communicating with those people.

Its responsibility is to develop commercial arrangements that provide meaningful value to both without unnecessarily compromising the interests of either.

Advertising networks can contribute enormously to that undertaking. So can specialized technology providers, independent sales representatives and cooperative commercial arrangements. The publisher needn't undertake every responsibility internally.

But it should possess an understanding of the commercial proposition around which those relationships are organized.

We have become sufficiently accustomed to supplying advertising inventory that we occasionally forget what made that inventory valuable in the first place. Somebody created entertainment. Somebody developed an environment in which it could be experienced. Somebody established a relationship with an audience sufficiently interested to devote part of its life to the experience.

That is the economic foundation upon which the entire advertising apparatus depends.

I would like to see the organizations responsible for establishing that foundation become considerably more ambitious about determining how its commercial value is realized.

We don't need to destroy the advertising network.

We need to stop mistaking it for the advertising business.

CHAPTER 29

Your Traffic. Your Money.

“The first responsibility of financial intelligence is understanding precisely what the business is being paid to produce.”

A publisher receives a statement indicating that his website generated seven hundred dollars in advertising revenue during the preceding month. He examines the figure, compares it with the amount received the previous month and proceeds with the ordinary activities of operating his business.

Somebody else has determined which commercial events occurred, which of those events qualified for compensation, what those events were worth and how much of the resulting money belonged to him.

He has received a number rather than an accounting.

Imagine conducting another kind of business according to that arrangement. A retailer supplies merchandise to a sales organization that determines how much merchandise was sold, establishes the financial value of those sales, deducts its own compensation and periodically informs the retailer how much money he earned. The retailer possesses no independently maintained inventory records, no reliable means of reconciling transactions and little understanding of the deductions.

Most business advisers would regard the arrangement as an invitation to financial disaster. In digital advertising, its technological sophistication can make it appear perfectly respectable.

The independent publisher should be capable of understanding the economic activity generated by his entertainment, regardless of which organizations participate in its commercialization.

That requires more than access to an advertising dashboard. It requires establishing the relationship between what happens on the website and what eventually happens in the company's bank account.

Revenue Is an Event Before It Is a Number

Every dollar earned through digital entertainment has a history.

A commercial opportunity occurred. An advertisement was displayed, a subscription was purchased, a license was executed or some other contractually significant activity took place. The event was recorded, evaluated according to the applicable financial arrangement and translated into an amount payable to somebody.

The financial report represents the conclusion of that process. It cannot independently establish the accuracy of everything that preceded it.

Consider a conventional video advertising transaction. When a viewer initiates playback, the player may request an advertisement from an advertising server. The server may return information describing an available advertisement, which the player subsequently attempts to retrieve and display.

Several distinct things can happen during this process. The request may produce no available advertisement. The advertisement may be successfully retrieved but fail to play. Playback may begin, producing a recordable impression under the applicable measurement methodology. The viewer may subsequently complete the advertisement, skip it where permitted or discontinue the session.

Each event possesses different technical and potentially different commercial significance.

An advertising request is not necessarily an impression. An impression is not necessarily a completed commercial. A com-

pleted commercial is not necessarily a sale of the advertiser's product. Depending upon the financial agreement, any one of several events might influence the compensation ultimately payable to the publisher.

The first responsibility of financial intelligence is understanding precisely what the business is being paid to produce.

Without that understanding, an entrepreneur may spend considerable time attempting to increase the volume of activity that has little relationship to his income.

The Problem With Somebody Else's Dashboard

There is nothing inherently unreliable about receiving financial and operational information from an external service provider. In many circumstances, the provider possesses capabilities that permit it to produce substantially better information than the publisher could independently collect.

The deficiency arises when management possesses no meaningful way of examining the information or understanding the methodology through which it was produced.

A dashboard might report fifty thousand impressions. Another system monitoring the same campaign might report forty-seven thousand. The difference could involve measurement definitions, reporting periods, invalid-traffic filtration, transmission failures or technical discrepancies associated with the implementation of the advertising systems.

The mere existence of a difference doesn't establish that anybody has acted dishonestly.

Nevertheless, the two systems report a difference of three thousand impressions for the same campaign. The publisher should possess sufficient information to investigate why.

IAB Tech Lab's guidance concerning programmatic advertising on connected television (CTV) addresses the implementation

of impression tracking, including the distinction between client-initiated and server-side measurement. Different methods and timing can complicate reconciliation between systems.[1]

The difficulty is hardly unique to adult entertainment. But an independent publisher operating with relatively modest margins may be particularly affected by persistent discrepancies whose causes remain unexplained.

We should develop a culture in which the reconciliation of advertising activity represents an ordinary financial responsibility rather than an extraordinary accusation against a commercial partner.

My accountant doesn't insult my bank by reconciling my bank statement. He does his job.

Your Website Should Know What Your Website Did

One of the technological priorities of independent publishing should be the development of first-party operational measurement.

By first-party measurement, I mean information collected under the publisher's own authority concerning legitimate activities occurring within the environments for which the publisher is responsible.

A video playback system can potentially record that an advertising request occurred, that an advertisement became available, that playback began and that an error or completion event subsequently occurred. These records can provide an independent basis for examining the performance of advertising arrangements.

The publisher needn't necessarily develop the entire measurement infrastructure internally. Specialized technology

1. IAB Tech Lab, *CTV Programmatic Guide*, earlier edition, measurement and tracking guidance.

providers can undertake much of the engineering, provided the publisher has appropriate access to the resulting information and understands the limitations of its collection.

Nor should first-party measurement be confused with an assumption that the publisher's records are automatically more accurate than those maintained elsewhere. A badly implemented reporting system can produce exceptionally precise descriptions of things that never happened.

Tracking requests can fail. Events can be recorded more than once. A system can incorrectly interpret an advertisement being requested as evidence that it was successfully displayed. Differences in the definitions employed by separate measurement systems can produce apparently contradictory results even when both systems operate according to their respective specifications.

Independent measurement is valuable because it provides another source of evidence, not because it absolves the publisher of the responsibility to establish the quality of that evidence.

The objective is to make commercial activity independently observable wherever practical.

If your entire understanding of the economic activity occurring on your website disappears the moment you sign out of somebody else's administrative system, perhaps you should reconsider your approach to financial management.

The Commercial Chain of Custody

We generally associate the expression *chain of custody* with the preservation of evidence. It describes the documented handling of an item from its original acquisition through subsequent transfers, allowing interested parties to establish its history and integrity.

I find the underlying principle particularly useful when examining digital entertainment revenue.

A publisher should be capable of following a commercially significant event through the systems responsible for converting it into income. For an advertising transaction, this might involve establishing which campaign was associated with an impression, which agreement determined its compensation, whether the event qualified for billing, which deductions were subsequently applied and whether the resulting amount was ultimately paid.

This doesn't require constructing a permanent, individually identifiable record of every person's entertainment activities. Campaign identifiers, appropriately designed event identifiers and aggregated financial records can provide much of the information necessary for commercial reconciliation.

The objective is to establish the history of the transaction, not the private history of the viewer.

The distinction becomes especially important as an entertainment business grows. A small publisher operating a single website with one advertising arrangement may be able to investigate discrepancies relatively easily. An enterprise distributing films across numerous websites, embedded players and television applications while employing several different advertising partners encounters a substantially more complicated administrative problem.

Revenue may need to be attributed to particular productions, publishers, distribution channels or contractual participants. Without appropriate records, the company can find itself attempting to reconstruct the economic history of its activities after the money has already been distributed.

That is an unnecessarily complicated way of operating a business.

Financial accountability should be designed into the technological architecture through which the revenue is generated.

The Million Impressions That Weren't

Suppose an independent entertainment publisher generates one million advertising opportunities during a particular month.

Assume each opportunity generates one advertising request and can produce at most one billable impression. Of those opportunities, 800,000 receive an advertising response containing an advertisement: an 80 percent fill rate. Of the advertisements returned, 720,000 successfully begin playing. After applying the agreed measurement and validity criteria, 700,000 impressions qualify for billing, representing 70 percent billable utilization of the original opportunities.

Under a hypothetical agreement with a net publisher CPM of three dollars per thousand qualifying impressions, after intermediary deductions, the company earns $2,100 before its own operating expenses. This is publisher revenue, not necessarily cash received or profit.

Consider the different conclusions management might reach depending upon which portion of the activity it examines.

If it looks exclusively at the original million opportunities, it may believe that it has earned $3,000. If it assumes every advertising response represents a successfully displayed advertisement, it may anticipate $2,400. If it employs the correctly reconciled billable figure, it arrives at $2,100.

None of these calculations requires sophisticated mathematics. The difficulty lies in understanding which number belongs in the calculation.

More interestingly, the information reveals several distinct commercial opportunities. Two hundred thousand requests received no advertisement. Eighty thousand returned advertise-

ments failed to begin playing. Another twenty thousand recorded starts did not qualify for billing.

Each category deserves a different investigation; not every unfilled opportunity or nonbillable event represents recoverable revenue.

An absence of advertising responses may call for new commercial relationships or an investigation of eligibility and delivery errors. Playback failures may require engineering improvements. Nonbillable activity may require an examination of measurement practices, traffic quality or campaign eligibility.

Increasing traffic indiscriminately could simply increase the volume of activity passing unsuccessfully through the same commercial machinery.

The entrepreneur who understands where revenue is being lost can make more intelligent investments than the entrepreneur who merely knows that last month's revenue was disappointing.

Where the Money Goes

Digital entertainment revenue can become remarkably difficult to follow once several businesses participate in its collection and distribution.

An advertiser may pay an agency. The agency may purchase advertising through an intermediary. The intermediary may retain compensation for its services before remitting money to the publisher. The publisher may subsequently distribute a portion of its receipts to the producer responsible for the entertainment in which the advertising appeared.

Each transaction can be entirely legitimate. Each organization may contribute meaningful economic value.

The difficulty arises when the participants at either end of the arrangement lack sufficient information to understand the financial consequences of the activities occurring between them.

Earlier, we examined research concerning financial transparency within mainstream programmatic advertising. The issue becomes equally important when considering the contractual relationships between independent entertainment publishers and the producers supplying their films.

A producer receiving a percentage of advertising revenue should be able to understand what that percentage represents. Is the compensation calculated against the amount paid by the advertiser, the amount received by the publisher after intermediary deductions or some other contractually defined figure? Which expenses may legitimately be deducted before the producer's share is calculated?

The difference can substantially influence the economic value of a distribution agreement.

Terms such as *gross revenue* and *net revenue* are useful only when the parties understand precisely what they mean within the arrangement. Net revenue is an especially interesting expression because, given sufficient contractual imagination, an astonishing number of expenses can find their way between the gross and the net.

The time to establish the legitimacy of those expenses is before the entertainment begins generating money.

Accounting for the Film, Not Just the Website

One of the more interesting commercial possibilities associated with digital entertainment is the ability to associate advertising activity with individual productions.

A traditional broadcaster may sell advertising accompanying a particular program. An independent video publisher should be able to develop comparable commercial arrangements, even when the entertainment is delivered individually rather than according to a conventional broadcast schedule.

If a publisher distributes five thousand films and receives a single consolidated advertising payment, management may possess little understanding of the respective financial contributions of those productions.

Which films generate commercially valuable viewing sessions? Which collections attract sustained advertiser interest? Which productions justify additional promotional investment? Which licensing arrangements produce satisfactory returns?

These are ordinary questions in the economics of entertainment, yet answering them requires an infrastructure capable of associating financial activity with the relevant creative work.

A video advertisement delivered before a particular film can be associated with that film through suitable campaign and content identifiers. Where contractual arrangements provide for revenue sharing, this information can contribute to an intelligible method of calculating the compensation payable to the relevant rights holders.

The allocation method must reflect the actual financial arrangement. Advertising campaigns may be purchased collectively across numerous productions, and the value attributable to each film may not be directly observable. Sponsorship payments, guaranteed campaign commitments and performance-based agreements can require different allocation methods.

The important accomplishment is establishing a defensible relationship between the entertainment and the revenue associated with its distribution.

This can influence much more than accounting. It can improve licensing negotiations, provide useful information for production investment and create opportunities for independent filmmakers to participate more directly in the advertising economy surrounding their work.

A producer should have opportunities to understand the continuing economic life of a film after it leaves the production company.

The technology should make that understanding easier, not require the producer to accept whatever number appears on a quarterly statement.

Earned, Payable and Paid

There are at least three financial circumstances an entrepreneur should be able to distinguish when examining advertising revenue.

The first is revenue generated or earned according to the applicable commercial and accounting arrangements. The second is an amount established as payable following the necessary reporting, reconciliation and contractual adjustments. The third is money that has actually been received.

These circumstances may occur at substantially different times.

A publisher can generate ten thousand dollars in advertising revenue during April while receiving none of that money until June. Additional amounts may remain subject to verification, dispute or contractual adjustment.

Meanwhile, the hosting company expects to be paid. Employees expect their salaries. Producers may expect their contractual compensation. The technological infrastructure responsible for generating the revenue continues accumulating operating expenses.

The business can appear profitable while encountering a serious shortage of working capital.

Suppose an advertising-supported entertainment company earns $20,000 each month and incurs $12,000 in monthly operating expenses. Under a simplified arrangement in which adver-

tising receipts arrive sixty days after the end of the month in which they were earned, a new company with no opening receivables may have to finance approximately $36,000 in expenses before receiving its first payment, assuming three months of expenses are paid before that receipt. The actual financing requirement depends upon the timing of its obligations and receipts, available cash and other sources of funds.

The projected profitability of the operation doesn't eliminate that immediate financing requirement.

The publisher needs to understand payment schedules, minimum payout thresholds, contractual reserves, collection risks and the circumstances under which funds may be withheld or adjusted.

These considerations should influence the selection of commercial partners alongside the advertising rates they offer.

An intermediary promising somewhat higher compensation but imposing substantially less favorable payment arrangements may create financial burdens that offset the apparent advantage. Conversely, a reliable partner paying according to predictable terms can contribute considerable value even when its nominal rates are lower.

Cash flow has a rather inconvenient tendency to disregard the enthusiasm of people preparing revenue projections.

Establish the Rules Before the Campaign Begins

A professionally managed advertising arrangement should establish what the advertiser is purchasing and how the publisher will be compensated before the advertisement appears.

This is one reason conventional media businesses employ documents such as insertion orders. An insertion order records the commercial characteristics of an advertising campaign, po-

tentially including its duration, placements, agreed prices, delivery commitments and associated terms.

Standardized contractual arrangements have long been an area of concern within digital advertising. In February 2010, the IAB and the American Association of Advertising Agencies (4A's) announced a finalized revision to their standard terms and conditions intended to simplify and clarify common digital media transactions. The subsequent evolution of the advertising marketplace prompted further efforts to develop more appropriate contractual standards, including the IAB's updated modular terms and direct-buy addendum released in May 2026.[2]

The underlying professional principle is straightforward. Both parties benefit when the obligations associated with the transaction are established in advance.

An independent publisher selling advertising should understand which measurement system determines billable delivery, how discrepancies will be investigated, whether campaign shortfalls may be corrected through additional placements and when payment becomes due.

The advertiser should likewise understand the characteristics of the placement, the relevant restrictions and the reporting it can reasonably expect.

An agreement should also account for legitimate adjustments, including invalid advertising activity and failures to meet agreed placement conditions. Publisher independence does not entitle the publisher to compensation for advertisements that were never properly delivered.

The purpose of contractual clarity is to protect the integrity of the transaction for both parties.

I would prefer a short, intelligible agreement understood by everyone participating in the campaign to an impressive collec-

2. IAB and 4A's, *Standard Terms and Conditions Version 3.0* (February 2010); IAB, *Standard Advertising Services Terms & Conditions* (May 2026).

tion of contractual provisions nobody bothers to examine until somebody refuses to pay.

Fraud Is a Tax on Honest Publishers

There is an unfortunate tendency within certain portions of digital commerce to regard questionable traffic-generation practices as evidence of entrepreneurial resourcefulness.

Artificial advertising activity, misrepresented placements and manipulated engagement statistics may temporarily produce financial benefits for the organizations employing them. Their consequences, however, extend well beyond the individual transactions.

Advertisers become more suspicious of the environments in which their campaigns appear. Intermediaries introduce additional verification procedures. Legitimate publishers encounter greater scrutiny, payment adjustments and commercial restrictions. Resources that might otherwise have financed entertainment are devoted to determining whether the advertising activity supposedly accompanying it actually occurred.

The dishonest participant effectively transfers portions of the cost of its activities to the honest participants in the marketplace.

The Media Rating Council (MRC), an independent organization concerned with the quality of media measurement, and IAB Tech Lab have developed guidance and technical initiatives addressing the measurement and verification of digital advertising. The MRC publishes digital video impression measurement and invalid-traffic guidelines, while IAB Tech Lab's Open Measurement initiative supports more consistent measurement across web, mobile and connected television environments.[3]

Adult entertainment should take an intelligent interest in these efforts.

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3. Media Rating Council, *Standards and Guidelines*, digital video impression measurement and invalid traffic; IAB Tech Lab, *Open Measurement*.

The publisher's ability to demonstrate legitimate advertising activity can become a commercially valuable characteristic of the advertising product itself.

That requires more than installing a verification tool. It involves understanding the sources of purchased traffic, investigating unusual patterns, establishing appropriate relationships with promotional partners and refusing to participate in arrangements whose financial attractiveness depends upon misrepresenting what an advertiser is receiving.

We cannot convincingly argue that adult entertainment deserves premium advertising rates while tolerating practices that give advertisers compelling reasons to distrust its inventory.

A publisher seeking greater authority over its advertising revenue must accept corresponding responsibility for the integrity of the activity that generates it.

Your Numbers Should Survive Your Vendors

A company should retain appropriate access to the commercial records necessary to understand its own history.

If an advertising provider becomes unavailable, the publisher should not simultaneously lose its understanding of the campaigns it previously delivered. If the enterprise replaces its video distribution system, it should not necessarily lose its financial records concerning the entertainment distributed through the original one.

Operational reporting, contractual records and accounting information should be preserved according to their respective professional, legal and commercial requirements.

Sensitive information deserves particular attention. Retaining the documentation necessary to reconcile a payment does not justify retaining every underlying detail concerning an individual's viewing activity. Intelligent systems can separate commercially

necessary records from personal information that serves little continuing purpose.

The financial history of an entertainment business should remain intelligible without becoming an archive of its customers' private lives.

For a small publisher, the appropriate arrangement may involve little more than consistent exports of campaign reports, organized contractual documentation and a reliable accounting system. A larger enterprise may require integrated reporting and automated reconciliation across numerous services.

The sophistication of the system should correspond to the complexity of the business.

But the principle remains the same. The records necessary to understand the commercial activity of the enterprise should not exist exclusively at the discretion of the organizations providing its infrastructure.

Those records constitute important business assets, subject to the legitimate rights and obligations associated with them. They deserve to be managed accordingly.

From Traffic Reports to Financial Intelligence

I would like to see the independent entertainment publisher begin each month with a somewhat different collection of questions from those ordinarily associated with website statistics.

Rather than merely examining how many visitors arrived, management should understand which activities produced revenue, what proportion of the available commercial opportunities was successfully realized and what expenses were incurred in producing that revenue.

It should be capable of investigating material differences between recorded activity and payable activity, understanding the

contribution of individual commercial relationships and establishing when outstanding amounts are expected to be received.

This information should influence decisions concerning the acquisition of entertainment, the selection of advertising partners, investments in technology and the allocation of promotional resources.

A publisher may discover that improving the reliability of an advertising integration would produce more revenue than purchasing additional traffic. Another may discover that certain promotional arrangements generate impressive visitor statistics while contributing little to the actual profitability of the enterprise.

A production company may discover that a particular category of film generates substantially greater advertising income than its conventional popularity statistics would suggest.

These are the kinds of discoveries that become possible when operational information is connected intelligently to financial information.

The objective is not to produce an elaborate collection of reports. It is to establish a better understanding of the business.

An accountant, an advertising director and a software engineer should be able to examine the same commercial activity from their respective professional perspectives without describing three entirely unrelated financial realities.

Get Paid Like a Media Company

An independent adult entertainment publisher creates something commercially valuable. It acquires or develops entertainment, establishes a relationship with an audience and provides an environment through which advertisers can communicate with that audience.

The publisher is entitled to the compensation legitimately established through its commercial agreements. It should possess

enough information to understand how that compensation was calculated, enough professional competence to investigate discrepancies and sufficient operational intelligence to improve the economic activity producing it.

That isn't a radical financial proposition. It's what we would ordinarily expect of a competently managed business.

Perhaps the radical proposition is expecting an industry that has become accustomed to receiving whatever compensation its intermediaries establish to become genuinely interested in administering its own advertising economy.

We can develop better technologies, negotiate more intelligent commercial arrangements and establish more transparent relationships among the people responsible for creating and distributing entertainment. We can begin evaluating our advertising businesses according to the financial value of legitimate commercial activity rather than the impressive appearance of a traffic report.

We can also become considerably more ambitious about the value we expect advertisers to place upon that activity.

But before we can convincingly demand better compensation, we ought to become proficient at understanding the compensation we're already receiving.

Your entertainment created the opportunity. Your publishing business provided the environment. Your audience supplied the attention.

You should know what happened to the money.

CHAPTER 30

Advertising as Entertainment

“We have not simply cheapened the entertainment.
We have cheapened the advertising
that finances it.”

I've never understood why an industry so proficient at producing motion pictures has settled for such an unimaginative method of advertising.

We produce video. We distribute video. We attract audiences specifically interested in watching video. And when those audiences arrive, we attempt to generate revenue by surrounding the video with practically every conceivable form of advertising except the sort of commercial that has financed motion picture entertainment for generations.

We bombard people with banners, open windows they didn't request, redirect them to websites they had no intention of visiting and occasionally make the simple act of pressing play an exercise in technological self-defense.

Meanwhile, mainstream television has developed an extraordinarily sophisticated advertising economy around the relatively simple proposition of allowing people to watch a commercial.

Somewhere in the development of digital adult entertainment, we forgot that we were in the television business.

I'm not suggesting that every adult website should resemble a conventional television channel. The Internet provides opportunities for organizing and experiencing entertainment that conventional broadcasting could never accommodate. But the commer-

cial intelligence behind television advertising deserves considerably more attention than we have given it.

We shouldn't merely be investigating how to make advertisements less objectionable. We should be investigating how to make them more valuable.

The Commercial as a Cultural Product

Television advertising has occasionally produced entertainment of considerable creative distinction. Some commercials have become more memorable than the programs during which they originally appeared. Their characters, music, dialogue and imagery have entered popular culture, providing their respective advertisers with commercial identities that survived the duration of the campaigns.

Consider the extraordinary circumstances surrounding the Super Bowl. Audiences accustomed to avoiding advertisements deliberately seek out certain commercials associated with the event. Publications review them. People discuss them. Advertisers compete not merely for access to the audience but for the opportunity to contribute something memorable to the occasion.

The phenomenon is unusual, but it reveals something important about the nature of advertising. An advertisement is not inherently incapable of possessing entertainment value simply because somebody paid for its exhibition.

Advertising is a creative medium with a commercial objective. Its effectiveness can depend upon many of the same professional capabilities responsible for producing other forms of entertainment: writing, photography, editing, music, performance, humor and an understanding of the audience.

Adult entertainment possesses access to an extraordinary collection of precisely those capabilities.

Why, then, have we developed an advertising culture so largely divorced from the creative intelligence of the industry itself?

A studio capable of producing a sophisticated motion picture should be capable of producing an intelligent thirty-second commercial. A publisher capable of organizing an entertainment experience should be capable of establishing a professional environment in which that commercial can appear.

There is an entire creative economy available to us within the advertising business, and we've barely begun to investigate its possibilities.

Twenty-Five Dollars for a Thousand Impressions

Let's examine the commercial proposition from the perspective of the mainstream streaming television industry.

On March 5, 2025, media industry publication *MediaPost* reported that premium streaming advertising inventory on major platforms was averaging approximately twenty to twenty-five dollars per thousand impressions. The same report, discussing analysis by MoffettNathanson Research, indicated that Roku had reduced certain advertising prices to below ten dollars as part of its strategy for attracting demand and filling available inventory.[1]

On February 25, 2026, Roku itself explained that its self-service advertising platform operates according to a dynamic CPM pricing model, with rates influenced by advertiser demand and available inventory rather than a universally established price.[2]

These figures are not guaranteed rates available to every Roku channel, nor do they establish how much an individual publisher ultimately receives. Streaming advertising prices vary ac-

1. Wayne Friedman, “Roku CPM Cuts To Yield Major Ad Gains, Analyst Says,” *MediaPost* (March 5, 2025).
2. Roku, “How much does it cost to advertise on Roku?” (February 25, 2026).

cording to geography, audience, placement, purchasing method, programming and numerous other commercial considerations.

Nevertheless, they establish an interesting reference point for our industry.

Consider the contrast with the prices at which adult video advertising is marketed. In 2020, ExoClick cited average minimum bids of approximately fifty cents per thousand impressions for U.S. in-stream advertising across its general network and $1.50 for premium traffic. In April 2026, TrafficStars described typical test bids for adult video campaigns of fifty cents to two dollars per thousand impressions.[3]

These are minimum and experimental bids, not independently verified clearing prices or publisher receipts. They cannot be treated as directly comparable market averages, and we lack representative transaction data sufficient to calculate an industry-wide pricing gap. But they give us good reason to investigate the difference in commercial expectations.

A commercial appearing within a digital television environment can command ten, twenty or twenty-five dollars per thousand impressions, sometimes more and sometimes considerably less. There is no technological principle that renders comparable advertising value fundamentally impossible within adult entertainment.

The fundamental video playback machinery is not inherently different for a documentary, a situation comedy or an adult motion picture. The infrastructure responsible for delivering the advertisement operates according to substantially the same engineering principles. The underlying commercial event involves communicating a message to somebody whose attention has been attracted by audiovisual entertainment.

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3. ExoClick, “Case study: How to optimize an In-Stream Video campaign” (2020); TrafficStars, adult video advertising guidance (April 29, 2026).

Yet we have developed a marketplace in which adult publishers frequently approach the sale of that attention with extraordinarily modest expectations.

The difference cannot be attributed exclusively to our own shortcomings. Mainstream television enjoys access to advertising budgets, institutional relationships and categories of advertisers that are often unavailable to adult publishers. Brand suitability policies, legal restrictions and corporate sensitivities impose genuine limitations upon the marketplace.

But those circumstances do not absolve us of responsibility for the things we can change.

The question isn't whether an adult publisher can simply announce a twenty-five-dollar CPM tomorrow and expect advertisers to pay it. The question is whether we are constructing advertising products sufficiently sophisticated to make such a price commercially conceivable.

The Discount We Manufactured

Imagine two independent entertainment services.

The first presents its programming through a professionally designed interface. Advertisements appear at identifiable intervals, occupy an appropriate portion of the viewing experience and conform to established creative requirements. Advertisers receive meaningful information concerning the delivery of their campaigns.

The second surrounds its entertainment with flashing banners, unpredictable redirects, competing commercial messages and advertising mechanisms designed to generate activity from practically any interaction with the screen.

Even if both services attract comparable audiences, they are offering advertisers substantially different commercial environments.

The first offers an identifiable opportunity to communicate with an audience. The second offers an opportunity to compete with everything else attempting to interrupt that audience.

Under those circumstances, the first publisher has at least established some of the conditions necessary to justify premium pricing. The second has constructed an environment in which the value of each additional advertisement may be diminished by the presence of all the others.

We cannot continually increase the quantity of advertising surrounding an entertainment product without considering the effect upon the quality of the advertising experience.

A publisher displaying eight competing promotional messages simultaneously may generate more nominal impressions than a publisher presenting a single commercial. But those eight impressions do not necessarily represent eight equivalent opportunities to communicate effectively.

The audience's attention remains finite.

This is where our industry's longstanding enthusiasm for inexpensive advertising becomes particularly destructive. In attempting to extract more immediate revenue from every encounter with an audience, we may have created commercial environments that make it increasingly difficult to justify higher compensation for any individual advertisement.

We have not simply cheapened the entertainment. We have cheapened the advertising that finances it.

The Audience Already Understands the Arrangement

Generations of television viewers have encountered entertainment financed wholly or partly through advertising. The commercial interruption is a familiar component of the economic arrange-

ment, even when the individual viewer would prefer not to experience it.

Contemporary streaming services have introduced variations of the same proposition. Some offer entertainment without a subscription payment, supported by commercials. Others offer lower-priced subscriptions accompanied by advertising and more expensive alternatives with fewer or no commercial interruptions.

The audience understands that different financial arrangements can produce different viewing experiences.

Adult entertainment shouldn't underestimate the commercial significance of that familiarity.

There is a considerable experiential difference between encountering a thirty-second commercial before a film and clicking a play button only to discover that the website has opened an unrelated destination. The former presents an identifiable exchange. The latter has interfered with an activity the consumer deliberately attempted to undertake.

In 2002, advertising researchers Steven M. Edwards, Hairong Li and Joo-Hyun Lee published a study entitled “Forced Exposure and Psychological Reactance: Antecedents and Consequences of the Perceived Intrusiveness of Pop-Up Ads” in the *Journal of Advertising*.[4] Their research examined how interruptions and the circumstances surrounding forced advertising exposure influence perceptions of intrusiveness and subsequent consumer responses.

The distinction remains relevant decades later. Advertising does not occur independently of the activity in which the audience is engaged. Its placement, timing, relationship to that activity and interference with the individual's intentions can influence how it is received.

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4. Steven M. Edwards, Hairong Li, and Joo-Hyun Lee, “Forced Exposure and Psychological Reactance,” *Journal of Advertising* 31, no. 3 (2002): 83–95.

A video commercial can certainly become intrusive. Excessive advertising loads, repetitive campaigns and poorly timed interruptions can make streaming television every bit as irritating as a badly designed website.

But the conventional commercial provides a format through which the interruption can be made intelligible, predictable and proportionate to the entertainment being provided.

We needn't invent an entirely new economic vocabulary to explain the arrangement to consumers. They already understand the proposition.

Enjoy the show. The sponsor helps pay for it.

Attention Without Ambush

One of the characteristics of a conventional video commercial is its ability to occupy the principal audiovisual environment for an identifiable period.

The commercial can employ movement, sound, dialogue and narrative rather than attempting to attract attention from the periphery of another activity. The advertiser has an opportunity to develop a coherent message rather than relying entirely upon a provocative image or an aggressively worded instruction to click something.

That opportunity has commercial significance even when it doesn't produce an immediate transaction.

Much of adult advertising has developed around direct-response economics. The advertiser seeks a click, registration, purchase or other measurable action. The publisher is compensated according to an arrangement associated with that response or the advertising activity preceding it.

Direct-response advertising is an entirely legitimate commercial discipline. But it does not encompass the entire economic value of advertising.

A company may purchase a commercial because it wants consumers to become familiar with its name. It may want to introduce a product, establish an association with a particular lifestyle or communicate a distinction between its services and those of its competitors. The commercial may contribute to a purchasing decision that occurs several days or weeks later through an entirely different channel.

Traditional television advertisers have long recognized the significance of such objectives.

Adult entertainment should become more interested in accommodating them.

The value of a commercial should not be determined exclusively by whether somebody abandons the entertainment they originally intended to watch and immediately visits the advertiser's website.

Indeed, there is something commercially peculiar about financing an entertainment service through advertising arrangements whose principal objective is to persuade the audience to leave it.

A properly conceived commercial can deliver a message, establish recognition and provide a voluntary opportunity for further engagement without making that engagement a condition of continuing the entertainment.

That is a more sophisticated relationship among publisher, advertiser and audience.

The Creative Opportunity

The transition toward video advertising introduces opportunities extending beyond the publishers selling the advertising.

It creates work for people who know how to make commercials.

Consider the numerous companies selling products and services throughout the adult entertainment economy. Some possess substantial expertise in their respective businesses but relatively little experience in producing audiovisual advertising.

Their conventional campaigns may consist primarily of static images, text and variations of familiar promotional arrangements. The absence of a professionally developed video advertising marketplace gives them relatively little incentive to investigate more ambitious creative possibilities.

Adult entertainment producers could help change that.

A production company possesses equipment, technical personnel, creative capabilities and experience that could be applied to commercial filmmaking. An independent filmmaker might develop a supplementary business producing advertisements for other companies. Performers interested in commercial work could participate in campaigns under appropriately negotiated agreements establishing compensation and the authorized use of their performances and likenesses.

Advertising could become another legitimate market for the creative capabilities already present within the industry.

Not every commercial needs an extravagant production budget. A compelling product demonstration, a carefully written message or an intelligently conceived fifteen-second presentation can accomplish something commercially worthwhile without resembling a Hollywood production.

The objective is not to make advertising expensive. It is to make advertising good enough to deserve more valuable distribution.

The interesting economic possibility is that better advertising creates demand for better advertising production, while better production gives publishers something more commercially attractive to sell.

Those activities could reinforce one another rather than operating as unrelated portions of the industry.

We Need Advertising Standards That Mean Something

Television advertising ordinarily requires the advertiser to deliver material possessing certain technical characteristics. The commercial must be suitable for the environment in which it will appear. Its duration, visual format, audio and other production characteristics must be compatible with the distribution system.

Contemporary streaming platforms continue to establish such requirements. Roku, for instance, identifies acceptable video formats, durations and file sizes for campaigns managed through its advertising service, alongside procedures for technical and content review.[5]

Adult publishers should establish comparably intelligible requirements.

A commercial should not arrive with audio levels dramatically disproportionate to those of the entertainment. Its visual proportions should be appropriate to the playback environment. Its duration should correspond to the placement purchased. Its behavior should be predictable, and any interactive elements should operate only under circumstances understood by the viewer.

The advertising should accurately represent the product or service being promoted. It should comply with applicable legal and professional requirements. It should not introduce deceptive functionality or cause the audience's device to undertake activities the audience did not authorize.

These are not particularly extravagant expectations. They are the ordinary characteristics of a competently administered advertising product.

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5. Roku, “How much does it cost to advertise on Roku?” (February 25, 2026), technical requirements and review process.

Standardization can also reduce the expense of participation for advertisers. If several independent publishers accommodate reasonably consistent technical requirements, an advertiser can potentially distribute the same commercial through several environments without financing an entirely new production for each one.

That makes the market more accessible while preserving the ability of individual publishers to establish their own creative and editorial requirements.

The industry should distinguish between establishing common technical standards and imposing uniformity upon the creative character of its advertising.

We can agree on how a commercial ought to function without agreeing on what constitutes an interesting commercial.

How Much Advertising Is Enough?

The television industry offers useful lessons concerning advertising economics, but it also provides numerous examples of what happens when commercial ambition becomes incompatible with an enjoyable entertainment experience.

We should not borrow its worst habits along with its most intelligent ones.

The quantity of advertising accompanying a film must be considered in relation to the duration and character of the entertainment. A thirty-second advertisement before a ninety-minute production represents a substantially different proposition from the same advertisement preceding a two-minute clip.

The repetition of commercials deserves similar consideration. A person watching several short films during one session may repeatedly encounter the same advertisement even though the advertiser has little commercial reason to deliver its message so frequently within such a short period.

An intelligent advertising system should permit management to examine the complete session rather than treat every individual playback as an isolated opportunity to generate revenue.

Where appropriate, frequency controls can limit unnecessary repetition. Commercial breaks can be organized according to the nature of the programming. Viewers can be informed about the duration of an interruption, while suitable alternatives can be developed for customers willing to pay for uninterrupted entertainment.

The commercial objective should be to maximize the economic value of the advertising relationship, not necessarily the number of advertisements exhibited.

On July 29, 2026, media and technology research organization Omdia published findings from its study of connected television monetization. Using 2025 data from eight national markets, the researchers estimated that advertising-supported streaming services could generate approximately twenty-one cents per hour of viewing if their existing advertising opportunities were fully sold.[6]

The estimate is a measure of potential monetization under the stated conditions, not a universal rate actually earned by streaming publishers. Its significance lies partly in the relationship it establishes among advertising prices, the number of available placements, the proportion successfully sold and the amount of entertainment consumed.

Revenue per viewing hour offers an interesting additional perspective for adult publishers.

Rather than asking exclusively how much money an advertisement generates, we might also examine how much revenue an hour of entertainment produces and what effect our advertis-

6. Omdia, “$0.21 per viewing hour sets monetization benchmark for ad-supported CTV” (July 29, 2026).

ing arrangements have upon the willingness of the audience to spend another hour with us.

That investigation could produce rather different conclusions from an analysis concerned exclusively with the number of impressions generated during the present visit.

Don't Confuse Premium Pricing With Premium Performance

Suppose an adult entertainment publisher succeeds in establishing direct advertising arrangements at twenty dollars per thousand billable video impressions.

At one million qualifying billable impressions, a gross advertiser CPM of twenty dollars would produce twenty thousand dollars in gross advertising revenue, before sales, delivery and other expenses. It would not necessarily represent net publisher revenue or cash collected.

That is an attractive possibility. It is not a business plan.

The publisher still has to find advertisers willing to purchase those impressions, establish that the advertising provides sufficient value, finance the relevant sales and delivery activities, administer the campaigns and collect the money.

If only a small proportion of the available advertising opportunities become billable impressions at that price, the effective revenue across the publisher's entire inventory could be considerably lower than the headline rate suggests.

The transition from inexpensive advertising to a more valuable commercial environment therefore requires the development of actual advertising demand.

We should be particularly careful about making the transition in a manner that deprives publishers of the revenue necessary to continue operating. An entrepreneur financing the business through established advertising mechanisms cannot necessarily

afford to eliminate them all on Monday morning in the expectation that premium advertisers will appear by Friday afternoon.

A more intelligent approach may involve developing a portion of the new advertising inventory alongside existing commercial arrangements, measuring its financial contribution and progressively reconsidering those arrangements as alternative revenue becomes available. This is not a justification for retaining deceptive or harmful advertising practices.

There may be circumstances in which the publisher must accept a short-term reduction in advertising revenue to establish a substantially different commercial proposition. The decision should be made with an understanding of the financing required, the uncertainty associated with the transition and the evidence that would justify continuing it.

An entrepreneurial conviction is not a substitute for working capital.

We'll examine the mathematics of such a transition in the following chapter. For now, it is important to establish that premium advertising represents an economic capability to be developed, not a price to be arbitrarily declared.

A Commercial Break Should Be a Break

I would like us to reconsider the manner in which advertising participates in the architecture of adult entertainment.

A commercial preceding a production should constitute an identifiable portion of the entertainment session. When it concludes, the film should begin. If another commercial interruption is appropriate, it should occur under circumstances that make sense in relation to the programming.

The audience should understand when it is experiencing advertising and when it is experiencing the entertainment it selected.

There is considerable room for creative experimentation within that arrangement. A sponsor might support a particular film series. A publisher might develop an opening presentation that establishes a recognizable identity for its programming. A producer might introduce a forthcoming release through a professionally constructed trailer accompanying another production.

Interactive video advertisements could provide voluntary opportunities for engagement without unexpectedly removing the viewer from the entertainment environment. Commercial messages designed for television displays might employ appropriately implemented quick-response (QR) codes, allowing interested viewers to investigate an advertised product through another device.

The possibilities extend beyond reproducing the conventions of broadcast television. Digital video enables us to develop commercial experiences unavailable to conventional broadcasters.

But the underlying proposition should remain intelligible. The audience is experiencing entertainment supported, wholly or partly, by advertising. Its attention should not be treated as permission for unrelated technological activity.

We can provide advertisers with a meaningful opportunity to communicate without treating the audience as a collection of unsuspecting participants in an elaborate experiment in involuntary navigation.

Sell the Commercial, Not the Interruption

If the industry intends to establish a more valuable advertising marketplace, it must become more ambitious about the product it offers advertisers.

A video commercial is a commercially recognizable product. Its duration can be specified. Its placement can be negotiated. Its delivery can be measured. Its creative quality can be evaluated.

Its relationship to the entertainment surrounding it can form part of the commercial proposition.

Those characteristics provide a foundation for developing advertising arrangements that extend beyond the indiscriminate sale of inexpensive impressions.

Adult entertainment will still face limitations concerning the categories of advertisers willing and legally able to participate. Some conventional advertisers will never consider our industry suitable for their brands. Other businesses may become interested only after we have demonstrated substantially better commercial and professional standards.

We cannot know the full extent of the opportunity without doing the work necessary to investigate it.

What we should reject is the assumption that the comparatively low value historically assigned to much of our advertising inventory represents the permanent economic destiny of adult entertainment.

The industry possesses filmmakers, creative professionals, sophisticated distribution technologies and audiences with an established interest in audiovisual entertainment. Those are the raw materials of a video advertising economy.

We should develop one.

I want to see adult publishers approach advertisers with the confidence of an intelligent television network rather than the desperation of somebody attempting to rent every available pixel on a computer screen.

Our entertainment deserves better advertising. Our advertisers deserve better advertising products. Our audiences deserve better treatment.

And our industry deserves to discover what those improvements might actually be worth.

Stop selling interruptions.

Start selling commercials.

CHAPTER 31

The Mathematics of Independence

“The numbers don't tell us to abandon the ambition. They tell us where the work is.”

It's considerably easier to advocate a commercial revolution when somebody else is paying the operating expenses.

An independent adult entertainment publisher may agree with practically everything I've written about the deficiencies of conventional advertising. He may despise the popunders, resent the interference with his entertainment and recognize the long-term commercial advantages of developing a more sophisticated advertising environment. Nevertheless, those objectionable advertisements may be responsible for paying his employees, financing his infrastructure and keeping his business operational.

He cannot deposit a philosophical argument into his bank account.

If we intend to persuade the industry to abandon some of its most destructive commercial conventions, we must demonstrate how an alternative economy can be developed without unnecessarily destroying the businesses expected to participate in it.

That requires an understanding of advertising prices, operating expenses, inventory utilization, contribution margins, working capital and the financial consequences of changing the relationship between entertainment and advertising.

The preceding chapter established the argument for developing a premium video advertising economy. Now we need to establish the circumstances under which that economy makes financial sense.

Start With the Business You Actually Have

One of the deficiencies of entrepreneurial enthusiasm is its tendency to compare an existing business, with all its thoroughly documented imperfections, against an alternative business whose imperfections have yet to be discovered.

The existing business has unpaid invoices, unreliable advertising partners, technical problems and disappointing financial results. The proposed business has an impressive spreadsheet.

We should be careful about assigning too much significance to the comparative attractiveness of the spreadsheet.

Before undertaking a substantial transformation of its advertising arrangements, an entertainment company should establish an accurate understanding of its present economics. That includes the revenue generated through each advertising format, the expenses associated with obtaining that revenue and the contribution each commercial activity makes toward financing the remainder of the business.

A publisher might discover that its least attractive advertising mechanism is also its most profitable. Another might discover that an advertising arrangement generating substantial gross revenue contributes surprisingly little after accounting for the traffic purchased to support it. A third might recognize that certain commercial placements interfere with subscription sales whose financial significance exceeds the income generated by the advertisements.

These are fundamentally different circumstances requiring different responses.

The existing business provides the financial baseline against which the proposed alternative must be evaluated. Without that baseline, the entrepreneur cannot determine whether a new commercial arrangement represents an improvement, an expensive experiment or simply a different way of losing money.

The Economics of a Thousand Impressions

We've already examined the distinction between advertising expenditure and publisher earnings, but the matter deserves closer mathematical attention.

A cost per thousand impressions, or CPM, of twenty dollars means relatively little unless we understand the number of impressions actually purchased, the expenses associated with delivering them and the proportion of the advertiser's expenditure ultimately retained by the publisher.

Suppose a video service generates one million eligible advertising opportunities during a month. The publisher has negotiated a twenty-dollar CPM for its video commercials.

It would be tempting to multiply the available opportunities by the agreed price and anticipate twenty thousand dollars in monthly advertising revenue. But that calculation assumes every available opportunity results in a qualifying billable impression.

If only half of those opportunities are successfully monetized, the resulting gross revenue is ten thousand dollars. If the commercial intermediary retains twenty percent, the publisher earns eight thousand dollars before its own additional expenses. The timing of cash collection is a separate consideration.

The twenty-dollar advertiser CPM has become eight dollars in net publisher revenue per thousand available advertising opportunities, equivalent to a sixteen-dollar net publisher CPM per billable impression.

This distinction is absolutely fundamental to the economics of digital advertising. The publisher must understand not only the price at which its advertising is sold but the proportion of its available inventory that actually generates revenue.

The term *fill rate* commonly describes the relationship between available advertising requests and those receiving an advertising response, although reporting definitions vary among systems. For financial planning, I prefer to establish a more ex-

plicit measure: the proportion of eligible advertising opportunities ultimately producing billable impressions.

The difference matters because an advertisement returned by a server may never successfully appear on the viewer's screen.

For the purposes of the financial models in this chapter, we'll employ that latter measure, which I'll describe as the billable utilization rate.

The relevant financial calculation is therefore relatively straightforward:

Gross advertising revenue = (Eligible advertising opportunities ÷ 1,000) × Billable utilization rate × Gross CPM

From that amount, the publisher must subtract the applicable sales commissions, intermediary charges, advertising delivery expenses and other incremental costs associated with the arrangement.

What remains is considerably more interesting than the advertised CPM. It represents the financial contribution the advertising product actually makes to the business.

The Price of Unsold Attention

Consider a publisher developing a video advertising product around half a million monthly viewing sessions, each providing one eligible commercial placement.

The publisher establishes a hypothetical gross CPM of twenty dollars. Its combined sales and intermediary expenses amount to twenty percent of gross advertising revenue. Additional monthly advertising technology and administrative expenses total one thousand dollars at the anticipated operating scale.

For simplicity, assume those additional expenses remain constant across the range of utilization rates examined.

The financial results would look something like this:

Billable utilization	Billable impressions	Gross revenue	Publisher contribution
10%	50,000	$1,000	-$200
25%	125,000	$2,500	$1,000
50%	250,000	$5,000	$3,000
75%	375,000	$7,500	$5,000
100%	500,000	$10,000	$7,000

The publisher contribution shown here is the amount remaining after the assumed twenty-percent sales expense and one thousand dollars in additional monthly expenses. It is not the overall profit of the enterprise. The entertainment still needs to be produced or acquired, distributed and administered.

The illustration reveals something important. The publisher can establish an impressive advertising rate and still operate an unprofitable advertising program if insufficient demand exists for the inventory.

Conversely, an increase in the proportion of available advertisements successfully sold can produce substantial improvements in financial performance without requiring any additional audience.

In an industry perpetually fascinated by the acquisition of traffic, this is a particularly interesting possibility.

Perhaps the entrepreneur doesn't need another hundred thousand visitors. Perhaps he needs to become more accomplished at selling appropriate advertising to the people already visiting.

The Replacement Threshold

Let's extend the preceding example.

Suppose the publisher currently generates thirty-five hundred dollars in monthly revenue through a collection of conventional advertising arrangements. After subtracting five hundred dollars

in expenses specifically associated with those arrangements, the company retains a monthly contribution of three thousand dollars.

Management would like to eliminate those advertisements and replace them with the professionally presented video commercials described in our alternative model.

Under the assumptions we've established, the new advertising arrangement needs to generate a monthly contribution of at least three thousand dollars to replace the financial contribution of the existing advertising.

At a twenty-dollar gross CPM, that requires a billable utilization rate of fifty percent.

But what if the publisher can initially sell only twenty-five percent of the available commercial placements? What if it can sell seventy-five percent?

The required price changes accordingly.

Billable utilization	Gross CPM required to replace existing contribution
10%	$100.00
25%	$40.00
40%	$25.00
50%	$20.00
75%	$13.34
100%	$10.00

At 75 percent utilization, the exact threshold is $13.333… per thousand billable impressions. The table rounds upward to $13.34, the minimum whole-cent rate sufficient to replace the existing contribution.

This is what I would describe as the *Replacement Threshold*: the combination of advertising price and billable utilization neces-

sary for a proposed advertising arrangement to replace the financial contribution of the arrangement it intends to displace.

The concept applies conventional break-even analysis to the particular circumstances of advertising transformation. The United States Small Business Administration (SBA), among numerous other sources of managerial financial guidance, provides a standard approach to break-even analysis based upon the relationship among selling prices, variable costs and fixed expenses.[1]

Our calculation adds the existing advertising contribution that management wishes to preserve.

In general terms:

Required gross CPM = (Existing contribution + Incremental fixed costs) ÷ [(Eligible opportunities ÷ 1,000) × Billable utilization × Retained revenue proportion]

This calculation assumes a positive utilization rate and retained revenue proportion. Where additional variable costs exist independently of the percentage-based sales expenses, those must also be incorporated into the numerator at the relevant activity level. All figures in these models are hypothetical, not prevailing advertising rates or guaranteed receipts.

This is an enormously more useful starting point than declaring that adult entertainment should command a twenty-dollar CPM.

It tells the entrepreneur what must actually be accomplished for the alternative advertising arrangement to make economic sense.

It also identifies the commercial problem requiring the greatest attention. If advertisers won't pay the required price, the publisher must improve the value of the advertising product, increase its utilization, reduce its costs or investigate a different combination of those possibilities.

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1. U.S. Small Business Administration, *Break-Even Point Calculator*, standard unit break-even formula.

The numbers don't tell us to abandon the ambition. They tell us where the work is.

Expensive Advertising Can Be Cheaper

There is a somewhat counterintuitive possibility within these calculations.

An advertiser purchasing professionally presented video commercials at twenty dollars per thousand impressions may ultimately be obtaining a less expensive commercial result than an advertiser purchasing conventional display advertisements at two dollars per thousand impressions.

The comparison depends upon what the advertiser intends to accomplish.

Suppose, purely for illustration, that one thousand inexpensive display impressions produce one measurable action valuable to the advertiser. The cost of obtaining that action is two dollars.

Now suppose one thousand twenty-dollar video impressions produce twenty comparable actions. The cost per action is one dollar.

The video advertising costs ten times as much per impression but half as much per resulting action.

Neither of those response rates should be interpreted as a prediction of actual advertising performance. The example merely demonstrates the inadequacy of comparing advertising prices without comparing what the advertising accomplishes.

The same reasoning becomes more complicated when the advertiser's objective involves brand recognition, awareness or changes in consumer preference rather than immediate transactions. Appropriate measurement may involve controlled experiments, surveys or other techniques capable of evaluating effects not captured through conventional click statistics.

The Interactive Advertising Bureau's July 2024 report on digital video advertising expenditure and strategy identified business outcomes as a leading priority among advertising buyers.[2] Its significance for our discussion is that sophisticated advertising markets increasingly require an understanding of what the expenditure accomplishes rather than merely how much advertising activity it purchases.

Adult publishers interested in commanding higher rates must develop a language of value that makes sense to the advertiser.

We cannot establish a premium advertising economy simply by persuading publishers that their inventory deserves more money. We must persuade advertisers that paying more can represent an intelligent commercial decision.

The Revenue Produced by an Hour of Entertainment

The conventional analysis of advertising economics frequently begins with the individual impression. Entertainment economics provides another useful unit of analysis: the hour of viewing.

Consider two hypothetical advertising-supported entertainment services.

The first displays twelve billable advertisements per hour of viewing and earns one dollar per thousand impressions after intermediary deductions. The second displays three billable commercials per hour and earns twelve dollars per thousand impressions on the same financial basis.

The first service generates 1.2 cents in net publisher advertising revenue per viewing hour. The second generates 3.6 cents. For this illustration and the following bandwidth comparison, assume all amounts earned are collected, with no additional deductions.

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2. IAB, *2024 IAB Digital Video Ad Spend & Strategy Report*, part two (July 16, 2024); IAB, *2026 Digital Video Ad Spend & Strategy Full Report*, announcement (July 14, 2026).

The second publisher has earned three times as much advertising revenue while presenting one-quarter as many advertising messages.

The duration of the advertisements would also need to be considered before making any definitive judgment concerning the relative burden imposed upon the audience. Twelve brief advertisements and three lengthy commercials could occupy comparable amounts of time. But the illustration establishes the economic possibility of improving revenue without continually increasing the frequency of commercial interruptions.

Now suppose the second service also establishes a more satisfactory entertainment experience, encouraging its audience to spend more time watching its programming.

The financial benefits could begin accumulating in two directions. The publisher generates more revenue per hour, while its audience provides more hours of viewing.

Those two effects should be measured independently. Longer viewing sessions aren't guaranteed merely because fewer advertisements appear, and improved advertising prices do not necessarily produce more profitable viewing once the associated expenses are considered.

Nevertheless, the combination represents a considerably more interesting entrepreneurial objective than attempting to generate the greatest possible number of advertising impressions during the shortest possible visit.

It also creates a more constructive relationship between the financial interests of the publisher and the experiential interests of the audience.

The publisher becomes financially interested in providing entertainment people want to continue watching.

Bandwidth Is Not Free Just Because the Movie Is

The economics of advertising-supported video cannot be evaluated independently of the expense of delivering the entertainment.

An entrepreneur might provide a film without charging the viewer, but the infrastructure responsible for storing and distributing that film continues accumulating costs.

Video hosting, encoding, storage, network delivery, advertising technology, software maintenance and technical support all contribute to the economics of the operation. Their relative significance varies according to the technology employed, the service agreements established and the characteristics of the entertainment.

Consider a hypothetical service incurring an effective network delivery expense of one cent per gigabyte of data transferred.

If an average hour of viewing requires the delivery of two gigabytes, the bandwidth expense associated with that hour is two cents.

At an advertising revenue rate of 1.2 cents per viewing hour, the publisher cannot recover even that particular distribution expense through advertising alone. At 3.6 cents, it retains 1.6 cents after bandwidth, before accounting for the other expenses of operating the service.

Over one hundred thousand viewing hours, the difference becomes financially meaningful.

Monthly viewing hours	Lower-value model	Higher-value model
100,000	100,000	100,000
Advertising receipts	$1,200	$3,600
Bandwidth expense	$2,000	$2,000
Contribution after bandwidth	-$800	$1,600

These are illustrative assumptions, not quotations from infrastructure providers. Actual delivery expenses may be affected by volume commitments, geographic distribution, caching, encoding characteristics and the structure of individual service agreements.

The principle remains important.

A publisher losing money on each additional hour of viewing does not necessarily possess a business that will become profitable through acquiring more viewers. Unless the underlying economics improve with scale, the entrepreneur may simply be financing the expansion of his losses.

This is another reason adult entertainment cannot indefinitely accept an advertising economy organized around the lowest conceivable value of an impression.

Video is a resource-intensive medium. High-quality entertainment deserves to be delivered through technologies capable of preserving its quality, and those technologies must somehow be financed.

The appropriate response isn't necessarily to reduce the quality of the entertainment until the existing advertising model becomes profitable. It may be to reconsider whether the advertising model deserves to survive.

The Economics of the Commercial Break

Digital video provides publishers with considerable flexibility concerning the organization of advertising within an entertainment session.

A publisher might present a single commercial before a film. Another might organize several commercials into an identifiable advertising break. A longer production might accommodate one or more appropriately timed interruptions.

In contemporary digital advertising terminology, a sequence of advertisements organized into a commercial break is commonly described as an *ad pod*.

IAB Tech Lab's *CTV Programmatic Guide*, previously introduced in our examination of connected television advertising, discusses technical mechanisms through which buyers and sellers can communicate information about advertising breaks, including their duration, available placements and sequencing.[3]

These capabilities permit publishers to develop advertising products around the structure of the entertainment session rather than treat each advertisement as an unrelated commercial event.

But the existence of the technology doesn't independently establish the financial intelligence of employing it.

Suppose a publisher presently earns twenty dollars per thousand billable impressions through one commercial preceding each film. Management introduces a second commercial in an attempt to double its advertising receipts.

If the additional interruption discourages enough viewers from beginning the film, diminishes their willingness to watch subsequent productions or compromises future visits, the financial improvement may be considerably smaller than anticipated.

It might even become negative.

Conversely, a carefully constructed commercial break accompanying a longer production could provide additional revenue without materially diminishing the audience's appreciation of the entertainment.

The relevant investigation concerns the relationship between advertising load and the cumulative financial value of the viewing session.

There is almost certainly no universally intelligent number of commercials appropriate to every category of adult entertainment. The duration of the programming, the circumstances of its

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3. IAB Tech Lab, *CTV Programmatic Guide*, podded bidding and OpenRTB 2.6 signaling guidance.

consumption and the characteristics of the audience should influence the arrangement.

Management should become interested in determining where the next advertisement begins costing more than it earns.

The Cost of Selling It Yourself

Direct advertising sales can provide publishers with opportunities to retain a larger proportion of advertiser expenditure. They can also introduce expenses that previously resided within the compensation retained by an intermediary.

An independent sales operation requires somebody to identify prospective advertisers, communicate the commercial proposition, negotiate agreements, administer campaigns and pursue outstanding payments.

Some campaigns will require additional technical work. Others may introduce creative production expenses or obligations concerning campaign performance. The publisher may need to finance those activities before receiving the advertiser's money.

Consider a campaign generating ten thousand dollars in gross advertising revenue.

Through an intermediary retaining thirty percent, the publisher receives seven thousand dollars. Under a direct arrangement, the publisher retains the entire gross amount but incurs two thousand dollars in sales compensation, five hundred dollars in campaign administration and an additional five hundred dollars in other campaign-specific expenses.

Assuming no additional intermediary-model expenses and full collection in both cases, the two arrangements produce precisely the same campaign contribution of seven thousand dollars before common expenses and taxes.

The direct arrangement might nevertheless possess strategic advantages. It could provide a continuing relationship with the

advertiser, greater flexibility concerning future campaigns and opportunities to develop additional advertising products.

Alternatively, the intermediary may provide advantages concerning payment reliability, diversification of advertiser demand and administrative convenience that make its arrangement preferable.

The entrepreneur should evaluate those characteristics rather than automatically conclude that the absence of an intermediary represents a financial accomplishment.

Independence creates the opportunity to improve margins. It does not eliminate the work for which those margins exist.

Financing the Revolution

Perhaps the greatest immediate obstacle to reforming the industry's advertising economy is the financial interval between abandoning an existing source of revenue and successfully developing its replacement.

Let's return to our hypothetical publisher generating a monthly advertising contribution of three thousand dollars through its existing arrangements.

Management eliminates those arrangements and introduces a professionally presented video advertising product. During the first three months, as new advertising relationships are gradually established, the replacement product generates respective monthly contributions of one thousand, eighteen hundred and twenty-six hundred dollars.

By the fourth month, it has reached the three-thousand-dollar replacement threshold.

Month	Existing model contribution	New model contribution	Monthly shortfall
1	$3,000	$1,000	$2,000
2	$3,000	$1,800	$1,200
3	$3,000	$2,600	$400
4	$3,000	$3,000	$0
Total	**$12,000**	**$8,400**	**$3,600**

The business has sacrificed thirty-six hundred dollars in operating contribution during the transition.

If the initial technological and commercial development expenses amounted to an additional twenty-five hundred dollars, the transformation has created a cumulative contribution shortfall and development cost of sixty-one hundred dollars relative to the existing model, before considering differences in payment schedules and other cash-flow requirements. That figure is not necessarily the amount of cash financing required.

That money must come from somewhere.

The enterprise might possess sufficient reserves. It might finance the development through income generated by other commercial activities. It might establish advance sponsorship arrangements that reduce the initial financial burden.

Alternatively, management could develop the new advertising product gradually, retaining some of the existing income while progressively reducing its dependence upon the previous arrangements.

The appropriate decision depends upon the financial resources of the enterprise, the reliability of its projections and the degree of uncertainty associated with its ability to develop advertising demand.

There is also the possibility that the new product never reaches the replacement threshold.

An intelligent financial plan must account for that possibility before the transformation begins. It should establish how much the company can afford to invest, which results would justify further investment and under what circumstances the original strategy should be reconsidered.

A business should not confuse its willingness to endure a temporary financial sacrifice with evidence that the sacrifice will ultimately produce a return.

Change the System Without Killing the Patient

I don't believe the industry needs to accomplish its entire commercial transformation simultaneously.

An independent publisher could begin by developing a limited advertising-supported collection presented according to substantially different commercial and technical standards. It might negotiate sponsorship for a particular series, establish an identifiable commercial environment and introduce a more sophisticated method of measuring the resulting advertising activity.

The undertaking would provide an opportunity to investigate several important questions under actual commercial conditions.

Will advertisers purchase the new product? Will the audience respond favorably to the changes? Can the publisher fulfill its advertising commitments reliably? What expenses are associated with maintaining the arrangement? Will advertisers return?

The answers could influence the subsequent development of the business.

Where practical, the publisher should compare the financial and experiential performance of the new arrangement with an appropriate comparison group operating under the previous conditions. Changes in audience composition, programming, promotional expenditure and seasonal demand should be considered before attributing every difference in performance to the advertising intervention.

The experiment should also account for revenue displaced elsewhere in the business. An improvement within the experimental environment may be less impressive if it merely transfers commercial activity from another profitable portion of the enterprise.

The important thing is to develop evidence rather than rely exclusively upon convictions, including mine.

If the new advertising environment demonstrates sufficient commercial value, management can expand it. If particular components prove unsuccessful, those components can be reconsidered without necessarily abandoning the broader proposition.

But there is one qualification. A publisher shouldn't preserve deceptive or harmful commercial practices merely because they provide income during a transition. Certain deficiencies require correction independently of their financial consequences.

Professional obligations establish the minimum conditions under which a commercial transformation should occur.

Within those conditions, however, there is considerable room for intelligent experimentation.

A Different Definition of Growth

The conventional ambitions of digital entertainment frequently revolve around producing more material, acquiring more visitors, displaying more advertisements and generating more activity throughout the systems responsible for monetizing it.

The mathematics of independence suggests several alternatives.

A publisher might increase its earnings by improving the proportion of existing advertising opportunities successfully sold. It might obtain greater financial value from fewer commercial interruptions. It might reduce its dependence upon externally purchased traffic by developing more enduring audience relationships. It might improve its margins through better commercial ar-

rangements, more efficient delivery or more intelligent allocation of its entertainment resources.

None of these accomplishments necessarily requires an increase in the size of the audience.

They require an increase in the commercial intelligence of the business.

That is a particularly attractive proposition for independent entertainment entrepreneurs who cannot realistically compete with enormous platforms according to the conventional mathematics of scale.

The small publisher may never acquire the audience of its largest competitor. But it can investigate whether its entertainment generates greater value per viewer, per viewing hour or per dollar invested in acquiring and serving that audience.

Those relationships deserve a prominent place in the financial vocabulary of the industry.

We should become interested not merely in how much activity our businesses can produce, but in how much economic value they can create from the activity they already possess.

Make Independence Pay

The commercial revolution I'm advocating should not require the permanent financial martyrdom of the independent entertainment publisher.

Better advertising, more intelligent technology and greater operational authority ought to contribute to the development of more profitable, sustainable businesses. Those improvements should ultimately provide additional resources for acquiring entertainment, compensating creative professionals and developing the technologies through which their work is experienced.

That is the economic promise of Indecent Excellence.

The mainstream streaming industry demonstrates that audiovisual entertainment can support considerably more ambitious

advertising economics than those to which much of adult entertainment has become accustomed. Our circumstances are different, and the extent to which comparable rates can be achieved remains a commercial question requiring investigation.

But we now possess a framework through which that investigation can occur.

We can calculate the revenue necessary to replace existing advertising arrangements. We can examine the price and utilization of our proposed inventory. We can determine the expenses associated with serving our audiences, estimate the financial requirements of a transition and evaluate whether the resulting commercial proposition is worthy of further development.

The arithmetic isn't particularly mysterious.

The difficult part is having the entrepreneurial imagination to develop an advertising product capable of producing a different answer.

For too long, the industry has attempted to solve its financial problems by generating more of the very thing it has systematically made inexpensive.

Perhaps it's time we stopped asking how much more traffic we need and started asking how much more our existing traffic ought to be worth.

CHAPTER 32

The Tyranny of the Impression

“The problem begins when the unit of measurement becomes the objective of the business.”

The digital advertising industry has accomplished something rather peculiar. It has established an economic system around a unit of measurement whose name implies that something has occurred within the mind of a human being, although the measurement itself establishes no such thing.

An impression.

The word suggests that somebody noticed something, that a message registered, that an experience produced some identifiable consequence. In digital advertising, however, an impression generally represents a technical event recorded according to an established measurement methodology. Whether the advertisement actually impressed anybody remains an entirely different matter.

There are perfectly intelligent reasons for employing impressions as a commercial unit. Advertisers need a standardized means of purchasing access to audiences, and publishers need a method of establishing the quantity of advertising they have delivered.

The problem begins when the unit of measurement becomes the objective of the business.

Adult entertainment has developed an extraordinary capacity for generating measurable advertising activity without necessarily developing a comparable capacity for generating advertising value. We have become so preoccupied with producing impres-

sions that we occasionally neglect to consider what impression we're actually making.

When the Measurement Becomes the Mission

An advertising-supported publisher establishes a website. Management discovers that displaying more advertisements produces more measurable commercial activity. Additional placements are introduced, advertising mechanisms become increasingly aggressive and the technological environment gradually evolves into something substantially different from the entertainment product originally conceived.

Every additional advertisement can be justified according to its immediate financial contribution. What becomes considerably more difficult to establish is the cumulative effect of those decisions upon the product, the audience and the value of the advertising itself.

The website may generate more impressions while becoming a less desirable place to advertise.

This is an example of a broader managerial problem associated with the use of performance measurements. When organizations attach substantial financial rewards to particular measurable outcomes, the people responsible for producing those outcomes acquire compelling reasons to concentrate upon them, even when doing so compromises the original objectives of the enterprise.

A customer service department evaluated exclusively according to the number of inquiries resolved may develop procedures that discourage complicated inquiries. A publication evaluating its writers exclusively according to page views may gradually sacrifice editorial intelligence in favor of sensationalism.

An entertainment website evaluated primarily according to the number of advertising impressions it generates may eventually

become more accomplished at exhibiting advertisements than exhibiting entertainment.

The measurement itself isn't necessarily deficient. The deficiency resides in the managerial philosophy surrounding its application.

An impression is a useful unit of advertising commerce. It is an extraordinarily inadequate definition of entrepreneurial success.

What Did the Advertiser Actually Buy?

Suppose an advertiser purchases one million impressions from an entertainment publisher.

Some of those advertisements appear prominently within the principal viewing environment. Others appear in portions of a website that receive considerably less attention. Some are encountered by individuals already familiar with the advertised product, while others reach people possessing no previous knowledge of it.

Certain advertisements appear during moments when the audience is receptive to additional information. Others appear while the audience is attempting to accomplish something entirely unrelated and regards the advertisement principally as an obstacle.

From the perspective of a conventional impression count, these circumstances may receive substantially equivalent treatment.

From the perspective of the advertiser, they may represent very different commercial opportunities.

The advertising marketplace has long recognized aspects of this problem. One response has been the development of measurements concerning advertising viewability: the extent to which an advertisement was actually available to be seen within the relevant display environment.

In August 2015, the Media Rating Council published a revised version of its *Viewable Ad Impression Measurement Guidelines*. Under its desktop in-stream video criteria, an advertisement could qualify as viewable if at least half of its pixels were visible in an active browser tab for two uninterrupted seconds of playback.[1]

The standard addressed an important distinction between delivering an advertisement and providing an opportunity for somebody to see it. It did not establish that the person actually looked at the advertisement, understood its message or subsequently remembered the advertiser.

Nor should that particular desktop threshold be indiscriminately applied to every contemporary advertising environment. Different devices, formats and measurement standards introduce different considerations.

Nevertheless, the underlying principle deserves attention. The commercial opportunity associated with an advertisement depends partly upon the circumstances of its presentation, not merely upon the technical fact of its delivery.

The advertiser is ultimately interested in reaching people, not pixels.

The Difference Between Exposure and Attention

One of the more interesting developments in mainstream advertising has been the increasing professional interest in attention measurement.

1. Media Rating Council, *Viewable Ad Impression Measurement Guidelines*, version 2.0 (August 18, 2015), p. 8. The guidance also allows certain disclosed, defensible user interactions as proxies for viewability.

In November 2025, IAB and MRC released the first final version of their *Attention Measurement Guidelines*, establishing a framework for evaluating the methods through which advertising attention can be measured and interpreted.[2]

The emergence of such guidance reflects an important recognition within the advertising industry: conventional delivery statistics, although useful, cannot independently communicate everything an advertiser needs to understand about the relationship between a commercial message and its audience.

Attention itself is difficult to define and considerably more difficult to measure. Different methodologies may employ information concerning the visibility of advertisements, the duration of exposure, observable interactions, controlled research involving human participants or statistical models estimating the likelihood of attention.

These methods do not necessarily measure identical phenomena. Nor does the presence of attention independently establish that an advertisement produced a desirable commercial effect.

An exceptionally irritating advertisement can certainly attract attention. It may even be remembered for years by people who have subsequently resolved never to purchase the advertised product.

Nevertheless, the industry's growing interest in attention provides an opportunity for adult publishers to reconsider the characteristics of the advertising environments they develop.

An advertisement occupying the principal video display for fifteen seconds presents a different opportunity from a small promotional image positioned beneath several competing messages. The degree to which that opportunity produces useful attention must still be investigated, but the underlying circum-

2. IAB and MRC, *Attention Measurement Guidelines*, final version 1.0 (November 2025), pp. 7–8, section 4.

stances are sufficiently different to deserve more sophisticated commercial treatment.

If we want advertisers to pay more for better advertising environments, we should become interested in establishing what makes those environments better.

The Limits of the Click

Adult entertainment has developed a particularly enthusiastic relationship with the mouse click.

Our websites frequently treat the click as evidence of commercial intent. Advertising systems record it, intermediaries assign financial significance to it and publishers organize their interfaces around generating more of it.

But a click is a mechanical interaction, not necessarily a meaningful expression of interest.

An individual may click an advertisement because its message interests him. He may click because he misunderstands the function of an element on the screen. He may click accidentally. He may even click something completely unrelated to the advertisement and discover that the website has interpreted his activity as permission to open an advertiser's destination.

These events should not be regarded as commercially equivalent.

Consider the absurdity of compensating a traditional advertising representative according to the number of prospective customers he could physically escort into a store, without investigating whether those people had any intention of shopping there.

The store would eventually become crowded with confused individuals, the representative would produce impressive reports and management might discover that the company's sales had barely improved.

The advertiser doesn't necessarily benefit from the volume of people directed toward its business. It benefits from commercial-

ly meaningful opportunities to establish relationships with appropriate customers.

The publisher, meanwhile, may have sacrificed a portion of its own audience's satisfaction to generate activity of questionable economic significance.

I would much rather develop an advertising environment in which relatively few people deliberately engage with a commercial than one in which considerably more people are induced to interact with it through confusion.

We should be selling advertisers the opportunity to communicate with interested human beings, not the ability to interfere with uninterested ones.

When More Advertising Produces Less Value

An entertainment publisher faces an interesting economic problem when deciding how much advertising to introduce into a particular environment.

The available screen space, the amount of time the audience spends viewing entertainment and the attention available for commercial communication are limited resources.

Introducing an additional advertisement can increase the number of impressions generated. It can also diminish the visibility, attention or effectiveness associated with advertisements already present.

The financial benefits of the additional placement may therefore come at the expense of the commercial value of the existing ones.

Consider a hypothetical publisher selling sponsorship of an editorially distinctive film collection. The sponsor is attracted partly by the opportunity to establish a recognizable association with the programming.

Management subsequently introduces several competing commercial messages throughout the same environment. Each

additional arrangement generates revenue, but the original sponsor's association with the entertainment becomes less distinctive.

The publisher may have increased its advertising income during the present accounting period while reducing the value of its original sponsorship proposition.

The consequences might become apparent only when the sponsorship agreement is renegotiated.

This is a particularly troublesome characteristic of advertising overcrowding. The immediate financial benefits are relatively easy to identify. The longer-term commercial consequences may be distributed across numerous relationships and emerge considerably later.

The business can see the money generated by adding another advertisement. It may have no corresponding measurement of the money it eventually loses because its advertising environment has become less valuable.

The entrepreneur must therefore develop a conception of advertising inventory that incorporates the quality of the commercial environment surrounding it.

An opportunity to communicate isn't merely something we create by allocating additional space. It's something we can diminish by allocating too much.

The Arithmetic of Attention

Consider two hypothetical advertising campaigns, each employing fifteen-second video commercials.

The first campaign generates one million valid impressions. Its average recorded playback duration is three seconds per impression.

The second generates two hundred thousand valid impressions, with an average recorded playback duration of fifteen seconds.

Both produce a cumulative three million seconds of recorded commercial playback.

Assume all valid impressions in this illustration qualify for billing. If the first campaign has a gross advertiser CPM of two dollars and the second a gross advertiser CPM of ten dollars, both cost the advertiser two thousand dollars before any additional advertiser-side expenses.

Measurement	Campaign A	Campaign B
Valid, billable impressions	1,000,000	200,000
Average playback duration	3 seconds	15 seconds
Total playback duration	3,000,000 seconds	3,000,000 seconds
Gross advertiser CPM	$2.00	$10.00
Total advertising expenditure	$2,000	$2,000

The hypothetical example deliberately isolates several variables to illustrate the limitations of impression-based comparisons. Advertiser expenditure is not necessarily equivalent to publisher revenue or cash receipts.

It doesn't establish that the two campaigns provide equal advertising value. The first might introduce the advertised product to substantially more people. The second might provide a greater opportunity for viewers to understand the complete commercial message. Differences in audience composition, repeated exposure, creative quality and actual attention could influence their respective effectiveness.

Recorded playback duration should not be confused with measured human attention.

Nevertheless, the example illustrates why an advertising opportunity costing five times as much per impression needn't be five times as expensive in relation to another relevant characteristic of the campaign.

The publisher developing premium advertising products should become conversant with these distinctions.

We cannot establish a more sophisticated advertising economy while evaluating every commercial opportunity exclusively according to the cheapest available impression.

The Advertisement That Accomplishes Something

The ultimate economic significance of an advertisement resides in its ability to contribute to the advertiser's objectives.

Those objectives may involve introducing a product, establishing brand recognition, attracting prospective customers, generating transactions or influencing the future purchasing behavior of an audience.

The appropriate measurement depends upon what the advertisement was intended to accomplish.

An advertiser selling an immediately available product may be particularly interested in measurable transactions. A company introducing a new brand may initially be more concerned with whether potential customers recognize it. An established business may employ advertising to maintain awareness or communicate changes in its products.

The financial consequences of those activities don't necessarily occur during the period in which the advertisement appears.

This introduces a substantial difficulty for publishers attempting to demonstrate advertising effectiveness. Even when detailed transactional information is available, establishing whether an advertisement caused a particular commercial outcome can be remarkably complicated.

In their 2015 paper “The Unfavorable Economics of Measuring the Returns to Advertising,” published in *The Quarterly Journal of Economics*, researchers Randall A. Lewis and Justin M. Rao, whose work we encountered in Chapter 11, examined twenty-five randomized advertising experiments. Their findings

demonstrated the considerable statistical difficulties associated with reliably estimating advertising returns, even within large-scale experimental environments.[3]

Their research should provide a useful degree of intellectual humility to anybody claiming to understand the precise financial value of every advertisement displayed on a website.

The existence of sophisticated reporting technology doesn't eliminate the difficulties of distinguishing advertising effects from ordinary purchasing behavior.

A transaction occurring after an advertisement may have been influenced by that advertisement. It may also have occurred without it.

The advertiser and publisher should distinguish measurements of delivery from evidence of effectiveness. Both are useful, but they support different conclusions.

Adult entertainment should become more ambitious about providing advertisers with useful evidence and less ambitious about claiming evidence it doesn't possess.

Sell Reach, Not Repetition

There is another important deficiency associated with evaluating advertising exclusively through aggregate impressions.

One million impressions might represent a campaign reaching one million different people once. It might also represent a campaign reaching one hundred thousand people ten times.

These are fundamentally different commercial propositions.

The first provides substantially greater reach. The second provides more frequent opportunities to communicate with a smaller audience. Depending upon the advertiser's objectives and the

3. Randall A. Lewis and Justin M. Rao, “The Unfavorable Economics of Measuring the Returns to Advertising,” *The Quarterly Journal of Economics* 130, no. 4 (2015): 1941–1973. DOI: 10.1093/qje/qjv023.

characteristics of the commercial message, either arrangement might be preferable.

But a publisher incapable of distinguishing between the two cannot adequately describe what it is selling.

Conventional media planning has long examined the relationship between reach and frequency. Reach concerns the number or proportion of distinct people exposed to a campaign, while frequency concerns the number of exposures experienced by those people.

Repeated exposure can contribute to recognition and familiarity. Excessive repetition can also produce diminishing returns, annoyance and indifference.

An adult entertainment service that plays the same commercial before every short film encountered by a regular visitor may generate substantial impression volume while providing its advertiser with progressively less useful communication.

The publisher needs to consider whether the tenth exhibition of a commercial to the same individual provides comparable value to the first, and whether that value justifies the additional interruption.

There are technical and privacy limitations to measuring reach and frequency accurately. Adult publishers should not attempt to overcome every measurement difficulty through invasive identification or the construction of permanent consumer profiles.

Appropriately limited session-level controls, aggregate estimates and voluntary account-based preferences can provide useful capabilities under suitable circumstances.

The fact that we cannot measure something perfectly doesn't mean we must ignore it. Nor does it mean we should compromise the privacy of our audiences in pursuit of numerical perfection.

The Audience Is Not the Merchandise

There is a familiar observation concerning advertising-supported digital businesses: if the consumer isn't paying for the product, the consumer is the product.

It is a clever expression, but I find it an inadequate description of what an intelligently operated entertainment business ought to be.

A television broadcaster produces or acquires entertainment that people want to experience. An advertiser provides financial support in exchange for opportunities to communicate with those people. The resulting commercial arrangement creates value for several participants.

The audience receives entertainment. The advertiser receives opportunities for communication. The publisher receives resources through which it can continue operating.

The audience needn't become merchandise for this arrangement to function.

The problem arises when the people experiencing the entertainment are regarded primarily as resources to be exploited by the technological systems surrounding it.

An individual's private interests become data to be acquired. His interactions become opportunities to redirect him. His attention becomes something to be extracted as aggressively as the technology permits.

We should be particularly reluctant to adopt that philosophy within adult entertainment, where the nature of the relationship requires exceptional discretion.

An adult publisher should be capable of developing a successful advertising business without constructing comprehensive dossiers concerning the people watching its films.

Contextual relevance, editorial specialization, appropriately aggregated audience information and intelligently selected spon-

sorship arrangements can all contribute to advertising propositions without requiring unrestricted access to individual behavior.

The publisher can sell opportunities to communicate within a particular entertainment environment rather than sell the personal lives of the people occupying it.

That distinction deserves to become part of the professional identity of a reinvented adult advertising industry.

An Advertising Report Worth Reading

Imagine an independent entertainment publisher presenting an advertiser with a campaign report.

Instead of providing only the total number of impressions and clicks, the report describes the characteristics of the advertising placements, the programming with which the campaign was associated and the proportion of available commercial opportunities successfully delivered.

Where reliable measurement is available, it includes information concerning playback duration, completion, viewability, estimated reach and frequency. It distinguishes voluntary interactions from other forms of recorded activity and identifies relevant limitations in the measurement methodology.

If the advertiser has arranged an appropriate method of evaluating commercial outcomes, the report incorporates those findings while distinguishing observed associations from demonstrated causal effects.

Such a report could provide substantially greater value than a conventional traffic summary.

It gives the advertiser information through which to evaluate the campaign, reconsider its creative material and make more intelligent decisions concerning subsequent advertising expenditures.

It also gives the publisher a means of distinguishing its advertising service from competitors selling superficially similar inventory.

The publisher becomes capable of explaining what happened beyond the production of a large number.

Not every campaign warrants an elaborate research undertaking. The expense of measurement should remain proportionate to the financial significance and objectives of the advertising arrangement.

A relatively inexpensive campaign may require little more than accurate delivery statistics and basic performance information. A substantial sponsorship arrangement might justify additional research.

The important consideration is that the publisher understands which measurements matter, why they matter and what can reasonably be concluded from them.

An intelligent advertising report should illuminate the commercial arrangement rather than merely decorate it with statistics.

Give Scarcity a Commercial Purpose

The digital environment has made it technologically possible to produce enormous quantities of advertising inventory. Additional placements can be introduced into interfaces, advertisements can be delivered repeatedly and new commercial opportunities can be generated through increasingly imaginative interpretations of what constitutes an impression.

But the technological availability of advertising inventory does not independently establish its economic desirability.

An intelligently managed publisher may deliberately limit the number of advertising opportunities it makes available.

This isn't necessarily an attempt to manufacture scarcity through arbitrary restriction. It may be a legitimate means of preserving the quality of the commercial environment, maintaining

the distinctiveness of sponsorship arrangements and ensuring that the entertainment remains sufficiently enjoyable to sustain the audience.

A publisher offering exclusive sponsorship of a particular film presentation has established a different commercial product from one offering unlimited competing advertisements throughout the same presentation.

The restriction is part of what the advertiser is purchasing.

Similarly, a publisher maintaining a modest commercial load may be able to provide an advertising environment in which individual messages encounter less competition from other promotional activity.

Whether advertisers assign sufficient economic value to those characteristics remains a matter for commercial investigation. Limiting inventory without developing corresponding demand could simply reduce the publisher's revenue.

But the strategic possibility deserves attention.

The industry has spent much of its digital history treating the abundance of advertising opportunities as an unquestionable advantage. We should investigate the circumstances under which intelligently managed scarcity becomes the more valuable proposition.

A Better Scorecard

What would happen if an entertainment publisher evaluated the success of its advertising operation according to a more balanced collection of measurements?

Financially, management would examine gross advertising revenue, net publisher revenue, cash receipts, contribution margins and revenue per viewing hour.

Operationally, it would investigate fill, playback success and billable utilization, whether advertisements interrupted the enter-

tainment through technical failures and whether campaign commitments were fulfilled.

From the advertiser's perspective, it would examine the relevant characteristics of exposure, audience reach, frequency and commercial outcomes where those outcomes could reasonably be evaluated.

From the audience's perspective, it would investigate the effects of advertising upon playback abandonment, satisfaction, return visits and the willingness to continue experiencing the entertainment.

No single measurement would independently determine whether the advertising operation was successful.

An increase in revenue might be accompanied by a substantial deterioration in audience behavior. A reduction in advertising volume might improve viewing continuity without generating sufficient replacement income. An impressive campaign completion rate might reveal little about the advertiser's ultimate commercial objectives.

The purpose of the scorecard would be to make these relationships visible.

An entertainment company operates within an economic system involving several constituencies whose interests must be intelligently reconciled. Its measurements should reflect that complexity rather than encourage management to maximize one conveniently available statistic at the expense of everything else.

We don't need a single miraculous measurement capable of explaining the entire advertising economy. We need managers sufficiently intelligent to understand why no such measurement exists.

Stop Counting the Wrong Accomplishment

An adult entertainment publisher displaying one hundred million advertisements has established that it can produce a considerable quantity of advertising activity.

It hasn't necessarily established that its entertainment is excellent, its audience is satisfied, its advertisers are receiving meaningful value or its business is profitable.

Those accomplishments require additional evidence.

I want the industry to become more ambitious about the quality of the advertising opportunities it creates and less impressed by their sheer numerical abundance.

An independent publisher with a modest but engaged audience, excellent programming, professionally administered commercial arrangements and an intelligently managed advertising environment may possess something considerably more interesting than its conventional traffic statistics suggest.

The advertiser should be interested in the opportunity to communicate. The audience should be interested in the entertainment. The publisher should be interested in constructing a financially sustainable relationship between those interests.

Impressions will remain useful in administering that relationship. We will continue counting them, purchasing them, selling them and employing them in financial calculations.

But they should no longer dictate the character of the entertainment business.

We have spent decades accumulating the technical evidence that advertisements appeared.

Perhaps it's time we became more interested in whether they accomplished anything.

CHAPTER 33

The Cost of Cheap

“The problem is constructing an economy in which excellence becomes financially irrational.”

Cheap is an expensive way to run an entertainment industry.

The financial consequences of cheap advertising extend considerably beyond the disappointing amount of money a publisher receives for displaying it. They influence what producers can afford to spend making films, what creative professionals can expect to earn, what technologies publishers can afford to develop and what kinds of entrepreneurs are attracted to the business in the first place.

Eventually, the entire industry begins organizing itself around the economic limitations of a commercial arrangement it has largely accepted without challenge.

We have spent much of this book examining the consequences of diminishing the perceived value of adult entertainment. We must now confront a related problem: the extent to which our advertising economy has diminished the industry's actual capacity to produce valuable entertainment.

The money generated by advertising doesn't simply disappear into the proprietor's pocket. In a healthy entertainment economy, a substantial portion of it ultimately finances the next generation of creative work. When that money becomes insufficient, the consequences travel backward through the entire commercial system, eventually reaching the people standing in front of and behind the camera.

The price of an advertisement may be established in milliseconds by an automated auction. Its economic consequences can persist for years.

Inexpensive Is Not the Same as Cheap

There is an important distinction between developing a technology that reduces the cost of accomplishing something and developing a commercial environment that reduces what somebody is willing to pay for it.

The former represents an improvement in productivity. The latter may represent a deterioration in perceived value.

I have enormous enthusiasm for technologies that enable independent producers to make better films at lower costs, distribute them more efficiently and establish commercially sophisticated publishing operations without extraordinary capital expenditures. Those developments can improve the economics of entertainment and make entrepreneurial opportunities accessible to people previously excluded from them.

But there is little economic intelligence in reducing the cost of delivering entertainment if we simultaneously establish commercial arrangements that diminish its revenue-generating capacity by an even greater amount.

Suppose an independent producer develops a method of reducing the cost of making a film from twenty thousand dollars to fifteen thousand dollars. Under otherwise comparable circumstances, that improvement strengthens the economics of production. If the anticipated commercial return associated with the film subsequently declines from thirty thousand dollars to eighteen thousand dollars, however, the producer's financial position has deteriorated despite the technological accomplishment.

We should be interested in reducing unnecessary expenses while increasing the economic value of the things those expenses enable us to produce.

Too frequently, the industry celebrates the former while practically surrendering the latter.

We have mistaken the ability to produce and distribute entertainment inexpensively for an obligation to sell everything associated with it cheaply.

A Dollar Here, Twenty Dollars There

Earlier, we examined published reports indicating that premium mainstream streaming advertising could command CPMs in the vicinity of twenty to twenty-five dollars, with considerable variation across platforms, audiences and purchasing arrangements.

Let's consider the other side of that commercial landscape.

In 2020, ExoClick, an advertising technology company serving adult and other digital publishers, published a case study concerning in-stream video advertising. As noted in Chapter 30, its examples of average minimum US in-stream bids were approximately fifty cents per thousand impressions for run-of-network inventory and one dollar fifty for premium inventory.[1]

As of November 2026, TrafficStars, another advertising network serving the adult marketplace, describes typical introductory test bids for adult video advertising as ranging from fifty cents to two dollars per thousand impressions.[2]

These figures require careful interpretation. Minimum bids and suggested campaign-testing prices are not equivalent to average realized advertising prices. Neither establishes the amount ultimately received by a publisher. Nor can they be directly com-

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1. ExoClick, “Case study: How to optimize an In-Stream Video campaign” (2020). See Chapter 30, note 3. Historical minimum bids, not actual publisher proceeds.
2. TrafficStars, adult video advertising guidance (2026), accessed November 28, 2026. See Chapter 30, note 3. Suggested test bids, not realized rates.

pared with premium connected television advertising without accounting for differences in audience, device, geography, placement, demand and measurement.

I have been unable to obtain sufficiently comprehensive, independently audited industry data to establish a representative adult video advertising CPM across the marketplace. I would rather acknowledge that limitation than manufacture a conveniently dramatic statistic.

Nevertheless, the published figures provide an interesting indication of the commercial expectations being communicated to prospective advertisers.

In one portion of the digital video economy, the conversation concerns the purchase of professionally administered entertainment advertising at twenty or twenty-five dollars per thousand impressions. In another, prospective advertisers are being encouraged to begin investigating comparable advertising formats at prices measured in cents and a few dollars.

That doesn't establish a precise industry-wide pricing disparity. It does establish a question worth investigating.

Why have we become so comfortable discussing the value of our audiences in such comparatively modest financial terms?

The Price That Finances the Next Film

Suppose an entertainment publisher distributes a collection of independently produced films. Over the course of a year, those films collectively generate ten million qualifying video advertising impressions.

Under five hypothetical advertising arrangements, assuming full collection, the associated publisher receipts might look something like this:

Net publisher CPM	Annual billable impressions	Annual advertising receipts
$0.50	10,000,000	$5,000
$2.00	10,000,000	$20,000
$10.00	10,000,000	$100,000
$20.00	10,000,000	$200,000
$25.00	10,000,000	$250,000

These are deliberately simplified financial illustrations. They assume identical quantities of qualifying advertising impressions and employ net publisher CPMs rather than the gross advertiser prices discussed previously. They make no prediction concerning achievable adult advertising rates, utilization, operating expenses or audience behavior. Receipts are not contribution or profit; the costs of producing and distributing the entertainment remain to be accounted for.

What interests me is the difference in the creative possibilities available to the enterprise under each arrangement.

At five thousand dollars in annual advertising receipts, the collection may contribute relatively little toward financing subsequent productions. At one hundred thousand dollars, the enterprise possesses considerably greater resources with which to negotiate licensing agreements, commission new films, compensate creative professionals and improve its distribution infrastructure.

At two hundred thousand dollars, the same quantity of billable advertising activity could finance a substantially different kind of entertainment business.

The audience hasn't necessarily become larger. The publisher hasn't necessarily introduced additional advertising. The filmmakers haven't necessarily become more productive.

The commercial value associated with the existing activity has changed.

That is the economic transformation I'm interested in pursuing.

Imagine the implications of such an improvement occurring across hundreds of independent entertainment businesses. We wouldn't merely be talking about better advertising revenue. We would be talking about the potential recapitalization of an entire creative industry.

The Devaluation Cycle

An entertainment publisher receives insufficient advertising revenue to finance the acquisition of exceptional films. It responds by acquiring less expensive entertainment, increasing the quantity of advertising accompanying it and reducing expenditures on the technological environment through which it is experienced.

The resulting publication becomes less distinctive. Its presentation deteriorates, the audience becomes less inclined to establish a continuing relationship with it and advertisers encounter an environment whose characteristics provide fewer reasons to pay a premium.

Management responds to the disappointing financial results by increasing the volume of inexpensive advertising and further reducing its entertainment expenditures.

Eventually, what began as a financial problem becomes a characteristic of the product itself.

This is what I call the *Devaluation Cycle*: a self-reinforcing commercial process in which inadequate revenue restricts investment in quality, diminished quality weakens the proposition offered to customers and advertisers, and that weakened proposition makes higher revenue increasingly difficult to obtain.

The concept should not be interpreted as a universal explanation for declining entertainment businesses. A company can invest substantial resources in quality without improving its financial performance. It can encounter changes in consumer preferences, competitive conditions or institutional restrictions that substantially diminish the commercial value of otherwise excellent work.

Nevertheless, the mechanism deserves particular attention in advertising-supported entertainment because the consequences of inadequate investment affect both sides of the marketplace.

The audience receives a less satisfactory product. The advertiser receives a less attractive commercial environment. Each has fewer reasons to assign additional value to the enterprise.

Eventually, the publisher may conclude that its audience simply isn't worth very much.

But how much of that conclusion reflects the audience, and how much reflects the circumstances in which the publisher has chosen to present it?

When Good Producers Cannot Afford to Compete

The deterioration of entertainment economics can also influence which people remain in the production business.

An independent filmmaker devoted to developing distinctive, professionally produced entertainment may incur expenses associated with writing, preproduction, qualified personnel, appropriate working conditions, performer compensation, production equipment, editing and the administration of intellectual property.

Another producer may operate according to a considerably less expensive production model.

There is nothing inherently wrong with the latter. Low-budget filmmaking can produce exceptional creative work, and expensive productions can be astonishingly uninteresting. Production

expenditure is not a reliable measurement of artistic accomplishment.

But when the marketplace provides insufficient opportunities for producers to recover the costs associated with more ambitious work, certain kinds of entertainment become increasingly difficult to finance.

The industry can lose experienced professionals whose capabilities would otherwise contribute to its creative development. Producers may abandon projects requiring longer development periods. Independent companies may become reluctant to investigate unfamiliar creative possibilities because the consequences of an unsuccessful production threaten their continuing existence.

In Chapter 15, we examined economist George A. Akerlof's 1970 paper concerning markets characterized by uncertainty about product quality.[3] Among the broader implications of his research is the possibility that markets unable to distinguish adequately between different qualities of products can become unfavorable to suppliers of higher-quality goods.

The economics of entertainment aren't identical to the automobile marketplace employed in Akerlof's famous example. Nevertheless, there is a relevant parallel.

When entertainment distribution environments provide inadequate means of distinguishing creative accomplishments, and when financial arrangements compensate substantially different works as though they were interchangeable commodities, we create conditions under which more ambitious producers may find it increasingly difficult to justify their investment.

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3. George A. Akerlof, “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism,” *The Quarterly Journal of Economics* 84, no. 3 (1970): 488–500. DOI: 10.2307/1879431. See Chapter 15, note 1.

The problem isn't simply that mediocre entertainment exists. Mediocre entertainment has always existed, occasionally at magnificent expense.

The problem is constructing an economy in which excellence becomes financially irrational.

The Professional Costs That Don't Disappear

Certain costs associated with producing entertainment cannot responsibly be eliminated merely because the marketplace has become less profitable.

The obligations associated with performer safety, informed consent, appropriate working conditions, contractual fairness and responsible administration of sensitive material remain regardless of the price at which a publisher sells advertising.

A financially distressed production company doesn't acquire a professional exemption from its responsibilities.

This matters because discussions concerning the economics of adult entertainment occasionally concentrate so exclusively upon production costs that they neglect the human consequences of reducing those costs indiscriminately.

We should distinguish improvements in production efficiency from reductions in professional standards.

An intelligent workflow might reduce the time required to edit and distribute a production. Better technology might eliminate unnecessary administrative expenses. Shared infrastructure might enable independent producers to accomplish tasks previously requiring expensive external services.

Those are legitimate economic improvements.

Reducing compensation below agreed terms, neglecting appropriate safeguards or abandoning professional responsibilities because a film is unlikely to generate sufficient revenue are not equivalent accomplishments.

If the marketplace cannot adequately support entertainment produced according to reasonable professional standards, that represents an argument for improving the economics of the marketplace, not lowering the standards.

We'll examine the responsibilities of ethical and sustainable production in considerable depth later in this book. For now, I want to establish their relationship to our advertising argument.

A better-financed entertainment economy doesn't guarantee ethical conduct. Wealthy companies are perfectly capable of behaving irresponsibly. But insufficient financial resources can create pressures that make responsible operation more difficult, particularly for smaller enterprises.

If we are serious about establishing higher professional standards, we should be equally serious about developing commercial arrangements capable of supporting them.

An Industry of Discounted Expectations

Markets are influenced not only by what companies presently charge but by what their customers have learned to expect them to charge.

An advertiser accustomed to purchasing a particular category of inventory at exceptionally low prices may reasonably regard a subsequent proposal involving substantially higher prices with considerable skepticism.

From the advertiser's perspective, the publisher appears to be requesting more money for something the marketplace has historically supplied inexpensively.

We cannot resolve that problem merely by explaining that the publisher needs additional revenue. The advertiser is operating a business of its own. Its responsibility is to determine whether the proposed expenditure will produce sufficient commercial value to justify the price.

The adult publisher attempting to establish premium advertising rates must therefore develop something meaningfully different from the inventory previously available.

A distinctively organized entertainment service, a professionally administered sponsorship arrangement or a reliable video advertising environment with demonstrable advantages gives the advertiser a proposition that can be evaluated on its own merits.

The publisher isn't simply increasing the price of an existing commodity. It is introducing a different advertising product.

This is an important distinction in the economics of repositioning a business.

An entrepreneur attempting to charge premium prices while preserving the same technological environment, the same advertising practices and the same administrative deficiencies is merely becoming a more expensive version of the previous enterprise.

The industry has no shortage of opportunities to develop more attractive advertising products. What we lack, in many instances, is the commercial conviction to distinguish them from everything we've already been selling.

Cheap Competition Is Still Competition

There is a perfectly legitimate place in the advertising economy for inexpensive inventory.

Some advertisers possess commercial objectives that can be efficiently accomplished through comparatively inexpensive placements. Some publishers are capable of generating satisfactory financial returns through large quantities of relatively inexpensive advertising. Others may employ such arrangements as a useful supplement to their principal revenue sources.

I am not advocating the elimination of economical advertising products.

I am advocating the development of commercially meaningful alternatives.

The difficulty arises when virtually every independent publisher attempts to compete according to the same economic proposition. Each seeks more traffic, generates additional inventory and attempts to make that inventory attractive to advertisers through competitive pricing.

The resulting marketplace becomes increasingly favorable to organizations possessing extraordinary scale or exceptionally low operating expenses.

That is a difficult environment in which to operate a specialized entertainment business.

In his 1996 Harvard Business Review article “What Is Strategy?”, Michael E. Porter examined the distinction between improving the execution of business activities and establishing a distinctive competitive position.[4]

The distinction is particularly relevant here. An independent publisher may become exceptionally proficient at generating inexpensive advertising impressions without establishing a commercial proposition meaningfully different from that of its competitors.

It has improved its performance within an existing competitive arrangement without necessarily improving the strategic character of the arrangement itself.

A specialized publisher might instead develop a commercially distinctive advertising environment around particular programming, a recognizable editorial identity or an unusually well-administered entertainment experience.

It may deliberately decline certain revenue opportunities incompatible with that proposition. Those decisions involve finan-

4. Michael E. Porter, “What Is Strategy?” *Harvard Business Review* 74, no. 6 (November–December 1996): 61–78.

cial trade-offs, and their intelligence depends upon whether the resulting business generates sufficient commercial value.

But at least the publisher is competing according to a strategy it has developed rather than merely according to the prices available through somebody else's marketplace.

The industry needs more entrepreneurs interested in establishing different businesses, not merely more efficient versions of the same one.

Professionalism Is the Admission Price

We should be careful not to assume that improving basic advertising standards will automatically persuade advertisers to pay substantially more.

In July 2026, the IAB published findings from its annual digital video advertising research indicating that substantial concerns about inventory quality persisted even within mainstream connected television. The research also reported that advertising buyers were reluctant to pay additional premiums simply to prevent fraudulent activity.[5]

That observation deserves considerable attention.

Advertisers may regard reliable delivery, accurate reporting and legitimate audience activity not as premium characteristics but as the minimum conditions necessary for conducting business.

An adult publisher introducing those capabilities may have improved its commercial credibility without independently creating a justification for charging higher prices.

This establishes two different objectives for the reinvention of our advertising economy.

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5. IAB, *2026 Digital Video Ad Spend & Strategy Full Report*, July 14, 2026. Official release: “Business Outcomes Are Just the Beginning.”

First, we must establish the professional conditions under which advertisers can reasonably conduct business with us. Then we must develop advertising products providing sufficient additional commercial value to justify premium compensation.

The first accomplishment makes participation possible. The second makes differentiation possible.

A restaurant doesn't ordinarily charge a premium because its kitchen meets basic sanitary requirements. Those requirements establish whether the restaurant should be operating at all. The premium must be justified through other characteristics of the experience.

Similarly, an adult publisher should not expect advertisers to pay substantially more merely because its advertising statistics are accurate and its technology behaves appropriately.

We must provide those things as a matter of professional obligation. The premium must be earned through the quality and commercial significance of what we provide beyond them.

The Invisible Costs of Cheap Advertising

The price received for an advertisement provides an incomplete description of its financial contribution to an entertainment enterprise.

Consider a commercial arrangement generating one thousand dollars in monthly revenue. The publisher might initially regard the entire amount, less its directly associated expenses, as a contribution toward operating the business.

But suppose the advertising introduces technological problems requiring additional customer support. Suppose it diminishes the effectiveness of subscription promotions appearing within the same environment. Suppose some portion of the audience becomes sufficiently frustrated that its frequency of return declines.

The arrangement has produced revenue while potentially imposing expenses and destroying commercial opportunities elsewhere in the enterprise.

Those effects can be difficult to isolate. The publisher may know precisely how much money it received from an advertising partner while possessing little evidence concerning the financial activity that might otherwise have occurred.

This introduces an unfortunate bias into managerial decision-making. Existing revenue is visible and comparatively easy to defend. Revenue that might have existed under different circumstances remains hypothetical and is considerably easier to dismiss.

An intelligent publisher must nevertheless investigate the possibility that some inexpensive advertising arrangements are more costly than their financial statements suggest.

A useful examination would account for the advertising's direct contribution alongside its effects upon technical performance, audience behavior, other revenue sources and the longer-term commercial identity of the publication.

Where those effects cannot yet be established, management should develop experiments capable of reducing the uncertainty.

The question isn't merely whether an advertisement makes money.

The question is whether the business makes more money because the advertisement is there.

We Need an Economy, Not a Collection of Survivors

One of the more disappointing characteristics of a chronically underfinanced industry is the extent to which individual enterprises become preoccupied with their own immediate survival.

The producer needs to recover the cost of the present film. The publisher needs enough advertising revenue to pay next month's infrastructure expenses. The advertising intermediary needs sufficient inventory to maintain its competitive position. The technology provider needs customers capable of financing continued development.

Each participant attempts to resolve its immediate financial difficulties, occasionally through arrangements that diminish the long-term commercial prospects of the other participants.

The publisher negotiates lower licensing costs because its advertising income is inadequate. The producer reduces production expenditure because licensing income has declined. The advertising intermediary attempts to increase inventory because individual impressions generate insufficient returns. The resulting entertainment environment becomes increasingly difficult to distinguish or sell at a premium.

Every individual decision may be economically intelligible within the circumstances of the organization making it. The cumulative effect may nevertheless be destructive to the industry.

What interests me about the possibility of a more valuable advertising economy is its potential to create financial improvements that extend throughout this system.

A publisher generating more attractive margins may possess additional resources with which to acquire films. Producers receiving more attractive compensation may be better positioned to finance subsequent work. Technology companies serving financially healthier publishers may find it commercially practical to develop more ambitious capabilities.

None of those benefits occurs automatically. Revenue must actually reach the relevant participants through intelligently constructed commercial agreements. Additional income retained exclusively by one participant may do relatively little to improve the economics of the others.

But the opportunity exists.

We should become interested in creating enough economic value that the success of one participant needn't depend quite so heavily upon reducing the compensation of another.

Stop Subsidizing Our Own Devaluation

Much of the adult entertainment industry's ingenuity has been devoted to finding ways of surviving within an economic environment whose underlying deficiencies we have comparatively little enthusiasm for correcting.

We develop less expensive production methods to accommodate inadequate licensing revenues. We construct cheaper distribution systems to accommodate inadequate advertising returns. We devise increasingly aggressive promotional mechanisms to compensate for audiences that rarely establish continuing relationships with our businesses.

All these activities may resolve immediate problems. But they can also become methods of subsidizing the continued existence of a commercial system that systematically undervalues the entertainment responsible for sustaining it.

At some point, the entrepreneur must distinguish between making a defective system more efficient and constructing a better system.

That doesn't mean abandoning profitable commercial arrangements indiscriminately. It means recognizing that our responsibility extends beyond becoming more proficient at surviving within them.

Throughout this part of the book, we've examined the importance of independent audience relationships, publisher sovereignty, advertising sales, financial accountability, premium video commercials and more intelligent measures of advertising effectiveness.

Those aren't unrelated managerial preferences. They are components of a substantially different entertainment economy.

The objective is to give publishers greater authority over the commercial value of their work, provide advertisers with more useful opportunities to communicate, give audiences better entertainment experiences and create stronger financial foundations for the people producing that entertainment.

We cannot accomplish all of those things merely by negotiating another fractional increase in the compensation associated with an advertising impression.

We need to reconsider what we're selling, what makes it valuable and who ultimately benefits from the money it generates.

Adult entertainment needn't become expensive to the consumer in order to become valuable to the advertiser. It needn't abandon independent entrepreneurship to develop sophisticated commercial infrastructure. It needn't surrender its creative irreverence to establish higher professional standards.

But it does need to abandon the idea that cheapness is an unavoidable characteristic of its commercial existence.

The cost of cheap isn't merely the money we didn't make yesterday.

It's the industry we won't be able to afford to build tomorrow.

PART V

ENGINEERING THE REVOLUTION

“A system must have an aim. Without an aim, there is no system.”

W. Edwards Deming
The New Economics (2018 edition)

CHAPTER 34

Host. Monetize. Deliver.

“We should be engineering the infrastructure of an industry, not continually obligating its individual participants to reconstruct it.”

An independent filmmaker finishes a motion picture. In principle, the commercial undertaking that follows should be relatively straightforward. The film needs somewhere to reside, a means of generating revenue and a method of reaching the audience.

Instead, the filmmaker enters an administrative wilderness.

One company provides video hosting. Another provides advertising technology. Another supplies the playback software. There may be separate arrangements for distribution, subscriptions, payment processing and performance measurement. Each service possesses its own administrative environment, contractual requirements, technical conventions and interpretation of the information associated with the film.

The entrepreneur becomes responsible for assembling the components into something resembling an entertainment business.

There is nothing inherently objectionable about employing several specialized technologies. Indeed, there are compelling economic and engineering arguments for doing so. But there is something fundamentally inefficient about requiring every independent entertainment publisher to become a systems integrator merely to distribute a motion picture.

We should be engineering the infrastructure of an industry, not continually obligating its individual participants to reconstruct it.

The commercial architecture I propose begins with three fundamental activities: hosting the entertainment, monetizing it and delivering it. These activities should be understood as interconnected components of a single economic undertaking, regardless of how many independent technologies participate in their execution.

The film is the common denominator. Everything else should be organized around it.

The Motion Picture as an Economic Object

One of the peculiarities of digital entertainment infrastructure is that the same motion picture can possess several unrelated technological identities.

The hosting service assigns it an identifier. The publishing system assigns it another. The advertising infrastructure may associate it with a particular placement. The accounting system identifies it according to an entirely different administrative convention.

Each system maintains information concerning the same creative work, yet none necessarily possesses an adequate understanding of its relationship to the information maintained elsewhere.

From the perspective of the entrepreneur, these aren't separate commercial objects. They're different technological representations of the same film.

The motion picture possesses a creative identity, a production history, a collection of intellectual property rights, technical characteristics and potentially numerous commercial arrangements. It may be distributed through several publications, accompanied by different advertisements and made available under different financial conditions.

An intelligently constructed entertainment infrastructure should be capable of maintaining the relationships among those activities.

Suppose a producer authorizes a particular film for advertising-supported distribution through three independent publishers. Each publisher negotiates a different commercial arrangement. The film may generate advertising revenue through one website, sponsorship revenue through another and subscription-related revenue through a third.

The producer should be capable of understanding those arrangements without requiring the film to acquire three unrelated economic existences.

That doesn't mean every participant needs access to everybody else's confidential information. Appropriate permissions and contractual distinctions must be maintained. But the infrastructure should possess a coherent understanding of which creative work is being distributed and how its various commercial activities relate to it.

The entertainment itself should become the organizing principle of the technology.

Hosting Is More Than Storage

The term *video hosting* occasionally suggests a relatively uncomplicated service. An entrepreneur uploads a digital file, pays somebody to retain it and receives a method of retrieving it.

That description adequately explains certain aspects of digital storage. It inadequately describes the responsibilities associated with operating a professional entertainment library.

A hosted motion picture may require several encoded versions to accommodate different network conditions, display capabilities and playback environments. It may require descriptive

metadata, subtitles, alternative audio tracks, promotional images and information concerning its authorized distribution.

The original production must be distinguished from the versions prepared for exhibition. Appropriate procedures must exist for replacing defective media, modifying associated information and administering access to the entertainment.

There are also questions of preservation. An independently produced film may represent a substantial creative and financial investment. The loss of its original materials could be considerably more expensive than the temporary interruption of its distribution.

The publisher should therefore distinguish between the infrastructure employed for commercial exhibition and the arrangements responsible for preserving the underlying creative assets.

In conventional filmmaking, we would hardly suggest that a theatrical projection copy constitutes an adequate archival strategy. Digital entertainment deserves comparable intelligence.

A professionally administered hosting environment should enable the enterprise to understand what material it possesses, which versions are available, where appropriate copies are maintained and which technologies depend upon them.

Storage capacity is one component of that undertaking. The intelligent administration of the entertainment is another.

Give Every Film an Identity

An independent publisher should be able to establish a continuing internal identity for each creative work, regardless of changes in the technology responsible for distributing it.

A film shouldn't become a different administrative object merely because it was transferred to another hosting company. Its associated licensing information shouldn't disappear because the publisher changed its video player. Its financial history

shouldn't become inaccessible because the advertising infrastructure was replaced.

The enterprise needs a stable method of identifying the creative work independently of the services employed to commercialize it.

Consider the distinction between a production identifier and a playback address. The playback address tells the technology where particular media can be obtained. The production identifier tells the business which creative work is involved.

The former may change repeatedly throughout the commercial life of the film. The latter should possess considerably greater continuity.

This distinction becomes particularly important when dealing with multiple editions of a production. A restored film, a promotional excerpt, an alternative edit and a differently encoded version may share a relationship to the same underlying creative work while possessing separate technical or legal characteristics.

The infrastructure should be capable of representing those relationships accurately rather than treating every uploaded file as an entirely unrelated piece of entertainment.

This is not merely a desirable characteristic of catalog management. It has implications for licensing, financial reporting, preservation and the administration of distribution permissions.

An industry interested in establishing a more sophisticated economy around its intellectual property ought to begin by developing a more sophisticated understanding of the property itself.

Monetization Should Travel With the Entertainment

One of the more interesting possibilities of digital video is that the economic arrangements associated with a film needn't be confined to the website on which it was originally published.

A producer might authorize a film for exhibition through several independent publishers. A publisher might make a production available through its own website, an application, an authorized embedded player or a connected television environment.

Ideally, the commercial arrangements governing those presentations should be capable of accompanying the entertainment where appropriate, rather than requiring every distribution environment to reconstruct them independently.

Consider a producer who licenses a documentary to several broadcasters. The commercial agreements establish the circumstances under which each broadcaster may exhibit it. Those circumstances might involve particular territories, exhibition periods, advertising restrictions or compensation arrangements.

Digital distribution introduces opportunities to administer certain aspects of these agreements more directly through the infrastructure responsible for presenting the film.

An authorized playback environment could receive information concerning the applicable commercial arrangement. It might determine whether the film is available through a subscription, a sponsorship, an advertising-supported presentation or another legitimate form of access.

The same creative work can participate in different economic arrangements without requiring the producer to create an entirely independent technological version for each one.

Of course, the technology must respect the rights of publishers participating in those arrangements. A producer shouldn't unilaterally introduce advertising into a presentation whose contractual terms prohibit it. Nor should an advertising provider acquire authority over a film's distribution merely because it supplies the commercials.

The objective is to make commercial policies portable where the parties have agreed they should be portable.

The economic relationship follows the authorized exhibition of the entertainment rather than remaining unnecessarily confined to a particular website.

The Film and the Commercial Are Different Assets

One of the advantages of modern video advertising architecture is that it enables entertainment and advertising to be administered independently while being presented together.

A filmmaker creates a motion picture. An advertiser creates a commercial. The two can be associated at the time of exhibition without requiring the advertiser's commercial to become a permanent part of the film.

The distinction opens some interesting possibilities.

A sponsor might purchase advertising accompanying a particular production for thirty days. When the campaign concludes, another sponsor can acquire the opportunity without requiring the filmmaker to modify the original production.

Different authorized distribution environments can present different commercials alongside the same entertainment. Advertising arrangements can evolve throughout the commercial life of the film, even though the underlying creative work remains unchanged.

As discussed earlier, VAST, maintained by IAB Tech Lab, provides a standardized mechanism through which advertising servers can communicate advertising resources and associated instructions to compatible video players.[1]

The existence of such a specification makes it possible to distinguish advertising administration from the underlying storage of the entertainment.

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1. IAB Tech Lab, *Digital Video Ad Serving Template (VAST)*, standards overview. See Chapter 28, note 1.

There are various technical methods of integrating advertisements into video presentations, including approaches that perform portions of the work on the viewer's device and approaches that incorporate advertisements into the delivered media stream. VAST alone does not perform that integration or establish distribution rights. We'll examine their respective characteristics later.

The architectural principle remains important regardless of the implementation. Advertising should generally be managed as an independently administered commercial asset, unless the nature of the creative work or its contractual arrangements calls for a permanent association.

A thirty-second commercial shouldn't become an irreversible characteristic of a ninety-minute film merely because somebody purchased a month's advertising.

Delivery Is an Activity, Not an Address

The distribution of digital entertainment is occasionally described as though it consists principally of providing somebody with a link.

But the existence of a playback address establishes relatively little about the quality, reliability or commercial intelligence of the experience that follows.

A properly constructed delivery environment must accommodate the circumstances of the viewer, the characteristics of the available media and the conditions under which the entertainment is authorized for exhibition.

One important technological distinction concerns the difference between distributing a complete media file and distributing a presentation assembled from portions of media requested during playback.

HLS, described in the informational RFC 8216, organizes streaming presentations through playlists identifying available

media segments and, where applicable, alternative versions of the presentation.[2] A compatible playback system can employ these resources to accommodate changing delivery conditions.

The value of such technologies resides partly in their ability to separate the organization of a motion picture from the particular circumstances under which an individual encounters it.

The filmmaker needn't produce a different film for every Internet connection. Appropriate versions of the media can be prepared, and the delivery system can select among available resources according to the circumstances of playback.

The entertainment remains the entertainment. Its technological delivery adapts.

This is an important foundation for developing distribution environments that extend beyond the conventional desktop website. An independent publisher should be capable of considering mobile devices, television displays and other appropriate playback environments without necessarily reconstructing its entire entertainment library for each one.

We should increasingly regard delivery as an intelligent service operating around the creative work rather than as a static property of the file.

Where the Systems Meet

The most commercially interesting engineering problems often occur at the boundaries between technologies.

A hosting service may perform exceptionally well according to its own requirements. An advertising server may independently function according to its technical specifications. A video player may be perfectly capable of presenting the available media.

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2. Roger Pantos (editor) and William May, *HTTP Live Streaming*, RFC 8216 (August 2017), §§ 2, 4.3.4.2. Informational RFC. See Chapter 22, note 3.

Nevertheless, the complete entertainment experience can fail because the technologies do not communicate adequately.

An advertising system receives a request containing insufficient information to identify the applicable campaign. A playback system encounters an authorization requirement it cannot satisfy. A publishing application receives financial information that cannot be reliably associated with the relevant production.

Each component may have performed precisely as its developers intended. The business has nevertheless failed to accomplish what its customer expected.

In 1984, computer scientists Jerome H. Saltzer, David P. Reed and David D. Clark published “End-to-End Arguments in System Design,” an influential examination of where particular functions should reside within communications systems. Their work examines how the requirements of an application determine where particular functions can be implemented correctly and completely. Functionality supplied by an underlying technological layer may help without independently satisfying those requirements.[3]

There is a useful managerial lesson here for entertainment infrastructure.

The successful delivery of a motion picture cannot be established exclusively by examining the individual components responsible for it. The enterprise needs an understanding of how those components collectively accomplish the intended activity.

That understanding should extend to commercial outcomes as well as technological ones.

If an advertisement was delivered but the resulting revenue cannot be associated with the correct campaign, the advertising infrastructure has fulfilled only part of the business requirement.

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3. Jerome H. Saltzer, David P. Reed, and David D. Clark, “End-to-End Arguments in System Design,” *ACM Transactions on Computer Systems* 2, no. 4 (November 1984): 277–288. DOI: 10.1145/357401.357402.

If the film played successfully but was exhibited outside its authorized distribution conditions, the technological accomplishment has introduced a professional failure.

The intelligence of the architecture resides substantially in the relationships among its components.

One Film, Many Commercial Lives

Imagine an independent producer developing a feature-length motion picture with a production budget of fifty thousand dollars.

Rather than establish a single distribution arrangement and hope it generates sufficient revenue, the producer develops several complementary arrangements throughout the commercial life of the film.

An initial release might be offered through a paid-access environment. Subsequent exhibition could occur through licensed subscription services. After an agreed period, the production might become available through advertising-supported channels, sponsored presentations or other authorized arrangements.

The possibilities depend upon the nature of the entertainment, the producer's contractual commitments and the commercial response of its audience.

This isn't an especially novel business principle. The motion picture industry has long investigated the economics of distributing creative works through different channels and under different financial arrangements.

What interests me is the opportunity to make those capabilities accessible to independent adult entertainment producers through more intelligently integrated infrastructure.

The producer should be capable of administering distribution permissions, commercial arrangements and technical presentation without having to negotiate a complete reconstruction of the

technological environment every time a new opportunity emerges.

A motion picture possesses a potentially extensive commercial life. Its ability to generate revenue shouldn't necessarily terminate when its initial publishing arrangement becomes less productive.

The architecture of digital entertainment should make subsequent commercial opportunities easier to develop.

We have become extraordinarily efficient at uploading another film. Perhaps we should become equally efficient at extending the economic life of the films we've already made.

Don't Build Another Prison

There is a significant danger associated with the integration of entertainment infrastructure.

A company can simplify hosting, monetization and delivery by combining them within a unified commercial environment. The resulting product may be enormously attractive to independent publishers previously responsible for administering several unrelated technologies.

But if the publisher cannot meaningfully replace individual components, recover essential records or introduce appropriate alternative services, the convenience may have been purchased through the surrender of precisely the independence we've spent the preceding chapters advocating.

Integration and dependence are not interchangeable concepts.

An intelligently integrated environment should coordinate the activities necessary to operate the business without unnecessarily eliminating the publisher's freedom to determine how those activities are performed.

That requires attention to documented interfaces, data portability, commercially intelligible agreements and appropriate interoperability.

It also requires distinguishing between legitimate commercial restrictions and restrictions introduced primarily to make departure inconvenient. A technology provider can reasonably protect its intellectual property, charge for the resources its customers consume and establish appropriate conditions governing the use of its services.

But the provider shouldn't confuse the creation of customer dependence with the creation of customer value.

The most interesting infrastructure companies will be those capable of making sophisticated integration attractive without making independence prohibitively expensive.

I want the publisher to benefit from the simplicity of an integrated environment while retaining a meaningful degree of authority over the enterprise operating within it.

Otherwise, we've simply built another prison with a much nicer administrative interface.

The Architecture Should Accommodate the Business Model

One of the traditional limitations of commercial software is that it frequently accommodates the business models its developers anticipated while creating substantial difficulties for entrepreneurs who conceive alternatives.

An entertainment publisher might want to distribute a particular production without charging the audience while compensating its producer through a share of advertising receipts. Another might want to establish a sponsor-financed premiere followed by conventional subscription distribution.

A cooperative publishing arrangement might permit several independent companies to distribute a collection of films while administering their respective commercial relationships separately.

These propositions may be perfectly intelligible as business arrangements while proving remarkably difficult to implement within conventional publishing technologies.

The entrepreneur encounters a software limitation and subsequently abandons the commercial idea.

That is an unfortunate reversal of the relationship between technology and entrepreneurial imagination.

Entertainment infrastructure should provide sufficiently flexible capabilities to accommodate a variety of legitimate commercial arrangements. Its underlying architecture should distinguish the creative work from the policies governing its distribution, the mechanisms generating revenue and the information necessary to administer the resulting transactions.

Those distinctions allow portions of the business to evolve without requiring everything else to change simultaneously.

The software should provide a vocabulary through which the entrepreneur can construct commercial arrangements rather than a predetermined collection of business models from which the entrepreneur must select one.

The value of such infrastructure extends beyond making existing businesses more efficient. It can make entirely different businesses possible.

The Small Company Should Think Big

Imagine a talented independent filmmaker who possesses neither an engineering department nor a substantial administrative staff.

The filmmaker's principal interests involve producing worthwhile entertainment, developing relationships with audiences and

establishing commercial arrangements sufficient to finance subsequent productions.

Why should accomplishing those objectives require expertise in advertising protocols, network architecture, database administration and media encoding?

Those disciplines possess enormous significance to the business. But the filmmaker shouldn't necessarily be required to master their implementation.

One of the most valuable contributions technology companies can make to adult entertainment is reducing the organizational complexity associated with operating an intelligent independent enterprise.

The producer should be able to establish a production's commercial arrangements through an intelligible administrative environment. The infrastructure should undertake the complicated work necessary to execute those arrangements. Appropriate reporting should establish what occurred without requiring the producer to decipher the internal behavior of several unrelated technologies.

This is what good infrastructure does. It converts difficult engineering into accessible commercial capability.

The sophistication hasn't disappeared. It resides where it belongs, among the technologies and professionals responsible for providing it.

We should be developing an industry in which an exceptionally talented filmmaker can establish an exceptionally sophisticated entertainment business without becoming an exceptionally talented software engineer.

The two professions should complement each other rather than become compulsory qualifications for practicing either one.

Build the Architecture Around Responsibility

The integration of hosting, monetization and delivery creates opportunities to administer professional obligations more intelligently.

The same infrastructure that establishes the circumstances under which a production can generate revenue should also be capable of recognizing the circumstances under which its distribution is authorized, restricted or no longer permitted. The enforcement of those policies must account for the limits of authorized distribution environments, including the possibility that copies may already have been distributed elsewhere.

A film shouldn't remain commercially available merely because the technology responsible for delivering it has no knowledge of a relevant change in its authorization.

Nor should an advertising system continue treating a production as available commercial inventory when the publisher no longer possesses legitimate authority to exhibit it.

Appropriately designed systems can help coordinate the enforcement of such decisions across the environments responsible for distributing the entertainment.

Technology cannot independently establish whether consent was validly obtained or whether a contractual disagreement has been properly resolved. Those matters require appropriate human judgment, professional procedures and, where necessary, legal determination.

But technology can help implement legitimate decisions consistently and provide appropriate records concerning their execution.

The infrastructure should make responsible administration easier rather than introduce additional obstacles through technological fragmentation.

We'll investigate these responsibilities in detail later in the book. For now, it is sufficient to recognize that the architecture responsible for commercializing entertainment must also accommodate the obligations associated with commercializing it responsibly.

Professional accountability belongs within the infrastructure, not outside it.

The Industry We Could Engineer

Imagine an adult entertainment economy in which an independent producer could create a film, establish its legitimate distribution arrangements, organize its commercial relationships and make it available through professionally designed entertainment environments without continually reconstructing the machinery necessary to accomplish those things.

The film could participate in different commercial arrangements throughout its existence. Publishers could develop distinctive entertainment services without financing the development of every underlying technological component. Advertisers could acquire clearly defined commercial opportunities. Rights holders could obtain intelligible information concerning the financial activity associated with their work.

The audience would encounter the result through an entertainment environment whose technological sophistication was apparent primarily through its reliability and intelligence rather than its complexity.

That's an industry worth engineering.

The objective isn't necessarily to establish one enormous technological platform through which everybody must operate. It is to develop an architectural philosophy capable of supporting an increasingly sophisticated collection of independent businesses.

Common technical conventions can help those businesses collaborate. Specialized infrastructure can reduce their operating expenses. Integrated systems can simplify activities that currently require unnecessary administrative work. Competition can encourage providers to develop increasingly attractive alternatives.

The industry can become more technologically coherent without becoming commercially uniform.

That distinction is essential. I have no desire to see every adult entertainment entrepreneur operating the same business through the same software, selling the same advertisements to the same advertisers.

I want to see thousands of interesting businesses benefiting from infrastructure sophisticated enough to accommodate their differences.

We spent the preceding part of this book establishing the commercial authority an independent publisher ought to possess. We must now become sufficiently ambitious about the technology necessary to make that authority practical.

The undertaking begins with three activities that have always been fundamental to digital entertainment.

Provide somewhere for the entertainment to reside. Establish the means through which it can generate revenue. Deliver it in a manner worthy of the people who created it and the people who chose to experience it.

Host. Monetize. Deliver.

We ought to be extraordinarily good at all three.

CHAPTER 35

Infrastructure Is Strategy

“The strategic direction of a company should not emerge from the limitations of its purchasing history.”

Two entrepreneurs establish competing entertainment businesses. Both possess access to excellent productions, understand their audiences and have sufficient financial resources to establish commercially viable operations.

The first regards technology as an operating expense. He purchases the least expensive services capable of satisfying his immediate requirements and introduces additional technologies whenever the existing ones become inadequate. The second regards technology as a strategic investment. She considers the business she intends to develop over the next several years and evaluates technological decisions partly according to the commercial possibilities those decisions will subsequently accommodate.

During the first year, the differences between their respective businesses may be relatively insignificant. Both websites function, both generate revenue, and the first entrepreneur may even possess a temporary financial advantage because of his lower infrastructure expenditures.

Several years later, their circumstances could be substantially different. The second entrepreneur can introduce new distribution channels, accommodate additional commercial arrangements and expand portions of her operation without reconstructing the entire enterprise. The first discovers that practically every interesting commercial opportunity requires resolving technological deficiencies accumulated through years of otherwise reasonable purchasing decisions.

One company has been developing a business. The other has been accumulating software.

Architecture Before Acquisition

In their 2006 book *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution*, Jeanne W. Ross, Peter Weill and David C. Robertson examined the relationship between organizational operating models and the technological foundations necessary to support them.[1] Their research challenges the tendency to regard information technology as a collection of systems acquired principally to satisfy individual operational requirements. Instead, the organization should establish an understanding of how its activities need to function collectively and develop an architecture appropriate to that understanding.

Suppose an independent production company intends to distribute original feature-length productions, independently produced scenes and excerpts from its existing library. It anticipates establishing direct relationships with audiences while licensing entertainment to other publishers and experimenting with advertising-supported distribution, individual purchases and subscriptions.

Although these activities represent different commercial arrangements, they share certain underlying requirements. The company must organize its intellectual property, administer distribution permissions, prepare media for different playback environments and associate financial activity with the relevant productions.

These capabilities ought to be considered collectively before management begins purchasing individual products. An entrepreneur might otherwise acquire a distribution service appropri-

1. Jeanne W. Ross, Peter Weill, and David C. Robertson, *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution* (Boston: Harvard Business School Press, 2006), chs. 2–3.

ate to the company's initial subscription business, only to discover that it inadequately accommodates subsequent advertising or licensing arrangements. Additional products are acquired to compensate for those deficiencies, eventually creating an expensive collection of individually competent but poorly coordinated technologies.

This doesn't mean attempting to anticipate every commercial possibility before establishing a business. Entrepreneurship involves discovering opportunities that nobody contemplated when the enterprise was originally conceived. The objective is to identify the fundamental capabilities likely to remain significant throughout its development and establish a foundation upon which unfamiliar possibilities can subsequently be investigated.

The strategic direction of a company should not emerge from the limitations of its purchasing history.

The Economics of Being Ready

Infrastructure possesses a commercial characteristic that is difficult to represent in conventional financial statements: the ability to make future opportunities accessible.

Imagine a publisher approached by an advertiser interested in sponsoring a particular series of independently produced videos. The advertiser wishes to purchase exclusive commercial placement throughout the series for a specified period.

The publisher possesses the necessary entertainment, attracts an appropriate audience and considers the proposed compensation attractive. Unfortunately, its advertising infrastructure cannot reliably restrict the campaign to the relevant programming or exclude competing advertisements. The company must either decline the opportunity or undertake additional development before it can fulfill the proposed arrangement.

Another publisher employing infrastructure capable of administering those requirements could accept the opportunity immediately. That capability possesses potential economic value even during the periods in which it isn't being used.

This resembles the financial logic of an option. An investment can establish the ability to undertake a subsequent activity without necessarily obligating the investor to undertake it.

Suppose a publisher anticipates developing several sponsorship arrangements over the next two years. Acquiring the necessary technological capability today might cost an additional two thousand dollars. Alternatively, introducing that capability when the first advertiser arrives might cost five thousand dollars and require several weeks of development, potentially jeopardizing the commercial opportunity.

The appropriate investment decision depends upon the likelihood of obtaining those arrangements, their expected financial contribution and the relative costs of acquiring the capability now or later.

There may also be circumstances in which waiting is the more intelligent decision. The publisher might discover that prospective advertisers require functionality substantially different from what management originally anticipated. Technology acquired prematurely can become obsolete before the opportunity it was intended to accommodate materializes.

This is why infrastructure investment deserves consideration beyond conventional comparisons of monthly service charges. Management is also purchasing a degree of commercial flexibility, and that flexibility must be evaluated against its cost.

Infrastructure can create possibilities. Good management determines which possibilities are worth financing.

Modularity and the Freedom to Change

Earlier, we examined the importance of modularity in preserving publisher sovereignty. Its economic significance extends further.

In their 2000 book *Design Rules, Volume 1: The Power of Modularity*, Carliss Y. Baldwin and Kim B. Clark examined how modular design influences technological development, industrial organization and economic opportunity.[2] Their work demonstrates the importance of establishing design rules through which individual components can evolve with a degree of independence from the systems incorporating them.

For entertainment businesses, the practical advantage is the ability to direct investment toward the particular portion of the enterprise requiring improvement.

A publisher may discover that its existing video distribution infrastructure performs exceptionally well while its advertising technology imposes unnecessary commercial restrictions. In a suitably modular architecture, management can concentrate its expenditure upon resolving the advertising problem rather than financing the replacement of unrelated technologies.

This changes the economics of experimentation. An entrepreneur may be willing to investigate a promising alternative advertising mechanism if the experiment costs several hundred dollars. The same entrepreneur may reasonably reject the opportunity if investigating it requires reconstructing a publishing system at a cost of several thousand dollars.

The architecture has influenced the financial feasibility of innovation.

Modularity does, however, introduce engineering responsibilities of its own. Independently developed components need intelligible interfaces, compatible assumptions and coordinated be-

2. Carliss Y. Baldwin and Kim B. Clark, *Design Rules*, vol. 1, *The Power of Modularity* (Cambridge, MA: MIT Press, 2000). DOI: 10.7551/MITPRESS/2366.001.0001.

havior. A business employing numerous incompatible services may incur greater integration and maintenance expenses than one employing a more unified architecture.

The appropriate degree of modularity is therefore a strategic decision. Components should be sufficiently independent where replacement, experimentation or technological competition offers meaningful economic advantages. Elsewhere, closer integration may provide superior reliability or lower operating costs.

The objective isn't to divide everything into interchangeable parts. It is to ensure that improving one part of the business doesn't unnecessarily require rebuilding the rest of it.

Build for the Premiere, Not Just the Tuesday Afternoon

Entertainment demand rarely conforms to the orderly assumptions employed in technological projections. A performer releases a highly anticipated scene, an independent filmmaker premieres a new production or a successful promotional campaign attracts substantially more viewers than management anticipated.

The infrastructure that functioned magnificently on Tuesday afternoon may become inadequate on Friday evening, precisely when the business encounters its most attractive commercial opportunity.

Capacity planning involves understanding where increased demand places pressure upon the operation. Distributed video delivery may accommodate thousands of additional playback requests without difficulty, while the systems responsible for authentication, financial transactions or advertising selection become overwhelmed by the same increase in activity.

Increasing the capacity of one component doesn't necessarily increase the capacity of the business.

The appropriate infrastructure also depends upon the character of the entertainment. A library of prerecorded productions can benefit from caching and geographically distributed delivery. An interactive or live event introduces additional requirements involving synchronization, continuity and the handling of simultaneous participation.

These distinctions have financial consequences. Maintaining excessive infrastructure capacity throughout the year can unnecessarily increase operating expenses, while providing insufficient capacity during commercially important periods can compromise revenue that may never be recovered.

The entrepreneur should identify the circumstances under which demand is likely to increase, determine which systems become constrained and investigate economical methods of accommodating that activity. Where appropriate, capacity can be introduced temporarily rather than maintained permanently.

A successful marketing campaign shouldn't become an involuntary demonstration of the inadequacy of the engineering department.

Reliability Has a Price

There is no universally intelligent amount of money to spend making a technological system more reliable. The appropriate investment depends substantially upon the consequences of its failure.

Consider two entertainment businesses. The first operates a catalog of prerecorded productions. A brief interruption inconveniences its customers, but they can generally return later and experience the same material. The second provides a scheduled live event involving advance purchases, contractual commitments and an audience assembled specifically to experience the event as it occurs.

An identical interruption could produce substantially different financial consequences for those businesses.

Google's published work on site reliability engineering offers a useful approach through its treatment of service-level objectives and error budgets.[3] A service-level objective (SLO) establishes a measurable performance target over a specified measurement period. An error budget describes the amount of performance falling short of that target that the organization can tolerate within the specified measurement period.

Suppose a publisher establishes an objective that 99.9 percent of eligible playback attempts should begin successfully. For ten thousand eligible attempts within the measurement period, the corresponding error budget would permit ten unsuccessful starts while still meeting that objective.

The measurement gives management and engineers a common basis for evaluating reliability. If failures begin consuming the available error budget at an unacceptable rate, engineering resources can be redirected toward improving the underlying systems. If performance remains comfortably within established objectives, management may reasonably devote more attention to developing new capabilities.

The objective itself should reflect the commercial significance of playback failures, the characteristics of the audience and the cost of achieving greater reliability.

A publisher shouldn't necessarily spend ten thousand dollars eliminating a category of interruption whose realistic annual financial consequences amount to several hundred dollars. Conversely, refusing to invest in the reliability of a system responsible for substantial financial activity may represent an extraordinarily expensive form of economy.

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3. Google, *Site Reliability Engineering* (2016), “Service Level Objectives”; *The Site Reliability Workbook* (2018), “Example Error Budget Policy.” See sre.google/sre-book/service-level-objectives/ and sre.google/workbook/error-budget-policy/.

Not every professional obligation can be subjected to this calculation. Security, consent, privacy and other essential protections cannot simply be compromised because doing so falls within an acceptable statistical allowance.

But for ordinary questions of operational performance, reliability should be evaluated as an economic investment rather than an abstract pursuit of technological perfection.

The Interest on Technical Debt

Sometimes the most intelligent decision available to an entrepreneur is to introduce a temporary technological solution.

The company may need to launch a product within a limited period, lack sufficient information to establish the ideal architecture or encounter a commercial opportunity whose immediate value justifies an expedient implementation.

These decisions can create technical debt: the additional future work associated with technological compromises.

The financial analogy is useful because the original decision isn't necessarily irresponsible. A business can legitimately incur financial debt to finance an opportunity whose expected returns justify the associated costs. Similarly, an entrepreneur may reasonably accept a temporary technological limitation to establish an initial commercial position.

The difficulty arises when the associated obligations remain unrecognized.

Imagine a publisher introducing a manually administered process for associating individual productions with advertising campaigns. During the initial stages of operation, the arrangement is entirely manageable. There are relatively few productions, relatively few advertisers and little justification for developing an automated alternative.

Several years later, employees spend substantial portions of their working lives maintaining relationships among thousands of records originally organized according to that temporary solution.

Suppose the resulting administrative work costs the enterprise eight hundred dollars per month. An automated replacement requiring six thousand dollars in development expenditure and one hundred dollars in additional monthly maintenance could recover its implementation cost in approximately nine months, assuming the anticipated net savings of seven hundred dollars per month are realized. This simple payback illustration excludes financing costs and the time value of money.

The original limitation now has an identifiable financial consequence and a potentially attractive remedy.

Technical debt deserves ordinary managerial attention. An enterprise should document significant architectural compromises, understand the additional expenses they create and establish the circumstances under which replacing them becomes economically justified.

Not every deficiency warrants immediate correction. But a temporary solution shouldn't acquire tenure simply because nobody has calculated the cost of keeping it.

The Total Cost of Infrastructure

Earlier in this book, we distinguished inexpensive production from cheapened entertainment. A comparable distinction applies to infrastructure.

A technology provider offering an exceptionally economical service may contribute substantial value to an independent business. There is little justification for purchasing expensive infrastructure merely because its price communicates an impression of sophistication.

But the monthly service charge provides only a partial understanding of its economic cost.

Suppose a publisher is evaluating two commercially suitable infrastructure arrangements. The first costs one hundred dollars per month but requires six hours of additional administrative work. The second costs two hundred and fifty dollars per month but reduces that additional requirement to one hour.

At a hypothetical fully allocated labor cost of forty dollars per hour, the financial comparison becomes:

Monthly expense	Infrastructure A	Infrastructure B
Service cost	$100	$250
Additional administrative labor	$240	$40
Combined expense	**$340**	**$290**

The more expensive service has a combined allocated cost fifty dollars lower per month under these assumptions.

A more comprehensive evaluation would also consider implementation expenses, ongoing maintenance, migration requirements, contractual commitments and the potential financial consequences of service interruptions. It would distinguish actual cash savings from employee time that might instead become available for more productive activities.

These considerations collectively contribute to what is commonly described as the total cost of ownership (TCO).

The apparent affordability of a technology occasionally depends upon transferring substantial portions of its operating complexity to the people purchasing it. The provider saves money by requiring its customers to undertake work that might otherwise have been intelligently automated.

An entrepreneur should understand whose efficiency is being improved by the arrangement.

Engineer the Business You Intend to Become

Infrastructure establishes many of the conditions under which entrepreneurial imagination can be converted into commercial activity. It influences how quickly an enterprise can pursue an opportunity, how much experimentation it can afford, how reliably it can fulfill its obligations and what it costs to administer the resulting business.

Those considerations should inform infrastructure investment from the beginning, whether the enterprise is an independent creator distributing individual scenes or an established studio administering an extensive entertainment library.

The appropriate architecture will differ. The strategic responsibility won't.

We have spent decades acquiring technologies to operate the businesses we already possess. I believe the more interesting entrepreneurial opportunity resides in developing technologies that make better businesses possible.

Infrastructure isn't simply where your business operates.

It's a substantial part of what your business can become.

CHAPTER 36

The Video Player Nobody Questioned

“The fact that the video plays doesn't mean we've finished inventing the video player.”

The adult entertainment industry has spent decades perfecting what goes in front of the camera while devoting remarkably little imagination to what happens on the other side of the screen.

We reinvented the means of distributing moving pictures. We developed entire economies around them. Yet somewhere along the way, we decided that the instrument through which people actually experience our product was somebody else's invention.

Producers devote enormous attention to the creation of audio-visual works. Publishers invest in their presentation, distribution and commercialization. Yet the principal instrument through which the audience actually experiences those works, the video player, is frequently treated as an interchangeable technological component.

We choose one that supports the appropriate media formats, make sure it accommodates our advertising arrangements, adjust a few cosmetic characteristics and proceed with the business of distributing entertainment.

Relatively little entrepreneurial attention is devoted to reconsidering what the player itself could become.

The curious thing about this arrangement is that the video player occupies the most commercially significant portion of an entertainment website. It is where the product becomes an

experience, where the audience exercises control over that experience and where much of the economic activity associated with it occurs.

If I were looking for an interesting place to begin reinventing digital entertainment, I could hardly imagine a more attractive piece of technological real estate.

From Appliance to Application

For much of the history of recorded entertainment, the equipment responsible for playback existed independently of the entertainment itself.

A person purchased a videocassette recorder and subsequently acquired recordings from numerous producers. The equipment belonged to the consumer. Its controls remained familiar regardless of which recording happened to be inserted into it.

The introduction of the digital versatile disc (DVD) brought additional possibilities for navigating entertainment, selecting chapters, accessing supplementary material and establishing certain playback preferences. Although individual discs could contain their own menus and interactive characteristics, the underlying playback equipment remained comparatively consistent.

Internet video introduced a different relationship between the audience, the recording and the equipment responsible for its exhibition.

The playback environment increasingly became part of the publication through which the entertainment was acquired. One website employed a particular player, another employed something different, and a third introduced its own interpretation of how the audience ought to operate the equipment.

The consumer effectively acquired another video player every time he encountered another entertainment service.

There were perfectly intelligent technological reasons for this development. Publishers needed appropriate control over their presentations, browsers possessed different capabilities and commercial arrangements required varying degrees of integration.

But the result introduced a fragmentation of the playback experience that deserves reconsideration.

The video player is no longer necessarily a physical appliance whose capabilities are established when it leaves the factory. It is a software application capable of continued development, modification and adaptation.

That should have made the player a considerably more interesting product than its mechanical predecessors.

Instead, much of the industry's attention has been directed toward making the equipment necessary to play a video increasingly inexpensive, rather than exploring what an increasingly intelligent piece of playback equipment might enable the audience to accomplish.

A Standard Is Not a Product

The establishment of native video capabilities within Hypertext Markup Language (HTML) represented an enormously important development in the evolution of Internet entertainment.

The HTML Living Standard, maintained by the Web Hypertext Application Technology Working Group (WHATWG), provides a foundation for incorporating audiovisual media into web documents. It establishes programming interfaces through which developers can manipulate media playback, examine its status and implement user controls. Publishers can employ controls supplied by the browser or construct their own scripted interfaces.[1]

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1. WHATWG, *HTML Living Standard*, §4.8.11, “Media elements,” especially §4.8.11.13, “User interface.” html.spec.whatwg.org/multipage/media.html (accessed November 28, 2026).

The significance of this development extends considerably beyond making video easier to embed within a website.

It provides a standardized technological foundation upon which substantially more ambitious playback applications can be constructed.

Unfortunately, the availability of a readily implemented video component can also discourage experimentation. The developer can establish a functioning playback environment with comparatively little effort, and the entrepreneur may consequently conclude that the technological requirements of video presentation have been satisfactorily addressed.

The ability to play a video has been confused with the development of a video player.

There is a considerable distinction between them.

A word processor is more than a technology capable of displaying text. A sophisticated photographic application is more than a technology capable of displaying images. Their commercial significance resides substantially in the additional capabilities developed around those fundamental functions.

Why should a video player be regarded differently?

The underlying standards establish much of the machinery necessary to perform playback. They do not dictate the full range of experiences or capabilities an intelligent application might provide.

Standardization should liberate our engineering imagination rather than establish its upper limit.

What Happened to Rewind?

One of the more interesting peculiarities of contemporary video playback is the inconsistency with which relatively ordinary functions have been implemented.

Consider the distinction between moving to a particular position within a recording and deliberately moving forward or backward through its contents.

A conventional progress bar permits the viewer to select an approximate position within a production. It is a useful instrument for navigating time, particularly when the viewer has some understanding of where the desired material occurs.

But a person may simply want to move forward several seconds, repeat something that was just missed or rapidly examine the contents of a lengthy recording. These activities involve different intentions and needn't be handled through precisely the same interaction.

Many contemporary players provide skip controls, keyboard shortcuts, preview thumbnails or variable playback speeds. Others implement only some of these capabilities or make them available under circumstances that may not be immediately apparent to the viewer.

The industry has not lacked the technology to provide additional control. It has lacked sufficient consistency in establishing which controls deserve prominence.

There is also an engineering distinction between seeking to another position, increasing playback speed and reproducing the traditional experience of scanning a recording in reverse. Moving backward ten seconds is not technically equivalent to continuously playing the media backward. The latter introduces additional challenges involving browser support, decoding, buffering and the organization of compressed video.

An intelligently conceived player should distinguish among these activities rather than indiscriminately present them as variations of the same function.

This illustrates how opportunities for innovation can reside within activities so familiar that we no longer regard them as technologically interesting.

Sometimes the invention isn't an extraordinary new capability. It's a substantially better implementation of something people have wanted to do for decades.

The Button Is the Smallest Part of the Invention

When discussing video players, we tend to concentrate upon their visible controls. We examine the appearance of the buttons, the location of the progress indicator and the manner in which additional settings are presented.

But every control represents an instruction to an underlying application, and the intelligence with which that instruction is executed deserves considerably more attention.

Consider what happens when a viewer presses the pause button.

Under ordinary circumstances, the instruction is uncomplicated. But suppose the player is preparing an advertisement, retrieving another portion of the recording or recovering from an interrupted connection. Suppose the user has simultaneously requested another production. Suppose the player is presenting a live event whose available playback window continues changing while the video remains paused.

The same apparent instruction can possess different operational implications depending upon the circumstances.

Software engineers frequently examine these matters through the concept of application state. At a particular moment, a player might be initializing, buffering, playing, paused, seeking, exhibiting advertising or recovering from an error. Certain conditions can exist simultaneously.

A well-designed playback application should possess a coherent understanding of those conditions and respond predictably to the instructions it receives.

For example, pressing pause while a production is buffering should communicate a meaningful intention to the application. The player shouldn't disregard that intention and begin exhibiting the entertainment unexpectedly when sufficient media subsequently becomes available.

Similarly, an advertisement concluding after the viewer has abandoned the playback session shouldn't automatically initiate a production the individual is no longer attempting to watch.

These may sound like insignificant engineering details. But they determine whether the application behaves like an intelligent instrument or an assortment of unrelated controls connected to a media file.

The appearance of the button communicates what the viewer should expect. The underlying architecture determines whether the expectation is fulfilled.

A Player Should Understand What It's Playing

Not every audiovisual production requires the same collection of playback capabilities.

Consider a feature-length motion picture, a thirty-second promotional clip, a collection of independently produced scenes and a live interactive program.

Each represents a different relationship between the viewer, the entertainment and the passage of time.

A feature-length production might benefit from chapter navigation and the ability to resume an authorized viewing session. A short clip might be better served by a relatively uncomplicated interface. A collection of scenes could benefit from mechanisms for navigating among the individual works without treating them as

unrelated playback sessions. A live presentation may require an entirely different approach to the display of elapsed time, seeking and the availability of previously transmitted material.

There is little reason to assume that all these experiences should be administered through an identical set of controls.

A playback application should be capable of responding to the characteristics of the entertainment being presented.

This is already possible to a certain extent through information concerning the duration of media, the availability of alternative tracks and the capabilities of the playback environment. Additional information supplied by the publisher could enable the application to understand the organization of a series, the existence of chapter markers or the nature of a particular presentation.

The important distinction is between the capabilities possessed by the player and the capabilities appropriate to the entertainment currently being experienced.

We shouldn't require an individual watching a brief promotional video to negotiate an interface designed for the administration of a three-hour motion picture. Nor should somebody watching a substantial production be deprived of useful navigational capabilities because the player was originally conceived for short-form video.

The application should possess sufficient intelligence to accommodate both.

The Economics of a Better Instrument

Consider the potential commercial advantages of developing a sophisticated playback application independently of the individual publishing environments employing it.

An improvement to the player can benefit numerous productions, collections and distribution arrangements without requiring the entertainment itself to be modified.

A publisher operating several entertainment services might introduce an improved method of navigation across all of them. An accessibility improvement could become available throughout an entire catalog. A better method of administering playback settings could reduce the work associated with introducing additional publishing environments.

The investment produces a reusable capability.

That is a different economic proposition from individually modifying every website through which the entertainment happens to be distributed.

It also introduces opportunities for businesses specializing in playback technology itself.

A company developing an exceptional video player could establish a recognizable product identity, maintain a continuing development program and provide its capabilities to numerous independent publishers. Its commercial significance would reside not merely in its ability to exhibit the entertainment but in the intelligence of the experience it enables those publishers to provide.

There is a market for excellent instruments wherever people regularly undertake activities requiring them.

We have companies specializing in the development of photographic equipment, musical instruments, editing applications and professional broadcasting technologies. The idea of a company developing increasingly sophisticated playback instruments for digital entertainment shouldn't strike us as particularly extravagant.

The more interesting question is why the adult entertainment industry hasn't devoted substantially greater entrepreneurial attention to the opportunity.

Develop an Instrument, Not a Collection of Features

There is a danger in reconsidering the video player as an application. The developer may become so enthusiastic about expanding its capabilities that the resulting product becomes unnecessarily complicated to operate.

An entertainment environment possessing forty controls isn't necessarily more sophisticated than one possessing six.

The relationship between functionality and usability deserves careful consideration because the principal purpose of a video player is to facilitate the experience of entertainment rather than continually draw attention to the software facilitating it.

In its 2015 Working Group Note *Media Accessibility User Requirements*, the W3C identifies a substantial range of capabilities relevant to accessible media playback, including navigation, playback speed, captions, alternative audio and other forms of user control.[2]

Such requirements illustrate the inadequacy of assuming that the simplest possible collection of controls necessarily serves everybody equally well. Different individuals may require considerably different capabilities to experience the same material satisfactorily.

The design challenge lies in making those capabilities available without requiring every viewer to confront all of them simultaneously.

An intelligently constructed playback application could organize its functionality into different levels. The most frequently employed controls might remain readily accessible, while more specialized capabilities become available when requested or when the circumstances of playback make them relevant.

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2. W3C, *Media Accessibility User Requirements*, Working Group Note, December 3, 2015, §§2–3, especially §3.1 (interactive controls). See Chapter 20, note 3.

The underlying architecture should permit those capabilities to evolve independently where practical. Introducing another function shouldn't necessarily require redesigning the entire interface or compromising the reliability of existing functions.

This is where the development of the video player becomes a rather fascinating exercise in software architecture and industrial design.

The application occupies a limited physical space, particularly on smaller displays, yet the number of potentially useful capabilities it could accommodate is substantial.

How do we expand the intelligence of the instrument without expanding its visual presence unnecessarily?

That question will occupy much of our attention in the next chapter.

Who Should Determine How We Watch?

The conventional embedded video player reflects a relationship in which the publisher ordinarily determines much of the technological environment available to the viewer.

The publisher selects the player, establishes its appearance and decides which capabilities are offered. The audience operates within those arrangements.

There are legitimate reasons for preserving publisher authority over the commercial and editorial presentation of entertainment. But we should distinguish those responsibilities from the ordinary preferences of the person operating the playback equipment.

An individual may prefer a particular arrangement of controls, a particular caption presentation or a particular method of navigating recorded material. There is little obvious commercial benefit in requiring him to establish those preferences again every

time he encounters another compatible entertainment environment.

Contemporary web technologies already provide examples of playback extending beyond the immediate boundaries of the embedded interface. The W3C's *Media Session* Working Draft addresses mechanisms through which web applications can communicate media information and playback actions to device-level interfaces, including external controls where supported.[3]

Although this does not establish a universal portable player or a mechanism for exchanging preferences among unrelated publishers, it illustrates the broader possibility of treating playback as an activity that needn't be confined exclusively to the visible interface in which it originated.

I believe there is room to develop that philosophy considerably further.

The audience should acquire greater authority over the instrument through which it experiences entertainment, without necessarily acquiring authority over the publisher's commercial arrangements or the rights associated with the material.

The distinction opens opportunities for personalization, continuity and entirely different relationships between playback software and digital publishing.

We'll examine those possibilities in the following chapter.

An Industry Built Around Moving Pictures

I would like the adult entertainment industry to become as interested in the development of its playback equipment as it is in the acquisition of material to play through it.

The video player is not merely another administrative requirement of digital publishing. It is an extraordinarily

3. W3C, *Media Session*, Working Draft, November 14, 2026, §§4.3–4.4. w3.org/TR/2026/WD-mediasession-20261114/.

interesting application whose technological development can influence how audiences navigate entertainment, how publishers distinguish their products and how creative works are experienced.

Its evolution needn't depend upon our ability to introduce spectacular new forms of media. There is considerable unexplored territory within the ordinary activities associated with watching a video.

We can reconsider how playback is controlled, how the interface adapts to different productions, how capabilities are organized and how the audience establishes a continuing relationship with the instrument itself.

The entertainment industry has traditionally devoted considerable ingenuity to improving the machinery through which entertainment is experienced. The evolution of projectors, television sets, recording equipment and home entertainment systems has continually influenced the creative possibilities available to producers and audiences.

Digital publishing has given us the opportunity to participate directly in the development of that machinery.

Yet we have largely regarded the video player as something somebody else has already invented.

I'd like us to question that assumption.

The fact that the video plays doesn't mean we've finished inventing the video player.

CHAPTER 37

Reengineering the Viewing Experience

“We can expand the functionality of the instrument without necessarily expanding its physical footprint.”

Minimalism has become something of an excuse for technological underachievement.

A developer removes several controls from an interface, eliminates a few functions, increases the amount of unoccupied space and declares the resulting product an accomplishment in minimalist design. It may certainly look better. Whether it performs better is another matter.

The more interesting design challenge is to increase the capabilities of a product while reducing the apparent complexity of operating it. That requires considerably more engineering intelligence than simply deciding which functions to eliminate.

The video player presents an unusually attractive opportunity to investigate this distinction. It occupies a restricted amount of physical space, particularly on mobile devices, yet potentially accommodates an enormous range of capabilities concerning navigation, sound, picture, accessibility, personalization and the organization of entertainment.

How much functionality can we introduce into that environment without making it appear any more complicated?

That question formed part of the basis for my technical research into personal video playback, published in November 2026 under the title *Beyond Play: The Architecture, Economics and Future of Personal Video Playback*.[1] Several of the architectural principles examined in that paper deserve attention here, not merely because of their application to a particular software product, but because they suggest a different direction for the development of digital entertainment.

Minimalism Without Compromise

The conventional video player generally provides a collection of controls arranged along the lower portion of the screen. Additional functions may reside within a settings menu, while less frequently encountered capabilities may require interaction with other portions of the interface.

As the developer introduces more functionality, the available space becomes increasingly valuable. Controls become smaller, menus become more complicated and the original simplicity of the instrument gradually deteriorates.

One possible solution involves reconsidering the assumption that every group of controls must possess its own permanent physical location.

Suppose the principal control surface of a video player could accommodate several interchangeable arrangements of functionality. One arrangement provides the ordinary transport controls necessary to operate the entertainment. Another provides audio adjustments. A third provides picture and presentation controls.

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1. Philip M. Autelitano, *Beyond Play: The Architecture, Economics and Future of Personal Video Playback*, technical report MZ-TR-2026-002 (Mediarazzi, November 2026). https://doi.org/10.5281/zenodo.24572335. Author-supplied publication details.

Each occupies substantially the same physical space. The viewer selects the appropriate arrangement without requiring the entire collection of functions to remain simultaneously visible.

In *Beyond Play*, I introduced the term *Modular Control Deck Architecture* to describe this approach. An initial implementation employs three switchable control decks. The broader architectural proposition involves developing a more extensible system through which additional capabilities could eventually be introduced without redesigning the fundamental playback interface.

The distinction between these arrangements and a conventional settings menu is important. A menu ordinarily provides access to individual commands or configurable settings. A control deck can provide a complete operational environment for a particular category of activity, allowing the viewer to manipulate several related functions while the entertainment continues.

The deck becomes an interchangeable instrument panel rather than simply another place to hide buttons.

There is no reason the developer needs to stop at three. Additional decks could accommodate accessibility requirements, navigation among chapters, playlist administration or other specialized capabilities. The longer-term opportunity involves allowing appropriately designed modules to participate in a common playback architecture.

We can expand the functionality of the instrument without necessarily expanding its physical footprint.

Spatial Efficiency

A mobile telephone presents one of the more interesting challenges in interface design because the physical dimensions of its display establish relatively unforgiving limitations.

A conventional desktop application can introduce another toolbar, expand a window or dedicate a portion of the screen to a supplementary administrative function. A video player occupying

a small mobile display has substantially less freedom, particularly when the entertainment itself deserves most of the available space.

The question becomes one of spatial efficiency: how intelligently can the available interface area be employed?

Consider a playback environment providing twenty-four functions. If every function requires a permanent position on the interface, the developer must accommodate twenty-four controls simultaneously. If those functions can be intelligently organized into four interchangeable groups of six, the same physical region can accommodate the complete collection while displaying only the relevant group.

The arithmetic is simple. The design problem is not.

The developer must determine which functions belong together, which should remain immediately accessible and how the viewer can recognize that additional capabilities exist. Certain functions, particularly those necessary to stop playback, adjust volume or access essential accessibility controls, should not become unnecessarily difficult to locate.

The architecture must also preserve the operational state of the player when the viewer changes decks. Adjusting the picture should not interrupt the entertainment. Returning to the transport controls should not reset the sound. A change in the visible interface should not independently produce a change in the underlying playback activity.

The control surface and the playback engine must therefore be understood as related but distinct components of the application.

Done intelligently, modularity can produce something more valuable than a visually restrained player. It can establish an interface capable of continued functional development without continually demanding additional physical space.

Make the Screen Fit the Entertainment

For decades, the rectangular proportions of television and motion picture displays influenced the manner in which audiovisual entertainment was conceived.

Digital production has substantially complicated that relationship. Entertainment is now routinely produced in widescreen, square and vertical formats, among numerous other proportions. Independent creators may produce material primarily for mobile consumption, while established filmmakers may continue employing the wider compositions traditionally associated with theatrical exhibition.

Yet many publishing environments continue to organize video presentation around a predetermined rectangular container.

The resulting compromise is familiar. A vertically produced video appears within a wide horizontal frame, surrounded by enormous areas of unused space. A widescreen production appears within a container of inappropriate proportions. In attempting to occupy the available display area, the publishing environment may crop portions of the composition or introduce undesirable distortion.

These are different problems requiring different solutions.

A video possesses an intrinsic aspect ratio describing the relationship between the width and height of its image. The player occupies a separate region within the publishing interface, which possesses its own dimensions. The available display area introduces another set of constraints.

There is no technological requirement that these three things always possess identical proportions.

Contemporary web technologies already provide mechanisms through which developers can manage these relationships. Cascading Style Sheets (CSS), for example, provide properties for maintaining the proportions of interface elements and determining how media should be accommodated within them.[2]

What deserves further investigation is the manner in which these underlying capabilities can be organized into an intelligent presentation system.

In *Beyond Play*, I described this proposition as *Adaptive Presentation Architecture*: an approach to separating the geometry of the viewing environment from the encoding and delivery of the entertainment itself.

Instead of assuming that every video must occupy a permanently established widescreen player, the application can respond to information concerning the media, the available display and the preferences of the viewer.

A vertically produced scene could be presented within a vertically proportioned playback environment. A square production could occupy a square frame. A widescreen feature could retain its original composition within an appropriately configured presentation.

Where the surrounding publication permits it, the player itself could adjust its dimensions rather than continually force different kinds of entertainment into the same rectangular box.

This is a particularly relevant consideration for adult entertainment producers distributing material across several formats. A single publication may accommodate short vertical productions, conventional scenes, promotional excerpts and feature-length films. Its technological environment should recognize those differences rather than treat them as inconveniences.

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2. MDN Web Docs, “aspect-ratio” and “object-fit,” CSS reference. developer.mozilla.org/en-US/docs/Web/CSS/Reference/Properties/aspect-ratio and developer.mozilla.org/en-US/docs/Web/CSS/Reference/Properties/object-fit.

The publishing architecture should accommodate the entertainment, not require the entertainment to accommodate the publishing architecture.

Adaptation Is Not Distortion

There is an important distinction between changing the dimensions of the playback environment and changing the composition of the image appearing within it.

A filmmaker may have deliberately established the boundaries of a particular shot. A creator producing vertical entertainment may have organized the composition specifically around those proportions. Automatically cropping the image to occupy a different display region can eliminate portions of the work the producer intended the audience to see.

An intelligent player should distinguish among several legitimate presentation choices.

Fitting the complete image within the available region preserves its proportions but may introduce unoccupied areas around it. Filling the entire region while preserving the original proportions may require cropping. Stretching the image to occupy the region changes its proportions and generally produces a distorted representation of the original work.

These are not interchangeable methods of accomplishing the same objective.

The default arrangement should respect the original composition. Alternative presentations can be made available where appropriate, provided the viewer understands what is being changed and can restore the intended presentation.

Adaptive presentation should also remain distinct from adaptive bitrate streaming. The latter concerns the selection of media representations appropriate to delivery and device conditions. The former concerns the organization of the viewing environment.

A video can be delivered at the same resolution and bitrate while being presented within differently proportioned interfaces. Conversely, the delivery system can change the selected video quality without modifying the dimensions of the player.

Separating these responsibilities provides developers with greater freedom to improve either component without unnecessarily interfering with the other.

Focus Without Surrendering the Browser

There are circumstances in which a person wants to concentrate exclusively upon a particular production without entering the conventional full-screen environment.

Perhaps the viewer wishes to retain immediate access to the browser's navigation controls. Perhaps he wants to enlarge the entertainment while maintaining the ability to interact with other portions of the publication.

Contemporary playback environments provide several approaches to these requirements. Full-screen presentation can remove most surrounding interface elements. Picture-in-picture capabilities, where supported, allow video to continue playing within a separate floating display. Both possess legitimate applications.[3]

But there is room for additional approaches.

One concept examined in my technical research is FocusLock, an immersive browser-based presentation mode intended to enlarge the entertainment and visually subordinate the surrounding publication without necessarily entering native full-screen playback.

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3. MDN Web Docs, “Fullscreen API” and “Picture-in-Picture API.” developer.mozilla.org/en-US/docs/Web/API/Fullscreen_API and developer.mozilla.org/en-US/docs/Web/API/Picture-in-Picture_API. Support and restrictions vary by browser.

The objective is to establish an intermediate viewing environment between an ordinary embedded player and an entirely full-screen presentation.

The user remains within the browser, but the entertainment acquires substantially greater visual prominence. The surrounding interface becomes less distracting, and the application retains the opportunity to present its own appropriate collection of controls.

Implementations must account for the dimensions of the display, the behavior of the browser and the accessibility requirements of the viewer. The mode should be easily reversible, preserve the current playback position and avoid interfering with ordinary navigation.

What interests me about this concept is not simply the introduction of another viewing mode. It is the recognition that the relationship between the video and the surrounding publication needn't remain fixed throughout the viewing experience.

The player could occupy different degrees of prominence according to the viewer's intentions.

Why should the only meaningful alternatives be a relatively small rectangle surrounded by a website and the complete disappearance of everything except the video?

Personal Picture and Sound

The equipment traditionally associated with home entertainment has long provided individuals with the ability to adjust the characteristics of their viewing environments.

People establish preferences concerning volume, sound reproduction, brightness, color and other aspects of presentation. Those preferences remain available when they encounter another recording.

There is an opportunity to develop comparable intelligence within the browser-based video player.

A viewer watching entertainment through headphones may prefer a different audio presentation from someone employing external speakers. Another may benefit from adjustments to contrast or brightness. Somebody watching a production containing dialogue may prefer an audio configuration emphasizing intelligibility.

Where the available media and browser technologies permit such processing, a sophisticated playback application can provide additional control over the resulting experience.

But we must distinguish personal presentation from alteration of the underlying creative work.

Adjusting the apparent brightness of a video doesn't require modifying its original file. Applying an equalization setting doesn't require producing another version of its soundtrack. These activities can occur within the playback environment.

There are limitations, of course. The capabilities of different browsers, playback technologies and devices vary. A particular audio adjustment may be unavailable under certain conditions, and applying identical settings to different equipment won't necessarily produce identical results.

Personalization should therefore be reversible, optional and capable of degrading gracefully when particular processing capabilities are unavailable.

The entertainment should remain playable even when the instrument cannot provide every supplementary function.

Your Player, Not Everybody Else's

The fragmentation of digital playback described in the preceding chapter creates a rather interesting commercial opportunity.

Imagine purchasing a television set whose controls, picture settings and audio preferences change every time you select another channel. You would reasonably regard that characteristic as a deficiency of the equipment.

Yet a comparable inconvenience occurs routinely within digital publishing. The viewer encounters different playback environments, each possessing its own controls, settings and interpretation of how the equipment should be operated.

What if the relationship were reversed?

Rather than continually introducing audiences to unfamiliar playback equipment, participating publishers could accommodate a familiar, personally configured viewing environment.

A person might establish preferences concerning the arrangement of controls, the appearance of the interface, the presentation of captions, the behavior of the transport functions and the organization of additional capabilities.

Those preferences could become associated with the viewer rather than exclusively with the individual publication.

I described this longer-term architectural proposition in *Beyond Play* as the *Personal Video Environment*. Its objective is to establish a continuing relationship between the viewer and the instrument through which entertainment is experienced.

The entertainment remains under the appropriate authority of its producer, rights holder and publisher. The instrument becomes more substantially associated with the person operating it.

This doesn't mean an individual acquires unrestricted access to every video available on the Internet. Nor does it mean publishers surrender authority over their commercial arrangements. A portable playback configuration cannot independently confer rights to entertainment that the individual isn't otherwise authorized to experience.

It means that ordinary presentation preferences needn't necessarily be reconstructed whenever the viewer enters another participating entertainment environment.

A person could bring a familiar instrument to the entertainment rather than continually learn a different instrument supplied with it.

Remember the Settings, Not the Pornography

There is an especially important distinction to be made when developing portable playback preferences for adult entertainment.

An individual might welcome the ability to preserve a preferred interface arrangement, caption size, picture setting or navigation behavior across several devices. That doesn't necessarily imply any willingness to establish a centralized record of the entertainment he has watched.

Those are fundamentally different categories of information.

A preference for a particular arrangement of playback controls reveals relatively little about the creative material being experienced. A detailed viewing history may reveal considerably more.

The architecture should recognize that distinction from the beginning.

An application might preserve ordinary preferences locally on the device. A more ambitious implementation could offer optional synchronization through an appropriately protected account or allow individuals to export and import their own preference configurations.

Cross-site synchronization introduces additional complications. Contemporary browsers increasingly restrict access to shared information across unrelated websites as part of their efforts to prevent unwanted tracking. Technologies such as the Storage Access Application Programming Interface (API) address certain circumstances involving embedded applications, but their operation remains subject to browser policies, permissions and security restrictions.[4]

A portable player cannot simply assume that information stored within one publishing environment will automatically become available within another.

Nor should developers regard those restrictions as obstacles to be circumvented.

The objective is to provide continuity through mechanisms the individual understands and authorizes. Where synchronization is unavailable or unwanted, the player should remain fully capable of ordinary operation.

I have little enthusiasm for reinventing the video player if accomplishing it requires reinventing the surveillance industry along the way.

The Personal Entertainment Queue

Another interesting possibility concerns the organization of entertainment independently of the website presenting it.

A traditional playlist ordinarily belongs to a particular application or publishing service. The publisher determines which productions can participate in it, how the collection is organized and whether the audience retains access to it after leaving the service.

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4. MDN Web Docs, “Storage Access API.” developer.mozilla.org/en-US/docs/Web/API/Storage_Access_API. Embedded access is subject to browser policies, permissions and security restrictions.

There is room to investigate a more personal arrangement.

A playback application could maintain a temporary queue of authorized videos selected by the viewer. Where the publisher provides appropriate support, the individual could move among productions without repeatedly navigating through the surrounding website.

A more ambitious implementation could support persistent personal collections or references to entertainment available through participating publishers.

The distinction between maintaining a reference to a production and maintaining a copy of the production is essential. An entry in a personal playlist doesn't confer ownership of the underlying media. The application must continue respecting the commercial and authorization requirements associated with each work.

A subscription may expire. A production may become unavailable. A licensing arrangement may change. The player should recognize those circumstances rather than attempt to circumvent them.

There are also legitimate reasons for allowing temporary playlists that disappear when the viewing session concludes. Not every useful feature needs to become a permanent record.

The objective is to give individuals greater authority over the organization of their entertainment without introducing unnecessary authority over the entertainment itself.

A Player With Room to Grow

The architectural ideas discussed here should ultimately provide a foundation for continued development rather than a definitive specification of the perfect video player.

A developer might introduce a specialized navigation deck. Another might develop improved accessibility controls. A publisher could commission an interface appropriate to a particular cate-

gory of entertainment. A viewer might prefer an alternative visual treatment or skin for a familiar collection of controls.

A generalized extension architecture could eventually permit such capabilities to be developed without requiring their creators to reconstruct the entire playback engine.

That possibility introduces its own engineering obligations. Extensions must operate through appropriately restricted interfaces. They shouldn't acquire unnecessary access to private information, interfere with essential playback functions or introduce vulnerabilities into the application.

Developers would need to establish compatibility conventions, versioning procedures and a means of determining which capabilities the underlying environment actually supports.

The commercial opportunity isn't merely to sell additional features. It is to establish playback technology as an environment within which other developers can innovate.

The entertainment industry already understands the economic possibilities associated with extensible creative applications. Audio production software, photographic applications and video editing environments have all benefited from the development of supplementary instruments and processing capabilities.

The application through which audiences experience the resulting entertainment deserves comparable entrepreneurial imagination.

The Next Generation of Playback

The innovations examined in this chapter occupy different stages of technological development. Some are already represented in working software, including switchable control decks and configurable presentation proportions. Others, particularly a generalized ecosystem of independently developed modules and a portable personal environment operating across unrelated publish-

ers and devices, represent broader architectural propositions requiring further implementation and evaluation.

Their significance doesn't depend upon claiming that every individual function is unprecedented. Many of the underlying technologies have existed for years. The more interesting undertaking involves organizing them into a coherent product with a different conception of what playback software ought to accomplish.

We can develop instruments capable of accommodating entertainment in different proportions, providing useful functionality without sacrificing visual simplicity and establishing a more enduring relationship with the person operating them.

We can create opportunities for independent developers to participate in their continued evolution. We can distinguish the preferences of the viewer from the commercial authority of the publisher and the creative authority of the producer.

And we can accomplish much of this without requiring the entertainment itself to change.

The next generation of video players shouldn't be judged merely by how many formats they support or how efficiently they deliver another moving picture. Their intelligence should become evident in the degree to which the equipment accommodates the individual experiencing it.

For decades, we have been asking audiences to adapt to our technology.

Perhaps it's time the technology learned to adapt to them.

CHAPTER 38

Taking Control of the Commercial Break

“The commercial break belongs within the creative and commercial architecture of the entertainment business.”

A television producer understands something that many digital publishers apparently don't: the commercial break is part of the program.

It may not be part of the creative work itself, but its timing, duration and relationship to the entertainment influence the experience of watching that work. Television producers have traditionally considered these matters during the development of their programming. Writers construct scenes around anticipated interruptions, directors establish appropriate transitions and broadcasters administer the resulting commercial inventory.

The commercial break has an editorial structure.

Digital entertainment provides opportunities to develop that structure with considerably greater flexibility. Different viewers can encounter different advertisements within the same production. Advertising arrangements can change without modifying the original entertainment. A publisher can administer commercial policies across thousands of individual videos from a centralized technological environment.

Yet much of the adult entertainment industry has been content to insert an advertising tag into a video player and regard the matter as settled.

We've outsourced not merely the sale of advertising but, in many instances, the decisions governing its presentation.

Those decisions deserve to return to the people responsible for producing and publishing the entertainment.

The Advertisement Is Not the Advertising Strategy

There are three separate decisions associated with presenting a commercial within a video entertainment environment.

The first concerns which advertisement should be presented. The second concerns when it should be presented. The third concerns the circumstances under which its presentation is appropriate.

Conventional advertising technology can help resolve all three, but they don't necessarily belong to the same technological component.

An advertiser might provide several commercials. An advertising server might determine which of those commercials is appropriate for a particular campaign. The publisher might establish when commercial interruptions are permitted within its programming, and the player might determine whether the necessary media can be presented successfully under the circumstances of the viewing session.

Each participant performs a different function.

The distinction becomes particularly important when publishers employ external advertising services. Providing an advertising partner with the opportunity to select an advertisement needn't require granting that partner unrestricted authority over the timing, duration and organization of the commercial experience.

The publisher should be able to establish the boundaries within which advertising decisions occur.

That is the difference between administering an advertising product and merely providing access to advertising inventory.

The Commercial Break Has Its Own Language

Throughout this book, we've referred to the Video Ad Serving Template (VAST), the industry specification through which advertising servers communicate with compatible playback systems.

VAST provides a structured method of describing advertisements, including information concerning creative media, playback requirements, tracking events and certain interactive capabilities. It also supports the organization of multiple advertisements into an ordered sequence commonly described as an ad pod.[1]

But identifying the advertisements to be played during a particular break is different from determining where those breaks occur within the entertainment.

The Interactive Advertising Bureau's Video Multiple Ad Playlist (VMAP) specification addresses this distinction. It provides a means of describing advertising opportunities within a production's timeline, including their placement and associated advertising sources.[2]

A publisher could, for example, identify a commercial opportunity preceding a production, another occurring at an appropriate point during the entertainment and a third following its conclusion.

VAST can supply the advertising material associated with those opportunities. VMAP can describe their organization within the presentation.

The significance of this distinction extends beyond the technical standards themselves. It establishes an architectural separa-

1. IAB Tech Lab, *Digital Video Ad Serving Template (VAST)*, version 4.3 (December 2022), including ad pods, tracking and server-side insertion. https://iabtechlab.com/standards/vast/.

2. Interactive Advertising Bureau (IAB), *Video Multiple Ad Playlist (VMAP)*, version 1.0.1. https://iabtechlab.com/standards-old/video-multiple-ad-playlist-vmap/.

tion between the advertising creative and the commercial schedule.

A publisher shouldn't need to reconsider the structure of its programming every time an advertiser changes its commercial. Nor should it need to reconstruct its advertising arrangements every time a production acquires another legitimate distribution outlet.

Separating the commercial schedule from the advertisements that occupy it provides greater editorial and operational flexibility.

Program the Break, Not Just the Advertisement

Consider an independent publisher distributing an assortment of promotional clips, short scenes, episodic productions and feature-length films.

The publisher could establish a conventional policy requiring a fifteen-second advertisement before every production. Such an arrangement would be comparatively simple to implement, but it would impose the same commercial structure upon entertainment possessing substantially different characteristics.

A thirty-second promotional clip would be preceded by an advertisement occupying half the duration of the entertainment. A ninety-minute feature would be accompanied by the same commercial interruption, despite providing an entirely different viewing experience.

There is little editorial intelligence in that arrangement.

A more sophisticated publisher could establish commercial policies appropriate to different categories of programming.

For short promotional material, it might eliminate the introductory advertisement altogether. Independently produced scenes might employ a single commercial or participate in a broader session-based advertising arrangement. Longer productions could accommodate scheduled commercial breaks at appropriate editorial transitions.

Adult entertainment possesses a rather interesting structural advantage in this respect. Many full-length productions are composed of individually conceived scenes, each possessing its own creative identity and natural conclusion. The transition between those scenes provides a particularly attractive opportunity for well-conceived midroll advertising.

Rather than interrupting the entertainment at arbitrary intervals determined by the passage of time, publishers could establish commercial breaks around the natural architecture of the production itself. A filmmaker could identify appropriate insertion points during post-production, allowing the advertising infrastructure to respect the editorial organization of the work.

This could also influence the relationship between producers and advertisers. A full-length production containing several independently structured scenes might provide multiple distinct sponsorship opportunities, each capable of being administered separately without compromising the integrity of the original work.

The industry needn't manufacture interruptions where natural intermissions already exist. It simply needs the commercial imagination and technological capability to make intelligent use of them.

A sponsored series might operate according to entirely different conditions, presenting the sponsor's advertising in a predetermined sequence while excluding unrelated commercial messages.

The technological infrastructure should make these distinctions relatively easy to establish and administer.

This doesn't require manually configuring every individual video in an extensive entertainment library. The publisher could establish default policies for particular collections or categories while retaining the ability to make exceptions for individual productions.

A filmmaker might identify specific moments at which commercial interruptions would be appropriate. A publisher could establish a maximum advertising duration for the production. The advertising system would then operate within those conditions.

Commercial policy becomes something the entrepreneur deliberately designs rather than something that emerges accidentally from the behavior of the advertising technology.

The Engineering of an Ad Pod

An ad pod introduces a more interesting organizational problem than the presentation of an individual commercial.

Suppose a publisher establishes a thirty-second commercial break. One advertiser provides a thirty-second commercial, another provides a fifteen-second commercial and two others provide ten-second commercials.

Several combinations could occupy the available time, but not every combination necessarily satisfies the publisher's commercial requirements.

An exclusive sponsor might possess contractual priority. Certain advertisements might be incompatible with one another. A campaign could be approaching its agreed delivery limit. An advertiser might have purchased the first position within a commercial break.

The advertising system must consider these circumstances when constructing or selecting the pod.

Commercial arrangement	Total duration	Remaining time
One 30-second commercial	30 seconds	None
Two 15-second commercials, where available	30 seconds	None
One 15-second and one 10-second commercial	25 seconds	5 seconds
Two 10-second commercials	20 seconds	10 seconds

The numerical problem is relatively straightforward. The commercial problem can become substantially more complicated.

The publisher may need to account for contractual commitments, campaign priorities, creative compatibility, available inventory and restrictions upon repeated exposure. It may also need to determine whether leaving part of the commercial break unsold is preferable to filling it with an inappropriate advertisement.

These considerations have become increasingly relevant within mainstream connected television advertising. IAB Tech Lab's *CTV Programmatic Guide* describes mechanisms for communicating the characteristics of multi-advertisement breaks within programmatic advertising transactions, including opportunities to purchase particular positions within those breaks.[3]

Adult publishers should be investigating comparable capabilities, whether they sell advertising programmatically, through direct commercial relationships or through a combination of the two.

The commercial break is a product possessing its own structure, not merely a container into which advertisements are deposited until it becomes full.

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3. IAB Tech Lab, *CTV Programmatic Guide*, discussion of podded bidding in OpenRTB 2.6.
https://iabtechlab.com/standards/advanced-tv/ctv-programmatic-guide/.

Rotation Is Not Scheduling

Another important distinction concerns the methods through which advertisements are selected over time.

A rotation provides a mechanism for choosing among a collection of advertisements. Selection might occur randomly, according to assigned weights or through rules intended to satisfy particular delivery requirements.

Scheduling involves determining when advertisements or campaigns become eligible for presentation.

Suppose a publisher maintains three commercials within a rotation, assigning them respective selection weights of fifty, thirty and twenty percent.

Over a sufficiently large number of eligible selections, and assuming no additional restrictions or delivery failures, the resulting distribution should approximate those proportions. Individual viewing sessions, however, may exhibit substantially different arrangements.

Weighted selection doesn't guarantee that a particular advertiser will receive an exact number of completed impressions. Nor does it independently ensure that campaign obligations will be fulfilled before a contractual deadline.

Those requirements introduce the separate problem of campaign pacing.

A campaign requiring one hundred thousand qualifying impressions over thirty days needs to average approximately 3,333 impressions per day. If it has delivered only thirty thousand impressions after fifteen days, it needs to average approximately 4,667 impressions per day throughout the remainder of the campaign.

An advertising system concerned with fulfilling the agreement should recognize that difference.

It may need to adjust the campaign's priority, reserve additional inventory or notify the publisher that the remaining available opportunities are unlikely to satisfy the commitment.

The publisher should not discover at the conclusion of a campaign that its advertising technology has been randomly selecting commercials with impressive mathematical consistency while failing to fulfill its commercial obligations.

Randomization is a selection mechanism. Campaign administration is a business responsibility.

Who Controls the Clock?

One of the more interesting engineering problems associated with video advertising concerns the existence of two separate timelines.

The entertainment has a duration and a current playback position. Each advertisement also possesses a duration and a current playback position.

During a client-side commercial interruption, the entertainment may remain paused while the advertisement proceeds through its own timeline. When the advertisement concludes, the player must return to the appropriate position within the entertainment.

This becomes more complicated when the audience exercises its ordinary playback controls.

Suppose a viewer watching a twenty-minute production moves directly from the third minute to the eighteenth minute. The publisher has established commercial opportunities at the fifth, tenth and fifteenth minutes.

Should the player immediately exhibit all three missed commercial breaks? Should it exhibit only one? Should it disregard them? Should the answer depend upon which advertisements the viewer has already encountered?

There isn't a universally correct commercial answer. But the publisher should establish an answer before the circumstances occur.

A poorly conceived implementation could subject the viewer to several consecutive interruptions merely because he attempted to navigate the entertainment. Another implementation might unintentionally permit the complete avoidance of commercially agreed advertising requirements.

Similar questions arise when a viewer rewinds a production. If a commercial was presented at the tenth minute, should returning to the eighth minute cause that commercial to appear again when playback reaches the same position?

The advertising system needs a reliable understanding of which commercial opportunities have already been executed during the relevant session.

This is where the engineering of advertising becomes inseparable from the engineering of playback.

The player must distinguish entertainment time from advertising time, preserve the relevant session state and implement the publisher's commercial policies consistently.

Don't Let a Broken Commercial Break the Entertainment

An advertising request can fail for numerous reasons.

The advertising server may have no eligible commercial available. A response may arrive too late. The selected media might be incompatible with the playback environment. An external service could become temporarily unavailable.

An entrepreneur may possess a perfectly accessible motion picture while the technology responsible for introducing its commercial fails to perform.

What happens next?

In many conventional implementations, the viewer is left staring at a loading indicator while the software attempts to resolve a problem whose existence has little relevance to his interest in the entertainment.

A more intelligently engineered system should distinguish among different categories of advertising failure and establish appropriate recovery procedures.

The publisher might authorize a limited attempt to obtain another advertisement. It might provide a locally available promotional commercial as an alternative. If the failure cannot be resolved within an acceptable period, the application might proceed to the entertainment.

The appropriate policy depends upon the commercial arrangement.

A freely available production supported by advertising may warrant a different response from an entertainment product whose authorized distribution conditions explicitly require a particular sponsorship presentation.

Access restrictions, contractual obligations and other essential protections cannot simply be disregarded because an advertising component encounters a technical difficulty.

Nevertheless, the developer should avoid allowing an unnecessary dependency to destroy an otherwise legitimate entertainment experience.

An advertising system that continually prevents people from watching the entertainment is eventually going to encounter a shortage of people to advertise to.

Prepare the Commercial Before You Need It

Traditional broadcasters don't ordinarily wait until the beginning of a commercial break to discover whether the next advertisement is available in a suitable technical format.

Digital publishers should aspire to similar operational intelligence.

Advertising selection, media retrieval and playback preparation can introduce delays. If every one of those activities begins only after the entertainment reaches its commercial interruption, the resulting experience can become unnecessarily disruptive.

Where appropriate, an advertising system can prepare certain aspects of a forthcoming commercial before the break begins.

It might retrieve an advertising response in advance, examine the available media resources or prepare a compatible creative for presentation.

This is commonly described as prefetching, although the precise activities undertaken vary among implementations.

Prefetching introduces several considerations. Advertising responses may expire. Campaign eligibility may change. Media preparation consumes bandwidth and other resources, potentially for advertisements that will never actually play.

Most importantly, retrieving an advertisement must not be confused with presenting it.

The fact that a commercial has been downloaded, prepared or placed in a queue doesn't establish that a billable impression has occurred. Advertising measurement must remain associated with the relevant delivery events and contractual definitions.

The objective is to improve the transition between entertainment and advertising without compromising financial accountability.

A commercially intelligent player should be capable of preparing for an interruption without prematurely declaring that the interruption occurred.

Client-Side and Server-Side Advertising

There are different technological approaches to introducing advertising into a digital video presentation.

Client-side ad insertion generally involves the playback application obtaining and presenting advertising media separately from the underlying entertainment. The application administers the transition between the two and executes the appropriate reporting activities.

Server-side ad insertion generally involves incorporating advertisements into the media presentation delivered to the playback application, often through dynamically constructed streaming manifests or related stitching mechanisms.

Both approaches possess legitimate applications.

Client-side implementations can provide considerable flexibility concerning interactive advertising, individual playback controls and the administration of commercial events. They can also introduce additional dependencies within the playback application and require careful coordination of the transitions between content and advertising.

Server-side approaches can provide a more continuous media presentation and reduce certain responsibilities imposed upon the playback environment. They introduce different requirements involving stream compatibility, advertising preparation, measurement and the communication of commercial boundaries.

Neither architecture independently guarantees an excellent viewing experience.

IAB Tech Lab's VAST 4-series specifications incorporate capabilities supporting advertising workflows involving server-side insertion, including considerations concerning media resources and advertising measurement.[1]

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1. IAB Tech Lab, *Digital Video Ad Serving Template (VAST)*, version 4.3 (December 2022), including ad pods, tracking and server-side insertion. https://iabtechlab.com/standards/vast/.

An independent publisher should evaluate these approaches according to the requirements of its entertainment business rather than assume that one represents the inevitable successor to the other.

A website distributing short prerecorded videos may have different requirements from a continuous streaming television channel. Interactive advertisements may introduce considerations absent from conventional linear commercials.

The implementation should follow the commercial and experiential requirements of the product.

The Remote-Controlled Commercial Environment

Suppose an entertainment company distributes several thousand individual videos through a collection of independently operated publications.

Its advertising arrangements may change daily. Campaigns expire, new advertisers arrive, sponsorship agreements become effective and particular advertisements occasionally need to be withdrawn.

If advertising configurations reside independently within each embedded playback environment, administering those changes can become a remarkably expensive exercise.

A more intelligent architecture would permit authorized commercial policies to be managed centrally.

A publisher could establish an advertising arrangement for an entire collection of videos, modify that arrangement for a particular publication or override it for an individual production.

The playback application would obtain the appropriate configuration when required, subject to the necessary security and contractual restrictions.

The architecture would also need to distinguish among different levels of authority.

A producer might possess certain sponsorship rights associated with a particular production. A distributor might possess authority over advertising within an authorized exhibition environment. A publisher might establish additional restrictions concerning the advertisements appropriate to its audience.

The resolution of those potentially competing conditions is not merely a software configuration problem. It is an expression of the underlying commercial agreements.

A properly engineered system should implement those agreements rather than allow whichever participant possesses administrative access to the technology to determine the outcome arbitrarily.

Remote administration introduces tremendous operational possibilities, but it also demands intelligible permission structures, appropriate audit records and safeguards against unauthorized changes.

The capacity to control advertising throughout an entire entertainment network shouldn't become the capacity to compromise that network through a single improperly administered account.

Establish an Advertising Standard of Your Own

The publisher should establish a documented set of technical and editorial requirements governing the commercials accepted into its entertainment environment.

Those requirements might address permissible durations, media formats, audio characteristics, image proportions, commercial content, destination links and the circumstances under which an advertisement can introduce additional interactive functionality.

They should also establish how failures are handled, how frequently commercials may be repeated and how the advertising environment behaves when the audience moves among productions.

Some of those requirements will be commercial. Others will be technological. Still others will reflect the editorial identity of the publication.

A publisher might decide, for example, that a particular collection of entertainment will never exhibit advertisements exceeding fifteen seconds. Its advertising infrastructure should be capable of enforcing that decision rather than merely communicating it as a suggestion to external advertising partners.

Similarly, an advertisement designed for horizontal presentation may require an appropriate alternative version before it is accepted into a vertically oriented playback environment. A commercial with inappropriate audio levels may warrant adjustment by the advertiser or rejection by the publisher.

Professional advertising requires quality control before the campaign begins, not merely complaints after the audience encounters it.

A broadcaster has standards concerning the material it agrees to transmit. An independent digital publisher should possess comparable authority over the material it agrees to exhibit.

The Commercial Director

I would like to see adult entertainment publishers develop a considerably more interesting conception of the person responsible for administering their advertising.

The conventional advertising administrator may spend much of the working day establishing campaigns, configuring tags, examining delivery reports and resolving discrepancies among technological systems.

Those activities will remain necessary. But an increasingly sophisticated advertising operation deserves somebody concerned with the commercial experience itself.

How should advertising be organized around the entertainment? Which arrangements are appropriate to different kinds of

productions? What technologies are necessary to execute them? What technical and editorial standards should advertisers be expected to meet?

These are legitimate questions of entertainment management.

The person responsible for them should possess sufficient commercial understanding to appreciate the advertiser's objectives, sufficient technological understanding to recognize the possibilities of the infrastructure and sufficient editorial judgment to protect the experience of the audience.

In a small independent enterprise, that person may also be the owner, the publisher or the producer. In a larger organization, the responsibility may justify a specialized position.

The organizational title matters considerably less than the recognition that the commercial break deserves direction.

We have directors responsible for what happens during the entertainment. We ought to have somebody thinking intelligently about what happens between it.

The Publisher's Prerogative

Throughout the preceding chapters, we've examined the economic reasons for establishing a more sophisticated video advertising environment. The technological capabilities discussed here provide some of the machinery through which that environment can be constructed.

We can establish commercial schedules independently of the advertisements occupying them. We can organize advertisements into coherent sequences, administer campaigns according to contractual requirements and prepare commercial presentations without unnecessarily disrupting the entertainment.

We can determine how the application responds to failures, how advertising behaves when viewers navigate through productions and which commercial policies apply throughout an authorized distribution environment.

But the existence of these capabilities is significant principally because of the authority they return to the publisher.

We should no longer regard the commercial interruption as an externally imposed technological event whose characteristics must simply be tolerated.

It is something we can design, administer, improve and, where appropriate, eliminate.

The commercial break belongs within the creative and commercial architecture of the entertainment business.

It is about time we started directing it.

CHAPTER 39

The Power of Integration

“Integration should reduce the number of places in which a business can accidentally disagree with itself.”

A producer withdraws a video from distribution. The publishing system removes it from the website, but the hosting service continues delivering it through previously established embeds. The advertising system continues treating it as available inventory, and the accounting system has no indication that anything has changed.

Four perfectly functional technologies have collectively failed to administer a single business decision.

This illustrates one of the fundamental problems associated with fragmented entertainment infrastructure. The individual technologies may perform their respective functions admirably while possessing insufficient knowledge of the activities occurring elsewhere in the enterprise.

The problem isn't necessarily the absence of functionality. It's the absence of coordination.

Integration becomes strategically interesting when it enables an organization to accomplish things that its individual technologies cannot accomplish independently.

Beyond the Unified Dashboard

The term *integration* has become rather fashionable in the software business. Sometimes it describes little more than the ability to access several different services through a common administrative interface.

There is certainly value in eliminating unnecessary administrative environments. But placing several applications behind the same login doesn't necessarily establish an intelligently integrated business.

Suppose a publisher employs a hosting service, an advertising server and a video player. All three are accessible through a common dashboard. Nevertheless, the publisher must manually associate every new video with its advertising arrangements, reconcile its viewing statistics and calculate the compensation owed to its producer.

The interface has been unified. The underlying operation hasn't.

Meaningful integration occurs when information generated through one activity becomes intelligently available to the other activities requiring it.

When a production is uploaded, the relevant systems should understand that a new commercial asset exists. When an advertiser's campaign expires, the playback environments affected by that expiration should receive the appropriate changes. When an authorized distribution arrangement concludes, the technologies responsible for executing it should recognize that conclusion.

The dashboard is merely where management observes and administers these activities. The intelligence resides beneath it.

An integrated enterprise shouldn't require its employees to serve as the communications infrastructure connecting its computers.

Establish an Authority for Every Fact

One of the more troublesome consequences of independently administered systems is the possibility that several of them maintain different versions of ostensibly identical information.

A publisher changes the title of a production. Its hosting library reflects the new title, while its advertising reports continue identifying the work by its previous title. The accounting system employs an abbreviated description introduced by an employee several months earlier.

This particular discrepancy may be relatively harmless. Others are not.

Different systems might disagree about the expiration date of a distribution agreement, the commercial arrangements associated with a production or the compensation owed to a rights holder.

The enterprise needs to establish which system possesses authoritative responsibility for particular categories of information.

In software architecture, this is commonly described as establishing a source of truth. The principle doesn't require storing every piece of information within a single enormous database. Different systems can legitimately possess authority over different aspects of the operation.

The media catalog might maintain the authoritative identity of a production. The licensing system might establish its authorized distribution conditions. The accounting ledger might maintain the definitive financial records associated with its commercialization.

Other systems can obtain the information necessary to perform their responsibilities without independently redefining it.

Consider the importance of this distinction to a company distributing thousands of individually produced scenes, clips and feature-length productions through several commercial environments. A change to the authoritative distribution conditions should not require an employee to remember every administrative location in which those conditions have been duplicated.

The architecture should coordinate the implementation of the decision.

Integration should reduce the number of places in which a business can accidentally disagree with itself.

When One Thing Happens, Another Should Know

Traditional administrative software frequently requires somebody to initiate each successive activity associated with a business process.

An employee uploads a production, informs another employee that it exists, establishes the appropriate advertising arrangements and subsequently communicates information concerning its availability to the people responsible for publishing it.

Much of that work involves conveying information that the organization already possesses.

An alternative approach involves constructing portions of the infrastructure around business events.

When a production completes the necessary processing and receives approval for distribution, the responsible system can communicate that event to other authorized components. The publishing system can update the appropriate catalog. The advertising infrastructure can establish eligible commercial opportunities. The reporting environment can prepare to associate subsequent activity with the new production.

The event establishes that something relevant has occurred. Other systems determine what that occurrence means within their respective responsibilities.

This approach is generally associated with event-driven architecture.

Its particular attraction for independent entertainment businesses is the possibility of introducing additional capabilities without continually modifying the original process responsible for generating the information.

A publisher might subsequently develop a notification service informing interested subscribers when authorized productions

become available. Rather than reconstruct its entire publishing workflow, it could introduce a component responding to appropriate publication events.

The original systems needn't necessarily understand every subsequent commercial application of the information they generate.

That creates interesting opportunities for extending the enterprise.

But automation deserves careful consideration. Uploading a video should not automatically establish that it is authorized for publication. Completing media processing shouldn't be confused with completing the professional and administrative responsibilities associated with its distribution.

The events around which we organize our technologies must accurately represent the decisions they are intended to communicate.

The Problem With Things Happening Twice

Suppose an advertising system communicates a qualifying impression to an accounting service. The accounting service records the corresponding financial transaction, but a temporary communications failure prevents confirmation from reaching the advertising system.

The advertising system subsequently sends the information again.

Has the enterprise generated another impression?

Obviously not. But an inadequately constructed accounting system might interpret the repeated notification as another financial event.

The resulting discrepancy may be insignificant when a single impression is involved. Across millions of transactions, the financial consequences could become substantial.

Software engineers address aspects of this problem through the principle of *idempotency*: designing an operation so that repeating the same instruction does not create an unintended additional effect.

Amazon Web Services discusses this requirement in its published engineering guidance concerning the transactional outbox pattern, an approach intended to coordinate the recording of business transactions with the communication of associated events.[1]

For entertainment businesses, the implications extend well beyond advertising.

A repeated payment notification shouldn't create additional account credit. A duplicated licensing event shouldn't establish another financial obligation. Repeated instructions to withdraw a production shouldn't introduce inconsistencies into its distribution status.

These requirements demonstrate why integration involves substantially more than persuading two applications to communicate.

The receiving application must understand the significance of the information, recognize whether it has already acted upon it and respond appropriately when communications become unreliable.

The infrastructure needs to accommodate the imperfections of the technological environment in which the business actually operates.

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1. Amazon Web Services (AWS), “Transactional Outbox Pattern,” *AWS Prescriptive Guidance*. https://docs.aws.amazon.com/prescriptive-guidance/latest/cloud-design-patterns/transactional-outbox.html. See the discussion of duplicate messages and idempotent consumers.

Establish the Commercial History of a Production

One of the more interesting possibilities associated with integrated entertainment infrastructure involves maintaining a coherent commercial history of individual creative works.

Consider a feature-length production subsequently divided into several independently distributed scenes. Promotional excerpts are created from those scenes, alternative versions are prepared for different playback environments and several publishers acquire distribution rights under different commercial conditions.

The original production has developed an extensive family of related assets.

Some of those assets may possess their own financial arrangements. Others may contribute indirectly to the commercial performance of the original work. An excerpt might attract attention to a complete production without independently generating meaningful revenue.

The infrastructure should be capable of distinguishing these activities while preserving their relationships.

Imagine the analytical possibilities available to a producer capable of examining the commercial performance of the original production alongside its constituent scenes, promotional excerpts and subsequent editions.

The producer could investigate whether particular forms of distribution contributed to the financial performance of others. A publisher could identify which portions of its library justified further promotional investment. A rights holder could obtain more meaningful information concerning the exploitation of its work.

These capabilities would require careful accounting. Revenue associated with an individual scene shouldn't be counted again as additional revenue merely because that scene belongs to a larger production. Nor should statistical associations between

promotional activity and subsequent purchases automatically be interpreted as evidence of causation.

Nevertheless, the opportunity to understand the commercial life of a creative work across several different forms of exploitation represents a significant advantage over conventional reporting organized around isolated media files.

We should be able to investigate the performance of the entertainment, not merely the performance of the technologies through which it was delivered.

The Business Decision and Its Consequences

Integration creates an opportunity to establish a more direct relationship between managerial decisions and their technological consequences.

Suppose a publisher establishes an exclusive sponsorship arrangement for a particular series of videos. The agreement specifies the sponsor, the applicable productions, the campaign period and the conditions under which advertising is permitted.

Several components of the enterprise may need to respond to that agreement.

The advertising system must recognize the sponsor's priority. The playback environment must obtain the appropriate commercial configuration. The reporting system must distinguish the sponsored activity from other advertising arrangements. The accounting system must administer the resulting financial obligations.

When the arrangement concludes, those components must recognize that the circumstances have changed.

There is an additional consideration concerning the historical accuracy of the resulting information. If the publisher subsequently modifies its advertising policies, the new conditions should not retroactively change the interpretation of transactions that occurred under the previous arrangement.

The enterprise needs to know which commercial policy applied when the relevant activity occurred.

Maintaining identifiable versions of important policies can help establish that relationship. The resulting records can provide management with a more intelligible explanation of why particular advertisements appeared, how revenue was allocated and which contractual conditions governed the transaction.

A sophisticated infrastructure shouldn't merely know what the company's policies are today. It should retain appropriate evidence of what those policies were when commercially significant decisions were executed.

That capability can become particularly valuable when resolving disagreements among publishers, producers, advertisers and other participants in the entertainment economy.

The Intelligence of the Exception

The ultimate test of an integrated system may not be how well it handles ordinary activity but how intelligently it responds to circumstances that depart from it.

A publisher expects a campaign to operate for thirty days. The advertiser requests an early suspension. A production encounters a legitimate distribution restriction. A financial transaction requires correction.

These exceptions frequently reveal the limitations of systems designed exclusively around the anticipated sequence of ordinary operations.

If an advertiser's campaign is suspended, the company needs more than an administrative record indicating that somebody pressed a button. It needs reasonable assurance that the advertising infrastructure has implemented the suspension wherever the company possesses the authority to enforce it.

A distribution restriction may require coordination across a considerably more complicated collection of technologies, includ-

ing cached media, authorized embeds and external publishing relationships. Some changes can occur immediately. Others may require additional verification or direct intervention.

The system should distinguish an instruction issued from an instruction successfully executed.

The World Wide Web Consortium's *Trace Context* specification addresses a related engineering problem by establishing conventions through which information concerning distributed requests can be communicated among participating systems.[2] Such capabilities can assist developers in understanding how an activity proceeded through different technological components.

For adult entertainment infrastructure, however, the ability to trace an operational transaction should remain distinct from the ability to trace an individual's private entertainment consumption. Diagnostic information should be limited to what is necessary to understand the operation.

The objective is to establish accountability for the behavior of our technologies, not construct another mechanism for monitoring the audience.

The Economics of Eliminating Administration

Consider a hypothetical independent publisher employing several people to coordinate its hosting, advertising and financial systems.

Collectively, they spend twenty hours each week transferring information among applications, resolving routine discrepancies and performing administrative activities arising primarily from the absence of integration.

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2. World Wide Web Consortium (W3C), *Trace Context*, W3C Recommendation, February 6, 2020, especially the privacy considerations. https://www.w3.org/TR/2020/REC-trace-context-1-20200206/.

At a fully allocated labor cost of thirty dollars per hour, those activities represent approximately thirty-one thousand two hundred dollars in annual labor expenditure.

If better integration could eliminate three-quarters of that work, the business would recover approximately twenty-three thousand four hundred dollars' worth of staff capacity annually.

That doesn't necessarily mean the publisher could reduce its payroll by the same amount. It may instead enable existing employees to devote more attention to acquiring entertainment, developing commercial relationships or improving the product.

The distinction matters.

The value of integrating the enterprise isn't confined to the expenses it eliminates. It also resides in the more valuable activities its employees subsequently become available to undertake.

An experienced entertainment executive shouldn't spend a substantial portion of the working week reconciling information that two computers could have communicated to each other.

The computer may be relatively inexpensive. The executive's imagination is not.

Integration Without Uniformity

The adult entertainment industry contains businesses possessing remarkably different creative and commercial identities. Their infrastructure should accommodate those differences rather than require them to disappear.

An independent creator may employ a highly integrated service that administers much of the commercial undertaking. A large studio may operate specialized internal systems while employing external technologies for particular activities. A cooperative of independent publishers might share certain infrastructure capabilities while maintaining entirely separate commercial identities.

All three arrangements can benefit from intelligent integration.

The objective isn't to determine how many applications a company should employ or how many providers it should pay. It is to establish whether the technologies participating in the enterprise possess sufficiently coherent relationships to accomplish what the business requires.

A company employing six interoperable services may be more intelligently integrated than one employing a single enormous software product whose internal components rarely communicate.

We should judge integration by the behavior of the enterprise, not the number of logos appearing on its invoices.

Make the Whole Worth More

The independent entertainment publisher has traditionally been required to assemble a business out of technologies developed to perform particular tasks.

Each acquisition solves a problem. But the accumulation of those solutions doesn't independently create an intelligent commercial operation.

The next generation of entertainment infrastructure should be concerned with the relationships among those solutions. A commercial decision should acquire technological consequences. The resulting activity should acquire intelligible records. Those records should provide the enterprise with knowledge it can employ in making subsequent decisions.

That is where integration begins to produce something more valuable than administrative convenience. It establishes a business capable of learning from its own operation.

We've spent considerable time developing technologies that perform individual tasks exceptionally well.

The next accomplishment will be teaching them to work together exceptionally well.

CHAPTER 40

The Economics of Infrastructure

“We should build infrastructure that helps the industry afford its future.”

An independent entertainment publisher should be able to celebrate an unexpected increase in the popularity of its programming without simultaneously developing anxiety about its next infrastructure invoice.

Unfortunately, those two experiences aren't necessarily incompatible.

A production attracts substantial attention. Thousands of additional viewers encounter the entertainment, the publisher's distribution expenses increase, and the financial consequences depend upon whether the commercial arrangements associated with the production generate sufficient additional revenue.

Popularity becomes a liability if the cost of accommodating it exceeds its economic contribution.

The infrastructure provider, meanwhile, faces a different financial problem. It must maintain technologies capable of accommodating the publisher's success, finance the resources consumed by the additional activity and establish pricing arrangements sufficient to sustain its own operation.

Both businesses deserve to make money. The interesting entrepreneurial challenge involves constructing a commercial relationship in which the success of either contributes to the success of the other.

We should be developing infrastructure economies around that proposition.

The Democratization of Industrial Capacity

One of the most significant economic developments associated with contemporary computing is the ability of relatively small enterprises to acquire sophisticated technological capabilities without purchasing the industrial resources responsible for providing them.

An independent publisher doesn't need to construct a data center to maintain an entertainment library. It doesn't need to establish a geographically distributed network of servers to deliver its programming internationally.

It can acquire access to those capabilities as services.

In their influential 2010 paper “A View of Cloud Computing,” Michael Armbrust and his colleagues examined the economic implications of cloud computing, including the economies of scale associated with large data centers and the ability of customers to obtain computing resources according to changing requirements.[1]

For independent entertainment companies, this represents a substantial departure from the traditional economics of industrial capacity.

A comparatively small enterprise can obtain access to technologies whose development and operation would otherwise require extraordinary capital investment. The infrastructure provider distributes those expenses across numerous customers, each acquiring a portion of the resulting capabilities.

1. Michael Armbrust et al., “A View of Cloud Computing,” *Communications of the ACM* 53, no. 4 (April 2010): 50–58. https://doi.org/10.1145/1721654.1721672.

The commercial opportunity for adult entertainment resides not simply in obtaining access to that capacity but in developing services that translate it into capabilities appropriate to our industry.

An independent creator doesn't necessarily need to purchase computing resources in their most elementary form. The creator needs reliable media delivery, intelligible administration and an affordable means of commercializing original work.

There is an important business distinction between selling technological capacity and selling the ability to accomplish something with it.

The former is increasingly available. The latter remains fertile entrepreneurial territory.

What Does It Actually Cost to Serve a Publisher?

An infrastructure provider may acquire storage, network delivery and computing resources from larger technological enterprises. It develops software around those resources, administers customer accounts, provides technical support and establishes the commercial conditions under which its customers obtain access.

Its financial obligations therefore extend considerably beyond the wholesale price of bandwidth.

There are expenses associated with software development, maintenance, security, customer acquisition, technical support and administrative operations. Some exist regardless of how many videos its customers distribute. Others increase with the volume or complexity of their activity.

Understanding the distinction between those expenses is fundamental to developing intelligent pricing.

Suppose a specialized infrastructure company incurs twelve thousand dollars in monthly fixed operating expenses. Its aver-

age variable cost of serving an active publisher amounts to eighteen dollars per month.

Under simplified assumptions, its economics might develop as follows. The figures represent the infrastructure provider's internal monthly operating expenses per customer, not the subscription prices charged to publishers.

Illustrative Economies of Scale: Monthly Operating Cost per Publisher

Active publishers	Fixed cost per publisher	Variable cost per publisher	Average cost per publisher
100	$120	$18	$138
300	$40	$18	$58
600	$20	$18	$38
1,200	$10	$18	$28

The financial advantage associated with increasing the number of customers becomes apparent. The provider can distribute the expense of developing and maintaining its infrastructure across a larger commercial population.

These figures are hypothetical, and fixed costs rarely remain unchanged throughout substantial organizational growth. Additional customers may require more employees, greater technological capacity and further investment in the underlying systems.

Nevertheless, the economic principle explains why specialized infrastructure can become increasingly accessible as the marketplace employing it develops.

At six hundred customers, a technological capability that might have been prohibitively expensive for the first hundred can potentially be provided profitably at a considerably lower price.

This is one of the arguments for developing professional infrastructure intended to serve numerous independent entertainment enterprises rather than requiring each enterprise to develop the same capabilities internally.

The industry can collectively finance technological sophistication without surrendering the individuality of its participants.

The Economics of Unlimited

Few words in the technological vocabulary have acquired greater promotional significance than *unlimited*.

Unlimited hosting. Unlimited storage. Unlimited bandwidth.

The underlying resources, however, remain stubbornly measurable.

A company promising unlimited consumption at a predetermined price must establish some economic means of accommodating differences in the behavior of its customers.

The arrangement may work because most customers consume relatively modest quantities of resources. Some may consume substantially less than the amount their monthly payments could theoretically finance, allowing the provider to accommodate others consuming substantially more.

In effect, the lighter users subsidize the heavier ones.

This isn't necessarily an unintelligent commercial arrangement. Predictable expenses can provide considerable value to customers, and a provider serving a sufficiently diversified population may be capable of administering variations in consumption profitably.

The difficulties emerge when the characteristics of the customer population change or when the advertised promise is substantially broader than the provider's willingness to fulfill it.

An infrastructure company may subsequently introduce restrictions, reduce delivery performance, impose additional contractual conditions or determine that particular customers are consuming more resources than their accounts were intended to accommodate.

The customer discovers that unlimited was a rather imaginative description of a limited commercial arrangement.

I have no objection to fixed-price infrastructure services. Their predictability can be enormously attractive. But the arrangement should communicate what the provider has actually undertaken to supply.

An entrepreneur building an entertainment business needs to understand its operating boundaries before encountering them.

The Price of Predictability

There are several legitimate approaches to financing infrastructure consumption.

A provider can charge according to the resources actually consumed. It can establish a fixed monthly price for a specified collection of capabilities. It can combine an initial service commitment with additional charges associated with consumption exceeding an established allowance.

Each arrangement distributes financial uncertainty differently.

Contemporary cloud infrastructure companies employ variations of these models. Amazon Web Services, for example, provides both usage-based and flat-rate purchasing arrangements for its CloudFront content delivery network, illustrating the coex-

istence of different pricing philosophies within the same technological service.[2]

Consider three hypothetical infrastructure arrangements:

- A usage-based service charging five cents per gigabyte of delivery.
- A fixed-price service charging one hundred dollars per month for up to five thousand gigabytes.
- A hybrid service charging fifty dollars per month, including one thousand gigabytes, with additional delivery charged at three cents per gigabyte.

Assuming the services provide otherwise comparable capabilities, their delivery economics would differ according to consumption.

Monthly delivery	Usage-based	Fixed-price	Hybrid
500 GB	$25	$100	$50
1,000 GB	$50	$100	$50
2,500 GB	$125	$100	$95
5,000 GB	$250	$100	$170

The fixed-price arrangement becomes particularly attractive to a publisher consuming substantial quantities of its included allowance. The usage-based arrangement provides advantages to a smaller enterprise whose consumption remains comparatively modest. The hybrid arrangement offers a different balance between predictable expenses and variable consumption.

But the comparison isn't complete without understanding what happens when the publisher exceeds the fixed-price service's

2. Amazon Web Services (AWS), “Amazon CloudFront Pricing.” https://aws.amazon.com/cloudfront/pricing/. Describes pay-as-you-go and flat-rate pricing plans. Accessed November 28, 2026.

specified allowance, whether unused capacity expires and which additional capabilities are included in each service.

There is no universally superior infrastructure pricing model.

There are models appropriate to particular business circumstances and models whose financial characteristics management hasn't adequately investigated.

Pay for the Business You Have

An independent entertainment enterprise frequently begins under circumstances of considerable commercial uncertainty.

A creator may possess an excellent collection of original videos without knowing how large an audience those videos will attract. A publisher may establish an advertising-supported service without knowing how rapidly its commercial relationships will develop.

Requiring such entrepreneurs to acquire substantial infrastructure capacity in advance introduces financial risk at precisely the moment when their ability to evaluate that risk remains limited.

The opposite arrangement, in which every technological activity incurs an unpredictable expense, can introduce a different difficulty. The entrepreneur may find it challenging to establish an operating budget or determine how much additional activity the company can afford.

The interesting opportunity involves developing infrastructure arrangements that accommodate the evolution of the business.

A relatively modest initial commitment could provide the professional capabilities necessary to establish an operation. As the enterprise grows, additional resources become available without requiring the entrepreneur to reconstruct the technological foundations of the business.

Such an arrangement should also recognize that consumption doesn't necessarily increase at a uniform rate.

An independent producer might upload an extensive collection of archival material during one month and relatively little during the next. A publisher might experience substantial delivery activity during a successful promotional campaign while encountering comparatively ordinary demand throughout the remainder of the year.

The economics of the service should accommodate those variations intelligibly.

A publisher shouldn't be required to purchase the infrastructure necessary to support the business it hopes to possess three years from now merely to establish the business it possesses today.

The Unit That Matters

Infrastructure providers and entertainment publishers frequently employ different units when evaluating the same commercial activity.

The provider may examine gigabytes transferred, storage consumed, processing time or the number of requests administered by its systems.

The publisher is more likely to be interested in viewing hours, subscriptions, commercial impressions and the revenue generated by individual productions.

Both perspectives are legitimate. But the entrepreneur must understand the relationship between them.

The FinOps Foundation, a nonprofit organization concerned with the financial management of cloud and other technology expenditures, identifies unit economics as an important capability within its management framework. Its guidance emphasizes relating the costs of technological resources to meaningful units of business activity.[3]

For entertainment publishers, the principle can help illuminate considerable differences among apparently similar productions.

Suppose a publisher distributes two collections of independently produced videos.

Each generates ten thousand monthly playback sessions. The first collection consists principally of relatively short productions, consuming an average of one-quarter of a gigabyte per session. The second contains longer or higher-bitrate productions, consuming an average of one gigabyte per session.

At a hypothetical delivery rate of two cents per gigabyte, the comparison becomes:

Measurement	Collection A	Collection B
Playback sessions	10,000	10,000
Average delivery per session	0.25 GB	1 GB
Total delivery	2,500 GB	10,000 GB
Delivery expense	$50	$200
Delivery cost per 1,000 sessions	$5	$20

An identical quantity of playback activity produces substantially different infrastructure expenses.

3. FinOps Foundation, “Unit Economics,” *FinOps Framework*. https://www.finops.org/framework/capabilities/unit-economics/. Accessed November 28, 2026.

That doesn't establish that the first collection is commercially superior. The second may generate greater advertising revenue, command higher subscription prices or contribute more substantially to audience retention.

But management should possess sufficient information to investigate those relationships.

The financial significance of a production cannot be adequately understood if the revenue associated with it appears in one administrative environment while the resources consumed distributing it remain invisible elsewhere.

This is one of the economic advantages of the informational integration discussed in the preceding chapter.

A View Isn't a Gigabyte

There is an important distinction between measuring infrastructure consumption and establishing a commercial unit through which customers are charged for it.

A provider might charge for the actual volume of data transferred. Another might establish a standardized charge for each qualifying viewing event, using the size or characteristics of the associated media to determine the applicable amount.

The latter arrangement could provide an intelligible alternative to conventional network metering, particularly when publishers are interested in associating distribution expenses with identifiable commercial activity.

But these are different measurement methodologies.

A viewer may abandon a production after several seconds. Another may watch it in its entirety. A third may receive a lower-bitrate version because of the circumstances of playback.

Charging each viewing event according to the full size of a media file would produce a contractual usage quantity that differs from the actual network traffic generated.

There is nothing inherently objectionable about establishing an alternative commercial unit, provided the arrangement clearly defines what is being purchased and how the resulting charges are calculated.

The commercial unit needs to be consistent, understandable and capable of being audited.

The publisher should know what constitutes a chargeable event. The provider should know which customer owns the resources associated with it. Both should understand how the resulting financial amount was established.

This distinction matters because entrepreneurs cannot intelligently administer infrastructure expenses whose calculation they cannot reproduce.

Pricing innovation is valuable when it makes the economics of a business more intelligible. It is considerably less valuable when it merely changes the location of the mystery.

Don't Penalize the Successful Customer

Imagine an infrastructure provider offering a publisher an attractive introductory arrangement.

The publisher develops its entertainment library, establishes commercial relationships and gradually attracts a substantial audience. As its business becomes more successful, it discovers that additional resource consumption is charged at increasingly disadvantageous rates.

Its success has made it a less economically attractive customer proposition from its own perspective.

There may be legitimate reasons for certain increases in service prices. Larger operations can introduce requirements concerning specialized support, contractual commitments, security or unusual technical capabilities.

But where increased consumption allows a provider to obtain resources more economically, there may be opportunities to share those advantages with its customers.

Volume pricing can provide one such mechanism. Graduated service arrangements can provide another.

The underlying principle is that the provider should recognize the commercial value of helping its customers become larger and more successful enterprises.

A specialized infrastructure business possesses a particularly interesting opportunity in this respect. Its customers may begin as relatively small operations but subsequently develop extensive entertainment libraries, substantial audiences and sophisticated commercial arrangements.

Helping those businesses develop can be considerably more valuable than maximizing the immediate financial contribution obtained from each customer.

The provider acquires a continuing relationship with a growing enterprise. The publisher acquires a technological foundation whose economics accommodate that growth.

We should be interested in commercial arrangements that encourage both parties to think beyond the next invoice.

The Revenue Share Question

An infrastructure provider needn't necessarily finance its operation exclusively through conventional service charges.

It might participate in advertising revenue, receive compensation associated with commercial transactions or establish ar-

rangements under which certain technological capabilities are provided in exchange for a proportion of the economic activity they facilitate.

There are circumstances in which such arrangements can be mutually attractive.

A relatively small publisher may possess valuable entertainment but insufficient capital to finance sophisticated infrastructure. A provider confident in the commercial potential of that entertainment might accept a portion of the financial risk in exchange for participation in the resulting revenue.

But the economics should remain visible.

Suppose a technology company receives ten percent of the revenue generated through a particular entertainment service. When the publisher generates one thousand dollars per month, the infrastructure compensation amounts to one hundred dollars.

When the publisher generates twenty thousand dollars, the compensation becomes two thousand dollars.

Has the provider's contribution increased proportionately? Has it assumed additional risk, introduced valuable commercial capabilities or provided resources whose consumption has increased substantially?

Perhaps it has. Perhaps the revenue-sharing arrangement has simply become considerably more expensive than an equivalent conventional service.

The answer depends upon what the provider contributes to the enterprise.

There is an important distinction between a company providing technological services and a company participating in the entrepreneurial risk of the business. The latter may legitimately deserve compensation exceeding the ordinary cost of providing infrastructure.

The publisher should understand which relationship it has entered.

Where practical, revenue-sharing arrangements should include intelligible accounting provisions, clearly established responsibilities and reasonable mechanisms for reconsidering the arrangement as the circumstances of the enterprise evolve.

We shouldn't replace an opaque infrastructure invoice with an equally opaque claim upon the future earnings of the business.

The Economics of Discretion

Infrastructure designed specifically for adult entertainment introduces professional and commercial considerations that may not receive comparable attention within generalized technology services.

The nature of the entertainment can influence contractual arrangements, customer support requirements, privacy expectations, security responsibilities and the administration of distribution permissions.

These activities create legitimate operating expenses.

A specialized infrastructure company may need employees who understand the commercial and professional circumstances of the industry. It may need procedures appropriate to sensitive information and the handling of legitimate complaints concerning distributed material. It may encounter limitations within the commercial services available to its own operation.

The provider should understand those expenses and establish sustainable means of financing them.

The customer, meanwhile, should be capable of distinguishing charges associated with meaningful specialized services from charges imposed merely because its business happens to operate within a commercially stigmatized industry.

Earlier, we examined the economic consequences of exclusion. Specialized infrastructure provides an opportunity to address some of those consequences through technological competence and intelligently constructed commercial arrangements.

It shouldn't become another means of collecting a premium from entrepreneurs who possess relatively few alternatives.

A specialized infrastructure industry should compete upon the quality of its services, its understanding of the businesses employing them and the economic intelligence of its arrangements.

Its customers deserve more than tolerance at an additional charge.

A Business Relationship Worth Engineering

The traditional relationship between an infrastructure provider and its customers can be remarkably uncomplicated. The customer consumes resources. The provider sends an invoice.

But an entertainment company requires something considerably more interesting than access to computing resources.

It needs an infrastructure capable of accommodating the development of its commercial identity. It needs intelligible expenses, professionally administered services and sufficient flexibility to pursue new opportunities without encountering unnecessary financial obstacles.

The infrastructure provider needs customers capable of sustaining their businesses, paying for the services they consume and developing commercial relationships that justify continued technological investment.

Those interests are not fundamentally opposed.

Indeed, the most interesting infrastructure businesses may be those that recognize how substantially their long-term prospects

depend upon improving the economics of the enterprises they serve.

An industry whose independent publishers continually struggle to finance their operations provides a comparatively unattractive marketplace for ambitious technological development. An industry containing thousands of financially healthy, technologically sophisticated entertainment businesses provides a substantially different opportunity.

The infrastructure companies capable of contributing to that transformation will have accomplished something considerably more valuable than selling inexpensive bandwidth.

They will have helped establish the industrial foundations of a more ambitious entertainment economy.

We shouldn't merely build infrastructure that the industry can afford.

We should build infrastructure that helps the industry afford its future.

CHAPTER 41

Beyond Conventional Payments

“Independence means having meaningful alternatives.”

There is something profoundly absurd about establishing a perfectly legitimate entertainment business, finding customers who want to purchase its products and subsequently discovering that the most complicated portion of the transaction is accepting their money.

The adult entertainment industry has endured this particular absurdity for decades. Its relationship with financial institutions has influenced everything from the prices charged for entertainment to the manner in which subscriptions are administered, producers are compensated and independent companies finance their operations.

Payment processing has never been merely an administrative function of this business. It has frequently determined which businesses could exist.

As we reconsider the technological foundations of adult entertainment, we must also reconsider the machinery through which its participants exchange economic value. An industry capable of producing, hosting, monetizing and distributing its own entertainment remains considerably less independent if its ability to receive compensation is entirely dependent upon institutions that may have little enthusiasm for its existence.

Permission to Get Paid

Stripe, one of the most recognizable payment technology companies in contemporary digital commerce, explicitly identifies pornography and various adult entertainment services among the businesses it does not support. Its published guidance attributes these restrictions to requirements imposed upon the company, conditions established by its financial partners and considerations concerning its own exposure to risk.[1]

The important distinction is that a business can be legally entitled to sell its products without being commercially eligible to employ a particular payment service.

For an entrepreneur entering most other categories of digital commerce, the establishment of a payment processing arrangement can be a comparatively ordinary component of launching the business. For the adult entertainment entrepreneur, it may involve specialized underwriting, additional expenses, restrictive contractual conditions and a considerably narrower selection of commercial partners.

There are legitimate concerns associated with processing payments for sensitive categories of entertainment. Fraud, unauthorized transactions, unlawful material and inadequate consumer protections deserve serious attention. Financial institutions also possess responsibilities that extend beyond the commercial interests of their customers.

But there is a substantial difference between establishing rigorous standards for participation in a financial system and categorically excluding an entire class of otherwise legitimate enterprises from it.

The former provides entrepreneurs with an opportunity to demonstrate professional competence. The latter renders that

1. Stripe, “Prohibited and Restricted Businesses List — FAQs.” https://support.stripe.com/questions/prohibited-and-restricted-businesses-faqs. Accessed November 28, 2026.

competence irrelevant to the decision.

I believe our industry should become more interested in developing legitimate financial alternatives than continually attempting to persuade reluctant institutions to accommodate it.

The Price of Receiving Your Own Money

The economics of payment processing extend considerably beyond the percentage charged for completing a transaction.

Suppose an entertainment company generates twenty thousand dollars in monthly customer payments. Its processing arrangement imposes a hypothetical five-percent transaction charge and retains ten percent of the original transaction value in a rolling reserve.

Financial activity	Amount
Customer payments	$20,000
Processing charges	$1,000
Funds temporarily retained in reserve	$2,000
Funds available from those transactions	$17,000

The reserve isn't necessarily an additional permanent expense. Depending upon the terms of the arrangement, the money may eventually be released to the company, subject to legitimate deductions. But until that happens, the entrepreneur cannot employ it to finance the operation.

If the business experiences comparable sales each month and its reserves remain outstanding for six months, it could accumulate twelve thousand dollars in temporarily unavailable funds, assuming no early releases or deductions.

For a substantial enterprise, that might represent a manageable financial condition. For an independent producer, it could represent the budget for another production.

There is an important economic distinction between earning money and possessing money sufficiently available to operate a business.

Entrepreneurs evaluating payment arrangements should therefore consider the complete financial relationship: transaction charges, settlement periods, reserve requirements, currency conversion expenses, contractual liabilities and the circumstances under which funds can become unavailable.

A payment service advertised at a comparatively attractive transaction rate may prove remarkably expensive if the business must independently finance a substantial interval between selling its entertainment and receiving the associated money.

Cryptocurrency Is a Technology, Not a Religion

Discussions concerning cryptocurrency have acquired an unfortunate tendency to become ideological.

Its enthusiasts occasionally describe it as the solution to practically every deficiency of the existing financial system. Its critics occasionally dismiss the entire technological proposition according to the behavior of speculative markets and the failures of particular enterprises operating within them.

Neither approach is especially useful to the entertainment entrepreneur.

I am interested in cryptocurrency principally as a mechanism for exchanging economic value, rather than as an instrument of speculation or a declaration of political philosophy.

Consider an independent filmmaker negotiating a legitimate licensing arrangement with a publisher in another country. The two parties agree upon the compensation, the distribution conditions and the responsibilities associated with the transaction. Their remaining requirement is an efficient means of transferring the agreed value.

Under appropriate circumstances, a cryptocurrency payment arrangement may provide a useful alternative to conventional international payment mechanisms.

But the entire transaction must be examined. The payer may need to acquire the digital asset. The recipient may need to convert it into the currency necessary to pay operating expenses. Network charges, conversion expenses, regulatory requirements and the availability of appropriate financial services all influence the economics of the arrangement.

The existence of a blockchain does not independently make a payment inexpensive, instantaneous or commercially practical.

Nor does the absence of a conventional credit card processor necessarily establish the absence of intermediaries. Exchanges, custodial wallet providers, payment gateways and other financial services may continue occupying important positions within the transaction.

The entrepreneurial objective should be to understand which dependencies have been eliminated, which have been retained and which new ones have been introduced.

Selling Entertainment Shouldn't Require Speculating in Currency

Suppose a producer licenses a collection of original scenes for five thousand dollars and agrees to receive the equivalent value in a volatile cryptocurrency.

If the value of that cryptocurrency declines by ten percent before the producer converts it, the proceeds are worth forty-five hundred dollars at the new exchange rate, before conversion expenses.

The producer hasn't made a mistake concerning the entertainment. The producer has acquired an unintended financial exposure through the method employed to receive compensation.

This is why I find stablecoins particularly relevant to discussions concerning the commercial application of digital currencies.

A stablecoin is a digital asset designed to maintain a relatively stable value in relation to a reference asset, commonly an established national currency. Such an arrangement can potentially allow businesses to employ blockchain-based payment mechanisms while reducing some of the exchange-rate exposure associated with more volatile digital assets.

It does not eliminate financial risk.

A stablecoin's ability to maintain its intended value can depend upon its reserve arrangements, redemption mechanisms, liquidity, governance and the circumstances of the institutions responsible for administering it. Certain stablecoins may also be subject to account freezes or other restrictions.

The Committee on Payments and Market Infrastructures, operating within the Bank for International Settlements, examined both the potential advantages and unresolved challenges of employing stablecoin arrangements for international payments in its 2023 report on the subject.[2]

The report provides a useful counterweight to the notion that adopting a digital currency automatically resolves the institutional and economic problems associated with transferring money.

An entertainment producer should be capable of evaluating cryptocurrency according to its commercial usefulness without acquiring an additional responsibility to become a currency trader.

The objective is to get paid for making entertainment.

If the filmmaker wants to speculate in financial markets, that is a separate business decision.

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2. Committee on Payments and Market Infrastructures (CPMI), *Considerations for the Use of Stablecoin Arrangements in Cross-Border Payments* (Bank for International Settlements, 2023). https://www.bis.org/cpmi/publ/d220.htm.

Where Financial Independence Actually Resides

An enterprise possessing digital assets doesn't necessarily possess unrestricted authority over them.

If those assets reside within a custodial service, the enterprise may depend upon that service for access. If its operating expenses require payment in conventional currency, it may depend upon institutions capable of facilitating conversion.

Conversely, an enterprise administering its own cryptocurrency wallets acquires responsibilities concerning the protection of private keys, authorization of transactions and recovery from operational failures.

Losing access to the credentials controlling a digital asset can have consequences considerably more severe than forgetting the password to an ordinary financial account.

Financial independence therefore involves much more than choosing a particular currency.

It involves understanding who controls the funds, who can authorize their movement, which services the enterprise depends upon and what happens if one of those services becomes unavailable.

It also requires establishing appropriate internal responsibilities. The employee responsible for administering a payment system shouldn't necessarily possess unrestricted authority to transfer the company's financial reserves. Significant transactions may warrant additional authorization, and essential recovery arrangements should not reside exclusively with a single individual.

These are ordinary principles of financial governance applied to an unfamiliar technological environment.

Replacing a bank with a cryptocurrency wallet doesn't eliminate the need for intelligent financial administration. It may simply make the consequences of unintelligent administration more immediate.

The Customer Shouldn't Need a Degree in Cryptography

An entrepreneur can become so enthusiastic about alternative payment technology that the experience of purchasing the product becomes substantially more complicated than it was before.

Imagine a prospective customer attempting to purchase a ten-dollar production. Before completing the transaction, the customer discovers that he must establish an account with a financial service, acquire an unfamiliar digital asset, understand which network supports it and determine whether the associated transaction charges make the purchase economically sensible.

The entertainment publisher may have reduced its dependence upon conventional payment processing while simultaneously reducing the number of people willing to purchase its entertainment.

A technologically sophisticated payment mechanism isn't necessarily a commercially sophisticated checkout.

This distinction is particularly important when comparing business-to-business transactions with ordinary consumer purchases.

An established publisher purchasing several thousand dollars' worth of infrastructure services may reasonably invest the time necessary to establish an alternative payment arrangement. An individual contemplating the purchase of a short video may have considerably less enthusiasm for undertaking the same administrative work.

The economics of adoption differ.

Alternative payment technologies should be evaluated partly according to their ability to accommodate the characteristics of the transaction. A mechanism appropriate to international licensing arrangements may be inappropriate to inexpensive individual purchases.

We should also recognize that innovations in conventional payment infrastructure continue occurring. Fast-payment systems developed in numerous countries provide increasingly rapid access to transferred funds, often without requiring customers to acquire or administer cryptocurrency.[3]

The future of entertainment payments needn't belong exclusively to any particular financial technology.

It should belong to the technologies capable of serving the legitimate commercial requirements of the industry most effectively.

The Economics of Prepayment

Alternative payment infrastructure also provides opportunities to reconsider the manner in which services are purchased.

The conventional subscription arrangement generally establishes a predetermined recurring financial obligation. The customer provides an authorized payment method, and the service provider periodically collects the amount associated with continued access.

But not every commercial relationship requires that structure.

Consider an entertainment publisher purchasing hosting, advertising and distribution services. Its resource consumption may vary substantially from one month to another. A prepaid arrangement could allow the publisher to establish an available service balance from which the applicable charges are subsequently deducted.

The provider obtains funds before supplying additional resources, reducing some of its exposure to unpaid invoices. The publisher gains a potentially useful method of monitoring expenditure and establishing operating limits.

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3. CPMI, *Fast Payments: Enhancing the Speed and Availability of Retail Payments* (Bank for International Settlements, November 2016). https://www.bis.org/cpmi/publ/d154.htm.

A hybrid arrangement could combine a regular service commitment with prepaid funds available to finance additional consumption.

But the financial architecture must clearly distinguish among different categories of value. A recurring service allowance that expires at the end of a billing period is not necessarily equivalent to a separately purchased account balance that remains available until consumed.

Consider the following hypothetical arrangement:

Account activity	Amount
Monthly service allowance	$50
Additional prepaid service credit	$100
Monthly billable consumption	$80
Consumption covered by allowance	$50
Consumption deducted from prepaid credit	$30
Remaining prepaid credit	$70

The publisher should be able to understand precisely how its available balance was calculated, which charges occurred and which funds remain available for future services.

Such arrangements also require clearly established policies concerning expiration, refunds, account suspension and the consequences of exhausting the available balance.

A temporary financial interruption shouldn't automatically result in the irreversible destruction of an entrepreneur's entire entertainment library. A professionally administered infrastructure business should establish reasonable procedures for notification, service suspension, recovery of material and eventual termination.

Furthermore, an advance payment for a company's own services should not be indiscriminately equated with a transferable digital wallet through which customers can send money to one another. Those arrangements introduce potentially different legal and financial responsibilities.

Prepayment can simplify a commercial relationship. It shouldn't inadvertently transform an infrastructure provider into an inadequately administered financial institution.

Irreversible Payments, Reversible Business Decisions

One of the frequently advertised advantages of cryptocurrency payments is the difficulty of reversing a completed blockchain transaction.

For publishers accustomed to the financial consequences of chargebacks, this characteristic can appear particularly attractive.

But the absence of a conventional chargeback mechanism doesn't eliminate the legitimate reasons a customer may deserve compensation.

A producer may inadvertently supply the wrong material. A publishing service may fail to provide the purchased access. A customer may duplicate a payment or encounter a technical problem that prevents completion of the transaction.

An intelligently operated business should possess procedures for resolving those circumstances.

Where a blockchain transaction cannot be reversed through the original payment mechanism, a legitimate refund may need to be conducted as a separate transaction.

The commercial obligation remains even if the technological mechanism changes.

There is a temptation to regard an irreversible payment as an opportunity to eliminate the inconvenience associated with dissatisfied customers. That would be a particularly shortsighted application of financial innovation.

Earlier in this book, we examined the economic consequences of consumer distrust. Developing payment environments that deprive customers of meaningful recourse would perpetuate precisely the deficiencies we've argued the industry must correct.

We should be interested in reducing fraudulent payment disputes without diminishing the ability of legitimate customers to resolve legitimate complaints.

Financial autonomy must work in both directions.

Discretion Is Not Concealment

Adult entertainment consumers have understandable reasons for wanting their financial transactions to remain discreet. The commercial relationship involves information they may reasonably prefer not to disclose unnecessarily.

Alternative payment technologies may provide different opportunities for protecting certain aspects of that relationship, but cryptocurrency should not automatically be regarded as anonymous.

Many blockchain networks maintain publicly observable transaction records. Wallet addresses can become associated with individuals or enterprises through exchanges, payment services and other commercial activities. Information that appears disconnected from an identifiable person today may subsequently become identifiable.

Responsible payment architecture should minimize unnecessary disclosure while maintaining the information legitimately required for financial administration and compliance.

That is considerably different from attempting to conceal unlawful activity, circumvent financial reporting obligations or misrepresent the nature of a business to a financial institution.

In the United States, the Financial Crimes Enforcement Network's 2019 guidance concerning convertible virtual currencies examines how different business activities can introduce obligations under regulations governing money services businesses.[4] Accepting payment for one's own products and operating a service that transmits value on behalf of other parties can involve substantially different regulatory considerations.

Similarly, the Internal Revenue Service establishes that compensation received in digital assets can create reportable income based upon its fair market value at the time of receipt.[5] Subsequent disposition of those assets may introduce additional tax consequences.

These responsibilities deserve appropriate professional attention, particularly when an enterprise operates internationally or begins developing payment services for other businesses.

Financial innovation doesn't establish an exemption from financial responsibility.

Finance the Revolution Responsibly

There is no particular virtue in replacing an unreliable financial dependency with another whose deficiencies the entrepreneur understands less thoroughly.

What interests me about the development of alternative payment infrastructure is the opportunity to establish more intelligent

4. Financial Crimes Enforcement Network (FinCEN), *Application of FinCEN's Regulations to Certain Business Models Involving Convertible Virtual Currencies*, FIN-2019-G001, May 9, 2019. https://www.fincen.gov/resources/statutes-regulations/guidance/application-fincens-regulations-certain-business-models.

5. Internal Revenue Service, "Frequently Asked Questions on Digital Asset Transactions," Q57–59; IRS Notice 2014-21, Q3–6. https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-digital-asset-transactions.

commercial arrangements throughout the adult entertainment economy.

Producers should be capable of receiving compensation through legitimate, accessible mechanisms. Publishers should understand when their revenue becomes available and what it costs to obtain it. Infrastructure companies should be able to finance the resources they provide without imposing unnecessary financial uncertainty upon their customers.

The audience should be able to purchase entertainment through payment environments that respect its privacy, communicate their conditions clearly and provide reasonable means of resolving difficulties.

Some of these objectives can be accomplished through conventional financial services. Others may be better addressed through emerging payment technologies. In many circumstances, a combination of available mechanisms may provide a more resilient commercial foundation than exclusive dependence upon any one of them.

The industry doesn't need to declare allegiance to a particular currency. It needs to establish the financial intelligence necessary to sustain the businesses responsible for producing and distributing its entertainment.

Independence means having meaningful alternatives.

It means understanding their consequences, developing the professional capabilities necessary to administer them and refusing to confuse the absence of conventional institutions with the absence of commercial responsibility.

For decades, our industry has demonstrated an extraordinary ability to invent ways of delivering entertainment.

Surely we can devote some of that ingenuity to ensuring that the people creating it get paid.

CHAPTER 42

The Next Payment Revolution

"Our loyalty should belong to the commercial objective rather than the mechanism."

There was a time when the adult entertainment industry was among the more interesting places to investigate the future of electronic commerce.

During the 1990s and early 2000s, while numerous conventional businesses were still contemplating the commercial possibilities of the Internet, adult entertainment entrepreneurs were administering recurring subscriptions, developing electronic billing relationships and experimenting with alternative methods of accepting money from customers throughout the world.

Companies such as CCBill, established in 1998, emerged during this formative period of Internet commerce. By 2005, Internet Billing Company, better known as iBill, was providing adult merchants with credit card processing, stored-value card transactions, electronic checks and telephone billing, as documented in subsequent filings with the United States Securities and Exchange Commission.[1]

We weren't merely selling entertainment through an emerging medium. We were helping develop the commercial machinery necessary to make that medium economically viable.

Somewhere along the way, however, the relationship between our industry and financial technology changed. Instead of enthu-

1. CCBill, "About Us," https://ccbill.com/about; Interactive Brand Development, Inc., Form 10-KSB, fiscal year ended December 31, 2005, Item 1, https://www.sec.gov/Archives/edgar/data/842927/000111650206000806/ibd10ksb.htm.

siastically investigating new ways of conducting commerce, we became increasingly preoccupied with preserving our eligibility to conduct it through existing institutions.

An industry that once helped pioneer electronic commerce now spends an unfortunate amount of its entrepreneurial energy trying to remain eligible for it.

I find that embarrassing.

We Should Have Been All Over This

The introduction of Bitcoin in 2009 ought to have been one of the more intellectually stimulating developments for the adult entertainment industry.

Here was an emerging technology proposing a substantially different method of transferring economic value, one whose underlying transaction mechanism did not require the conventional credit card networks with which our industry had experienced considerable difficulties.

Few legitimate commercial industries had more compelling reasons to investigate such a proposition.

To be fair, some did. By 2015, industry publications such as XBIZ were already examining cryptocurrency alongside other emerging payment alternatives. In 2024, payment services company Centrobill announced an expanded collection of payment methods for adult businesses, including cryptocurrency and regional bank-based payment options.[2]

The industry hasn't ignored these developments entirely. What concerns me is whether we've demonstrated anything approaching the entrepreneurial enthusiasm with which we em-

2. Stephen Yagielowicz, “Today’s Top Market Trends In Payment Processing,” *XBIZ*, November 18, 2015, https://www.xbiz.com/features/199988/todays-top-market-trends-in-payment-processing; Dave Parkman, “Centrobill Expands Payment Options for Adult,” *XBIZ*, April 8, 2024, https://www.xbiz.com/news/280844/centrobill-expands-payment-options-for-adult.

braced earlier generations of Internet commerce.

Reliable industry-wide statistics concerning cryptocurrency adoption remain difficult to obtain. I cannot conclusively establish how the adult entertainment industry's rate of adoption compares with that of other industries. Nevertheless, given our historical difficulties with conventional financial services, I believe we should be pursuing these technologies far more aggressively than ordinary commercial necessity might otherwise dictate.

For a conventional merchant enjoying inexpensive, reliable access to established payment systems, cryptocurrency may represent an optional commercial experiment.

For us, it represents a potentially significant component of financial independence.

We should be developing the technologies, investigating their applications, educating our customers and contributing to the commercial conventions through which they become increasingly practical.

Why should we wait for another industry to develop the next generation of financial infrastructure before investigating how much it intends to charge us for using it?

The Adult-Friendly Tax

Earlier in this book, I questioned the industry's willingness to celebrate technology providers merely for being “adult-friendly.” Nowhere are the economic implications of that rather modest distinction more apparent than in the business of accepting payments.

It frequently describes a company willing to conduct business with us under conditions that may be substantially less attractive than those available to other industries.

Sometimes those differences are economically justified. Specialized payment companies undertake responsibilities associat-

ed with regulatory compliance, fraud prevention, underwriting and the maintenance of financial relationships that conventional providers may be unwilling to assume. Those activities possess genuine commercial value.

Indeed, the adult entertainment industry owes much of its digital commercial development to companies willing to undertake those responsibilities when others wouldn't.

But there is also an economic advantage associated with serving customers who possess relatively few alternatives.

In an April 2026 article published by XBIZ, Segpay chief executive Cathy Beardsley examined the various expenses associated with adult payment processing. Among her illustrations was a merchant who might initially interpret an interchange-plus-two-percent arrangement as a two-percent processing cost, only to discover that the effective rate was closer to seven percent.[3]

That example isn't evidence of excessive profitability on the part of the provider. It does, however, illustrate how substantially the financial burden of processing can exceed the percentage initially attracting the merchant's attention.

For an entertainment company generating a million dollars in annual customer payments, the difference between an effective processing expense of three percent and one of seven percent amounts to forty thousand dollars.

At ten million dollars in annual transactions, the difference becomes four hundred thousand dollars.

Those are hypothetical comparisons, not representative industry processing rates. But the implications deserve attention. Money transferred to financial intermediaries is money unavailable for producing entertainment, compensating creative profes-

3. Cathy Beardsley, “How to Maximize Value From Your Payment Processing Fees,” *XBIZ*, April 20, 2026, https://www.xbiz.com/features/297697/how-to-maximize-value-from-your-payment-processing-fees.

sionals, acquiring technology or developing the enterprise.

The entrepreneur should distinguish between the legitimate cost of providing specialized financial services and the additional economic leverage a provider may possess because the entrepreneur has nowhere else to go.

The former deserves compensation. The latter deserves competition.

Competition Is Our Best Negotiator

Imagine negotiating a payment processing agreement with the only institution prepared to accept your business.

Now imagine conducting the same negotiation while possessing several functioning alternatives capable of accommodating meaningful portions of your commercial activity.

The nature of the conversation changes.

The value of alternative payment technologies therefore extends beyond the transactions actually conducted through them. Their existence can influence the commercial relationship between the merchant and its conventional financial partners.

An entrepreneur who develops a viable alternative to credit card processing hasn't necessarily established a reason to abandon credit cards. He may have established a reason for his credit card processor to become considerably more interested in retaining his business.

Beardsley makes a related observation in her discussion of processing expenses, encouraging adult merchants to maintain alternative providers and employ competitive comparisons when negotiating rates and service arrangements.[3]

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3. Cathy Beardsley, “How to Maximize Value From Your Payment Processing Fees,” *XBIZ*, April 20, 2026, https://www.xbiz.com/features/297697/how-to-maximize-value-from-your-payment-processing-fees.

The principle becomes more interesting when the alternatives extend beyond several companies participating in substantially the same underlying financial infrastructure.

There is an important distinction between diversifying service providers and diversifying the mechanisms through which the business can receive payment.

Two credit card processors may provide valuable operational redundancy. Nevertheless, both may depend upon the policies of the same card networks or financial institutions.

An entrepreneur possessing access to legitimate bank-based payments, cryptocurrency settlement and conventional card processing has established a different degree of commercial flexibility.

The objective isn't necessarily to eliminate financial intermediaries. It is to create a marketplace in which those intermediaries must increasingly justify their participation in the transaction.

Bitcoin Is Not the End of Financial History

I believe cryptocurrency deserves a prominent role in the future of adult entertainment commerce. I am considerably less convinced that any particular cryptocurrency deserves to be regarded as its permanent foundation.

Bitcoin works today for certain commercial purposes. Other digital currencies provide different combinations of transaction costs, processing characteristics, institutional arrangements and technological capabilities.

But cryptocurrency itself remains a comparatively young financial technology.

Its future will be influenced by technological competition, regulatory developments, security considerations, institutional adoption and the emergence of capabilities that may render portions of today's infrastructure commercially obsolete.

We should be enthusiastic about cryptocurrency without becoming intellectually imprisoned by it.

Imagine an entrepreneur in 1998 confidently establishing that the payment technologies available at the time represented the definitive architecture of Internet commerce.

We would regard that proposition as somewhat ridiculous today. Yet entrepreneurs can become equally attached to the technologies they presently consider revolutionary.

The Bank for International Settlements, in its 2025 and 2026 examinations of the next generation of monetary infrastructure, has investigated alternatives involving the tokenization of commercial bank deposits, central bank money and other financial assets. Its research recognizes some of the technological possibilities demonstrated by stablecoins while questioning whether their existing characteristics adequately satisfy the broader requirements of a monetary system.[4]

Whether those institutional visions ultimately prevail isn't the principal concern of this book. Their significance resides in demonstrating that the evolution of financial technology remains very much underway.

Cryptocurrency may become an increasingly important component of that evolution. Particular digital assets may become dominant, coexist with emerging alternatives or eventually lose much of their present commercial significance.

The industry should be prepared for any of those possibilities.

The lesson of technological history isn't that we should identify the winning technology and remain faithful to it forever. It's that we should become accomplished at recognizing when the next

4. Bank for International Settlements, *Annual Economic Report*, 2025, ch. III, “The next-generation monetary and financial system,” https://www.bis.org/publications/aer-2025/next-generation-monetary-financial-system; 2026, ch. III, “Anchoring trust in money: innovation beyond stablecoins,” https://www.bis.org/publications/aer-2026/anchoring-trust-money.

technology deserves our attention.

Don't Build Your Checkout Around a Currency

A professionally engineered payment system should distinguish the commercial transaction from the mechanism employed to settle it.

Suppose a publisher sells access to a production for twenty dollars. The publisher establishes the price, records the purchase and provides the appropriate access once the applicable payment conditions have been satisfied.

The customer might employ a credit card, a bank transfer, a stablecoin or another supported payment method.

From the perspective of the underlying commercial transaction, the publisher is still selling twenty dollars' worth of entertainment.

The technological architecture should preserve that distinction.

A payment provider may need its own transaction identifiers, authorization procedures and settlement confirmations. A cryptocurrency transaction may require different processing conditions from a conventional card purchase. Nevertheless, those particular requirements shouldn't dictate the entire architecture of the publisher's business.

The order should possess an independent identity. The enterprise's accounting records should distinguish the agreed commercial value from the particular asset or mechanism employed in settlement. Customer access should be administered according to the legitimate conditions of the purchase rather than an unnecessarily permanent dependency upon one financial service.

Where practical, the mechanisms responsible for processing payments should operate through appropriately defined inter-

faces that allow additional technologies to be introduced as they become commercially relevant.

An enterprise that decides to support another cryptocurrency shouldn't necessarily need to reconstruct its subscription system. A company introducing a new bank-based payment mechanism shouldn't need to redesign its entire publishing architecture.

This is a direct application of the architectural principles discussed earlier in this part of the book.

Financial adaptability needs to be engineered into the enterprise before the enterprise discovers how desperately it needs it.

How Independent Are Your Alternatives?

Suppose an entertainment company establishes three different payment arrangements. Management concludes that the enterprise has adequately diversified its financial infrastructure.

Upon closer examination, however, two arrangements depend upon the same acquiring bank, while the third employs a cryptocurrency payment service whose conversion and settlement capabilities depend upon another institution with similar commercial restrictions.

The company may possess greater redundancy than it did previously, but its financial independence is considerably less substantial than the number of payment options suggests.

The entrepreneur should investigate the dependencies beneath the visible commercial relationships.

Who actually settles the transactions? Where are the funds held? Which institution possesses authority to suspend the relevant service? Can the enterprise obtain access to its financial records independently of the provider? Are the alternative arrangements capable of continuing if a common underlying service becomes unavailable?

These questions are important because apparent financial diversification can conceal considerable concentration.

Imagine a hypothetical business generating one hundred thousand dollars in monthly customer payments.

Payment mechanism	Monthly payments	Share of total
Credit card processing	$85,000	85%
Cryptocurrency	$10,000	10%
Bank-based alternatives	$5,000	5%
Total	**$100,000**	**100%**

The business has established three legitimate payment mechanisms. Nevertheless, the loss of its card processing arrangements could immediately threaten the mechanism presently responsible for eighty-five percent of its receipts.

Some customers might migrate to alternative payment methods. Others might not. The company's exposure cannot be determined exclusively from the existence of those alternatives.

Management should investigate their actual commercial capacity, customer adoption and ability to accommodate additional transactions under adverse circumstances.

An alternative that nobody knows how to use, or that cannot accommodate the necessary transaction volume, provides considerably less protection than its presence on a checkout page suggests.

Financial resilience is something the enterprise demonstrates through its operation, not something it establishes by accumulating payment logos.

Stop Treating Cryptocurrency as an Emergency Exit

One of the least intelligent times to begin investigating alternative financial infrastructure is immediately after losing access to the infrastructure upon which the business depends.

At that moment, management faces considerable pressure to establish another arrangement. It may have insufficient time to evaluate providers, introduce appropriate technical capabilities or explain the resulting changes to its customers.

The enterprise is attempting to innovate under duress.

I would rather see adult entertainment businesses introduce appropriate alternative payment technologies while their existing arrangements remain operational.

That creates an opportunity to investigate the commercial characteristics of those alternatives under comparatively ordinary circumstances. The publisher can examine the experience of purchasing entertainment, assess conversion rates, compare settlement expenses and establish appropriate internal procedures.

It can discover whether customers actually want to employ the new mechanism and what difficulties prevent them from doing so.

An infrastructure company might begin accepting cryptocurrency for business-to-business services. An entertainment publisher might introduce an alternative payment option for selected products. A producer might investigate whether international licensing transactions can be administered more efficiently through different settlement arrangements.

The particular applications will depend upon the enterprise. The important accomplishment is acquiring practical experience before circumstances make that experience indispensable.

We shouldn't reserve cryptocurrency for the day the credit card company tells us we can no longer accept credit cards.

By then, we ought to understand considerably more about it than where to obtain some.

Become Interested in All of Financial Technology

Cryptocurrency isn't the only significant development occurring within contemporary financial infrastructure.

New systems for transferring money directly between financial accounts, increasingly rapid settlement technologies and emerging methods of representing financial assets digitally all deserve entrepreneurial attention.

In July 2023, for example, the United States Federal Reserve introduced its FedNow Service, providing participating financial institutions with infrastructure supporting instant payments.[5]

Such developments don't necessarily eliminate the institutional restrictions encountered by adult businesses. Nor should their availability be interpreted as evidence that every participating financial institution will support every legitimate commercial activity.

Nevertheless, they demonstrate that even the conventional financial system is undergoing substantial technological change.

The adult entertainment industry should be investigating those developments with the same seriousness it devotes to cryptocurrency.

There may be opportunities to develop less expensive mechanisms for conducting certain transactions without employing conventional card networks. There may be opportunities to compensate international creative professionals more efficiently, admin-

5. Board of Governors of the Federal Reserve System, “Federal Reserve announces that its new system for instant payments, the FedNow® Service, is now live,” July 20, 2023. https://www.federalreserve.gov/newsevents/pressreleases/other20230720a.htm.

ister relatively small purchases economically or construct better financial arrangements between producers and publishers.

Some of those possibilities will involve blockchain technologies. Others won't.

Our loyalty should belong to the commercial objective rather than the mechanism.

The industry needs entrepreneurs capable of recognizing promising financial technologies, evaluating their legitimate applications and developing products around them before their commercial significance becomes obvious to everybody else.

We used to be exceptionally good at doing precisely that.

Build the Next Financial Generation

The adult entertainment industry has an interesting opportunity to become a productive participant in the development of emerging financial technologies.

Our commercial circumstances have exposed deficiencies within conventional payment infrastructure that other industries may encounter less frequently or possess fewer incentives to investigate.

Those deficiencies provide legitimate entrepreneurial problems around which new businesses, technologies and commercial relationships can be developed.

An independent creator should be able to receive compensation for legitimate work without surrendering an unreasonable proportion of its value merely to complete the transaction. A publisher should be capable of administering several appropriate payment mechanisms without establishing an entirely different business around each of them. A technology company should be interested in developing the financial architecture necessary to make those activities increasingly accessible.

We should encourage collaboration among responsible financial technology developers, entertainment entrepreneurs and the professionals necessary to establish sound commercial and regulatory foundations for their work.

And we should recognize that our responsibility to innovate doesn't end when we successfully introduce cryptocurrency into the business.

The emergence of something better should excite us rather than threaten us.

The industry cannot afford to spend the next twenty years becoming as dependent upon today's cryptocurrency infrastructure as it has become upon yesterday's credit card infrastructure.

That would be a particularly unimaginative conclusion to an otherwise fascinating technological revolution.

The future doesn't necessarily belong to Bitcoin, Visa or any other particular financial instrument or institution.

It belongs to the businesses prepared to conduct commerce intelligently when the world has moved on to something else.

I don't want adult entertainment merely to participate in the next payment revolution.

I want us to help invent the one after it.

CHAPTER 43

Mediarazzi: A Working Thesis

"There is no particular reason an innovative software company should inherit an unimaginative business model."

I have never been particularly interested in waiting for somebody else to invent the things I want to use.

Much of the argument advanced throughout this book emerged from the practical frustrations of operating within the adult entertainment industry. I wanted better video advertising, more sophisticated playback technology, greater control over distribution and a more intelligent relationship between the cost of operating an entertainment business and the revenue it generates.

What particularly interested me was the possibility of approaching those problems collectively. What might happen if we stopped developing individual solutions to individual problems and began engineering an entirely different technological environment for the business of adult entertainment?

That question became Mediarazzi.

I founded the company to explore these possibilities, and its development has become something of an entrepreneurial laboratory for many of the ideas presented in this book.

Engineering From the Inside Out

There is an enormous difference between developing a technology for an industry and developing it from within that industry.

An outsider might examine the adult entertainment business

and conclude that it requires video hosting, advertising and payment processing services similar to those employed by other digital publishers, with certain modifications to accommodate the nature of its content.

An entrepreneur operating within the industry encounters a considerably more interesting collection of problems. The relationships among producers, publishers, advertisers and distributors influence how those technologies should be constructed. So do the economics of acquiring traffic, the institutional restrictions imposed upon the business and the peculiarities of the entertainment itself.

These aren't necessarily problems that can be resolved by modifying the terms of service of an existing technology company.

One of my objectives with Mediarazzi was to begin with those circumstances and engineer outward from them. Rather than establish another destination competing for the attention of the adult entertainment audience, I wanted to develop machinery through which independent destinations could become more technologically ambitious.

There is something particularly attractive about building a business whose inventions enable other entrepreneurs to build theirs. Instead of determining what the next generation of adult entertainment companies should look like, we can develop technologies that expand the possibilities available to the people creating them.

Connect the Damn Things

The original technological proposition behind Mediarazzi was remarkably straightforward: connect the technologies that host, monetize and deliver video.

What makes that proposition interesting is what becomes possible once those connections exist. An entertainment publisher can establish a collection of videos, develop an indepen-

dent advertising inventory and determine the commercial arrangements associated with individual productions. The publisher can subsequently modify those arrangements without reconstructing the original entertainment or continually replacing the installations through which it is distributed.

Hosting becomes more than storage. Advertising becomes more than the delivery of somebody else's commercials. The player becomes more than the means of displaying a video file.

Each technology acquires capabilities arising from its relationship with the others.

The development of this architecture is explored in my technical report, *Reclaiming the Frontier: Publisher Autonomy and Integrated Video Infrastructure in Adult Entertainment*.[1] The title reflects something considerably broader than the development of a particular software product. It reflects my belief that the industry should once again participate in engineering the technologies upon which its commercial existence depends.

We have an extraordinary collection of established technological resources available to us. We can employ existing delivery networks, streaming protocols and advertising specifications while developing original technologies around them.

Entrepreneurial ingenuity doesn't necessarily require inventing every component of a machine. Sometimes the invention resides in discovering what those components can accomplish when somebody finally puts them together intelligently.

Give the Publisher Something to Sell

One of the more interesting aspects of developing a video advertising server was reconsidering the position of the independent publisher within the advertising economy.

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1. Philip M. Autelitano, *Reclaiming the Frontier: Publisher Autonomy and Integrated Video Infrastructure in Adult Entertainment*, technical report MZ-TR-2026-001 (Mediarazzi, 2026). https://doi.org/10.5281/zenodo.24571121.

For years, the technological relationship between publishers and advertisers has largely been established by advertising networks. The publisher provides the audience, the network supplies the advertising and the financial arrangements are administered according to the conditions of the network.

Developing an independent advertising infrastructure changes the starting point of that relationship.

The publisher now possesses the technological means to create an advertising product of its own. Commercials can be organized into rotations or sequential pods, associated with particular entertainment and administered independently of the underlying media.

A publisher can approach a prospective sponsor with something more substantial than an offer to display a banner. It can develop commercial arrangements around particular productions, collections or publishing environments. It can promote its own products through the same machinery it employs to advertise those of other businesses.

This led to another development opportunity. If we're encouraging entrepreneurs to embrace video advertising, why shouldn't we also make the production of video advertisements more accessible?

The development of a utility capable of transforming a static advertising image into a short video commercial was a relatively modest undertaking compared with the development of the broader infrastructure. Nevertheless, it illustrates an important entrepreneurial principle.

The introduction of one technology can reveal an entirely different problem worth solving.

A small business that previously possessed nothing more than a static advertising graphic can begin experimenting with video advertising without immediately employing a commercial production company. As its advertising operation develops, it

may subsequently acquire reasons to invest in more sophisticated creative work.

I find these secondary opportunities particularly interesting. They emerge not from sitting around contemplating the next revolutionary invention, but from building something, examining its commercial possibilities and discovering what else ought to exist.

Reconsidering the Instrument

Of the technologies developed through Mediarazzi, the video player has presented some of the most creatively stimulating opportunities.

The very familiarity of the conventional video player has worked against its development. We have become so accustomed to its appearance and behavior that many of its limitations are no longer recognized as limitations. They're simply what we've come to expect from watching video on the Internet.

The development of MOAP, the Mother of All Players, began with reconsidering some remarkably elementary functions. Why shouldn't a digital video player possess dedicated fast-forward and rewind controls? Why shouldn't its presentation accommodate the proportions of the entertainment? Why shouldn't viewers be able to exercise greater authority over the picture and sound?

These are hardly extravagant technological demands. Generations of consumers grew up expecting comparable capabilities from their audiovisual equipment.

The more interesting invention emerged from the problem of accommodating those functions without sacrificing the visual simplicity of the player. This led to the development of what I call Modular Control Deck Architecture (MCDA), which we examined in Chapter 37. Introducing interchangeable control decks created a means of expanding the functional capacity of the interface without continually expanding the physical space it occupies.

The entrepreneurial significance of MCDA extends beyond the immediate design of MOAP. In attempting to solve a relatively modest interface problem, we arrived at an architectural approach capable of informing the development of other audiovisual applications. The invention acquired a potential identity beyond the product for which it was originally conceived.

A player employing this architecture could eventually accommodate specialized control decks developed for different forms of entertainment. Developers might create entirely new functional modules, while the interface itself could evolve according to the preferences of the viewer rather than remain permanently determined by the website exhibiting the video.

The development possibilities become considerably more interesting once we stop regarding the player as a rectangular object with a predetermined collection of buttons.

I explore these ideas more extensively in *Beyond Play: The Architecture, Economics and Future of Personal Video Playback*, my second technical report.[2]

What particularly excites me about this work is that the relatively simple act of reconsidering the fast-forward button eventually leads to questions concerning the future architecture of personal entertainment.

That is how interesting inventions develop. One question leads to another until the original product becomes the foundation for something considerably more ambitious.

Invent the Business Along With the Technology

Engineering the software is only part of the entrepreneurial undertaking. The commercial arrangements through which people acquire and employ it deserve an equal amount of

2. Philip M. Autelitano, *Beyond Play: The Architecture, Economics and Future of Personal Video Playback*, technical report MZ-TR-2026-002 (Mediarazzi, November 2026). https://doi.org/10.5281/zenodo.24572335.

imagination.

The development of Mediarazzi provided an opportunity to reconsider the conventional practice of purchasing hosting, advertising and playback technologies through separate financial arrangements.

An entertainment publisher employs these resources collectively. Why shouldn't the financial environment reflect that relationship?

A common prepaid service balance, combined with identifiable usage charges, establishes a different way of administering infrastructure expenditure. The publisher can finance additional activity as the business requires it rather than continually negotiate the boundaries of several unrelated service arrangements.

The introduction of cryptocurrency settlement was another opportunity to reconsider an established commercial convention. Developing technology for an industry that encounters persistent difficulties with conventional financial services ought to include some willingness to investigate alternative financial infrastructure.

As I argued in the preceding chapter, however, cryptocurrency is an opportunity rather than an endpoint. I expect the financial architecture of Mediarazzi to evolve just as I expect its advertising and playback technologies to evolve.

A technology company should be at least as interested in reinventing the manner in which it conducts business as it is in reinventing the products through which it conducts it.

There is no particular reason an innovative software company should inherit an unimaginative business model.

Let Other People Invent With Your Inventions

Some of the most commercially significant technologies in the history of computing became interesting because of what other people subsequently accomplished with them.

The development of independent advertising interfaces, embeddable video and extensions for established publishing environments reflects my interest in creating similar opportunities within adult entertainment.

A developer might employ the advertising technology within an entirely different playback application. A publisher might construct an original entertainment environment around the media delivery infrastructure. Another entrepreneur might identify a commercial application that never occurred to me during the development of the original product.

Those possibilities are enormously attractive.

They also establish an obligation to think seriously about interoperability, documentation and the commercial conditions under which independent developers employ proprietary technologies. If we expect other entrepreneurs to invent around our inventions, we must give them sufficient room to do so.

I want to see an industry in which developers are constructing technologies specifically for adult entertainment with the expectation that other developers will subsequently extend, improve, challenge and compete with them.

We should have our own substantial body of technical literature. We should be discussing interface architecture, advertising specifications, audiovisual engineering and emerging financial technologies with the same enthusiasm we devote to discussing the entertainment itself.

There is an intellectual culture associated with great technological industries. Adult entertainment deserves one of its own.

I Hope Somebody Builds Something Better

Entrepreneurs occasionally become so enamored with their inventions that the prospect of somebody improving upon them becomes a source of considerable irritation.

Commercially, I understand the sentiment. Intellectually, I find

it rather unfortunate.

If another entrepreneur develops a more imaginative video player, a more economically intelligent advertising infrastructure or a substantially better method of administering the distribution of entertainment, the industry benefits from that accomplishment.

And I have another reason to get back to work.

The development of Mediarazzi isn't intended to bring the technological argument presented in this book to a conclusion. It is intended to demonstrate what happens when we begin acting upon it.

I don't expect every invention to be successful. I do expect every serious development undertaking to produce knowledge, expose opportunities and contribute something to our understanding of the business.

Imagine what could occur if a thousand independent adult entertainment entrepreneurs approached their respective businesses with that same technological curiosity. Some would develop entirely new products. Others would transform existing ones. Collectively, they could establish an industrial capacity far exceeding anything a single enterprise could reasonably hope to construct.

That is the revolution I find worth pursuing.

Mediarazzi is my contribution to it. I have no intention of it being my last.

Now What Can We Do With It?

We have devoted this part of the book to reconsidering the industrial machinery of adult entertainment. We've examined hosting, distribution, advertising, playback, integration and the financial infrastructure necessary to sustain them.

But the most exciting reason to develop better machinery is the opportunity to create things that couldn't previously exist.

What happens when the moving image becomes something more than a predetermined sequence of pictures? When entertainment becomes increasingly responsive to the individual experiencing it? When creative professionals acquire technological capabilities previously available only to substantial production companies?

The opportunities extend considerably beyond improving the entertainment we already produce.

They involve reconsidering what adult entertainment itself might become.

That's where things get interesting.

PART VI

THE NEXT FRONTIER

“The best way to predict the future is to invent it.”

Alan Kay
Xerox PARC (1971, as recalled by Kay)

CHAPTER 44

Artificial Intelligence. Original Imagination.

"The expensive component of entertainment may increasingly be knowing what is worth making."

Imagine giving every independent entertainment entrepreneur access to a research department, a software development team, a graphic design studio and a production assistant, without requiring the entrepreneur to establish an organization sufficiently large to employ them all.

That possibility interests me considerably more than the prospect of a computer generating another million pictures.

Much of the public fascination with artificial intelligence has concentrated upon the things it can create. For the entrepreneur, some of its most consequential applications may involve the things it makes possible for people to create.

The distinction is important, particularly within an industry whose creative and commercial development has frequently been constrained by the financial resources available to its participants.

Artificial intelligence could fundamentally alter the relationship between the size of an entertainment enterprise and the sophistication of its operation.

But giving everybody access to extraordinary creative machinery also raises a rather uncomfortable question: what happens when everybody starts producing extraordinarily ordinary things with it?

The End of the Small Company's Excuses

An independent entertainment entrepreneur has traditionally been required to possess an improbable assortment of professional capabilities.

The filmmaker becomes a publisher. The publisher becomes a marketing executive. The marketing executive becomes a reluctant software administrator. Somewhere in the middle of this occupational identity crisis, somebody has to reconcile the accounting.

A substantial production company can employ specialists to perform these activities. The independent entrepreneur frequently performs them personally, purchases assistance when financially possible or simply neglects the activities that cannot be adequately accommodated.

Artificial intelligence introduces an opportunity to redistribute some of that intellectual workload.

A producer can investigate unfamiliar technologies, explore alternative production schedules, develop preliminary marketing materials, examine contractual language before seeking professional advice and investigate the financial implications of different commercial arrangements.

A publisher can employ intelligent assistance in organizing a media library, developing software, analyzing operational information and preparing materials for international audiences.

The possibilities extend throughout the enterprise.

In a 2023 experiment published in *Science*, researchers Shakked Noy and Whitney Zhang examined the effects of generative artificial intelligence on professional writing assignments. Participants provided with access to the technology completed

their assignments approximately forty percent faster, with an average improvement in the assessed quality of their work.[1]

Those results cannot simply be applied to every creative or commercial undertaking. Nevertheless, they provide an interesting indication of how intellectual assistance can alter the productive capacity of individual professionals.

For the independent entrepreneur, the most exciting implications may involve activities that previously wouldn't have been undertaken at all.

Saving an hour on an existing assignment is useful. Acquiring the capability to pursue an entirely new commercial opportunity is something else.

Intelligence Is Not Expertise

The extraordinary accessibility of artificial intelligence introduces a corresponding temptation to confuse the ability to obtain an answer with the ability to recognize a good one.

An entrepreneur can request the development of a software application without understanding software architecture. A filmmaker can generate an elaborate production budget without recognizing the expenses it neglects. A publisher can obtain a remarkably authoritative explanation of a regulatory requirement that happens to be wrong.

The technology can create an appearance of competence substantially exceeding the competence of the resulting work.

In their research concerning artificial intelligence and professional knowledge work, Fabrizio Dell'Acqua and his colleagues developed the concept of the *jagged technological frontier*. Their

1. Shakked Noy and Whitney Zhang, *Experimental Evidence on the Productivity Effects of Generative Artificial Intelligence*, Science 381, no. 6654 (2023): 187–192. https://doi.org/10.1126/science.adh2586. The study reports a 40% reduction in completion time and an 18% increase in assessed quality.

experiments demonstrated that artificial intelligence could substantially improve performance on certain professional assignments while reducing performance on others that exceeded the technology's capabilities.[2]

The boundaries between those assignments weren't necessarily apparent to the people undertaking them.

That finding has important implications for entrepreneurs who may be employing artificial intelligence precisely because they lack expertise in a particular area.

The technology can help them become more capable, but they must also develop sufficient judgment to evaluate the assistance they receive.

I would encourage entrepreneurs to employ artificial intelligence not merely to obtain solutions but to understand the problems they're attempting to solve. A programmer who understands why an application functions is in a considerably better position to improve it than somebody who simply possesses a collection of functioning code.

The same principle applies to accounting, design, research and practically every other intellectual activity associated with operating an entertainment business.

Artificial intelligence should make the entrepreneur more knowledgeable, not merely more productive.

The Invisible Revolution in Production

The most commercially significant applications of artificial intelligence within entertainment production may not always be apparent in the finished work.

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2. Fabrizio Dell'Acqua et al., *Navigating the Jagged Technological Frontier: Field Experimental Evidence of the Effects of Artificial Intelligence on Knowledge Worker Productivity and Quality*, Organization Science 37, no. 2 (2026): 403–423. https://doi.org/10.1287/orsc.2025.21838.

Consider the activities occurring before and after the camera records anything.

A production may require preliminary visualization, location planning, scheduling, budgeting, editorial organization, sound restoration, color correction, captioning, promotional design and the preparation of different distribution formats.

Each activity introduces expenses, delays and creative decisions.

Intelligent tools can assist with portions of these undertakings, allowing creative professionals to examine alternatives that previously would have required considerable additional work. A director can investigate different visual approaches before committing production resources. An editor can obtain assistance organizing extensive quantities of footage. A small production company can prepare more sophisticated promotional materials without immediately expanding its permanent staff.

The resulting production needn't contain a single artificially generated performer to benefit substantially from artificial intelligence.

Indeed, one of the most interesting applications of the technology may be improving the circumstances under which genuinely human entertainment is produced.

If an independent producer can reduce unnecessary administrative and post-production expenditure, additional resources may become available for creative development, equipment, locations and the compensation of the people appearing in and working on the production.

That outcome isn't inevitable. It depends upon how management chooses to employ the resulting economic advantages.

But it represents a far more ambitious application of technological efficiency than merely discovering how cheaply we can replace people.

Automate the Tedious, Not the Interesting

There is an important managerial distinction between activities that consume time and activities whose consumption of time contributes to the value of the product.

A filmmaker may spend several hours manually organizing production files. The resulting organization is necessary, but the audience derives little additional pleasure from knowing that the filmmaker performed the task personally.

Conversely, the hours devoted to developing a creative concept, evaluating performances or refining the editorial character of a production may contribute substantially to what distinguishes it from other entertainment.

Both activities consume time. They don't necessarily deserve the same approach to automation.

One of the more intelligent applications of artificial intelligence involves identifying the portions of creative work that unnecessarily prevent creative people from being creative.

The director shouldn't necessarily delegate artistic judgment merely because a computer can generate alternatives more rapidly. But there may be little virtue in requiring the director to perform administrative activities that could be accomplished more efficiently through intelligent assistance.

The economics of automation become particularly interesting when the time recovered is reinvested in the quality of the entertainment.

Suppose a small production company recovers fifteen hours of administrative and routine production work each week through the responsible employment of artificial intelligence. Over fifty working weeks, that amounts to seven hundred and fifty hours.

Management could regard those hours exclusively as an opportunity to reduce expenses. Alternatively, it could employ them to develop additional productions, improve existing work, investi-

gate new creative approaches or provide better professional support to the people responsible for making the entertainment.

The technology creates the capacity. Management determines its value.

The Coming Abundance of Mediocrity

In Chapter 8, *The Economics of Too Much*, I introduced the concept of the Abundance Tax: the economic consequences of competing for attention in a marketplace already overwhelmed by an abundance of entertainment.

Artificial intelligence introduces the possibility of intensifying that problem on a scale previously unimaginable.

If generating pictures, promotional materials, music and moving images becomes substantially less expensive, the quantity of material available for distribution may increase dramatically.

But the corresponding increase in genuinely original creative work is considerably less certain.

In a 2024 study published in *Science Advances*, Anil Doshi and Oliver Hauser examined the influence of generative artificial intelligence on the creation of short stories. Their research found that access to artificially generated ideas could improve assessments of individual creative work while simultaneously making the resulting collection of stories more similar to one another.[3]

The commercial implications extend beyond literature.

If thousands of entrepreneurs employ similar technological systems to develop their entertainment, promotional materials and publishing environments, the marketplace may acquire an increasingly sophisticated aesthetic uniformity.

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3. Anil R. Doshi and Oliver P. Hauser, *Generative AI Enhances Individual Creativity but Reduces the Collective Diversity of Novel Content*, Science Advances 10, no. 28 (2024): eadn5290. https://doi.org/10.1126/sciadv.adn5290.

Everything may look professionally produced while progressively less of it possesses a recognizable creative identity.

For an industry already struggling with the commoditization of its product, that prospect deserves serious consideration.

The ability to generate more entertainment is not independently an answer to the question of why somebody should want to experience it.

As production capabilities become increasingly accessible, originality, taste, editorial judgment and recognizable creative identity may become more economically important rather than less.

The expensive component of entertainment may increasingly be knowing what is worth making.

The Authenticity Opportunity

One of the most interesting consequences of synthetic media may involve the changing commercial significance of authentic human performance.

For much of the history of recorded entertainment, audiences generally understood that a photographed person had actually appeared before a camera. Although the circumstances of the production could be fictional, manipulated or carefully constructed, the existence of the performer was ordinarily not in question.

Generative technologies introduce a substantially different relationship between the image and its subject.

An audiovisual representation can increasingly exist without the corresponding performance having occurred. The distinction between a recorded event and a constructed representation may become progressively less apparent to the audience.

This introduces ethical, legal and commercial questions that extend far beyond the technology itself.

But it may also create an interesting opportunity for performers and producers.

In a marketplace increasingly populated by synthetic representations, the knowledge that a work reflects an actual human performance may acquire greater significance to certain audiences.

A performer's individual identity, creative personality, professional reputation and relationship with an audience cannot be adequately understood as a collection of visual characteristics. Those qualities develop through human activity over time.

The industry should investigate how authentic performance can be recognized, communicated and valued within a marketplace containing increasingly sophisticated synthetic alternatives.

Authenticity needn't imply an absence of editing, visual effects or intelligent production assistance. A technologically enhanced production can remain a genuinely human creative undertaking.

What matters is that the audience isn't deliberately misled concerning the nature of the work, and that the people whose identities contribute to its value retain meaningful authority over their use.

The Ownership of an Idea

Artificial intelligence also requires entrepreneurs to reconsider what they actually own when they acquire or develop creative material.

A producer who commissions an illustration from a human artist can ordinarily establish a contractual relationship concerning the rights associated with that work.

The circumstances surrounding artificially generated material can be substantially more complicated.

In its January 2025 report concerning the copyrightability of material produced through artificial intelligence, the United States Copyright Office reaffirmed the significance of human authorship. It recognized that the employment of artificial intelligence as a creative aid does not automatically prevent copyright

protection, while distinguishing human creative contributions from material generated without sufficient human authorship.[4]

For entertainment entrepreneurs, these distinctions possess immediate commercial relevance.

An enterprise may invest substantial resources developing a recognizable visual identity, a collection of creative assets or an entertainment property whose financial potential depends upon its ability to control subsequent exploitation.

The entrepreneur should understand which portions of that property may be protected, which rights have been acquired from others and which contractual restrictions accompany the technologies employed in its development.

The same intellectual discipline should extend to material submitted to artificial intelligence systems. Unpublished productions, performer information, confidential agreements and proprietary technical documentation should not be indiscriminately transferred to external services merely because those services provide useful capabilities.

The convenience of an intelligent tool doesn't eliminate the commercial significance of the information entrusted to it.

Build an Intelligent Enterprise

The development of artificial intelligence provides an opportunity to reconsider the architecture of entertainment administration itself.

A publisher might employ intelligent assistance to identify discrepancies in advertising reports, summarize changes in commercial performance or investigate unusual patterns of infrastructure consumption.

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4. U.S. Copyright Office, *Copyright and Artificial Intelligence, Part 2: Copyrightability* (January 2025). https://www.copyright.gov/ai/.

A producer might employ comparable technologies to organize production documentation, identify upcoming contractual obligations or prepare preliminary financial forecasts.

These systems become particularly interesting when they operate within the integrated technological environments discussed in Part V.

If media assets, advertising activity, financial records and distribution permissions possess intelligible relationships, intelligent software can potentially assist management in examining those relationships.

But the authority to investigate a commercial circumstance should not automatically confer authority to change it.

An application identifying an unusual financial transaction might notify management. That doesn't necessarily mean it should possess the ability to transfer funds. A system identifying a potential distribution problem might initiate a review without independently determining the legitimacy of the associated rights.

The National Institute of Standards and Technology, in its 2024 guidance concerning generative artificial intelligence, identifies risks associated with inaccurate outputs, privacy, information security and excessive reliance upon automated systems.[5]

These concerns should influence the design of intelligent entertainment infrastructure from its inception.

A commercially valuable intelligent assistant might be capable of examining several years of business records, explaining unusual developments and assisting an executive in evaluating possible responses.

The executive should still understand the decision being made and remain accountable for it.

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5. Chloe Autio et al., *Artificial Intelligence Risk Management Framework: Generative Artificial Intelligence Profile*, NIST AI 600-1 (2024). https://doi.org/10.6028/NIST.AI.600-1.

We shouldn't confuse intelligent assistance with the elimination of management.

Develop the Technology We Actually Need

I am particularly interested in seeing adult entertainment entrepreneurs develop artificial intelligence applications concerned with the distinctive professional and commercial requirements of their industry.

There is already considerable activity surrounding the generation of synthetic imagery. But what about the less glamorous technological opportunities that could produce substantial professional improvements?

Intelligent assistance with production administration, accessibility, authorized media cataloging, rights documentation, financial reconciliation, technical quality control and the identification of potentially unauthorized distribution all deserve serious development.

These are not necessarily the applications attracting the greatest amount of public fascination. They may nevertheless provide some of the most meaningful commercial opportunities.

And just as we discussed in the preceding chapters concerning financial technology, the architecture of these applications should remain capable of accommodating improvements in the underlying technologies.

An intelligent entertainment business shouldn't become permanently dependent upon a particular artificial intelligence model merely because that model happened to be commercially attractive when the application was developed.

The enduring intellectual property may reside in the company's understanding of the problem, the organization of its legitimate information, the design of its application and the professional relationships that enable it to operate.

The underlying intelligence may eventually be supplied through technologies that don't yet exist.

The Imagination Economy

Artificial intelligence could provide independent entertainment entrepreneurs with capabilities that previous generations would have regarded as financially inaccessible.

What those entrepreneurs choose to accomplish with them will become increasingly important.

An industry that employs extraordinary technology exclusively to manufacture inexpensive variations of entertainment it already produces will have squandered a rather magnificent opportunity.

We could be investigating entirely new forms of audiovisual expression, developing more sophisticated production environments, creating better opportunities for independent artists and constructing intelligent businesses around ideas that previously exceeded our financial capabilities.

The technology may reduce the economic cost of attempting something ambitious. It cannot independently supply the ambition.

That remains our responsibility.

I don't believe the future belongs exclusively to artificial intelligence or to those who reject it in defense of traditional creative practices. I believe it belongs to people with sufficient imagination to recognize what these technologies make possible and sufficient judgment to understand what should remain distinctly human.

We have acquired some extraordinary new machinery for thinking, creating and building.

Now let's see whether we have anything original to do with it.

CHAPTER 45

Beyond the Screen

“We should be producing entertainment that
makes tomorrow's machinery
worth inventing.”

For more than a century, the motion picture has been fundamentally concerned with persuading an audience to become emotionally involved in something occurring on the other side of a rectangular surface.

We've enlarged that surface, introduced color, improved its resolution, surrounded the audience with sound and developed increasingly sophisticated methods of creating the illusion of depth. But the essential relationship between the audience and the entertainment has remained remarkably consistent.

The audience occupies one space. The entertainment occupies another.

Emerging immersive technologies invite us to reconsider that relationship. The creative opportunity extends considerably beyond making pictures appear larger, sharper or more realistic. It involves developing entertainment in which the perception of occupying a space becomes part of the experience itself.

For an industry whose product has always relied heavily upon imagination, intimacy and psychological involvement, the implications are particularly interesting.

Unfortunately, our first instinct when encountering a new entertainment technology is frequently to reproduce the entertainment we've already made.

We ought to be asking what we can make now that we couldn't make before.

A New Medium Deserves New Directors

One of the more fascinating aspects of the development of motion pictures was the emergence of a creative language that had not previously existed. The filmmaker acquired the ability to direct the audience's attention through framing, editing, changes in perspective and the organization of time.

These capabilities distinguished cinema from the experience of attending a theatrical performance. Eventually, filmmakers developed creative practices that would have been inconceivable within the physical architecture of the theater.

Immersive entertainment presents an analogous opportunity.

A director working within a conventional motion picture determines what appears within the frame. A director working within an immersive environment may need to consider how the audience independently directs its attention within a considerably larger perceptual space.

The performer, the environment, the sound and the movements occurring within that environment become components of a different kind of composition.

A conventional filmmaker can introduce an important visual event by cutting directly to it. An immersive filmmaker may need to attract the audience's attention toward that event through sound, movement, lighting or other environmental characteristics.

This requires a different understanding of direction.

Simply acquiring a panoramic camera and recording an otherwise conventional production doesn't necessarily constitute the development of a new entertainment medium. It may constitute little more than the development of a new recording format.

I would like to see adult entertainment producers develop a generation of creative professionals who understand immersive direction as a discipline in its own right, rather than as an addi-

tional technical qualification possessed by conventional filmmakers.

The industry has an opportunity to participate in developing the creative language of immersive entertainment while that language remains relatively young.

Presence as a Creative Resource

In their research concerning virtual reality, Mel Slater and Maria V. Sanchez-Vives have examined the phenomenon of presence: the experience of responding to a technologically constructed environment as though one were actually situated within it.[1]

Presence is not necessarily proportional to the photographic realism of the environment. A convincing experience can arise from the relationship among the participant's movements, the environment's responses and the apparent behavior of the people or objects encountered within it.

This creates some interesting possibilities for entertainment producers.

A technologically elaborate production might fail to establish meaningful psychological involvement because its environment behaves inconsistently. Conversely, a comparatively modest production might establish considerable involvement through intelligent direction, convincing spatial relationships and carefully constructed sound.

The entrepreneur shouldn't assume that purchasing the most expensive available recording equipment constitutes the acquisition of expertise in immersive entertainment.

Presence becomes another creative resource, comparable in some respects to atmosphere, pacing or musical composition.

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1. Mel Slater and Maria V. Sanchez-Vives, “Enhancing Our Lives with Immersive Virtual Reality,” *Frontiers in Robotics and AI* 3 (2016): 74. https://doi.org/10.3389/frobt.2016.00074.

The director must learn how to employ it.

Consider the importance of sound. Within a conventional motion picture, sound contributes to our perception of the space represented on the screen. Within an immersive environment, spatial sound can help establish the audience's perceived position within that space.

A sound originating behind the participant can encourage an entirely different response from the same sound presented through ordinary stereo playback.

The creative significance resides not simply in the technical reproduction of sound but in the director's understanding of what that sound does to the experience.

The Audience Acquires a Position

Immersive entertainment introduces a production decision with no precise equivalent in conventional filmmaking: determining the position occupied by the audience within the constructed environment.

The viewer might occupy the position of an observer, move among different perspectives or experience a deliberately established point of view. Each arrangement creates different creative possibilities and responsibilities.

A prerecorded panoramic video may allow the audience to look around a recorded environment without permitting meaningful movement through it. More sophisticated spatial environments can potentially respond to changes in both the participant's orientation and physical position.

The engineering distinction is commonly described in terms of degrees of freedom. Three degrees of freedom accommodate rotational movement. Six degrees of freedom also accommodate positional movement along three spatial axes.[2]

But the creative distinction matters considerably more to the producer.

Looking around an environment is different from moving through it. Moving through an environment is different from influencing it. Influencing an environment is different from participating in a genuinely reciprocal human encounter.

These are different entertainment propositions, not merely successive improvements in video resolution.

The producer should determine which experience is being created before acquiring the technology through which it will be delivered.

Otherwise, we risk developing extraordinarily sophisticated machinery around remarkably unsophisticated creative intentions.

Immersion Isn't a Headset

The commercial development of immersive entertainment has become closely associated with head-mounted displays. That association is understandable, but it can unnecessarily restrict our conception of the medium.

Immersion exists in degrees.

A conventional film can be deeply immersive. A large display, intelligently constructed sound environment and the elimination of distracting surroundings can substantially influence the experience of watching it.

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2. World Wide Web Consortium (W3C), *WebXR Device API*, Candidate Recommendation Draft, November 9, 2026. https://www.w3.org/TR/2026/CRD-webxr-20261109/.

A panoramic production might be explored through an ordinary computer display or mobile device. An augmented reality application might introduce digital elements into the participant's existing surroundings. A mixed reality environment might combine physical and digitally constructed spaces in more elaborate ways.

These experiences possess different technological characteristics, but they all invite us to reconsider the relationship between entertainment and its surroundings.

In my technical report *Beyond Play*, I introduced the concept of FocusLock, a proposed widescreen-oriented presentation mode intended to establish an intermediate viewing experience between conventional embedded playback and fullscreen viewing. The idea involves expanding the presentation of the entertainment within the browser while reducing the visual distractions surrounding it, without requiring the viewer to surrender the entire display to a fullscreen application.[3]

That relatively modest example illustrates a broader commercial principle. We can develop more involving entertainment experiences without requiring every customer to acquire an entirely new collection of consumer electronics.

An entrepreneur interested in immersive entertainment should therefore investigate the entire spectrum of available experiences rather than regard the purchase of a particular headset as the admission price to the future.

There may be considerably larger commercial opportunities in making existing devices more interesting than in waiting for extraordinary new devices to become ordinary household appliances.

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3. Philip M. Autelitano, *Beyond Play: The Architecture, Economics and Future of Personal Video Playback*, technical report MZ-TR-2026-002 (Mediarazzi, November 2026). https://doi.org/10.5281/zenodo.24572335.

The Comfort of the Audience

A production can possess extraordinary visual sophistication while remaining physically unpleasant to experience.

This is a particularly important consideration within immersive media, where the relationships among visual movement, perceived spatial orientation and the participant's physical circumstances can influence comfort.

Research conducted by Dimitrios Saredakis and colleagues, published in 2020, examined factors associated with discomfort and sickness during the use of head-mounted virtual reality displays. Their systematic review and meta-analysis considered the relationships among characteristics of the technology, the content and the circumstances of exposure.[4]

For entertainment producers, these considerations should become part of the creative development process.

A director shouldn't necessarily reproduce conventional camera movements merely because the recording equipment permits them. An immersive application should provide intelligible means of adjusting or terminating the experience. Interfaces should accommodate different physical capabilities and, where appropriate, permit seated participation.

The responsibility extends beyond the quality of the recording.

A poorly engineered immersive environment can impose physical discomfort upon the audience in ways that a conventional publishing environment generally cannot.

The entrepreneur must consequently develop a broader conception of quality control. Testing the entertainment involves ex-

4. Dimitrios Saredakis et al., “Factors Associated With Virtual Reality Sickness in Head-Mounted Displays: A Systematic Review and Meta-Analysis,” *Frontiers in Human Neuroscience* 14 (2020): 96. https://doi.org/10.3389/fnhum.2020.00096.

amining the experience of occupying its technological environment, not merely evaluating the material being exhibited.

The audience shouldn't have to develop a tolerance for bad engineering in order to appreciate good entertainment.

Don't Make Another Format War

The history of consumer electronics contains an unfortunate abundance of commercial conflicts arising from incompatible technological formats.

A producer invests in a particular recording technology. A distributor establishes commercial arrangements around it. The audience acquires compatible equipment. Eventually, the marketplace develops around another technological system, leaving some portion of the original investment commercially stranded.

Immersive entertainment introduces comparable risks.

Different devices possess different display characteristics, processing capabilities, input mechanisms and software environments. A production developed exclusively around one manufacturer's technological ecosystem may acquire commercial limitations unrelated to its creative merit.

The independent producer should therefore distinguish the creative assets associated with a production from the particular implementation through which those assets are experienced.

Recording and preserving appropriate source material, maintaining useful production metadata and documenting the relationships among media components can help preserve future opportunities for adaptation.

The development of interoperable software interfaces is also encouraging.

The Khronos Group's OpenXR specification provides a standardized interface through which applications can interact with compatible immersive technology platforms.[5] The World Wide Web Consortium's WebXR Device API addresses related capabilities within browser-based environments.[2]

Neither specification eliminates the differences among devices or guarantees that every immersive production will operate identically throughout the marketplace. Nevertheless, both represent efforts to reduce unnecessary technological fragmentation.

Adult entertainment developers should participate in investigating these technologies, including their limitations, rather than continually constructing products whose useful commercial lives are determined by the fortunes of a particular hardware manufacturer.

We are in the entertainment business. We shouldn't inadvertently become financiers of somebody else's format war.

The Commercial Architecture of Immersion

The economics of immersive entertainment deserve examination independently of the technological excitement surrounding it.

Producing an immersive work may introduce additional expenses associated with recording equipment, specialized personnel, post-production, software development, quality assurance and distribution.

The entrepreneur must determine whether the resulting experience possesses sufficient additional commercial value to justify those expenses.

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5. Khronos Group, *OpenXR 1.1 Specification*, official registry. https://registry.khronos.org/OpenXR/.

2. World Wide Web Consortium (W3C), *WebXR Device API*, Candidate Recommendation Draft, November 9, 2026. https://www.w3.org/TR/2026/CRD-webxr-20261109/.

Consider two hypothetical production arrangements:

Illustrative Production Recoupment: Conventional and Immersive Entertainment

Production economics	Conventional	Immersive
Production and development cost	$15,000	$30,000
Net contribution per paid access	$6	$10
Paid accesses required for recoupment	2,500	3,000

In this simplified example, the immersive production requires twice the initial investment but doesn't require twice the number of paying customers because of its assumed greater contribution per transaction.

Nevertheless, if the immersive production addresses a substantially smaller audience, its commercial prospects may remain less attractive despite its higher contribution.

The relevant question isn't whether immersive entertainment is technologically superior to conventional entertainment. It is whether the producer has developed a sufficiently distinctive experience for an identifiable audience willing and able to pay for it.

There may be opportunities to produce different editions of an entertainment property, including conventional and immersive presentations. However, the producer should investigate those opportunities during development rather than assume that every immersive recording can subsequently be converted into an equally satisfactory conventional production.

The more intelligently those commercial possibilities are considered during production planning, the less dependent the investment becomes upon a single method of exploitation.

Advertising in a Space, Not on a Page

The advertising principles developed in Part IV acquire some rather interesting implications when the entertainment environment becomes spatial.

Conventional digital advertising generally occupies a predetermined portion of a page, a screen or a playback timeline.

Within an immersive environment, a commercial message can potentially occupy a position within the environment itself.

This introduces opportunities for appropriately disclosed sponsorships, designed environments and other commercially supported experiences that needn't employ the conventional machinery of banners and pop-ups.

But it also introduces opportunities for creating some of the most obnoxious advertising environments imaginable.

An advertisement that obstructs part of a conventional webpage is irritating. A commercial that unexpectedly interferes with an immersive experience can have a considerably greater effect upon the participant's perception of the environment.

Publishers should be particularly cautious about introducing unsolicited sensory effects, unexpected visual interruptions or commercial interactions that the participant cannot readily dismiss.

There are interesting creative possibilities associated with integrating sponsorship into the architecture of an entertainment experience. They require cooperation among the producer, the advertiser and the developers responsible for constructing that experience.

Simply reproducing the advertising conventions of the conventional website within an immersive environment would represent a spectacular failure of imagination.

We have an opportunity to develop better commercial conventions before the medium becomes overwhelmed by worse ones.

Let's not squander it.

The Boundaries of Participation

As entertainment becomes more immersive, the distinction between observing an experience and participating in one acquires increasing professional significance.

A person agreeing to appear in a conventional recorded production may not have agreed to have that performance reconstructed as an interactive representation. Nor does an agreement to distribute a particular recording necessarily authorize the extraction and subsequent commercial manipulation of the performer's identity.

The more extensively an entertainment environment can be altered, reconstructed or made responsive to the participant, the more carefully producers must consider the permissions upon which it was developed.

Similar responsibilities apply to the audience.

An immersive application may have access to information concerning movement, orientation, interaction and, on certain devices, highly sensitive sensor readings. The technical availability of that information does not independently establish a legitimate commercial reason to retain or distribute it.

These questions deserve more extensive treatment, which we'll undertake in the forthcoming chapters concerning privacy and consent.

For the moment, the important creative principle is that greater technological involvement should be accompanied by greater clarity concerning the boundaries of participation.

We cannot intelligently develop more personal forms of entertainment while becoming less attentive to the rights of the people involved in them.

Invent the Medium

What I find most exciting about immersive entertainment isn't the prospect of eventually establishing a more convincing simulation of the productions we already make.

It's the possibility of developing entirely different kinds of productions.

The filmmaker of tomorrow may require capabilities presently associated with theatrical direction, architecture, software engineering, sound design and the development of interactive environments.

New creative professions may emerge from the relationships among those disciplines. Independent entrepreneurs may develop specialized production tools, spatial playback technologies, distribution environments and commercial formats that have relatively little resemblance to the products available today.

The entertainment itself may eventually become difficult to describe using the vocabulary we've inherited from conventional cinema.

That shouldn't concern us.

The early motion picture pioneers weren't obligated to preserve the creative conventions of the theater. The pioneers of recorded music weren't obligated to reproduce the experience of attending a concert. Each medium acquired its own identity as creative professionals discovered the possibilities unique to it.

Adult entertainment deserves to participate in that process again.

We shouldn't be satisfied with producing entertainment that merely looks better through tomorrow's machinery.

We should be producing entertainment that makes tomorrow's machinery worth inventing.

CHAPTER 46

The Future of the Moving Image

“We've done enough reminiscing about the technological leadership of adult entertainment. It's time we earned some new memories.”

In December 2018, Netflix released *Black Mirror: Bandersnatch*, an interactive motion picture allowing members of its audience to influence the development of the story. To accommodate the creative and technological complexities of the production, Netflix developed a specialized software application called Branch Manager.

My immediate question is one that should embarrass us a little.

Why the hell weren't we developing that technology?

Not because Netflix had discovered something that had never occurred to us. Quite the contrary. Adult filmmakers had been experimenting with interactive audiovisual productions since the days of CD-ROM and DVD. We recognized the creative possibilities of nonlinear entertainment long before Netflix became a streaming television company.

Yet somewhere between those early experiments and the emergence of sophisticated Internet-based distribution, we appear to have relinquished much of our enthusiasm for the medium. We had recognized the opportunity. We had even begun manufacturing the product. What we needed to develop was the next generation of machinery.

Instead, Netflix developed some of it for an entirely different audience.

We Were Already Here

In January 2001, the *Los Angeles Times* examined the adult entertainment industry's experiments with interactive DVD technology. Its coverage described productions that incorporated alternative character perspectives, nonlinear narratives and elements ordinarily associated with computer games.[1]

By 2009, the industry publication XBIZ was examining the development of interactive entertainment by companies including Digital Playground, New Sensations, Digital Sin and Zero Tolerance. Producers interviewed for the article discussed both the commercial appeal of interactive productions and the technological limitations imposed upon them by the physical distribution formats available at the time.[2]

Among those limitations were the storage capacity of optical media and the difficulty of accommodating substantial quantities of alternative footage while maintaining satisfactory audiovisual quality. Some of the entrepreneurs interviewed were already contemplating the possibilities of distributing comparable entertainment through the Internet.

In 2011, Adam & Eve Pictures released *Killer Bodies: The Awakening*, directed by David Lord, an interactive motion picture employing a choose-your-own-adventure approach to storytelling.[3]

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1. Karen Kaplan, “Pushing Porn on DVDs,” *Los Angeles Times*, January 9, 2001. https://www.latimes.com/archives/la-xpm-2001-jan-09-mn-10045-story.html.

2. Acme Andersson, “Content’s Interactive Future,” *XBIZ*, April 15, 2009. https://www.xbiz.com/features/107202/contents-interactive-future.

3. Lyla Katz, “Adam & Eve Releases Interactive Film ‘Killer Bodies,’” *XBIZ*, July 21, 2011. https://www.xbiz.com/news/136505/adam-eve-releases-interactive-film-killer-bodies.

This history deserves recognition. Interactive entertainment isn't an unfamiliar proposition being introduced to us by mainstream entertainment companies. It is a proposition we helped explore and ought to have continued developing.

What became of that entrepreneurial curiosity? The Internet eventually acquired the bandwidth, processing capabilities and software infrastructure that earlier producers had been anticipating. Yet much of our technological energy became concentrated upon delivering greater quantities of conventional video rather than investigating the possibilities of fundamentally different entertainment products.

We developed increasingly sophisticated machinery for distributing comparatively conventional entertainment.

The greater opportunity may have been developing increasingly sophisticated entertainment for that machinery.

The Natural Interactive Medium

The nature of our product makes it particularly well suited to interactive audiovisual development.

We already produce entertainment in a wide variety of lengths, structures and formats. An individual production may possess a conventional narrative, consist of several independently conceived sequences or exist within a larger collection of related material.

Unlike a conventional dramatic motion picture, whose artistic integrity may depend heavily upon the audience experiencing every sequence in a particular order, many of our productions already accommodate considerable flexibility in how the audience experiences the material.

Viewers frequently navigate among chapters, scenes, performers and productions according to their individual interests. Publishers administer extensive catalogs whose contents pos-

sess numerous relationships that remain largely unexplored beyond conventional categorization.

These existing characteristics suggest opportunities for developing more sophisticated relationships among creative assets.

A producer could develop alternative editions of a production, supplementary material presented according to viewer preferences, different narrative perspectives or a collection of related works accessible through a common interactive environment. An established entertainment property might provide several distinct experiences without requiring the producer to establish an entirely separate publishing environment for each of them.

The important distinction is that the producer would be deliberately designing those relationships as part of the entertainment rather than leaving the audience to navigate a collection of loosely associated files.

Our familiarity with modular forms of production should provide a useful foundation for investigating such possibilities. We needn't begin by attempting to produce the equivalent of a hundred-million-dollar Hollywood motion picture. There are interesting creative possibilities available to comparatively modest independent productions.

What Netflix Actually Invented

The most interesting accomplishment associated with *Bandersnatch*, from an entrepreneurial perspective, may not have been the motion picture itself.

It may have been Branch Manager.

In its fourth-quarter 2018 shareholder letter, Netflix discussed the development of the application as a response to the complexities of organizing the production's numerous possible narrative paths.[4]

The technology enabled creative professionals to visualize and administer relationships among the various portions of the story as the production developed. Rather than force a nonlinear motion picture into the administrative conventions of a conventional screenplay, Netflix developed machinery better suited to the creative undertaking.[5]

This is precisely the kind of development opportunity we should be pursuing.

Imagine an independent production company possessing a software environment through which its creative professionals could organize a collection of audiovisual sequences, establish the relationships among them and examine the different presentations that might result.

The producer could evaluate the creative proposition before committing substantial production resources. The editor could understand how individual sequences relate to the larger work. The publisher could distinguish the available editions and administer the legitimate commercial rights associated with them.

Such an application would provide a common language through which creative, technical and commercial professionals could collaborate.

The entrepreneurial opportunity extends beyond producing interactive entertainment. It includes developing the professional

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4. Netflix, Inc., *Fourth Quarter 2018 Letter to Shareholders*, January 17, 2019, Form 8-K, exhibit 99.1. https://www.sec.gov/Archives/edgar/data/1065280/000106528019000040/ex991_q418.htm.

5. Andy Schuler, “Netflix Goes to the Other Side of the Mirror With Bandersnatch,” *Streaming Media*, September 30, 2019. https://www.streamingmedia.com/Articles/ReadArticle.aspx?ArticleID=134349.

tools through which an entire generation of producers could investigate the medium.

One successful interactive production creates an entertainment product. A successful interactive production environment could contribute to the development of an entirely new category of products.

The Economics of Branching

Interactive filmmaking introduces complexities that can become financially prohibitive without intelligent creative planning.

Suppose a filmmaker establishes a narrative containing several decision points, each offering two possible directions. If every decision produces an entirely independent narrative branch, the number of possible routes increases exponentially.

Illustrative Narrative Complexity: Independent Binary Decisions

Decision points	Possible narrative paths
1	2
3	8
5	32
8	256
10	1,024

These figures represent possible narrative paths, not necessarily the number of unique sequences required to produce them.

Different paths can converge upon common material. Certain decisions may influence only a limited portion of the work, while others establish relationships that become relevant later in the presentation.

The economic significance of an intelligent authoring environment is its ability to help producers understand the relationship between the complexity of the finished product and the quantity of material necessary to create it.

This was already a concern during the DVD era. In the aforementioned 2009 XBIZ article, director Mike Quasar estimated that producing certain interactive titles could cost more than twice as much as producing conventional ones.[2]

Those historical estimates shouldn't be treated as contemporary industry costs. They do, however, illustrate why the development of better production tools is commercially important.

The independent entrepreneur needs to understand the financial implications of the creative architecture before production begins. A well-conceived authoring application could allow the producer to evaluate alternative narrative structures against available production resources, identifying opportunities to create distinctive entertainment without introducing unnecessary expenditure or imposing unreasonable demands upon the people responsible for making it.

The Software Between the Camera and the Audience

The development of interactive entertainment presents an opportunity for an entirely new relationship between production software and publishing infrastructure.

Consider the architecture we've explored throughout Part V of this book. We have examined media hosting, independently administered creative assets, advertising systems and increasingly sophisticated playback environments.

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2. Acme Andersson, “Content’s Interactive Future,” *XBIZ*, April 15, 2009. https://www.xbiz.com/features/107202/contents-interactive-future.

An interactive production environment would introduce another technological layer: the organization of the entertainment itself.

The creative work would consist not merely of the recorded media but also of the editorial structure through which that media is experienced. This would require collaboration between the people developing production tools and the people developing video playback technologies. The player would need to understand more about the creative work than its location on a server and the duration of its running time.

It might need to understand which edition is being presented, which supplementary materials are available or which authorized components belong to a particular narrative.

There are existing technical conventions that provide useful foundations for some of these possibilities. The World Wide Web Consortium's *Media Fragments URI 1.0* specification, for example, establishes methods of identifying temporal and spatial portions of audiovisual resources.[6]

But identifying portions of a recording is only one component of a considerably larger creative architecture.

I find the possibility of developing a common production and playback environment for independent filmmakers particularly attractive. A director should be able to conceive a nonlinear work without having to commission an entirely original software application to exhibit it.

The technology should accommodate the imagination of the producer, rather than require the producer to accommodate the limitations of the technology.

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6. World Wide Web Consortium (W3C), *Media Fragments URI 1.0 (basic)*, W3C Recommendation, September 25, 2012. https://www.w3.org/TR/media-frags/.

Participation Without Administration

One of my reservations concerning interactive entertainment is that its developers occasionally require the audience to perform so much administrative work that experiencing the entertainment becomes secondary to operating it.

Not everybody wants to direct the motion picture they're watching.

This is an especially important consideration with erotic entertainment, where unnecessary interruptions can undermine the very psychological involvement the producer is attempting to establish.

We should resist the temptation to equate interactivity with the continual presentation of choices. Greater control over the entertainment doesn't necessarily require greater involvement in its administration.

Some audiences may appreciate extensive participation. Others may prefer to establish certain presentation preferences at the beginning of an experience and subsequently enjoy the entertainment without interruption.

There should remain room for the creative authority of the director, the personality of the performer and the pleasure of encountering something unexpected. An interactive production should possess sufficient creative merit to justify experiencing it. Its technological sophistication shouldn't become a substitute for that merit.

The objective is better entertainment, not more interesting menus.

A More Valuable Intellectual Property

The modular motion picture could also provide an interesting means of expanding the commercial life of an entertainment property.

Our publishers have traditionally found additional commercial uses for existing productions through compilations, excerpts, alternative edits, international editions and other forms of authorized redistribution. Interactive architecture could extend this established practice into a more deliberate form of creative development.

An entertainment property might acquire additional authorized material over time. A producer could develop different editions for distinct audiences while retaining a recognizable relationship to the original work. Supplementary productions could become part of a broader editorial environment rather than exist as isolated additions to a catalog.

This introduces the possibility of developing certain entertainment properties as continuing creative undertakings rather than treating their completion as the termination of their commercial development.

The interactive architecture itself may possess intellectual property value. The organization of the production, its original software, editorial relationships, creative identity and associated rights can all contribute to the distinctiveness of the finished product.

This also has implications for the piracy problem discussed in Chapter 14. An unauthorized copy of an individual recording may reproduce a portion of the entertainment without reproducing the complete experience associated with the original property.

That doesn't make interactive entertainment immune to piracy. It does provide another reason to develop value that resides in more than the availability of a particular recording.

A professionally administered entertainment environment can provide legitimate audiences with something that isn't necessarily reproduced by downloading one of its constituent files.

The Producer's Rights. The Performer's Rights.

The prospect of assembling new presentations from existing audiovisual material requires greater precision concerning the rights associated with that material.

The performer who participates in a particular production has not necessarily authorized every subsequent use of the recorded performance merely because the producer possesses the recording. Alternative edits, interactive applications, synthetic modifications and future commercial arrangements may introduce circumstances substantially different from those originally contemplated.

These possibilities should be considered during contractual development and discussed meaningfully with the people whose work makes the production possible.

The technology itself presents an opportunity to improve the administration of such relationships. Creative components and their applicable permissions could be associated with one another in a manner that helps producers and publishers understand the legitimate boundaries of their use.

But technological sophistication must never become an excuse for diminishing professional accountability. A producer should be able to explain what is being created, how it may be distributed, how its various editions may be developed and under what commercial arrangements the participants are being compensated.

If we're going to develop more sophisticated entertainment, we ought to develop equally sophisticated professional relationships.

Netflix's Retreat Is Our Opportunity to Investigate

Netflix substantially reduced its interactive entertainment catalog in 2024 and removed *Bandersnatch* from its service in May 2025.[7]

Some might interpret that development as evidence that the commercial opportunities associated with interactive cinema were never particularly substantial.

I would be reluctant to draw that conclusion.

Netflix operates a global subscription entertainment business possessing its own technological priorities, commercial requirements and expectations concerning the scalability of its products. The circumstances under which an independent producer evaluates the merits of an interactive production may be substantially different.

A product needn't attract millions of subscribers to become commercially significant to an independent entrepreneur. It may serve a comparatively specialized audience possessing a particular enthusiasm for the experience. Its commercial model may depend upon individual purchases, premium editions or other arrangements rather than its contribution to the retention of subscribers across a vast entertainment catalog.

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7. Jay Peters, “Netflix Is Removing Nearly All of Its Interactive Titles,” *The Verge*, November 4, 2024; Kasey Moore, “‘Black Mirror: Bandersnatch’ and ‘Unbreakable Kimmy Schmidt’ Interactive Specials Leaving Netflix,” *What’s on Netflix*, May 6, 2025. Moore reported a possible return via Netflix Games on July 25, 2025; a relaunch was not independently confirmed.

We have long operated in a marketplace capable of sustaining specialized creative enterprises around interests that wouldn't justify the attention of a major mainstream studio.

Netflix's experience doesn't establish whether interactive productions can succeed under those circumstances. That is a commercial question worth investigating on its own terms.

Netflix's technological achievements deserve our attention. Its commercial decisions needn't determine ours.

Don't Let the Entertainment Disappear With the Software

There is another important lesson to be learned from the withdrawal of interactive productions from Netflix.

A motion picture whose presentation depends upon a specialized software environment may become difficult to experience when that environment ceases to exist. Preserving the individual recordings doesn't necessarily preserve the creative work. The relationships among those recordings, the editorial instructions governing their presentation and the behavior of the application may all constitute essential portions of the entertainment.

This creates an opportunity for independent developers to investigate portable production formats capable of preserving the structure of interactive audiovisual works alongside their constituent media.

The producer should retain sufficient information and appropriate rights to support the future exhibition of the production through alternative technologies.

An entertainment company should not invest substantial resources developing an original creative property only to discover that its continued existence as a functioning work depends entirely upon a software company's willingness to support it.

We encountered similar concerns in our discussion of publisher sovereignty. Interactive entertainment makes those concerns considerably more consequential because the technology can become inseparable from the creative product itself.

Let's Finish What We Started

We didn't need Netflix to introduce us to interactive entertainment.

Our producers were exploring its possibilities when the technological constraints of physical media made many of their ambitions extraordinarily difficult to realize. They were contemplating experiences that the emerging Internet might eventually make commercially practical.

We now possess technological capabilities that some of those entrepreneurs could only imagine. What we need are the independent developers, production companies and creative professionals prepared to continue their work.

I want to see our own sophisticated nonlinear production environments. I want to see filmmakers collaborating with software developers to establish new creative conventions, and publishers discovering commercial opportunities in entertainment properties whose value extends beyond conventional video distribution.

There is room for entirely new companies in this business, including companies that never produce a single motion picture but develop the machinery that makes a new generation of motion pictures possible.

The next important invention in adult entertainment may emerge from an editing room, a software development company or a conversation between a director and an engineer.

What would disappoint me most would be watching another mainstream entertainment company develop that invention while we congratulate ourselves on having pioneered its predecessor twenty-five years earlier.

We've done enough reminiscing about the technological leadership of adult entertainment.

It's time we earned some new memories.

CHAPTER 47

Privacy Is a Product Feature

“And what somebody watches doesn't necessarily establish who somebody is.”

There was a time when one of the principal attractions of purchasing adult entertainment through the Internet was the privacy afforded by the transaction. The customer could avoid the public circumstances associated with acquiring the product through a conventional retail establishment.

We offered something more than convenience. We offered discretion.

It is therefore somewhat ironic that the technological environment through which we now distribute entertainment can potentially reveal considerably more about the customer than the proprietor of an adult bookstore ever knew.

The bookstore owner didn't necessarily know what else his customer had purchased that month, which advertisements had attracted his attention, how long he had spent examining particular products or what other establishments he intended to visit.

Nor did he ordinarily maintain commercial relationships with a dozen companies interested in obtaining that information.

We should be among the world's most imaginative entrepreneurs in the development of privacy-conscious technologies. Few industries have a more intimate appreciation of the commercial value of discretion.

Yet we have inherited much of the surveillance machinery of conventional Internet commerce without sufficiently questioning whether it belongs in our business.

The Right to Remain a Mystery

One of the more questionable intellectual developments in contemporary marketing has been the assumption that the ideal commercial relationship is one in which the enterprise knows practically everything about its customer.

I find that proposition particularly unattractive in our business.

A customer may enthusiastically consume a particular form of entertainment without wishing to establish a permanent association between that entertainment and his personal identity. He may appreciate the work of a particular performer without wanting that preference incorporated into a commercial profile distributed throughout an advertising ecosystem.

And what somebody watches doesn't necessarily establish who somebody is.

Curiosity, fantasy, experimentation and identity are different things. An advertising system that interprets an individual's entertainment preferences as definitive statements concerning his personal life may be drawing conclusions that are both commercially inaccurate and extraordinarily intrusive.

The entrepreneur should recognize a customer's willingness to purchase entertainment as a commercial opportunity, not an invitation to investigate his psychology.

This doesn't mean we should abandon the study of consumer behavior. It means we should develop a more intelligent understanding of what we actually need to know about the people with whom we conduct business.

What Are We Really Selling?

Imagine two entertainment publishers.

The first earns revenue from subscriptions, individual purchases and video advertising. It collects information necessary to administer those activities, maintains appropriate commercial records and examines aggregated audience behavior to improve its product.

The second operates a similar business but also permits numerous external companies to collect information concerning its customers' activities, potentially associating those activities with information obtained elsewhere.

The second publisher may possess additional opportunities to monetize its audience. It has also introduced an entirely different commercial activity into the enterprise: the exploitation of information concerning the people consuming its product.

Management should understand the distinction.

When an advertiser purchases an opportunity to exhibit a commercial before an audience, the publisher is selling advertising. When an advertiser or intermediary obtains information allowing it to construct an enduring profile of individual viewers, something else is occurring.

Those activities needn't be inseparable.

The entertainment advertising economy existed long before advertisers possessed the technological ability to follow individual consumers from one commercial environment to another. Advertisers purchased access to audiences on the basis of the nature of the entertainment, its circulation, its reputation and the commercial characteristics of the people it attracted.

There is an opportunity to develop more sophisticated contemporary interpretations of those arrangements without requiring the surveillance of individual viewers.

An advertiser may have a perfectly legitimate reason to know that its commercial was successfully exhibited ten thousand times. It doesn't necessarily have a legitimate reason to know the identities of the ten thousand people who watched it.

The Invisible Commercial Transaction

The installation of third-party tracking technologies has become such an ordinary administrative activity that many publishers may not adequately understand the commercial consequences of the software they've introduced into their websites.

An advertising pixel, analytics script or externally supplied application can establish relationships between information collected within the publishing environment and information possessed elsewhere.

What makes this particularly troublesome is that the customer generally cannot observe those relationships while experiencing the entertainment.

In 2023, the United States Federal Trade Commission published an examination of the privacy implications of tracking pixels following enforcement actions involving GoodRx and BetterHelp, two digital healthcare businesses accused of disclosing sensitive consumer information to external advertising companies.[1]

The BetterHelp matter ultimately resulted in an order prohibiting certain advertising-related disclosures and requiring the company to pay $7.8 million.[2]

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1. Federal Trade Commission (FTC), “Lurking Beneath the Surface: Hidden Impacts of Pixel Tracking,” March 16, 2023. https://www.ftc.gov/policy/advocacy-research/tech-at-ftc/2023/03/lurking-beneath-surface-hidden-impacts-pixel-tracking.

2. FTC, “FTC Gives Final Approval to Order Banning BetterHelp from Sharing Sensitive Health Data for Advertising, Requiring It to Pay $7.8 Million,” July 14, 2023. https://www.ftc.gov/legal-library/browse/cases-proceedings/2023169-betterhelp-inc-matter.

These were healthcare businesses, not entertainment publishers. Nevertheless, the circumstances illustrate a technological problem of obvious relevance to us: an ordinary advertising or analytical tool can become the means through which exceptionally sensitive information leaves a commercial environment.

The software doesn't necessarily understand the social significance of the information it collects. The people responsible for installing it should.

I would encourage every publisher to undertake a periodic examination of the external technologies operating within its websites. Management should understand what information those technologies receive, where it goes, why it is collected and whether the commercial benefits justify the resulting exposure.

The fact that practically everybody else employs a particular tracking mechanism is a remarkably poor reason to introduce it into a sensitive commercial environment.

Knowing the Business Without Knowing Everybody

One of the more interesting development opportunities in privacy-conscious infrastructure involves distinguishing commercial intelligence from personal surveillance.

Consider the information an entertainment publisher might legitimately require to evaluate the performance of a production:

Business question	Information required
Is the production attracting an audience?	Playback starts and aggregate viewing activity.
Is the video being delivered successfully?	Playback failures, startup times and buffering events.
Are viewers completing the production?	Aggregated completion and viewing-duration measurements.
Is the advertising being delivered?	Advertisement requests, starts, completions and applicable billable events.
Is the production profitable?	Attributed revenue and production, distribution and operating costs.
Is the catalog attracting returning customers?	Appropriate account or cohort-level retention measurements.

These are commercially useful measurements. Their collection doesn't necessarily require the establishment of permanent, individually identifiable viewing histories.

Certain measurements will require temporary identifiers, authenticated account information or other mechanisms for distinguishing events. The engineering opportunity involves limiting those mechanisms to the purposes they serve rather than allowing them to become the foundation of an unnecessarily extensive personal profile.

An enterprise can become extraordinarily knowledgeable about the performance of its product without becoming extraordinarily knowledgeable about the private lives of its customers.

That distinction should influence the next generation of publishing infrastructure.

Keep the Personal Part Personal

In my technical work concerning the Personal Video Environment, I have explored the possibilities associated with allowing viewers to retain their individual playback preferences across compatible entertainment environments.[3]

This presents an interesting privacy challenge.

A viewer's preferred picture settings, audio adjustments, interface configuration and accessibility requirements can provide the foundation for a more personalized entertainment experience. None of those preferences necessarily requires the publisher to know which productions the viewer has previously experienced.

The software could distinguish presentation preferences from entertainment history.

That separation creates opportunities for developing intelligent playback environments in which certain personal characteristics remain under the control of the viewer. Where practical, preferences could be retained locally on the individual's device. Optional synchronization could allow them to accompany the viewer across compatible devices without requiring the transmission of an extensive viewing profile.

We should investigate these possibilities because personalization and surveillance have become unnecessarily associated with one another.

Personalization should mean making the product more suitable for the person experiencing it. Surveillance involves acquiring information about that person, frequently for purposes extending beyond the immediate experience.

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3. Philip M. Autelitano, *Beyond Play: The Architecture, Economics and Future of Personal Video Playback*, Mediarazzi technical report MZ-TR-2026-002 (2026). https://doi.org/10.5281/zenodo.24572335.

The former can be a valuable product feature without necessarily requiring the latter.

Imagine an entertainment environment that remembers how you like to watch without insisting upon remembering everything you've watched.

I find that a particularly attractive technological proposition.

Privacy in Three Dimensions

The development of more immersive and interactive forms of entertainment makes these questions increasingly important.

A conventional video player may be capable of recording which portions of a production somebody experiences. An immersive application may have access to information concerning the person's physical movements, spatial orientation, gestures and, depending upon the equipment, eye movements and other sensor measurements.

An interactive production could additionally record the decisions made by the participant throughout the experience.

The technological distinction between responding to an individual's behavior and permanently documenting that behavior deserves careful attention.

A spatial environment may require information concerning the orientation of the viewer's head to determine which portion of the environment should be displayed. That requirement doesn't independently establish a reason to preserve the viewer's movements after the experience has concluded.

Similarly, an interactive production may require certain information concerning earlier narrative decisions to determine its subsequent presentation. There may be little reason to retain that information once the session has ended unless the viewer has deliberately elected to save his progress.

The more intimate our entertainment becomes, the more restrained we should be in developing the machinery through which information about its participants is collected.

In the preceding two chapters, we examined creative opportunities associated with transforming passive audiences into more active participants. We must ensure that greater participation doesn't inadvertently become an agreement to surrender greater quantities of personal information.

Know When to Forget

Businesses have traditionally regarded the accumulation of information as an economic accomplishment. The more information they possess, the more valuable their intellectual resources are presumed to become.

But information can also constitute a liability.

Every unnecessary record introduces something else that must be protected, administered and potentially disclosed under circumstances the enterprise cannot entirely control.

Consider a hypothetical publisher retaining one million individually identifiable viewing records every month.

Retention period	Accumulated viewing records
30 days	1 million
6 months	6 million
1 year	12 million
3 years	36 million

Assuming consistent monthly activity, the enterprise could accumulate thirty-six million records over three years without ever establishing a legitimate commercial reason to retain the earliest thirty-five million of them.

The numbers don't describe a particular company's operations. They illustrate how easily an ordinary data-retention decision can acquire substantial consequences through the passage of time.

Management should distinguish information necessary for immediate operations, information required for accounting or other legitimate obligations and information whose usefulness expires.

Different categories of information deserve different retention policies.

The European Union's General Data Protection Regulation (GDPR) formalizes related principles through its requirements concerning data minimization and storage limitation. It also provides special protections for categories of personal information that include data concerning an individual's sex life or sexual orientation, subject to specified exceptions and conditions.[4]

The significance of those principles extends beyond the jurisdictions in which the regulation applies.

A company shouldn't require legislation to persuade it to stop retaining information it doesn't need.

Discretion Is a Design Discipline

Privacy cannot be adequately established by employing a lawyer to write a privacy policy after the product has been developed.

It should influence the design of the product itself.

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4. Regulation (EU) 2016/679 (General Data Protection Regulation), April 27, 2016, arts. 5(1)(c), 5(1)(e), and 9. https://eur-lex.europa.eu/eli/reg/2016/679/oj/eng.

In May 2025, the World Wide Web Consortium published its *Privacy Principles*, a statement identifying considerations intended to guide the development of a more trustworthy Web. Among them is the principle that data collection should be limited to what is necessary, even when the information isn't immediately recognized as sensitive or identifying.[5]

For our purposes, that principle should extend throughout the commercial environment.

The account registration process should request information justified by the relationship being established. Customer support systems should restrict access to information unnecessary for resolving particular inquiries. Advertising integrations should be evaluated for the disclosures they introduce.

The billing system should maintain accurate commercial records without unnecessarily reproducing sensitive details concerning the entertainment purchased. Communications should be appropriately discreet while remaining truthful, recognizable and consistent with applicable financial and legal requirements.

Age verification presents an especially important architectural challenge. As discussed in Chapter 6, establishing an individual's eligibility to access entertainment needn't always require the publisher to acquire or permanently retain the individual's identity documentation.

There is an opportunity for developers to construct systems that provide the necessary assurance while limiting the information transferred among the parties responsible for administering it.

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5. World Wide Web Consortium (W3C), *Privacy Principles*, W3C Statement, May 15, 2025. https://www.w3.org/TR/privacy-principles/.

Privacy involves much more than keeping unauthorized people out of a database. It involves questioning what belongs in the database in the first place.

The Economics of Knowing Less

An entrepreneur may reasonably ask whether greater privacy necessarily comes at the expense of revenue.

Sometimes it will.

There are commercial arrangements through which extensive information concerning individual consumers can produce additional advertising income or other financial benefits. A publisher choosing not to participate in those arrangements may relinquish some portion of that opportunity.

But management should examine the economics of the entire relationship rather than merely the revenue associated with the information.

There are costs associated with protecting sensitive data, investigating security incidents, administering customer complaints and maintaining relationships with numerous third-party information services. There are also potentially substantial consequences arising from reputational damage.

Suppose a subscription business earns an additional $2,000 per month through a particularly intrusive commercial data arrangement. Its management estimates that the same arrangement introduces $600 in monthly administrative and security expenses.

The immediate contribution appears to be $1,400.

If the arrangement subsequently contributes to the departure of one hundred subscribers, each representing an average of $20 in monthly contribution, the recurring financial loss from those departures would amount to $2,000 per month.

The calculation is hypothetical. Establishing whether an actual privacy practice causes customer departures would require evidence. But the example illustrates why the economics of exploiting consumer information cannot be evaluated exclusively through the income it generates.

There may also be commercial opportunities in offering privacy-conscious products to audiences dissatisfied with the prevailing practices of the marketplace.

We have devoted considerable attention throughout this book to restoring the perceived value of entertainment. Discretion could become an important component of that value.

Make Privacy Visible

One of the challenges associated with excellent privacy engineering is that much of the work remains invisible to the customer.

A publisher may have invested substantially in minimizing unnecessary information collection, restricting external access and developing more responsible administrative procedures. Yet the person arriving at its website may possess no immediate means of distinguishing that publisher from its less responsible competitors.

This creates an opportunity to communicate privacy as a genuine characteristic of the product.

Explain what information the business requires and why. Give customers intelligible controls over optional information collection. Provide meaningful opportunities to remove unnecessary saved preferences or viewing histories, subject to legitimate retention requirements.

Don't conceal important commercial practices within forty pages of legal terminology and subsequently congratulate yourself on having obtained the customer's consent.

Nor should privacy-conscious publishing depend upon exaggerated assurances of anonymity. Payment services, network infrastructure, authentication systems and regulatory obligations can introduce limitations that the publisher must communicate accurately.

The National Institute of Standards and Technology has developed its Privacy Framework to assist organizations in identifying and managing privacy risks while developing products and services.[6] Its existence reflects an increasingly important recognition: privacy is something an organization must actively manage, not merely something it promises.

If we intend to distinguish ourselves through discretion, we should be able to explain what we've actually engineered to provide it.

The Industry That Should Lead

I would find it enormously gratifying if some of the most innovative privacy technologies of the coming decades emerged from the adult entertainment industry.

We possess a commercial understanding of discretion that few other industries have had comparable reasons to develop. Our customers have particularly compelling reasons to appreciate the difference between a company that provides intimate entertainment and one that unnecessarily investigates their intimate lives.

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6. National Institute of Standards and Technology (NIST), *NIST Privacy Framework: A Tool for Improving Privacy Through Enterprise Risk Management*, version 1.0, January 2020. https://doi.org/10.6028/NIST.CSWP.01162020.

There are opportunities here for software developers, financial technology companies, advertising engineers, identity specialists and entrepreneurs interested in developing more responsible relationships between digital services and the people employing them.

The intellectual and commercial significance of their inventions could extend well beyond our own business.

We shouldn't be waiting for the healthcare industry, financial institutions or consumer electronics manufacturers to develop every important innovation in personal privacy. We have ample reasons to investigate those technologies ourselves.

And we should recognize that discretion is not an apology for the product. We aren't protecting our customers' privacy because there is something inherently shameful about the entertainment they consume.

We are protecting it because their private lives belong to them.

I can think of few better ways for this industry to demonstrate its respect for the people who make its existence possible.

CHAPTER 48

Consent Is Infrastructure

“Indecency is the subject of our business.
It needn't be the character
of our business.”

The most important asset involved in the production of adult entertainment is not the intellectual property, the recording equipment, the distribution technology or the money invested in the enterprise.

It is the willingness of another human being to participate in its creation.

Everything else we have discussed throughout this book depends upon that willingness. Yet consent is frequently administered as though it were principally a documentary requirement, something to be established through a collection of signatures before the commercially interesting activities of the enterprise can begin.

A professionally administered production requires a considerably more sophisticated understanding of the subject.

Consent is not an administrative inconvenience preceding the creation of entertainment. It is one of the conditions under which the entertainment acquires its legitimacy.

As our technologies become more sophisticated, our understanding of that condition must become equally sophisticated.

A Release Is Not Permission to Do Anything

There are several distinct professional relationships involved in the creation and commercialization of a recorded performance.

There is the performer's agreement to participate in a production. There is the consent necessary throughout the performance itself. There is permission to record it, authorization to distribute the resulting work and a collection of contractual arrangements governing its subsequent commercial exploitation.

These relationships are connected, but they are not interchangeable.

A performer can agree to participate in a production without agreeing to every activity a director might subsequently propose. A performer can authorize a recording without necessarily authorizing every conceivable modification or future application of that recording.

The ownership of a recording does not constitute ownership of the person appearing in it.

That distinction becomes increasingly important as the technological possibilities associated with recorded material expand. A production agreement conceived twenty years ago may not have contemplated artificial intelligence, interactive reconstructions or the creation of digital replicas.

The entrepreneur who interprets every technological development as an opportunity to expand the commercial exploitation of previously acquired material should also consider whether the original participants authorized those applications.

There is a substantial difference between possessing the technological ability to do something and possessing the legitimate authority to do it.

Professionalism Begins Before the Camera

The most intelligent time to resolve disagreements concerning a production is before anybody arrives on the set.

The performer should understand the nature of the work, the anticipated conditions of production, the intended distribution arrangements and the compensation being offered. Significant changes should be communicated sufficiently early to permit an informed decision without the pressure of an entire production crew waiting for the answer.

The Free Speech Coalition, the industry's trade association, has undertaken useful work in this area through its consent resources, production protocols and Code of Ethics. In August 2020, its Policies Task Force announced an updated code and a consent checklist developed in collaboration with performers and other industry professionals.[1]

These resources recognize that responsible production requires more than an agreement between the producer and a performer concerning the commercial terms of an assignment.

The circumstances under which the work is performed matter.

A director who introduces substantial changes after production has commenced may place a performer in an unnecessarily difficult professional position. The performer may have incurred travel expenses, declined other assignments or become financially dependent upon completing the engagement.

These circumstances can affect the practical freedom with which somebody evaluates a proposed change.

Good production management should anticipate such difficulties. Producers should establish clear procedures for discussing boundaries, resolving disagreements and accommodating changes without intimidation or retaliation.

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1. Free Speech Coalition (FSC), “FSC Task Force Issues Code of Ethics, Consent Checklist for Shoots,” August 31, 2020. https://freespeech.squarespace.com/blog/blog/2020/08/31/fsc-task-force-issues-code-of-ethics-consent-checklist-for-shoots.

The production schedule exists to facilitate the work. It does not establish an obligation for somebody to disregard personal boundaries merely because management has fallen behind schedule.

The Director's Responsibility

A director possesses considerable authority over the creative environment of a production. That authority introduces corresponding responsibilities.

The director determines how people are treated on the set, how instructions are communicated and, to a substantial extent, whether the people participating in the production feel sufficiently comfortable expressing concerns.

There is no particular incompatibility between ambitious direction and responsible direction.

Indeed, one of the distinguishing characteristics of a genuinely accomplished director should be the ability to obtain excellent creative work without creating an environment in which the people responsible for that work feel diminished or intimidated.

Mainstream filmmaking has devoted increasing professional attention to these concerns through the development of intimacy coordination. In 2020, the Screen Actors Guild-American Federation of Television and Radio Artists (SAG-AFTRA) introduced standards and protocols addressing the responsibilities of intimacy coordinators throughout the production process.[2]

2. SAG-AFTRA, “SAG-AFTRA Unveils Landmark Industry Standards and Protocols for the Use of Intimacy Coordinators,” January 29, 2020. https://www.sagaftra.org/sag-aftra-unveils-landmark-industry-standards-and-protocols-use-intimacy-coordinators.

Our circumstances differ substantially from those associated with simulated intimacy in conventional cinema. Nevertheless, the underlying professional proposition deserves attention: somebody should possess both the competence and the authority to safeguard performers' boundaries within the production environment.

Larger productions might benefit from an appropriately trained professional who operates independently of the director's immediate creative and financial priorities. Smaller productions may require different arrangements, but they should not be exempt from the underlying responsibility.

The size of the production budget should determine the scale of the production, not the dignity afforded to the people appearing in it.

The Freedom to Stop

Consider a production manager who has invested several thousand dollars in a day's work. Equipment has been rented, personnel have been engaged and a location has been secured. The cancellation of the remaining work could introduce substantial financial consequences.

Those consequences belong to the business.

They should not become an instrument through which a performer is persuaded to continue participating in something to which that person no longer consents.

Consent must remain voluntary throughout the performance. A previous agreement, a payment arrangement or an expensive production schedule cannot substitute for it.

This creates an obligation for producers to incorporate the possibility of interruption into the economics of production.

We routinely accommodate the possibility that equipment might fail, that a location might become unavailable or that unforeseen circumstances might require a change in scheduling. We should be equally capable of accommodating the legitimate needs of the human beings upon whom the production depends.

Clear cancellation arrangements, appropriate compensation for work already performed and reasonable production contingencies can help prevent an ordinary business expense from becoming a source of coercion.

If a director cannot afford to stop a production when somebody's welfare requires it, the director cannot afford to undertake that production.

The Human Cost of Doing Business

Throughout this book, I have argued that improving the economics of the industry could provide resources for improving the quality of its entertainment.

Some of those resources should be invested directly in the circumstances under which the entertainment is created.

A professionally administered set should provide reasonable working conditions, appropriate breaks, sanitation, access to drinking water, necessary safety provisions and a means of obtaining assistance when circumstances require it.

The Free Speech Coalition's published production protocols address numerous practical considerations associated with the treatment of performers and production personnel, including working conditions, physical boundaries and arrangements for breaks.[3]

These are not extravagant demands. They are characteristics of a professionally administered workplace.

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3. FSC, *Performer and Production Protocols*. https://www.freespeechcoalition.com/inspire/performer-protocols.

Our industry has also developed specialized occupational health infrastructure. Performer Availability Screening Services (PASS), for example, administers testing-related work-clearance services and procedures for suspending production when particular health concerns arise. Its database communicates clearance status rather than providing producers with individual laboratory results.[4]

That arrangement illustrates something we discussed in the preceding chapter: a system can communicate information necessary for a legitimate professional purpose without distributing all of the sensitive information associated with it.

Testing is one component of occupational health, not a guarantee against infection or a substitute for other appropriate safety practices. Producers remain responsible for applicable workplace requirements and the conditions under which their productions operate.

I would also like to see greater attention devoted to the psychological welfare of performers and production personnel. A professional environment should accommodate concerns without treating the person expressing them as a commercial inconvenience.

The ability to obtain another engagement should not depend upon somebody's willingness to remain silent about an unacceptable experience during the last one.

Pay People Like Professionals

The economic relationship between performers and producers deserves considerably more attention than it frequently receives.

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4. Performer Availability Screening Services (PASS), *About the Organization* and *Production Holds*. https://www.passcertified.org/about-the-organization; https://www.passcertified.org/production-holds.

A production agreement should establish what work is being commissioned, what compensation is being provided, when that compensation becomes payable and what additional commercial rights, if any, the producer is acquiring.

Different productions will justify different financial arrangements. Some performers may prefer a negotiated production fee. Others may participate in licensing arrangements, revenue-sharing agreements or independently administered distribution.

I am not suggesting that every performer must become a shareholder in every production. I am suggesting that every performer deserves to understand the economic proposition to which they are agreeing.

The development of interactive entertainment, discussed in Chapter 46, makes this particularly interesting. A performance originally recorded for one creative undertaking might subsequently become part of several different editions, supplementary productions or other authorized commercial applications.

The financial arrangements should reflect the nature and scope of the rights being negotiated.

Where compensation depends upon subsequent commercial performance, the enterprise should possess accounting systems capable of accurately administering that obligation. Promising somebody a percentage of revenue is relatively easy. Establishing a reliable means of determining what that revenue actually amounts to is a more substantial undertaking.

The integrated infrastructure discussed earlier in this book could eventually help producers administer such relationships with greater precision.

There are opportunities here for developers to create technologies that associate legitimate revenue obligations with the creative assets from which those obligations originate.

Our technological ingenuity shouldn't be reserved exclusively for collecting money from audiences. We ought to devote some of it to ensuring that the people responsible for creating the product receive the money to which they're entitled.

The Permanence Problem

A performer participating in a recorded production undertakes something fundamentally different from a performer appearing in a theatrical engagement before a physically present audience.

The recording can survive indefinitely.

It may subsequently be distributed through commercial environments that didn't exist when it was created. It may be copied without authorization, rediscovered decades later or presented to an audience substantially different from the one originally contemplated.

This characteristic of recorded entertainment deserves serious discussion before production begins, particularly with people entering the profession for the first time.

It would be irresponsible to suggest that a producer can guarantee the permanent disappearance of a recording once it has been publicly distributed. Even sophisticated digital rights management, contractual restrictions and removal procedures cannot establish absolute control over every subsequent copy.

Nevertheless, the impossibility of guaranteeing complete control does not excuse a producer from exercising the control that remains available.

Distribution arrangements should be intelligible. Performers should know where to direct legitimate concerns. Producers and publishers should maintain procedures for investigating unauthorized applications of their work.

The professional relationship should not become inaccessible the moment the performer has completed the assignment and received payment.

The Digital Replica

Artificial intelligence introduces a potentially unprecedented expansion of the commercial applications of a performer's identity.

A recording has traditionally preserved a particular performance. Emerging technologies can potentially employ recorded material to construct representations of a person engaged in activities that never occurred.

The commercial significance of the distinction is enormous.

A performer's likeness, voice, appearance and recognizable mannerisms may become valuable components of a digital representation capable of participating in numerous subsequent productions.

The United States Copyright Office examined some of these issues in its July 2024 report, *Copyright and Artificial Intelligence, Part 1: Digital Replicas*. The report identified shortcomings in existing legal protections and recommended the establishment of additional federal protections against unauthorized digital replicas.[5]

For our purposes, the ethical principle needn't await the resolution of every legislative question.

The creation and commercial employment of a recognizable digital replica should require specific, informed authorization from the person whose identity is being represented.

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5. U.S. Copyright Office, *Copyright and Artificial Intelligence, Part 1: Digital Replicas*, July 2024. https://www.copyright.gov/ai/; July 31 announcement: https://www.copyright.gov/newsnet/2024/1048.html.

If such an arrangement is voluntarily negotiated, the performer should understand its intended applications, commercial duration, compensation, applicable restrictions and the procedures governing subsequent changes.

A general agreement to appear in a recorded production should not be treated as an unrestricted license to manufacture future representations of the person appearing in it.

And the unauthorized creation of an intimate representation of an identifiable individual is not an interesting new category of creative entrepreneurship. It is an appropriation of somebody else's identity.

We should be at the forefront of distinguishing legitimate technological innovation from that abuse.

Engineer the Permissions

The technological opportunities associated with consent and rights administration are substantial.

Consider a publisher possessing several thousand productions acquired from numerous independent sources over many years. The publisher may possess contracts, production records, licensing agreements and other documentation associated with the collection.

The difficulty may reside in determining which permissions apply to a particular asset under a particular set of commercial circumstances.

The development of more complex entertainment products could make that difficulty considerably greater.

An intelligent rights-management architecture might distinguish several categories of authorization:

Category	Professional question
Participation	What work did the performer agree to undertake?
Recording	What material was authorized to be recorded?
Distribution	Through which channels and under what conditions may the recording be distributed?
Derivative works	Which additional edits, adaptations or applications are authorized?
Digital replicas	Has separate permission been obtained for synthetic representations?
Compensation	What payments or continuing financial obligations apply?
Restrictions and disputes	Are there limitations, unresolved complaints or other conditions affecting distribution?

These categories represent different professional and contractual considerations. They should not be reduced to a single checkbox labeled *consent obtained*.

An integrated technological environment could associate appropriate rights information with individual media assets, their component sequences and their authorized derivative works.

A distribution system might identify an expired license before permitting a scheduled publication. A production application might identify a proposed use requiring additional authorization. An accounting system might associate an applicable financial obligation with revenue generated by a particular edition.

These capabilities would not allow a computer to determine whether a human being genuinely consented to a performance. No database can establish that merely by containing an affirmative entry.

The purpose of the technology is to help responsible professionals administer legitimate permissions, identify discrepancies and respond appropriately when those permissions are disputed.

The software should support professional judgment rather than manufacture the appearance of it.

Verification Without Exposure

There is an important distinction between maintaining the information necessary to establish the legitimacy of a production and unnecessarily exposing the identities and private circumstances of the people appearing in it.

In the United States, federal statutes including 18 U.S.C. §§ 2257 and 2257A establish age-verification, recordkeeping and labeling requirements for covered productions.[6]

Every producer must understand and fulfill the obligations applicable to the work being undertaken. The participation of verified adults is an absolute prerequisite to legitimate production.

But the existence of legitimate recordkeeping requirements does not establish a commercial reason to make sensitive documentation widely accessible throughout the distribution ecosystem.

A person's identity documents, legal name, medical information and contractual records deserve appropriate protection.

Where lawful and appropriate, technology can distinguish between communicating that a necessary verification has been performed and distributing the underlying personal documentation.

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6. 18 U.S.C. §§ 2257, 2257A; U.S. Department of Justice, *18 U.S.C. §§ 2257–2257A Certifications*.
https://www.justice.gov/criminal-ceos/18-usc-2257-2257a-certifications.

A publisher may need assurance that a production has satisfied particular requirements. That doesn't necessarily mean that every employee, contractor or external software application associated with the publisher should possess access to the documents establishing that assurance.

The privacy principles discussed in Chapter 47 apply to performers as much as they apply to audiences.

Indeed, the consequences of mishandling a performer's personal information may extend far beyond the commercial relationship in which the information was originally obtained.

Responsibility Doesn't End at Upload

A publisher cannot reasonably regard itself as an entirely passive participant in the distribution of entertainment.

The economic value of its business arises from making that entertainment available. It therefore possesses responsibilities concerning the legitimacy of what it makes available.

Those responsibilities become particularly important when the publisher receives material from independent contributors, external production companies or other sources with which it has relatively limited direct contact.

An assurance from the person uploading a video should not automatically resolve every question concerning the legitimacy of the material.

Publishers should develop appropriate verification procedures, accessible reporting mechanisms and effective processes for investigating credible concerns.

When there is a serious question concerning the lawful or consensual nature of a recording, the enterprise should possess both the technical capability and the organizational authority to restrict its availability while the matter is investigated.

That capability should extend to the various locations under its control through which the material is distributed.

In the United States, the TAKE IT DOWN Act has introduced specific obligations for covered platforms concerning requests to remove nonconsensual intimate imagery, including qualifying digital forgeries. The Federal Trade Commission began enforcing the platform-related provisions on May 19, 2026. Covered platforms must act on valid removal requests within forty-eight hours and make reasonable efforts to identify and remove known identical copies.[7]

Whatever the precise statutory obligations applicable to a particular enterprise, there is no reason a responsible publisher should regard a credible complaint concerning nonconsensual distribution as an ordinary customer service inquiry.

Such matters deserve urgency, confidentiality and appropriately trained human attention.

A copyright complaint and a complaint involving nonconsensual intimate imagery may involve the same recording, but they concern fundamentally different rights and potentially very different consequences.

Our administrative systems should recognize that distinction.

The Economics of Doing the Right Thing

I hesitate to present the professional treatment of performers principally as an economic proposition.

People deserve dignity irrespective of whether treating them with dignity produces an identifiable improvement in the quarterly financial statements.

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7. TAKE IT DOWN Act, Pub. L. 119-12, § 3 (May 19, 2025). https://www.govinfo.gov/content/pkg/PLAW-119publ12/html/PLAW-119publ12.htm; FTC, “FTC Begins Enforcing the TAKE IT DOWN Act,” May 19, 2026. https://www.ftc.gov/news-events/news/press-releases/2026/05/ftc-begins-enforcing-take-it-down-act.

Nevertheless, responsible production and intelligent entrepreneurship are hardly incompatible.

A producer capable of establishing dependable professional relationships may find it easier to retain talented collaborators, administer increasingly ambitious productions and develop a reputation that attracts other accomplished professionals.

Conversely, a producer who routinely mistreats the people upon whom the enterprise depends is introducing instability into the very business those people make possible.

This extends beyond individual companies.

The industry's collective reputation influences the willingness of talented people to enter it, the willingness of other businesses to establish relationships with it and the degree of scrutiny under which legitimate entrepreneurs must operate.

We cannot reasonably demand that the outside world recognize us as a sophisticated entertainment industry while tolerating professional practices that would embarrass a competent business in practically any other field.

There is nothing radical about expecting people to honor agreements, respect boundaries and provide reasonable working conditions.

What would be radical is making those expectations sufficiently fundamental to our commercial culture that their violation becomes professionally intolerable.

Excellence Behind the Camera

Much of our examination of excellence has concerned the entertainment experienced by the audience.

We have discussed the quality of the presentation, the sophistication of the technology and the economic circumstances under which creative work can acquire greater value.

But there is another dimension of excellence that the audience may never directly observe: the quality of the professional environment in which the entertainment was created.

An exquisitely photographed production created through the mistreatment of its performers is not an excellent production. A brilliantly engineered distribution platform that knowingly profits from unauthorized intimate recordings is not an excellent enterprise.

The quality of the finished product cannot erase the circumstances of its creation.

I want this industry to become more ambitious in its treatment of the people who make its entertainment, not merely more ambitious in its exploitation of the entertainment they make.

We can develop more sophisticated contracts, more responsible production environments, better financial arrangements and technologies that help preserve legitimate permissions throughout the commercial life of a creative work.

We can make professionalism sufficiently accessible that even the smallest independent producer has the means to operate responsibly.

And we can do these things without apologizing for the nature of our product.

Indecency is the subject of our business.

It needn't be the character of our business.

CHAPTER 49

The Next Generation of Digital Commerce

“We should be inventing transactions that nobody has previously thought to conduct.”

We've spent a remarkable amount of time developing new ways for people to pay for entertainment while devoting considerably less imagination to what they might actually purchase.

For all the technological sophistication introduced into Internet commerce over the past three decades, much of our business remains organized around two fairly elementary propositions: purchase access to a particular product or subscribe to a collection of products.

Both are perfectly legitimate commercial arrangements. Neither represents the limits of what digital commerce makes possible.

In Chapters 41 and 42, we examined the financial machinery through which transactions occur. Here, I want to examine the transaction itself. What is the customer acquiring? What additional value can we incorporate into that acquisition? How might independently operated businesses collaborate in creating products that none could offer individually?

The next revolution in electronic commerce may have less to do with how money changes hands than with the ingenuity of the arrangements under which it changes hands.

The Subscription Straitjacket

Imagine walking into a bookstore to purchase a novel and being informed that the only way to read it is to establish a monthly financial relationship with the bookstore.

You might find the proposition attractive if you were an enthusiastic reader with considerable interest in its inventory. You might find it considerably less attractive if you simply wanted to read that particular novel.

Our enthusiasm for recurring revenue has occasionally prevented us from appreciating the commercial value of an ordinary customer.

Not everybody arriving at a website wants to establish a continuing relationship with the enterprise. Some people want to purchase something, enjoy it and get on with their lives. Their reluctance to subscribe doesn't necessarily indicate reluctance to spend money.

There is an interesting commercial distinction between a customer who doesn't want the product and a customer who doesn't want the financial arrangement through which the product is offered.

We should become better at recognizing the latter.

As discussed in Chapter 12, different commercial arrangements can serve different perceptions of value. The technological opportunity involves developing publishing environments capable of administering those arrangements without forcing the entrepreneur to construct an entirely separate business around each of them.

A subscription, an individual purchase, a rental and a limited-edition release should be different commercial configurations within the same intelligent publishing environment.

What Exactly Did I Buy?

Digital commerce has introduced considerable ambiguity into a transaction that was previously rather straightforward.

When somebody purchased a videocassette, the customer acquired a physical object containing a recording. The customer didn't acquire the copyright to the recording, but the continued ability to experience it generally didn't depend upon the retailer remaining in business.

Contemporary digital purchases can establish substantially different relationships.

The customer might acquire temporary access, indefinite access through a particular service, permission to download a recording or access contingent upon the maintenance of an active account.

Those are different products.

Yet the technological and commercial terminology employed in presenting them frequently fails to communicate those differences adequately.

If a publisher intends to sell a forty-eight-hour rental, sell a forty-eight-hour rental. If the product includes an authorized downloadable copy, explain that distinction. If continued access depends upon the availability of a particular service, the customer should understand that condition before making the purchase.

The technological architecture should be sufficiently intelligent to administer these different arrangements accurately.

A customer who purchases an individual production and subsequently subscribes to the publisher's service shouldn't necessarily lose the rights associated with the original purchase when the subscription ends.

The purchase and the subscription represent separate commercial agreements. The software should understand that.

Separate the Entertainment From the Offer

Consider a filmmaker who has completed a production and negotiated the rights necessary to commercialize it through several arrangements.

The same underlying creative work might become available as a temporary rental, an individual purchase, part of a subscription collection or a licensed product distributed through another publisher.

Each arrangement possesses its own commercial identity, but the underlying work remains the same.

An intelligent commerce system should therefore distinguish the entertainment asset from the offers associated with it.

Component	Function
Creative asset	Identifies the production or edition being commercialized.
Commercial offer	Establishes the price and conditions of the proposed transaction.
Purchase record	Documents the transaction that actually occurred.
Entitlement	Determines the access or other permissions acquired by the customer.
Financial obligation	Establishes applicable payments, commissions or revenue distributions.

These distinctions are particularly valuable when commercial arrangements change.

A publisher might discontinue an offer without terminating the rights previously acquired by customers who accepted it. A filmmaker might authorize a new edition without inadvertently extending existing licenses to material that wasn't included in the original transaction.

There are established technical concepts that could inform the development of such systems. The World Wide Web Consortium's Open Digital Rights Language (ODRL), for example, provides an information model for describing permissions, prohibitions, duties and conditions associated with digital resources.[1]

The specification does not constitute a complete commercial infrastructure. It does, however, demonstrate that the conditions under which digital resources may be employed can be represented in structured, machine-readable forms.

The interesting entrepreneurial opportunity involves making the administration of increasingly sophisticated commercial arrangements accessible to publishers who aren't themselves software developers.

Invent the Ticket Again

The entertainment business has employed tickets for centuries. The ticket is a remarkably versatile commercial instrument because it can represent admission to practically any experience the producer is capable of creating.

Digital publishers could develop a considerably more imaginative interpretation of it.

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1. World Wide Web Consortium (W3C), *ODRL Information Model 2.2*, W3C Recommendation, February 15, 2018, §§ 1–2. https://www.w3.org/TR/odrl-model/.

A ticket might provide admission to an online premiere, access to a scheduled live event, participation in a filmmaker's retrospective or entry into a limited-duration exhibition organized around the work of several creative professionals.

The customer isn't necessarily purchasing permanent access to an entire library. The customer is purchasing an identifiable entertainment occasion.

That distinction can influence the way the event is promoted, the manner in which the audience experiences it and the commercial relationships established among the people responsible for creating it.

An independent filmmaker might organize a digital exhibition without establishing a permanent subscription website. Several producers might collaborate on a festival of independently produced work. A publisher might develop an editorially curated program combining previously released productions with newly created supplementary material.

The technology necessary to administer these arrangements needn't be prohibitively sophisticated. But it should be capable of accommodating scheduling, access conditions, legitimate revenue distributions and the circumstances under which an event might be rescheduled or canceled.

Some of the most interesting commercial innovations may involve reinventing traditions the entertainment business understood perfectly well before the Internet arrived.

The Problem With Pennies

Whenever the subject of digital commerce turns to emerging financial technologies, somebody inevitably proposes micropayments.

The idea is attractive in principle. If transaction expenses can be reduced sufficiently, why not permit the customer to purchase relatively inexpensive portions of entertainment without committing to a larger expenditure?

But the cost of administering a payment is not the only cost associated with making a purchase.

There is also the intellectual inconvenience of deciding whether to make it.

As early as 2003, mathematician and telecommunications researcher Andrew Odlyzko examined the commercial difficulties associated with micropayments in his paper *The Case Against Micropayments*. His argument emphasized that the obstacles to their widespread adoption were not exclusively technological. Consumer preferences and the convenience of predictable pricing also played important roles.[2]

Those considerations remain relevant even when the financial machinery becomes considerably less expensive.

Imagine watching a motion picture that requires you to make another purchasing decision every few minutes. However modest the individual charges, the continual interruption could diminish the entertainment considerably.

The ability to charge somebody a fraction of a cent doesn't necessarily establish an intelligent reason to do so.

There may be attractive opportunities for small purchases, prepaid access arrangements and narrowly defined products. But their administration should be designed around the convenience of the customer rather than the technical capabilities of the payment system.

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2. Andrew Odlyzko, “The Case Against Micropayments,” in *Financial Cryptography*, Lecture Notes in Computer Science 2742 (Springer, 2003), pp. 77–83, especially §§ 6–7.
https://www-users.cse.umn.edu/~odlyzko/doc/case.against.micropayments.pdf.

The financial machinery should remain subordinate to the entertainment.

Let Independent Businesses Sell Together

One of the more intriguing possibilities of digital commerce involves enabling independent publishers to participate in commercial arrangements that previously required them to surrender substantial control to a common intermediary.

Consider five independent production companies, each possessing its own catalog, audience and commercial identity.

They might collaborate on a curated collection, a joint exhibition or an anthology of original work while continuing to administer their respective businesses independently.

Such collaboration could provide a more substantial entertainment proposition than any participant could offer individually. It could also introduce each company's audience to the work of the others.

The technological difficulty resides in administering the commercial relationships.

Which company possesses the authority to include a particular production? Who establishes the price? How are receipts distributed? What happens when a participant withdraws from the arrangement? Which rights must remain available to customers who have already made purchases?

These questions shouldn't require the creation of an entirely new software infrastructure every time several entrepreneurs decide to collaborate.

There is room for developers to construct commercial systems capable of administering appropriately authorized joint offerings, identifying the financial obligations associated with individual transactions and producing intelligible accounts for each participant.

Unlike a conventional centralized entertainment platform, such an arrangement needn't require every participating producer to surrender its independent publishing operation or transfer ownership of its customer relationships.

The opportunity is to facilitate commercial cooperation without making commercial consolidation a prerequisite for it.

The Commercial Value of a Receipt

We have traditionally regarded a receipt as little more than evidence that somebody paid for something.

In digital commerce, it could become a substantially more useful instrument.

A professionally constructed digital purchase record could identify the product acquired, the terms applicable to its use, the issuing merchant and the information necessary to resolve subsequent disputes.

Where publishers have established appropriate commercial agreements, that record might also support access through another authorized environment.

Imagine purchasing a production directly from its creator and subsequently being able to experience it through a compatible independent playback application, provided the relevant distribution rights permit that arrangement.

The commercial relationship would remain with the creator. The exhibition technology could change.

This would extend some of the principles of the Personal Video Environment into the commercial architecture of entertainment itself.

It wouldn't require every publisher to recognize every purchase made elsewhere, nor would it require the unrestricted transfer of sensitive customer information among businesses. It would require participating enterprises to establish clear agreements and reliable mechanisms for communicating the rights associated with particular purchases.

For our business, discretion would have to be fundamental to that architecture. A portable purchase record should not inadvertently become a publicly accessible history of somebody's intimate entertainment preferences.

The objective is commercial continuity, not a permanent dossier.

Build Commerce Around the Creator

A great deal of digital commercial infrastructure has been designed around the requirements of the marketplace administering the transaction rather than the creative professional responsible for producing the work.

That distinction becomes particularly apparent when a producer attempts to develop an unusual commercial arrangement.

The software supports a subscription, so the producer sells a subscription. The marketplace supports a download, so the producer sells a download. The system accommodates a particular commission structure, so every commercial relationship is made to conform to it.

The entrepreneur's imagination becomes subordinate to the options presented in a settings menu.

We should be developing commercial infrastructure sufficiently adaptable to accommodate the imagination of the people employing it.

A filmmaker should be able to negotiate an appropriately authorized licensing arrangement, establish a temporary exhibition or collaborate with several independent producers without being told that the necessary business model doesn't exist in the software.

The integration of publishing, rights administration, accounting and payment technologies could make those arrangements considerably more accessible.

That represents an important opportunity for companies whose product is not entertainment itself but the machinery through which creative professionals establish their businesses.

Stop Inheriting Business Models

I am increasingly convinced that some of the most important inventions of the coming decades will involve commercial arrangements rather than technological devices.

We have acquired extraordinary capabilities for administering agreements, associating transactions with intellectual property, coordinating independent enterprises and distributing economic value among participants.

Yet we frequently employ those capabilities to reproduce commercial relationships established when considerably less sophisticated machinery was available.

There should be entrepreneurs experimenting with entirely new publishing arrangements, cooperative commercial structures and methods of compensating creative professionals. There should be developers interested in helping those entrepreneurs construct businesses around their ideas.

Some of the resulting arrangements may eventually become useful to publishers, musicians, filmmakers and independent artists working far beyond our own field.

That would be another instance of the entrepreneurial phenomenon we examined in Chapter 23: solving a problem within our industry can produce intellectual and commercial value outside it.

We shouldn't merely be looking for better ways to sell the products we've always sold.

We should be inventing transactions that nobody has previously thought to conduct.

CHAPTER 50

From Defensive Innovation to Offensive Innovation

“What matters is that the future receives an allocation of resources before it arrives with an invoice.”

What would we invent if nobody were preventing us from doing business?

I find that an interesting question because so much of our entrepreneurial ingenuity has historically been directed toward overcoming obstacles imposed upon us by other institutions.

We've developed alternative distribution arrangements because conventional distributors wouldn't accommodate us. We've investigated new financial technologies because established financial institutions have been reluctant to conduct business with us. We've constructed independent publishing environments because the commercial conditions associated with operating elsewhere have frequently been unattractive.

These accomplishments deserve recognition. But there is a fundamental difference between inventing something because circumstances have left you little choice and inventing something because you recognize a magnificent opportunity.

One is an exercise in survival. The other is an exercise in ambition.

I want to see considerably more of the latter.

Necessity Was Our Mother. She Needn't Be Our Employer.

In Chapter 3, we examined the historical circumstances under which necessity became an important source of entrepreneurial innovation.

But necessity can also become an intellectual limitation.

An enterprise accustomed to resolving immediate commercial problems may gradually develop a culture in which technological development occurs principally in response to difficulties. Management becomes proficient at identifying what threatens the business while devoting relatively little attention to what could transform it.

Consider a company whose development agenda consists almost entirely of accommodating regulatory changes, replacing reluctant service providers, resolving software compatibility problems and preserving existing sources of revenue.

Its technical personnel may be extraordinarily productive. Its management may demonstrate considerable ingenuity. Nevertheless, practically every accomplishment is concerned with preserving a commercial position the enterprise already occupies.

The company is running an increasingly sophisticated business in order to remain essentially the same business.

There will always be a legitimate requirement for defensive innovation. No responsible entrepreneur should neglect the technological capabilities necessary to protect the enterprise and the people who depend upon it.

But defensive innovation should preserve our ability to pursue more ambitious undertakings, not become the principal purpose of our technological development.

Stop Letting Other People Write Your Development Agenda

An interesting consequence of operating within a commercially restricted industry is that external institutions can acquire considerable influence over the allocation of our intellectual resources.

A financial institution changes its policies, and our developers must respond. A distribution platform introduces new restrictions, and our publishers must respond. A technology provider discontinues a service, and our engineers must respond.

Each institution may have legitimate reasons for making its decisions. The cumulative consequence, however, is that a substantial portion of our entrepreneurial activity becomes determined by the decisions of people operating entirely different businesses.

The problem extends beyond the immediate financial expense.

Imagine what those developers might have invented if they hadn't spent the preceding six months reconstructing capabilities their company already possessed.

The opportunity cost of institutional dependence includes inventions that never occur, experiments that are never undertaken and commercial opportunities that remain unexplored because the enterprise is perpetually preoccupied with preserving its existing operation.

This is another economic consequence of the Exclusion Premium discussed earlier in this book. It isn't always reflected in the invoices we receive from technology providers. Sometimes it resides in the intellectual resources we were unable to devote to something more interesting.

Greater entrepreneurial independence should therefore be evaluated not exclusively in terms of the problems it eliminates, but also in terms of the imagination it liberates.

Invent Something Nobody Has Asked For

Conventional commercial research frequently begins by investigating what customers want.

That is a perfectly sensible approach when the enterprise is developing improvements to an established product. But it becomes somewhat less reliable when the enterprise is attempting to introduce capabilities with which its prospective customers possess little experience.

How many people would have requested an interactive motion picture in the earliest days of cinematic entertainment? How many independent publishers would have requested portable playback preferences before acquiring any experience with such a proposition?

Customers can frequently describe what frustrates them. They cannot necessarily describe the inventions that might eliminate those frustrations or the entirely new experiences that could emerge from doing so.

In his research concerning innovation, management scholar Eric von Hippel identified the significance of *lead users*: people who encounter emerging requirements ahead of much of the marketplace and possess strong incentives to develop solutions to them.[1]

1. Eric von Hippel, “Lead Users: A Source of Novel Product Concepts,” *Management Science* 32, no. 7 (1986): 791–805. https://doi.org/10.1287/mnsc.32.7.791.

We encountered his work in Chapter 23. Its relevance here is somewhat different. Rather than regarding our unusual commercial circumstances exclusively as difficulties requiring resolution, we should recognize them as opportunities to investigate requirements that other industries may not yet appreciate.

The independent filmmaker struggling to administer several authorized editions of a production may be encountering a problem that will eventually become commonplace throughout interactive entertainment. The publisher seeking greater commercial intelligence without collecting sensitive personal information may be investigating a problem that will become increasingly important throughout digital commerce.

We shouldn't merely be resolving those problems for ourselves. We should be investigating what new categories of technology might emerge from their resolution.

The customer may not yet exist for the product we're capable of inventing.

Part of the entrepreneur's responsibility is to discover whether we can create one.

Finance the Future Before It Becomes an Emergency

The distinction between defensive and offensive innovation should become visible in the financial administration of the enterprise.

Consider two hypothetical companies, each allocating one hundred thousand dollars annually to technological development.

Illustrative Allocation of Annual Development Expenditure

Development activity	Company A	Company B
Maintenance and essential improvements	$50,000	$50,000
Responses to external changes	$40,000	$20,000
Exploratory development	$10,000	$30,000
Total	**$100,000**	**$100,000**

Both companies are spending the same amount of money. Both are maintaining their existing operations. But Company B has established circumstances under which a substantially greater proportion of its development expenditure can be devoted to discovering future commercial opportunities.

These figures represent a hypothetical comparison, not a recommended industry allocation.

The important consideration is that exploratory development should possess an identifiable place within the company's financial priorities.

If the enterprise finances experimentation exclusively with whatever money remains after satisfying every immediate commercial obligation, it may discover that there is never anything left.

In his influential 1991 paper *Exploration and Exploitation in Organizational Learning*, organizational theorist James G. March examined the difficulties businesses encounter in balancing the refinement of existing capabilities with the investigation of new possibilities.[2] The benefits of improving established operations are frequently more immediate and more predictable than the benefits associated with experimentation.

That creates an understandable managerial preference for the former.

But an enterprise that consistently favors immediate, predictable improvements may gradually exhaust its ability to discover substantially different opportunities.

The entrepreneur needn't establish an elaborate research department. A relatively small business might allocate a portion of its development budget, reserve several hours each week or establish a limited experimental undertaking with clearly defined financial boundaries.

What matters is that the future receives an allocation of resources before it arrives with an invoice.

Give an Experiment a Commercial Life

Not every invention should immediately become a product.

Some experimental technologies may prove useful exclusively within the enterprise that developed them. Others may reveal opportunities for independent commercial development. Still others may establish knowledge that becomes valuable through subsequent inventions.

The entrepreneur should remain attentive to those distinctions.

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2. James G. March, “Exploration and Exploitation in Organizational Learning,” *Organization Science* 2, no. 1 (1991): 71–87. https://doi.org/10.1287/orsc.2.1.71.

Suppose an independent producer develops software to administer the complicated editorial relationships associated with an interactive production. Initially, the application exists exclusively to facilitate the company's own creative undertaking.

But what happens when other filmmakers encounter similar difficulties?

The producer may have inadvertently developed the foundation of a separate technology business. The commercial value of the software could eventually exceed the value of the original production for which it was developed.

Alternatively, licensing the technology to other producers might be unnecessarily complicated. The more attractive proposition might involve employing it to create distinctive entertainment that competing businesses cannot readily reproduce.

Neither opportunity should be overlooked simply because the original development work was classified as an internal expense.

Offensive innovation requires entrepreneurs to examine their inventions for commercial possibilities beyond the circumstances that motivated their development.

I would encourage production companies to periodically examine the technologies, methods and intellectual resources they've developed internally. Some of their most interesting commercial assets may not appear anywhere in their entertainment catalogs.

Compete Where Nobody Is Competing

There is a peculiar limitation associated with studying one's competitors too extensively.

The entrepreneur can become extraordinarily knowledgeable about what everybody else is doing while gradually losing the ability to conceive of something nobody else is doing.

A publisher examines competing websites, identifies their most successful features and incorporates similar capabilities into its own operation. Its competitors subsequently undertake comparable examinations.

Eventually, the companies become increasingly accomplished at reproducing one another.

What interests me more is the commercial territory that remains largely unoccupied between established businesses.

Consider the space between a motion picture production company and a software development enterprise. There may be opportunities for companies specializing in nonlinear authoring tools, independent playback applications or the administration of complex audiovisual rights.

Consider the relationship between an advertiser and an independent publisher. There may be opportunities for businesses developing better commercial production tools, more intelligible measurements of advertising effectiveness or mechanisms through which several independent publishers can jointly offer a professionally administered advertising product.

None of these opportunities necessarily requires competing directly with established entertainment companies.

They may involve supplying capabilities those companies haven't yet recognized as products in their own right.

The entrepreneur who continually asks how to obtain a larger share of an existing marketplace may never investigate the possibility of creating a different marketplace.

Develop an Appetite for Intelligent Failure

There is little intellectual virtue in failure for its own sake.

An entrepreneur who repeatedly loses money through poorly conceived experiments isn't necessarily demonstrating greater imagination than an entrepreneur who operates a dependable business.

But there is an important distinction between an unsuccessful experiment and an unintelligent experiment.

A well-conceived experimental undertaking begins with a proposition worth investigating. The entrepreneur establishes reasonable financial boundaries, determines what information the undertaking should produce and considers what circumstances would justify further investment.

Imagine a publisher interested in developing interactive editions of existing productions.

Rather than immediately financing an extensive collection of new works, the publisher could begin with a limited experimental release using appropriately authorized material. The undertaking might investigate whether audiences understand the interface, whether the additional experience possesses recognizable commercial value and whether the administrative costs are compatible with the anticipated revenue.

An unfavorable result could reveal difficulties with the creative proposition, the software or the commercial arrangement. Management would then possess a more substantial basis upon which to determine whether the undertaking deserves modification or abandonment.

The knowledge acquired through that process should become part of the company's intellectual resources.

What concerns me is the enterprise that considers every unsuccessful experiment a reason to discontinue experimentation altogether.

Such a company may eventually become very good at avoiding mistakes. It may also become very good at avoiding discoveries.

Ambition Is a Strategic Resource

In their 1989 Harvard Business Review article *Strategic Intent*, Gary Hamel and C. K. Prahalad examined how companies could pursue long-term competitive ambitions extending beyond the capabilities they presently possessed.[3]

The significance of that proposition for independent entrepreneurs is considerable.

A small business needn't possess all the resources necessary to accomplish an ambitious objective before establishing that objective. The ambition can influence which capabilities it develops, which commercial relationships it establishes and which opportunities it chooses to pursue over time.

This doesn't require an entrepreneur to confuse enthusiasm with financial capacity. Ambition without an intelligible development strategy can become expensive self-indulgence.

But the opposite condition deserves equal attention.

An entrepreneur who permanently limits the ambitions of the business to the resources it presently possesses may never acquire compelling reasons to develop additional resources.

A small production company might aspire to become an important developer of interactive entertainment technology. An independent publisher might aspire to establish a new commercial standard for privacy-conscious advertising.

Neither company needs to accomplish the entire undertaking tomorrow.

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3. Gary Hamel and C. K. Prahalad, “Strategic Intent,” *Harvard Business Review* 67, no. 3 (May–June 1989): 63–76. https://hbr.org/1989/05/strategic-intent-2.

What matters is that its decisions today begin contributing to the capabilities necessary to accomplish it eventually.

The company's ambition becomes a means of determining which opportunities deserve its attention.

Imagine We Were the Incumbent

I would suggest an interesting intellectual exercise for anyone responsible for the direction of an established entertainment enterprise.

Imagine that you possess the technological resources, financial relationships and institutional acceptance enjoyed by one of the major mainstream entertainment companies.

What would you develop?

What kinds of entertainment would you produce? What technologies would you commission? What commercial relationships would you establish? Which inventions would you regard as sufficiently interesting to investigate?

Now examine those ambitions and determine which of them genuinely require the resources of a major corporation.

You may discover that some require substantially less than you initially assumed. Others may become accessible through cooperation among independent businesses. Still others might be approached through a series of comparatively modest development undertakings.

The purpose of the exercise is to distinguish genuine resource limitations from intellectual limitations we've acquired through decades of operating under difficult circumstances.

We have become accustomed to thinking of ourselves as entrepreneurs who must continually overcome disadvantages. There is a danger that this becomes such an essential component of our commercial identity that we neglect to think of ourselves as entrepreneurs capable of establishing advantages.

We needn't become multinational entertainment corporations to develop technologies worthy of their attention.

We need to become sufficiently ambitious to consider why they might eventually need technologies we've developed.

Play Offense

I have considerable admiration for the entrepreneurs who preserved this industry's commercial existence through circumstances that would have discouraged many conventional businesspeople.

But I don't want survival to become the greatest accomplishment of the next generation.

I want to see independent filmmakers developing creative formats that established entertainment companies subsequently investigate. I want to see our software engineers publishing technical specifications that developers elsewhere find useful. I want our entrepreneurs establishing commercial arrangements that introduce entirely new possibilities for creative professionals.

Those ambitions require a different orientation toward technological development.

We must become interested in opportunities that exist independently of our problems. We must devote resources to inventions that aren't presently necessary. And we must become comfortable pursuing commercial possibilities that cannot yet be justified by examining what our competitors earned from them last quarter.

Our industry has demonstrated that it can be extraordinarily inventive when the world gives it little choice.

Imagine what we might accomplish if we stopped waiting for the world to give us a reason.

CHAPTER 51

Make Hollywood Follow Us Again

“Technological leadership cannot be contingent upon the approval of the people we're supposed to be leading.”

I would like to live long enough to attend a mainstream entertainment technology conference and listen to somebody explain how an important new invention originated in the adult entertainment industry.

Not as an amusing historical anecdote. Not as some reluctant acknowledgment of pornography's contribution to the commercial development of the Internet. I want to hear accomplished engineers discussing technologies developed by our contemporaries because those technologies have become important to their own work.

That would be a considerably more satisfying accomplishment than another documentary reminding us how technologically adventurous we were thirty years ago.

We opened this book by examining an industry that had once recognized possibilities in technologies that conventional entertainment companies were considerably less enthusiastic about employing. We have subsequently examined the commercial mistakes, technological dependencies and institutional circumstances that contributed to the deterioration of that entrepreneurial spirit.

The objective of reclaiming our technological leadership shouldn't be to restore some romantic interpretation of our past. It should be to establish a future in which other industries have compelling reasons to pay attention to what we're doing.

Become the Industry They Study

There is an important distinction between an industry that employs advanced technology and an industry that advances technology.

A production company can acquire the most sophisticated cameras available, employ elaborate post-production software and distribute its entertainment through remarkably efficient digital infrastructure without contributing anything to the development of those technologies.

It may be an exceptionally competent production company. It hasn't necessarily become a technologically influential one.

Influence occurs when the knowledge, methods and inventions developed within one enterprise become useful to people operating beyond it.

Imagine a software development company emerging from our business that establishes a substantially better method of administering nonlinear audiovisual productions. Its initial customers might be independent filmmakers operating within the industry. But its technology could eventually become relevant to documentary producers, educational publishers, game developers and mainstream entertainment companies.

The origins of the invention wouldn't diminish its intellectual significance.

Indeed, the commercial circumstances under which it was developed might explain why its developers recognized possibilities that other people hadn't adequately considered.

This is the kind of technological influence I believe we should deliberately pursue. Not merely becoming proficient at employing the inventions of other industries, but becoming an interesting source of inventions for those industries.

Establish an Intellectual Export Economy

Our industry's exports have traditionally consisted of entertainment.

I see no particular reason that they should remain limited to it.

We should be exporting software, technical knowledge, production methods, interface architectures, commercial systems and original intellectual property concerned with the machinery of entertainment itself.

There are substantial opportunities associated with developing technologies whose commercial applications extend beyond the circumstances under which they were originally conceived.

Throughout this book, we've examined several possibilities:

- Nonlinear production and authoring environments.
- Modular audiovisual interfaces.
- Portable personal playback configurations.
- Privacy-conscious audience measurement.
- Sophisticated administration of creative rights.
- Independent video advertising infrastructure.
- Adaptable financial and commercial architectures.

These aren't exclusively problems of our industry. They are problems confronting an increasingly diverse collection of businesses involved in producing, distributing and commercializing digital entertainment.

Our particular circumstances may provide unusually compelling incentives to investigate them.

An entrepreneur developing a solution to one of those problems should therefore consider two potential marketplaces: the immediate industry whose requirements motivated the development and the broader collection of industries that might subsequently encounter comparable requirements.

This is the Indecency Dividend discussed in Chapter 23 brought to its most ambitious commercial conclusion.

We could become a significant exporter of intellectual property without producing another minute of entertainment.

Publish Something Other Than Entertainment

One of the distinguishing characteristics of an intellectually mature technological industry is the literature it produces.

Engineers publish technical papers. Researchers describe experiments. Developers document their inventions. Professional organizations establish conventions through which knowledge can be examined, criticized and subsequently improved.

We publish an extraordinary quantity of entertainment. I would like to see us publish considerably more knowledge.

Where are our engineering journals? Where are the substantial collections of technical literature documenting the evolution of our distribution technologies? Where are the studies examining the commercial performance of different advertising arrangements, the characteristics of our playback environments or the economics of independent digital production?

Some of this material exists, of course, in academic research, industry publications and technical documentation. But I don't believe its development has acquired anything approaching the importance it deserves within our entrepreneurial culture.

The absence of sufficiently accessible commercial and technical research has implications extending throughout this book. It makes it more difficult for entrepreneurs to evaluate competing business models, identify emerging opportunities and distinguish technological progress from promotional enthusiasm.

We should encourage companies to publish the results of appropriate commercial experiments, including those that didn't produce the outcomes management anticipated.

A publisher that investigates a new advertising format could document its methodology and findings. A software company developing an original interface architecture could publish an explanation of its design. A production company experimenting with interactive filmmaking could describe the creative and technical difficulties it encountered.

Not everything needs to be disclosed. Commercially sensitive information, proprietary inventions and the privacy of participants deserve appropriate protection.

But an industry in which every useful piece of knowledge disappears into somebody's proprietary business operation continually deprives itself of opportunities to become more knowledgeable.

We should establish a culture in which contributing to the intellectual development of the industry becomes an accomplishment worthy of professional recognition.

Don't Just Implement Standards. Develop Them.

The Society of Motion Picture and Television Engineers (SMPTE) has played an important role in the technological development of mainstream entertainment. Its standards activities have contributed to the industry's ability to accommodate major transitions in recording, sound, color, broadcasting and digital exhibition.[1]

Such work possesses enormous commercial significance. When independently developed technologies can operate together according to established technical conventions, creative professionals acquire opportunities that would otherwise depend upon expensive proprietary arrangements.

We benefit from comparable work undertaken by organizations concerned with Internet technologies, video advertising and digital distribution.

But why should our participation be limited principally to implementing specifications developed elsewhere?

There are opportunities for our engineers to contribute to existing standards organizations, participate in technical discussions and propose solutions to problems that our commercial circumstances have given us particular reasons to investigate.

We could also develop independent technical working groups concerned with requirements not adequately addressed by existing specifications.

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1. Society of Motion Picture and Television Engineers (SMPTE), “About Standards,” https://www.smpte.org/standards/about; “Standards Overview,” https://www.smpte.org/standards/overview.

Consider the portability of interactive audiovisual productions discussed in Chapter 46. Several competing companies might develop authoring applications and playback technologies around a commonly understood format for describing nonlinear works.

One company could specialize in production software. Another could develop playback environments. A third might develop preservation, accessibility or quality-assurance tools.

The existence of a common specification could expand the commercial opportunities available to all of them.

The purpose wouldn't be to establish a separate technological universe exclusively for our entertainment. It would be to contribute useful technology to the larger universe in which our entertainment exists.

I would find it considerably more gratifying to see mainstream developers adopting a specification originating within our industry than to see us merely celebrating the fact that another mainstream software company has decided to accommodate us.

Give the Invention Room to Travel

On April 30, 1993, CERN made the foundational software of the World Wide Web available without royalties. The decision contributed to the development of an interoperable environment within which independently created technologies and commercial enterprises could flourish.[2]

The commercial significance of that development is difficult to overstate.

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2. CERN, “Licensing the Web,” https://home.cern/science/computing/the-birth-of-the-web/licensing-web/. The software entered the public domain on April 30, 1993; a subsequent version was released under an open-source licence in 1994.

The Web became the foundation of an extraordinary collection of businesses precisely because its fundamental capabilities weren't permanently confined to the organization in which they originated.

There is something worth learning from that decision, even for entrepreneurs developing proprietary commercial products.

The economic value of an invention isn't always maximized by exercising exclusive control over every possible application of it.

Sometimes the greater commercial opportunity resides in encouraging other people to employ it, develop complementary products around it and establish a larger marketplace within which the original inventor can participate.

A software company might retain proprietary control over its implementation while publishing a specification through which independently developed applications can communicate with it.

Another enterprise might make certain utilities freely available while commercializing more extensive services.

A group of developers might collaborate upon an open technical convention while competing vigorously in the quality of their respective implementations.

These are legitimate commercial decisions rather than ideological obligations. The entrepreneur must determine which portions of an invention derive their value from exclusivity and which might acquire greater value through adoption.

The technology that everybody is forbidden to employ without establishing a financial relationship with its inventor may produce an attractive licensing business. It may also provide somebody else with a compelling reason to invent an alternative.

Give Our Engineers Something to Be Famous For

We have established an elaborate culture of professional recognition surrounding the creation of entertainment.

We recognize directors, performers, photographers, editors and numerous other people whose work contributes to the creative identity of the product.

The technological professionals who make much of its contemporary existence possible frequently remain comparatively anonymous.

I think we should reconsider that.

An engineer who develops an original approach to audiovisual presentation deserves recognition for that accomplishment. A developer who substantially improves the accessibility of independent publishing has contributed something meaningful to the commercial development of the industry.

The same should be true of researchers, interface designers, technical architects and entrepreneurs whose inventions may never appear in the credits of a motion picture.

Professional recognition can influence the kinds of work talented people aspire to undertake.

Imagine an industry in which an ambitious young software developer regards working on entertainment infrastructure as an opportunity to establish a meaningful technological reputation. An environment in which developing an original specification, publishing a useful technical paper or introducing an important engineering capability can become a professionally celebrated accomplishment.

We should be attracting people who want to invent things, not merely recruiting people capable of maintaining the things we already possess.

And we should give accomplished technical professionals reasons to remain intellectually involved in our business even when their capabilities provide opportunities elsewhere.

The next generation of our industry's technological leadership will depend substantially upon the quality of the minds it attracts.

Competition Without Intellectual Isolation

Our entrepreneurs can compete commercially while collaborating intellectually.

Two advertising technology companies might compete vigorously for publishers while participating in the development of common reporting conventions.

Several playback developers might establish competing commercial products while collaborating upon methods of communicating authorized presentation preferences.

Independent production companies might compete for audiences while contributing to the development of better technical practices concerning preservation, accessibility and the administration of creative rights.

There is nothing contradictory about these relationships.

A useful distinction exists between the machinery that makes an industry possible and the products through which individual companies distinguish themselves within it.

Not every component of that machinery needs to become a battlefield.

Consider five competing publishers that each require a specialized integration between a production application and a video delivery service. If every publisher finances the development of an incompatible solution, the industry may incur the expense of solving substantially the same problem five times.

A common technical convention could allow them to devote more of their resources to improving the products through which they actually compete.

I am not proposing that competing companies coordinate prices, allocate customers or diminish commercial competition. Quite the contrary. Responsible technical cooperation can make competition more interesting by allowing companies to distinguish themselves through genuine improvements rather than artificial incompatibilities.

The industry's collective technological competence should be something from which independent businesses can benefit, not something each must reconstruct from the beginning.

Establish a Research Agenda

If we intend to become a more technologically influential industry, we should establish some understanding of the problems we consider worth investigating.

I would propose that our research agenda extend beyond the immediate commercial priorities of individual businesses.

What are the creative and economic possibilities of nonlinear entertainment? How can viewers retain control over their personal playback environments without unnecessarily exposing their identities? Which advertising practices provide the most sustainable balance between commercial performance and audience satisfaction?

How can technologies improve the administration of creative rights and financial obligations? How can independently operated entertainment companies establish more sophisticated commercial relationships without surrendering their autonomy?

These are substantial intellectual questions. They deserve serious investigation rather than exclusive treatment as topics for promotional seminars.

There are opportunities for independent researchers, universities, professional associations and technology companies to contribute to their examination.

The research should be capable of producing conclusions that contradict our assumptions. Indeed, I would hope some of it does.

An industry interested exclusively in research that confirms the attractiveness of its existing commercial practices isn't particularly interested in research.

The objective should be to establish knowledge sufficiently useful that it influences what entrepreneurs subsequently choose to invent.

Stop Looking for Permission to Be Important

There is a tendency within our business to regard recognition from mainstream entertainment as a particularly meaningful form of accomplishment.

When a prominent conventional company adopts one of our commercial practices, acknowledges one of our creative contributions or establishes a relationship with one of our enterprises, we understandably take some satisfaction in it.

But technological leadership cannot be contingent upon the approval of the people we're supposed to be leading.

If we're developing an interesting invention, its intellectual significance shouldn't depend upon whether Hollywood considers the industry from which it originated sufficiently respectable.

The usefulness of a technological architecture can be examined. Its performance can be measured. Its commercial value can be demonstrated. Its limitations can be investigated and its capabilities improved.

Those are the circumstances under which technological credibility should be established.

We shouldn't have to disguise the origins of our inventions to make them intellectually acceptable.

Nor should we expect every invention to acquire mainstream commercial significance. Some of our most important technological accomplishments may remain specialized, serving purposes that possess little relevance outside our own business.

They deserve recognition nonetheless.

The ambition expressed in the title of this chapter isn't fundamentally concerned with obtaining Hollywood's admiration. It is concerned with developing an industry sufficiently imaginative that Hollywood occasionally finds itself learning from us.

There is a considerable difference.

The Next Time They Write Our History

One of the reasons I find the historical mythology surrounding pornography and technological innovation somewhat frustrating is that it has become a substitute for a more interesting contemporary conversation.

We debate whether pornography determined the outcome of the videotape format war. We reminisce about the early commercialization of the Internet. We remind one another that our entrepreneurs recognized the economic possibilities of technologies whose development subsequently transformed entire industries.

There is nothing wrong with taking pride in those accomplishments, provided we distinguish documented history from mythology.

But I would prefer that the next generation of historians have something considerably more recent to investigate.

Let them examine how our developers contributed to the evolution of interactive entertainment. Let them investigate technologies originating within our business that improved the privacy of digital consumers, the independence of creative professionals or the architecture of audiovisual presentation.

Let them describe an industry that didn't simply adapt to another technological revolution but participated in determining its direction.

And let them discover that some of those inventions originated in remarkably small enterprises, developed by people whose ambitions exceeded both their financial resources and the expectations of the industries surrounding them.

That would be a history worth writing.

We Have More to Invent

Throughout this part of the book, we've investigated opportunities extending beyond the immediate technological requirements of contemporary entertainment.

We've examined artificial intelligence, immersive experiences, nonlinear audiovisual works, privacy, the administration of legitimate creative rights and the possibility of reinventing the commercial relationships through which entertainment is acquired.

The individual technologies will evolve. Some of the possibilities discussed here may prove commercially insignificant. Others may develop in directions none of us presently anticipates.

What matters is establishing an industry capable of participating intelligently in that evolution.

We have the creative professionals. We have decades of commercial experience. We have a product whose distinctive characteristics provide fascinating technological problems. We have increasingly accessible engineering capabilities and an enormous collection of opportunities that remain inadequately explored.

What we need now is an industrial culture sufficiently ambitious to do something extraordinary with them.

The adult entertainment industry has spent too many years reminding the world that it was once ahead of its time.

I'd rather give the world another reason to catch up.

PART VII

BUILDING THE EXCELLENT ENTERPRISE

“Excellence is the next five minutes.”

Tom Peters
Excellence: The Search Continues (2012)

CHAPTER 52

Stop Being the Business

“Being needed for everything is not necessarily evidence that you're doing everything well.”

Much of what follows in this section could be found, in one form or another, in any reasonably good book on business organization and management. Yet I'm continually struck by the extent to which businesses in our industry seem to overlook some of the most fundamental principles of sound management.

There is a tendency to regard the peculiarities of our business as reasons why conventional business wisdom doesn't necessarily apply to us. But whether you're selling pornography, groceries or automobile parts, the underlying principles of building and managing an excellent enterprise remain fundamentally the same.

Ours may be an unconventional business. That doesn't exempt us from the disciplines of doing business well.

When the Business Becomes a Job

One of the more peculiar ambitions of the entrepreneur is to establish a business in order to acquire greater personal freedom, only to develop an enterprise from which he cannot take a two-week vacation.

He becomes its principal creative resource, its most experienced salesperson, its chief financial officer, its technical support department and the final authority on practically everything occurring within it. As the business grows, so does the number of activities requiring his personal attention.

Eventually, what began as an entrepreneurial undertaking becomes an extraordinarily demanding form of employment.

I have considerable sympathy for this predicament. Independent entrepreneurs frequently establish businesses precisely because they possess capabilities they cannot initially afford to employ in other people. Their willingness to perform practically every necessary function is often what makes the enterprise possible.

But the qualities that enable somebody to establish a business aren't necessarily the qualities that will enable that business to mature.

At some point, the entrepreneur must become interested in building an organization with the same enthusiasm he originally devoted to building its product.

The Business of Making a Business

In *The E-Myth Revisited*, published in 1995, Michael E. Gerber examined a problem familiar to generations of small business owners: the tendency to confuse proficiency in a particular occupation with proficiency in operating a business concerned with that occupation.[1]

The distinction has considerable relevance to us.

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1. Michael E. Gerber, *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It* (New York: HarperBusiness, 1995), chs. 1–2.

A talented filmmaker may establish a production company because of an extraordinary ability to make entertainment. An accomplished performer may develop an independent publishing enterprise because of an ability to attract and retain an audience. A gifted software developer may establish a technology company because of an ability to invent useful things.

Each has established the foundation of a potentially interesting business. Each must subsequently develop capabilities substantially different from those that motivated its creation.

The filmmaker must understand how to finance productions, administer commercial rights and establish dependable professional relationships. The independent performer must understand the economics of distribution, customer acquisition and the administration of intellectual property. The software developer must understand product development, commercial positioning and the circumstances under which other people employ technology.

The entrepreneur who neglects these responsibilities may become increasingly accomplished at performing a particular function within an increasingly dysfunctional business.

There is no shame in discovering that one is a better director than a chief executive. The entrepreneurial mistake is assuming that one's ability to perform the former establishes one's qualifications to perform the latter.

The Entrepreneurial Bottleneck

Consider a production company in which every expenditure, marketing decision, distribution arrangement and significant creative decision requires the personal approval of its founder.

Initially, the arrangement may operate quite efficiently. The founder understands the business intimately, knows its financial circumstances and possesses a clear conception of its creative identity.

As the organization expands, however, the arrangement becomes increasingly cumbersome. More productions generate more decisions. Additional commercial relationships introduce additional obligations. Employees and contractors spend increasing amounts of time waiting for somebody whose attention has become the company's scarcest administrative resource.

The enterprise possesses the financial capacity to employ more people but has failed to develop the organizational capacity to employ their intelligence.

This is a particularly unfortunate circumstance because management may interpret the resulting difficulties as evidence that its employees aren't sufficiently capable of operating independently. The founder responds by becoming more involved in their activities, thereby further diminishing their opportunities to develop independent judgment.

The business gradually becomes an institution organized around the limitations of one person's availability.

Entrepreneurs should recognize that their personal indispensability can constitute an impediment to the commercial development of their own inventions.

Being needed for everything is not necessarily evidence that you're doing everything well.

Delegate Authority, Not Just Work

There is an enormous difference between employing somebody to perform a task and employing somebody to assume responsibility for an outcome.

Suppose a publisher hires an experienced marketing professional. The employee can prepare campaigns, develop promotional materials and investigate commercial opportunities, but every meaningful decision concerning those activities remains with the publisher.

The publisher has acquired additional labor without acquiring much additional managerial capacity.

The marketing professional may possess useful experience, recognize opportunities the founder hasn't considered and understand circumstances the founder cannot personally investigate. Yet the organization has established relatively little means of benefiting from that knowledge.

In their 1997 paper *Formal and Real Authority in Organizations*, economists Philippe Aghion and Jean Tirole examined the distinction between possessing the formal right to make a decision and exercising effective influence over that decision. Their analysis explored the relationship between delegated authority, managerial control and the initiative demonstrated by people operating within an organization.[2]

The practical significance is that delegation involves more than distributing assignments. It involves determining who is sufficiently informed and qualified to make particular decisions, and establishing the conditions under which that authority can be exercised responsibly.

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2. Philippe Aghion and Jean Tirole, “Formal and Real Authority in Organizations,” *Journal of Political Economy* 105, no. 1 (1997): 1–29. https://doi.org/10.1086/262063.

An experienced editor shouldn't require executive authorization to correct an obvious editorial deficiency. A customer service professional should possess reasonable authority to resolve ordinary customer problems. A technical specialist should be able to respond to an urgent infrastructure failure within established operational boundaries.

Conversely, decisions involving substantial financial commitments, sensitive personal information or changes to the legitimate rights of performers require appropriate authorization and oversight.

The objective isn't to eliminate managerial control. It is to place decisions where the knowledge necessary to make them resides.

The Economics of Everybody Waiting

Suppose an entertainment company employs six people whose activities collectively generate twenty-four requests for routine managerial approval each week.

Assume that each request consumes an average of fifteen minutes of the founder's attention, including reviewing the circumstances, communicating the decision and returning to whatever activity was previously underway.

That amounts to six hours of executive time each week.

Over fifty working weeks, the arrangement consumes three hundred hours of the founder's attention. It doesn't include the time other people spend awaiting decisions, reorganizing their assignments or resolving complications arising from unnecessary delays.

If half of those decisions could be competently administered by the people already responsible for the work, the founder would recover one hundred and fifty hours annually.

Those hours don't necessarily represent a reduction in payroll expenditure. They represent managerial capacity that could be employed elsewhere.

What might the founder accomplish with nearly four additional working weeks devoted to developing new products, establishing commercial relationships, investigating emerging technologies or improving the long-term direction of the enterprise?

The expense associated with poor delegation isn't always the cost of the people employed to perform the work.

Sometimes it's the cost of employing an entrepreneur to administer things that no longer require an entrepreneur.

Don't Institutionalize Your Own Bad Habits

The development of organizational procedures provides an opportunity to examine the intelligence of the activities being performed rather than merely document them.

This distinction deserves attention because many independent companies develop their operational practices under circumstances of considerable financial pressure. A particular arrangement may have been established because it was inexpensive, because the necessary technology wasn't available or because the founder happened to understand how to administer it.

Years later, the original circumstances may no longer exist, but the procedure remains.

A publisher might maintain an unnecessarily complicated system for reconciling commercial reports because that's how the founder learned to perform the task. A production company might continue organizing its media assets through an elaborate collection of folders whose significance is understood by only one employee.

Documenting those arrangements may improve the organization's ability to reproduce them. It doesn't necessarily improve the arrangements themselves.

Before institutionalizing a procedure, determine whether the procedure deserves to become an institution.

We should be particularly conscious of this during periods of technological development. Introducing sophisticated software into an unnecessarily complicated administrative environment can make the organization considerably more efficient at doing things it shouldn't be doing.

Excellent management involves periodically questioning the work itself, not merely the efficiency with which it is performed.

The Company of One

Not every entrepreneur wants to establish a substantial organization.

The independent performer, filmmaker or publisher may deliberately prefer a small enterprise, retaining personal control over the creative and commercial activities that give the business its identity.

I find that a perfectly legitimate ambition. Organizational excellence shouldn't be confused with organizational size.

Nevertheless, the independent entrepreneur can benefit enormously from developing some of the disciplines ordinarily associated with larger enterprises.

A performer operating an independent publishing business should possess intelligible financial records, properly administered agreements, dependable arrangements for preserving original media and appropriate procedures for maintaining the security of the business.

The entrepreneur shouldn't have to reconstruct the entire enterprise from memory whenever a financial dispute arises, a computer fails or a distribution arrangement changes.

Nor does developing those capabilities necessarily require employing additional permanent personnel.

Many specialized responsibilities can be administered through appropriately qualified independent professionals, intelligently designed software and commercial relationships established before those resources become urgently necessary.

The smallest business can possess considerable organizational sophistication without acquiring considerable organizational complexity.

Independence should mean retaining authority over one's enterprise. It needn't mean personally performing every activity necessary to sustain it.

Preserve the Personality. Lose the Dependency.

There is a danger in pursuing organizational independence too mechanically, particularly within a creative industry.

The personality of a founder may constitute a substantial portion of an enterprise's commercial value. The editorial judgment of a publisher, the creative sensibility of a filmmaker or the distinctive identity of a performer may be precisely what attracts an audience.

Attempting to eliminate the influence of that individual could eliminate much of what makes the business interesting.

I am not advocating the transformation of every independent entertainment company into an anonymous corporate institution.

Rather, I am advocating a distinction between the founder's creative contribution and the operational dependencies that have accumulated around it.

A filmmaker may remain personally involved in the creative direction of every production without personally administering every invoice associated with it. A publisher may retain complete authority over the editorial character of a publication without approving every routine correction to its website.

An independent performer may remain the unmistakable identity of an entertainment enterprise while employing professional assistance in administering its financial and technological responsibilities.

Indeed, the liberation of those individuals from unnecessary administrative obligations may strengthen the very qualities that distinguish their businesses.

The founder should remain involved where that involvement creates extraordinary value, not merely where the organization has become accustomed to requiring it.

Teach People How You Think

The development of an excellent organization requires more than establishing written instructions concerning how particular activities should be performed.

It requires communicating the intellectual principles upon which those activities are based.

Suppose a publisher establishes a policy prohibiting a particular intrusive form of advertising. Employees can be instructed to observe the policy, or they can be introduced to the commercial philosophy that motivated its establishment.

In the former circumstance, an employee confronted with a different but equally intrusive advertising technology may require another instruction.

In the latter, the employee may already understand why the new technology is inconsistent with the company's objectives.

The distinction becomes particularly important in businesses operating within rapidly evolving technological environments. It is practically impossible for management to anticipate every circumstance its employees will encounter.

It is considerably more practical to establish a coherent understanding of what the organization is attempting to accomplish, what it considers unacceptable and how it evaluates competing opportunities.

If a company is genuinely committed to the principles of excellence, its people should understand the commercial and creative significance of those principles well enough to apply them to circumstances management hasn't previously contemplated.

That is how an entrepreneurial philosophy becomes an organizational capability.

What Are You Actually Building?

I would encourage every entrepreneur reading this book to consider the enterprise itself as a creative undertaking.

We devote extraordinary amounts of imagination to developing entertainment, designing websites, inventing software and establishing commercial opportunities. The organization responsible for accomplishing those things deserves comparable imagination.

How will it acquire knowledge? How will it develop talent? How will it preserve its creative character while accommodating growth? How will it recognize mistakes, improve its judgment and continue inventing when the person who established it has become interested in inventing something else?

These questions are every bit as entrepreneurial as determining what product to introduce next.

An excellent enterprise should become progressively more capable of pursuing its ambitions as it develops, rather than progressively more dependent upon the individual whose ambitions established it.

I have no objection to an entrepreneur spending his life working passionately within a business he loves.

But there is something magnificent about creating an organization that can accomplish things its founder could never have accomplished alone.

That is a particularly interesting kind of invention.

And it may ultimately become the most important thing the entrepreneur ever creates.

CHAPTER 53

The Culture of Excellence

“Excellence doesn't become a culture because everybody agrees that it's important. It becomes a culture when delivering something less feels out of character.”

You can learn considerably more about the culture of an organization by observing what its management tolerates than by reading what its management professes.

A company may publish an eloquent statement concerning its commitment to creative excellence, technological innovation and professional integrity. But if its most profitable employee consistently violates those principles without consequence, the organization has communicated an entirely different set of values to everybody working within it.

And those are the values its people will learn.

Corporate culture has become one of those subjects upon which practically everybody in business professes some expertise. Companies hire consultants to improve it, develop presentations to describe it and occasionally spend considerable amounts of money decorating their offices with words intended to symbolize it.

But culture isn't a decorating scheme. It is the accumulated understanding among the people of an organization concerning what actually matters.

Developing a culture of excellence requires establishing circumstances under which excellence becomes the ordinary expectation of the people performing the work, including when the person who established that expectation isn't present.

What Happens When Nobody Is Looking?

In his influential work *Organizational Culture and Leadership*, organizational psychologist Edgar H. Schein distinguished among the visible characteristics of an organization's culture, its professed beliefs and values, and the deeper assumptions that ultimately influence how its people behave.[1]

The distinction is enormously useful when examining the management of creative enterprises.

A production company may profess an uncompromising commitment to quality. Its personnel may nevertheless understand that exceeding a production schedule is considered a considerably more serious offense than delivering a creatively inferior product.

An independent publisher may profess an interest in the consumer experience while its commercial personnel understand that introducing another source of immediate advertising revenue will be rewarded regardless of its consequences for that experience.

A technology company may describe itself as an innovator while its developers understand that management considers an unsuccessful experiment evidence of professional incompetence.

In each instance, the organization possesses two cultures: the one management describes and the one its people have learned to navigate.

The latter is the one producing the commercial results.

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1. Edgar H. Schein, *Organizational Culture and Leadership*, 4th ed. (San Francisco: Jossey-Bass, 2010), ch. 2, “The Three Levels of Culture.”

The Trouble with Being Good Enough

One of the more destructive expressions in a creative enterprise is *good enough*.

There are certainly circumstances under which the expression is entirely appropriate. Not every administrative document requires exceptional graphic design. Not every internal software utility warrants an elaborate interface. An intelligent organization understands where additional investment in quality will produce meaningful value and where it won't.

The problem arises when the expression becomes a general intellectual attitude toward the product.

The editor notices an abrupt transition but concludes that the audience probably won't care. The web developer discovers an awkward feature of the mobile interface but assumes that most visitors will figure it out. The advertising manager approves a poorly conceived commercial because the advertiser has already paid for its distribution.

Individually, these decisions may appear inconsequential. Collectively, they determine the character of the enterprise.

Our industry is particularly susceptible to this phenomenon because of the temptation to assume that the principal attraction of the entertainment will compensate for deficiencies in practically every other aspect of its presentation.

The audience came for the performers. Why worry about the typography?

The audience wants to see the video. Why invest in a more elegant playback environment?

The customer has already subscribed. Why devote additional resources to making the experience more satisfying?

That is how a perfectly competent organization gradually becomes an indifferent one.

A culture of excellence requires people to develop sufficient professional pride that they become uncomfortable delivering inferior work even when management hasn't specifically instructed them to improve it.

Excellence Is Everybody's Department

The professional character of an entertainment company shouldn't be the exclusive responsibility of its creative personnel.

The person answering customer inquiries contributes to the entertainment experience. The developer responsible for the website contributes to its presentation. The accountant administering payments contributes to the quality of the company's professional relationships.

A beautifully produced motion picture accompanied by incompetent customer service, unreliable distribution and questionable commercial practices is the product of an organization whose commitment to excellence is incomplete.

This doesn't mean everybody should be involved in everybody else's work. It means everybody should understand the relationship between their own work and the larger experience the enterprise is attempting to create.

An interesting exercise would be to introduce a company's technical personnel to the creative process responsible for producing the entertainment they distribute. Let them understand the decisions involved in lighting, composition, editing and sound.

Conversely, introduce the creative personnel to the technological environment through which the audience experiences their work. Let them understand what happens to their original images when a video is compressed, rendered on a mobile device or displayed within a poorly configured playback environment.

These people are contributing to the same product, yet they may possess remarkably little understanding of one another's professions.

Greater intellectual familiarity between departments can improve decisions throughout the organization. A developer who understands the artistic significance of preserving an image's original proportions may approach interface design differently. A filmmaker who understands the limitations of certain distribution environments may make more informed technical decisions during production.

Excellence becomes considerably more achievable when the people responsible for different components of a product understand what the whole product is supposed to accomplish.

Make It Safe to Tell the Boss He's Wrong

The entrepreneur who surrounds himself with people incapable of disagreeing with him has established an unnecessarily expensive audience.

What he needs is an organization.

In a 1999 study published in *Administrative Science Quarterly*, Harvard management scholar Amy Edmondson examined psychological safety and learning behavior among fifty-one manufacturing work teams. Her research identified an association between psychological safety and the willingness of team members to engage in behaviors conducive to organizational learning.[2]

Psychological safety concerns the extent to which people believe they can take interpersonal risks within a professional environment, including acknowledging mistakes, asking questions and expressing concerns.

Its significance extends well beyond conventional office environments.

Consider a relatively inexperienced production assistant who notices a problem that more experienced personnel appear to have overlooked. Whether that individual brings the matter to somebody's attention may depend less upon the seriousness of the problem than upon the anticipated reaction of the people responsible for resolving it.

In an intelligently managed organization, the assistant's relative inexperience doesn't diminish the potential validity of the observation.

The same principle applies when a developer questions an executive's technological decision, when an employee identifies an accounting discrepancy or when somebody raises concerns about the working conditions associated with a production.

Management should be particularly attentive to the treatment of people who identify uncomfortable problems. The response to one such individual can establish the willingness of everybody else to report the next one.

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2. Amy C. Edmondson, “Psychological Safety and Learning Behavior in Work Teams,” *Administrative Science Quarterly* 44, no. 2 (1999): 350–383. https://doi.org/10.2307/2666999.

Psychological safety shouldn't be confused with immunity from professional criticism or accountability. An organization can maintain demanding standards while encouraging people to acknowledge when those standards haven't been met.

Indeed, it becomes considerably more difficult to maintain demanding standards when people are frightened to admit that something has gone wrong.

The Permission Test

In the preceding chapter, we examined the distinction between delegating work and delegating authority. But there is another dimension to organizational independence that deserves consideration: the freedom to exercise intellectual initiative.

A company may distribute considerable operational responsibility among its employees while retaining virtually exclusive executive control over the conception of new ideas.

People are authorized to perform their jobs but are discouraged from investigating how those jobs might be performed differently.

This brings us to what I call the **Permission Test**:

How far down your organization can a good idea originate before somebody needs permission to explore it?

Consider an employee who recognizes an opportunity to improve the presentation of a particular video format. Can that employee investigate the technical possibilities, construct an experimental interface or demonstrate a prototype without first navigating several layers of managerial authorization?

Can a customer service professional examine a recurring source of customer dissatisfaction and develop a proposed solution? Can an editor investigate a more efficient creative workflow? Can a salesperson develop an original commercial proposition rather than merely administer the products management has already authorized?

The important distinction is between permission to investigate an idea and permission to commit the enterprise to its implementation.

The latter may involve legitimate financial, operational, contractual or ethical considerations requiring managerial review. The former can frequently occur within established professional and financial boundaries without unnecessary intervention.

Nobody should be authorized to experiment with sensitive personal information, performer rights, production safety or live commercial systems merely because the organization encourages innovation. The freedom to investigate must operate within appropriate safeguards.

But an enterprise that requires executive approval before anybody can undertake even a modest, responsible examination of a new idea has established an unnecessarily restrictive intellectual environment.

In administering the Permission Test, management should examine an actual idea that recently originated outside its executive ranks. Determine how it was received, how long it took to acquire an opportunity for investigation and what eventually happened to it.

If management cannot identify such an idea, that may be the most revealing finding of all.

What Are You Paying People to Do?

The compensation arrangements of an enterprise can reveal some interesting inconsistencies in its managerial philosophy.

Suppose a publisher introduces a performance bonus for its advertising manager based exclusively upon monthly advertising revenue. Management simultaneously professes a commitment to improving the viewer experience.

The advertising manager discovers that introducing more commercials produces an immediate increase in revenue. Unfortunately, the additional commercials diminish audience satisfaction and eventually weaken the publisher's ability to retain its viewers.

Under the established compensation arrangement, the manager has been financially rewarded for a decision that may ultimately damage the business.

It would be intellectually dishonest for management to express surprise at that outcome.

The organization established the incentive, defined the desired performance and compensated the employee for achieving it.

A more intelligent arrangement would consider the commercial contribution of advertising alongside the health of the audience relationship. Management might examine revenue, repeat visitation, playback abandonment and the long-term performance of the publisher's commercial inventory.

Not every responsibility should be reduced to a mathematical formula, and not every professional accomplishment can be adequately represented by a performance indicator. Excessively complicated incentive arrangements can introduce their own distortions.

Nevertheless, management should examine whether its compensation practices encourage the behaviors upon which its stated ambitions depend.

The company that rewards volume while professing quality, rewards conformity while professing innovation or rewards immediate revenue while professing long-term customer loyalty is administering a different business from the one it describes.

Who Gets Away with What?

There is a particularly difficult managerial responsibility within an industry in which individual personalities can possess substantial commercial value.

A prominent performer, successful director, exceptionally productive salesperson or indispensable technical specialist may become sufficiently valuable to an enterprise that management becomes reluctant to challenge their professional conduct.

The organization gradually establishes exceptions for those whose commercial contributions are considered too important to jeopardize.

This is dangerous territory.

The issue isn't whether exceptional people should receive exceptional compensation or enjoy appropriate creative independence. I believe they should.

The issue is whether commercial importance should exempt somebody from the fundamental professional obligations applicable to everybody else.

The producer who consistently generates profitable entertainment shouldn't be permitted to disregard the legitimate rights of the people participating in its creation. The salesperson responsible for a substantial portion of the company's revenue shouldn't be permitted to misrepresent its products. The gifted engineer shouldn't be allowed to treat colleagues abusively because management considers the individual's technical knowledge indispensable.

Every exception communicates something to the rest of the organization.

If the rules become negotiable in proportion to an individual's commercial importance, the organization's actual professional standard is considerably lower than the one management professes.

The Professional Floor established earlier in this book must remain a floor, not a suggestion subject to financial negotiation.

The Cultural Integrity Audit

Assessing organizational culture can be difficult because management is often among the least reliable sources of information concerning how its people actually experience the organization.

Employees and contractors may behave differently in the presence of senior management. Problems may be resolved informally without reaching executives. Professional frustrations may remain unexpressed until the people experiencing them simply leave.

A meaningful examination should therefore consider the observable consequences of managerial decisions rather than depend exclusively upon management's interpretation of its own intentions.

I propose the following **Cultural Integrity Audit** as an instrument for examining the relationship between an organization's professed values and its actual behavior.

Dimension	Question for Management	Evidence to Examine
Quality	Do our people have the resources and authority to produce work that meets our stated standards?	Budgets, schedules, revisions and quality reviews.
Incentives	Are we rewarding behavior consistent with our long-term ambitions?	Compensation arrangements, performance evaluations and promotions.
Intellectual freedom	Can people responsibly investigate ideas that management hasn't originated?	Employee proposals, experiments and authorization procedures.
Candor	Can people communicate uncomfortable information without retaliation?	Reporting procedures, complaint handling and management responses.
Accountability	Do professional obligations apply consistently, regardless of commercial importance?	Exceptions to policy and the resolution of comparable incidents.
Learning	Does the organization acquire knowledge from its mistakes?	Corrective actions, documented findings and subsequent improvements.
Leadership	Does management observe the standards it expects of everybody else?	Executive conduct, decisions and commitments.

The audit should incorporate evidence from people at different levels of the organization, including independent professionals whose work regularly contributes to its operations.

Where appropriate, information should be collected confidentially, with particular attention to the legitimate privacy of individuals and the possibility of retaliation.

An enterprise shouldn't assign itself a favorable evaluation simply because it has written policies addressing each dimension. The relevant question is whether those policies influence actual behavior.

Nor should the findings be reduced to a single numerical average that allows strong performance in several areas to conceal serious deficiencies in another.

A company doesn't compensate for tolerating abusive conduct by demonstrating exceptional creative productivity.

The purpose of the audit is to identify where managerial behavior contradicts the organization's intellectual commitments and establish what must change.

Make Excellence a Habit, Not an Event

Many businesses become enthusiastic about improvement periodically.

A new executive arrives. A competitor introduces an impressive product. Revenue begins declining. Management commissions an evaluation, announces several initiatives and encourages everybody to become more attentive to the quality of their work.

For several months, the enterprise demonstrates remarkable enthusiasm.

Then the immediate commercial circumstances change, management becomes preoccupied with something else and the organization gradually returns to its established habits.

Excellence cannot depend upon periodic episodes of executive enthusiasm.

It must become embedded in ordinary organizational activity.

When a production is completed, there should be an opportunity to examine what was learned during its creation. When a new publishing feature is introduced, somebody should examine whether it actually improved the experience. When a customer identifies a legitimate deficiency, the organization should possess a means of determining whether the deficiency exists elsewhere.

These needn't become elaborate administrative ceremonies. In a small enterprise, the discussion might occupy twenty minutes at the end of a working week.

The significance resides in the consistency with which the organization develops its knowledge of itself.

Over time, a company that habitually examines and improves its work can acquire substantial advantages over one that undertakes improvement only when circumstances become sufficiently unpleasant.

We Don't Need Corporate Culture. We Need Professional Culture.

I have no particular ambition to see independent entertainment companies become miniature versions of conventional corporations.

Some of the most interesting qualities of our industry originate in its unconventional personalities, entrepreneurial irreverence and willingness to challenge established commercial assumptions. I would hate to see those qualities disappear beneath an accumulation of management consultants, mandatory enthusiasm and inspirational posters.

We can operate professionally without becoming corporate caricatures.

We can maintain demanding standards while encouraging creative eccentricity. We can establish responsible working environments without diminishing the unconventional nature of our entertainment. We can encourage intellectual independence without abandoning accountability.

The culture I am advocating is one in which people take enormous pride in what they accomplish, acquire considerable respect for the contributions of their colleagues and remain sufficiently dissatisfied with their own work to continue improving it.

That is a considerably more interesting ambition than merely establishing an organization in which everybody gets along.

The excellent enterprise should be a place where intelligent people disagree, creative people experiment, experienced people teach and inexperienced people occasionally discover something everybody else has overlooked.

Management's responsibility is to establish circumstances under which those things can happen.

Excellence doesn't become a culture because everybody agrees that it's important.

It becomes a culture when delivering something less feels out of character.

CHAPTER 54

The Business of Talent

“The expense associated with acquiring excellent talent is usually visible. The expense associated with failing to acquire it can remain remarkably well concealed.”

One of the curious contradictions of our business is that we understand the commercial significance of talent in front of the camera considerably better than we understand its significance behind it.

We recognize the importance of discovering an exceptional performer, developing that individual's professional identity and establishing commercial opportunities around his or her abilities. Yet we don't always approach the recruitment and development of our technical, creative and managerial personnel with comparable imagination.

Imagine if we devoted the same entrepreneurial enthusiasm to discovering an exceptional software engineer that a production company might devote to discovering its next star.

Imagine if we regarded an accomplished interface designer as somebody capable of establishing a significant competitive advantage rather than somebody we hire to make the website look better.

Talent isn't merely one of the resources necessary to operate an enterprise. It is frequently the resource that determines what kind of enterprise the business is capable of becoming.

Stop Shopping for Employees

I find the conventional approach to recruitment rather uninspiring.

A company identifies a vacancy, develops a description of the activities associated with it, establishes a compensation range and searches for somebody whose professional experience corresponds sufficiently well to its requirements.

The entire undertaking is concerned with finding somebody to occupy a position the organization has already conceived.

But exceptional people occasionally possess capabilities that should cause the entrepreneur to reconsider the position itself.

Suppose an independent publisher encounters a particularly gifted software developer whose experience extends beyond the maintenance of publishing systems into the development of original audiovisual technologies. The publisher may have been looking for somebody to maintain its website. It may have encountered somebody capable of transforming its business.

An entrepreneur who evaluates that individual exclusively against the original job description may overlook the more interesting commercial opportunity.

Some of the most consequential recruitment decisions an entrepreneur can make involve recognizing capabilities for which the business hasn't yet established a formal requirement.

This doesn't suggest that companies should indiscriminately employ talented people without considering their commercial circumstances. It suggests that recruitment can occasionally become an exercise in business development rather than exclusively an administrative response to a vacancy.

The question needn't always be whether somebody is qualified to perform the work we presently require. Sometimes the more interesting question is what additional work becomes possible because we've encountered that person.

Recruit Beyond the Industry

There are legitimate advantages to employing people who understand the peculiarities of our business. Experienced industry professionals may possess valuable commercial relationships, specialized knowledge and an appreciation of circumstances that outsiders would require considerable time to understand.

Nevertheless, an enterprise that recruits almost exclusively from within its own industry risks acquiring another collection of people accustomed to its existing assumptions.

Consider what an accomplished hospitality professional might contribute to the design of our customer experiences. Consider what a developer experienced in educational software might contribute to interactive entertainment, or what somebody with experience in conventional television advertising might contribute to the commercialization of independent video.

The value of such individuals may reside partly in their unfamiliarity with the way we've traditionally conducted business.

An experienced television producer entering our industry might question why an elaborate motion picture isn't afforded a more sophisticated digital premiere. An engineer accustomed to developing financial applications might bring a substantially different perspective to the administration of commercial reporting and privacy.

These individuals needn't arrive possessing an intimate understanding of pornography. They need to arrive possessing an intimate understanding of something useful.

The entrepreneur's responsibility is to recognize the intellectual possibilities associated with bringing those capabilities into contact with our business.

Give Exceptional People Exceptional Problems

If we intend to attract sophisticated technical and creative professionals, we should become more sophisticated about the work we're offering them.

The prospect of maintaining another conventional tube website may not be particularly compelling to an ambitious software engineer. The opportunity to participate in developing a new architecture for audiovisual entertainment might be considerably more interesting.

An accomplished designer may have relatively little enthusiasm for producing another collection of promotional banners. That same individual might become fascinated by the possibility of reinventing the way audiences discover and experience independently produced entertainment.

The nature of the assignment can influence the caliber of the people interested in undertaking it.

This is particularly significant for smaller enterprises that cannot necessarily compete with major corporations on compensation alone. They may, however, offer opportunities for greater creative influence, more substantial professional responsibility and direct participation in the development of an original product.

Those advantages must be genuine. Promising intellectual freedom while requiring employees to perform endless routine maintenance isn't an especially effective long-term recruitment strategy.

And interesting work is not a substitute for fair compensation.

But when an enterprise can offer both reasonable compensation and genuinely interesting professional challenges, it may become attractive to people whose capabilities would otherwise appear beyond its reach.

The Talent Test

Imagine that every competing enterprise in your industry offered identical compensation for comparable professional responsibilities.

Under those circumstances, where would the most talented people choose to work?

More importantly, would they choose to work for you?

That is the **Talent Test**.

Removing compensation from the hypothetical decision exposes the other characteristics upon which the professional attractiveness of the enterprise depends.

Would accomplished filmmakers seek opportunities to work with your production company because of the creative freedom it affords them? Would an exceptional engineer choose your organization because of the technological problems it investigates? Would a gifted salesperson want to represent your products because of a genuine enthusiasm for their commercial proposition?

Would experienced professionals recommend your company to other experienced professionals?

The Talent Test shouldn't be administered exclusively through management's assessment of the organization's desirability. Examine how accomplished people actually respond to opportunities within the enterprise. Consider why qualified applicants decline offers, why respected employees leave and whether former collaborators would enthusiastically undertake another project with the company.

Compensation remains enormously important in actual employment decisions. The purpose of temporarily removing it from the equation is to examine what else the organization has to offer.

A business shouldn't have to become the industry's highest bidder every time it wants to acquire an exceptional mind.

It should aspire to become one of the places where exceptional minds want to be.

The Economics of Cheap Talent

We've examined the consequences of cheapening the entertainment experience. There are comparable consequences associated with continually attempting to minimize the cost of the people responsible for creating it.

Consider two hypothetical arrangements for the development of a new software feature. Both are intended to deliver a comparable technical result.

Illustrative Comparison of Development Costs

Expense	Developer A	Developer B
Hourly compensation	$40	$75
Initial development hours	120	60
Corrective development hours	40	5
Total development expense	$6,400	$4,875

The more expensive developer ultimately costs the enterprise less.

These figures are illustrative, not evidence that higher compensation necessarily produces better work. An expensive professional can be incompetent, and an inexpensive professional can be exceptionally gifted.

The point is that the financial significance of talent cannot adequately be evaluated by examining its price in isolation.

The organization must consider the quality of the work, the time necessary to accomplish it, its subsequent reliability and the additional commercial possibilities it creates.

An experienced cinematographer who recognizes a production problem before filming begins may save an enterprise considerably more than the difference between his compensation and that of a less experienced professional. An accomplished editor may recognize creative possibilities in existing material that increase its commercial value.

Some professional contributions are particularly difficult to evaluate because their greatest value resides in the problems that never occur.

The expense associated with acquiring excellent talent is usually visible. The expense associated with failing to acquire it can remain remarkably well concealed.

Develop the People You've Already Discovered

Businesses frequently become enthusiastic about acquiring talent while devoting relatively little attention to developing the talent they already possess.

An employee demonstrates considerable competence in a particular position, and management responds by keeping that individual in the position for as long as possible. The employee becomes too useful at performing one function to be afforded an opportunity to develop another.

The enterprise may eventually lose that person to an organization offering more interesting professional possibilities.

In his research on internal mobility and external recruitment, management scholar Matthew Bidwell examined personnel records from the investment banking division of a financial services company. His findings indicated that externally recruited professionals initially received lower performance evaluations and higher compensation than comparable employees promoted from within the organization.[1]

The findings concern a particular professional environment and shouldn't be treated as a universal rule against external recruitment. They do, however, illustrate the potential economic significance of capabilities that already exist within an enterprise.

An experienced production assistant may possess the intellectual and creative attributes necessary to become an accomplished producer. A customer service professional who has spent several years understanding the frustrations of an audience may possess valuable insights into product development.

A performer may become an exceptional director, editor, entrepreneur or creative executive.

We should become more attentive to those possibilities.

The organization that recognizes people exclusively by their present professional functions may fail to recognize some of its most valuable opportunities for development.

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1. Matthew Bidwell, “Paying More to Get Less: The Effects of External Hiring versus Internal Mobility,” *Administrative Science Quarterly* 56, no. 3 (2011): 369–407. https://doi.org/10.1177/0001839211433562.

Invest in People Who Might Leave

A recurring concern among small business owners is that investing in the professional development of an employee may simply prepare that employee to work for somebody else.

It certainly might.

But the alternative is to operate an enterprise whose people gradually become less qualified to address its developing requirements.

In his pioneering work on human capital, economist Gary Becker examined investments in education and training, including the distinction between capabilities useful to a particular enterprise and capabilities transferable across employers.[2]

Both have commercial significance for us.

A software developer learning the architecture of a particular proprietary application acquires knowledge immediately useful to the company. That same developer studying emerging video technologies may acquire knowledge useful throughout the entertainment industry.

The latter investment creates possibilities for the employee beyond the present employment relationship. It also creates possibilities for the enterprise that might not otherwise exist.

I would rather operate a company employing people whose capabilities are continually expanding than one whose employees remain dependent upon their present positions because they haven't developed opportunities elsewhere.

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2. Gary S. Becker, “Investment in Human Capital: A Theoretical Analysis,” *Journal of Political Economy* 70, no. 5, part 2 (1962): 9–49. https://doi.org/10.1086/258724; see also *Human Capital* (1964).

The objective of professional development shouldn't be to make people permanently dependent upon our enterprises. It should be to make continued participation in those enterprises sufficiently rewarding that they voluntarily remain interested in doing so.

Careers Beyond the Camera

We should pay particular attention to the professional possibilities available to performers as their interests, ambitions and circumstances evolve.

An individual who has participated in hundreds of productions may possess an extraordinary understanding of production environments, creative direction, audience expectations and the professional relationships necessary to accomplish complicated creative undertakings.

Those capabilities deserve recognition independently of the individual's continued interest in performing.

The industry shouldn't regard a person's departure from performing as the inevitable conclusion of that person's professional usefulness.

There are opportunities to develop mentorship arrangements, production training, technical education and entrepreneurial resources through which experienced performers can pursue additional professional ambitions.

Some will want to become producers or directors. Others may develop interests in publishing, photography, software, management or entirely different professions. Still others may have no interest in continuing their association with the industry, a decision deserving equal respect.

Professional development should expand the possibilities available to individuals rather than prescribe what their subsequent careers ought to become.

I would find it particularly gratifying to see businesses established by former performers whose principal commercial products are technologies, professional services or creative enterprises benefiting from the knowledge they acquired during their performing careers.

We possess a considerable collection of professional experience that shouldn't disappear from the industry's intellectual resources simply because somebody's relationship with the camera changes.

Make Their Work Worth Putting on a Résumé

One of the unfortunate consequences of the institutional prejudices surrounding our business is that some professionals may be reluctant to publicly identify their contributions to it.

A software engineer may develop an impressive technological capability yet feel uncomfortable identifying the enterprise responsible for commissioning it. A designer may produce excellent work that never appears in a professional portfolio.

That creates an additional recruitment disadvantage.

We should be making it easier for accomplished professionals to demonstrate the intellectual significance of their work, not more difficult.

Where appropriate, companies can publish technical documentation acknowledging the contributions of their developers, establish portfolio permissions for designers and provide meaningful professional references. Individuals should retain control over whether they are publicly associated with particular projects.

The publication of original technical research, discussed in Chapter 51, has additional significance in this respect. It can provide engineers and researchers with professionally recognizable accomplishments whose merits can be evaluated independently of the entertainment being distributed.

A developer who contributes to an original audiovisual architecture should be able to demonstrate that achievement to other developers.

We cannot eliminate every prejudice that professionals might encounter outside our industry. But we can develop working environments in which their accomplishments possess recognizable intellectual and professional substance.

Don't Confuse Loyalty with Captivity

Retaining exceptional people requires more imagination than simply making it difficult for them to leave.

Reasonable protections for confidential business information and legitimate intellectual property have their place. But the more compelling foundation for a durable professional relationship is an arrangement through which both parties continue acquiring value.

People should understand how their compensation can develop, what opportunities exist for advancement and how exceptional contributions will be recognized.

For some professionals, participation in the commercial success of an enterprise may be particularly attractive. Profit-sharing arrangements, royalties, performance-based compensation and genuine equity participation can establish opportunities extending beyond conventional salary arrangements.

Such propositions must be intelligible, documented and administered responsibly. A vague promise of future participation in the company's success isn't compensation merely because an entrepreneur enthusiastically describes it as such.

People deserve to understand what they're earning, when they're entitled to receive it and what circumstances could affect its value.

A company that establishes its commercial independence by diminishing the professional independence of the people responsible for building it has misunderstood an important principle of this book.

Become a Magnet for Intelligence

The quality of the people an enterprise attracts can influence practically every subsequent opportunity available to it.

An exceptional engineer may introduce the company to another exceptional engineer. An accomplished producer may attract creative professionals who would otherwise have little reason to investigate the organization. A respected designer may establish a professional reputation around the quality of the work emerging from the enterprise.

Over time, the company's reputation for developing interesting work and interesting people can become an important commercial advantage.

This is how relatively small organizations occasionally acquire intellectual capabilities disproportionate to their financial resources.

They become places where ambitious people encounter other ambitious people and discover that working together enables them to accomplish things they couldn't readily accomplish independently.

I want our industry to become considerably more interesting to intelligent people.

Not exclusively because of the unconventional entertainment we produce, but because of the unconventional opportunities we create for the people responsible for producing, distributing and reinventing it.

We have spent decades developing a business concerned with attracting people to our entertainment.

Perhaps we should devote comparable ingenuity to attracting people to our business.

CHAPTER 55

Manage What Matters

“An entrepreneur should never become so fascinated with measuring the business that he forgets what made the business worth building.”

A publisher announces that traffic has increased by forty percent. A production company celebrates having released more entertainment this year than last. A technology company proudly reports that its developers introduced twenty-seven new features during the preceding quarter.

Wonderful. How's business?

I'm not being facetious. None of those accomplishments necessarily indicates that the enterprises responsible for them are in substantially better commercial condition.

The publisher may have acquired increasingly expensive traffic of diminishing commercial value. The production company may have financed entertainment incapable of recovering its production expenses. The technology company may have made its principal product considerably more complicated without making it appreciably more useful.

One of the responsibilities of management is to distinguish the evidence of activity from the evidence of accomplishment.

The distinction becomes particularly important in an industry that has developed an almost insatiable appetite for statistics concerning the consumption of its product without necessarily developing a comparable understanding of the economic circumstances surrounding that consumption.

The Dashboard Delusion

Contemporary business software has made it remarkably easy to acquire information concerning practically every aspect of an enterprise.

We can examine where visitors originate, how long they remain, which devices they employ, what they purchase and how frequently they return. We can monitor the performance of our advertising, the consumption of our computing resources and the financial consequences of individual commercial transactions.

Yet access to enormous quantities of information doesn't necessarily produce better-informed management.

There is a peculiar satisfaction associated with opening a dashboard and discovering that several numbers are accompanied by upward-pointing green arrows. It provides management with the reassuring impression that things are happening in a favorable direction.

But an increase in something we haven't adequately understood is hardly a sufficient basis for celebration.

A company might experience simultaneous increases in revenue, operating expenses and outstanding financial obligations. The first number will generally receive considerably more attention than the other two, particularly when management is communicating its accomplishments to prospective investors.

The information itself may be entirely accurate. The interpretation of it may be entirely inadequate.

Management shouldn't be asking exclusively what happened. It should be asking what the information reveals about the condition of the business and what decisions, if any, should result from it.

The Business Behind the Numbers

Consider two hypothetical independent entertainment publishers.

Both operate legitimate commercial websites, acquire audiences through various marketing arrangements and generate revenue through a combination of subscriptions and advertising.

Their monthly operating results are as follows:

Illustrative Monthly Operating Performance

Financial measure	Publisher A	Publisher B
Revenue	$150,000	$100,000
Audience acquisition	$60,000	$15,000
Content and licensing expenses	$35,000	$25,000
Technology and distribution	$15,000	$10,000
Personnel and administration	$30,000	$25,000
Operating profit	**$10,000**	**$25,000**
Operating margin	**6.7%**	**25.0%**

Publisher A operates the larger business in terms of revenue. Publisher B operates the more profitable business, both in absolute terms and as a proportion of its revenue.

Even that comparison tells us relatively little about which enterprise possesses the more attractive future.

Publisher A may be deliberately investing in audience development that will produce substantial commercial returns over several years. Publisher B may be enjoying the temporary benefits of an established audience while neglecting the investments necessary to sustain it.

Alternatively, Publisher A may be perpetually purchasing revenue it cannot profitably retain, while Publisher B has established an economically sustainable relationship with its customers.

The financial statements provide a starting point for intelligent investigation, not a substitute for it.

The competent manager must understand the commercial machinery responsible for producing the numbers.

Look at the Business in Several Dimensions

In their 1992 Harvard Business Review article *The Balanced Scorecard: Measures That Drive Performance*, Robert S. Kaplan and David P. Norton introduced a framework through which managers could examine organizational performance beyond conventional financial measures.[1]

Their approach incorporated customer relationships, internal processes and the organization's capacity for learning and improvement alongside financial performance.

The intellectual significance of the Balanced Scorecard is particularly relevant to enterprises whose future commercial performance depends upon capabilities that aren't adequately reflected in their present financial statements.

A publisher investing in a substantially improved video experience may temporarily experience lower profitability. A production company developing the technical capabilities necessary to introduce new entertainment formats may incur expenses before generating additional revenue.

Management needs a means of determining whether those expenditures are producing meaningful progress before the financial returns become apparent.

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1. Robert S. Kaplan and David P. Norton, “The Balanced Scorecard: Measures That Drive Performance,” *Harvard Business Review* 70, no. 1 (1992): 71–79.

For our purposes, I would encourage entrepreneurs to examine their enterprises through several complementary dimensions:

- **Financial condition:** Is the business generating sufficient economic value to sustain its operations and ambitions?
- **Audience condition:** Are we developing durable, voluntary relationships with the people consuming our entertainment?
- **Creative condition:** Is the quality, originality and commercial relevance of our entertainment improving?
- **Operational condition:** Are our systems and professional arrangements becoming more dependable?
- **Intellectual condition:** Is the enterprise acquiring capabilities that expand its future commercial possibilities?
- **Professional condition:** Are we consistently fulfilling our obligations to the people whose contributions make the business possible?

The measures appropriate to each dimension will vary according to the character of the enterprise.

An independent performer doesn't require the same managerial reporting arrangements as an international distribution company. A software developer doesn't necessarily evaluate creative accomplishment in the same manner as a film producer.

Nevertheless, each should possess a sufficiently comprehensive understanding of the business to recognize when improvement in one area is being achieved at the expense of another.

Don't Let Yesterday's Numbers Manage Tomorrow's Business

Financial results are largely descriptions of circumstances that have already occurred.

By the time an enterprise recognizes a substantial decline in recurring revenue, the conditions responsible for that decline may have existed for several months.

Customers may have become increasingly dissatisfied with the quality of the entertainment. Technical deficiencies may have made the service less attractive. A competitor may have introduced a more compelling commercial proposition.

The financial consequences appear eventually, but the managerial opportunity to address their causes may have appeared considerably earlier.

This is why management should distinguish between leading and lagging indicators.

A lagging indicator describes an outcome that has already occurred. A leading indicator provides potentially useful information concerning an outcome that may subsequently occur.

Consider the following relationships:

Potential leading indicator	Possible subsequent consequence
Increasing playback failures	Declining audience retention
Fewer returning customers	Lower recurring revenue
Increasing production delays	Higher production expenses
Longer customer service resolution times	Greater customer dissatisfaction
Increasingly frequent software defects	Higher maintenance costs
Declining repeat bookings of production personnel	Greater difficulty assembling qualified crews

These relationships aren't inevitable. They represent propositions that management should investigate against the actual circumstances of its business.

The company that understands which operational developments tend to precede its financial difficulties has acquired an opportunity to respond before those difficulties become considerably more expensive.

Give Every Number a Context

Suppose a publisher reports that the number of customer cancellations declined from five hundred last month to four hundred this month.

That sounds encouraging until we discover that the number of subscriptions active at the beginning of each month declined from ten thousand to five thousand.

Assuming the cancellations in this example relate to those opening subscriber populations, the underlying cancellation rate has actually increased.

Subscriber measure	Month One	Month Two
Opening active subscriptions	10,000	5,000
Cancellations from opening subscriptions	500	400
Cancellation rate	5%	8%

Fewer cancellations. A considerably worse cancellation rate.

This illustrates a relatively elementary statistical problem, but elementary statistical problems can produce rather sophisticated commercial mistakes.

Management should be attentive to the population being measured, the period under examination and the circumstances influencing the result.

Comparing the commercial performance of a production released yesterday with that of a production released six months ago tells us relatively little unless we account for the difference in their commercial exposure.

Comparing subscription renewals across customers acquired through different promotional arrangements may reveal considerably more than examining a single renewal rate across the entire customer population.

The analytical technique known as cohort analysis involves examining groups that share a relevant characteristic, such as the period during which they first became customers.

A publisher could compare the ninety-day retention of customers acquired during January with those acquired during February, or examine whether different acquisition arrangements produce substantially different long-term commercial results.

The objective isn't to develop increasingly elaborate statistical machinery. It is to avoid reaching managerial conclusions that the information doesn't actually support.

Beware of Managing to the Measurement

In 1975, management scholar Steven Kerr published a wonderfully titled paper, *On the Folly of Rewarding A, While Hoping for B*.[2]

The subject was the frequently observed discrepancy between the behavior organizations profess to desire and the behavior their reward arrangements actually encourage.

2. Steven Kerr, “On the Folly of Rewarding A, While Hoping for B,” *Academy of Management Journal* 18, no. 4 (1975): 769–783. https://doi.org/10.5465/255378.

We examined this problem from the perspective of organizational culture in Chapter 53. It deserves further consideration here because performance measurement itself can influence behavior, even before financial incentives become involved.

Suppose an enterprise evaluates its customer service department according to the number of inquiries resolved each day.

Its personnel may discover that the most effective means of improving their measured performance involves closing inquiries as rapidly as possible, irrespective of whether the customer has actually received a satisfactory resolution.

Similarly, a production company evaluating its personnel principally according to the number of completed scenes may gradually encourage a creative environment in which additional attention to quality becomes commercially inconvenient.

The problem isn't that these measurements are necessarily useless. It is that management has allowed a measurement of one component of performance to become a substitute for evaluating performance itself.

Social scientist Donald T. Campbell examined a related problem in his work concerning the evaluation of social programs. His analysis warned of the pressures that can distort quantitative indicators when those indicators acquire substantial importance in decision-making.[3]

When professional success becomes contingent upon improving a number, people acquire compelling reasons to improve that number. Whether the enterprise benefits from the improvement is another matter.

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3. Donald T. Campbell, “Assessing the Impact of Planned Social Change,” *Evaluation and Program Planning* 2, no. 1 (1979): 67–90. https://doi.org/10.1016/0149-7189(79)90048-X. Commonly known as Campbell’s Law.

Management should periodically examine how its measurements might be improved without improving the underlying business.

That exercise can reveal some rather interesting deficiencies in the organization's definition of success.

Some Things Should Never Become Performance Targets

There are professional obligations that should not be administered as though they were ordinary commercial objectives.

Consider an organization that establishes a managerial target of reducing reported safety incidents or complaints concerning professional conduct.

Fewer reports may indicate an improvement in working conditions. They may also indicate that people have become increasingly reluctant to report problems.

Indeed, an organization that introduces a more trustworthy reporting procedure may initially experience an increase in reported incidents precisely because its people have become more comfortable communicating them.

Management should be particularly attentive to this distinction in our industry.

The objective is to improve the safety and professional conditions under which entertainment is created, not merely to reduce the quantity of documentation suggesting that those conditions require improvement.

Similarly, proper compensation, valid authorization and legitimate consent aren't commercial performance indicators to be balanced against production efficiency.

A production shouldn't receive a favorable managerial evaluation because its financial performance was sufficiently impressive to compensate for deficiencies in those responsibilities.

Certain obligations establish the conditions under which commercial activity can legitimately occur. They are not variables management should attempt to optimize away.

The Performance Measurement Audit

Most organizations periodically examine their financial performance. I suspect considerably fewer examine the quality of the measurements through which management evaluates that performance.

Given the influence these measurements exercise over the direction of the enterprise, they deserve an evaluation of their own.

The **Performance Measurement Audit** is concerned not principally with how well the business is performing, but with whether management possesses an intelligible, dependable and commercially useful means of determining how well it is performing.

Dimension	Audit question
Relevance	What meaningful business objective does this measurement represent?
Definition	Is everybody employing the same definition, calculation and reporting period?
Reliability	Can the underlying information be verified and reconciled?
Context	Are the relevant costs, denominators and circumstances represented?
Predictive value	Does the measurement reveal emerging conditions or merely describe completed events?
Distortion	Can somebody improve the measurement while damaging the underlying business?
Responsibility	Who is responsible for investigating and responding to significant changes?
Actionability	What managerial decision could reasonably result from this information?
Completeness	Which important aspects of the enterprise remain invisible to management?

Administer the audit against the reports management actually receives, not the reports it imagines would be useful.

Select several of the company's most frequently discussed performance indicators and examine each against these questions. Where two departments employ different definitions of the same measurement, reconcile them or clearly distinguish what each represents.

Where a measurement possesses no intelligible relationship to a managerial decision, consider whether it deserves the attention it presently receives.

Where the enterprise has established important commercial objectives for which no meaningful information is available, determine whether additional measurement, direct observation or professional evaluation would improve management's understanding.

The audit should also examine the expense of acquiring the information. A sophisticated measurement requiring substantial collection and administrative resources may not produce sufficient managerial value to justify its existence.

That includes the privacy implications of collecting consumer information. Our desire to understand the business doesn't entitle us to investigate every conceivable aspect of the lives of its customers.

The objective of the audit is better management, not more reporting.

Give the Management Meeting a Purpose

Imagine a weekly management meeting in which everybody arrives equipped with reports concerning their respective departments.

The publisher discusses traffic. The accountant discusses revenue. The production manager discusses completed projects. The technical director discusses software development.

Everybody describes what has happened, everybody acknowledges what everybody else has said, and everybody returns to work.

What has the meeting accomplished?

There is certainly value in establishing a common understanding of the condition of the enterprise. But I would prefer management meetings to be organized around the decisions necessary to improve that condition.

If advertising revenue has declined, determine whether the organization understands why, whether the decline warrants intervention and what information is necessary to decide upon an appropriate response.

If a production has substantially exceeded its budget, investigate whether the additional expenditure produced creative or commercial value, whether the original budget was reasonable and whether subsequent productions require different financial arrangements.

A useful managerial discussion should eventually produce some intelligible outcome: a decision, an assignment, an investigation, a modification of an existing objective or a deliberate determination that no intervention is necessary.

There is no particular virtue in changing something merely because its performance has been discussed.

There is considerable virtue in understanding why it should or shouldn't be changed.

Visit Your Own Business

For all the sophistication of contemporary business analytics, there remains something enormously valuable about experiencing the enterprise directly.

The publisher should occasionally visit the website without administrative privileges, on an ordinary mobile device, under the same circumstances as an unfamiliar customer. The executive responsible for customer service should occasionally observe an actual customer inquiry from its initiation through its resolution.

The production company owner should spend time understanding how a recently completed work is being presented, licensed and experienced outside the production environment.

A financial report can establish that a transaction failed. Experiencing the transaction may reveal why it failed.

An advertising report can establish that viewers abandoned a video during a commercial break. Watching the commercial break may reveal something that the report cannot adequately communicate.

There are characteristics of a business that remain difficult to quantify, including the elegance of its presentation, the intelligence of its creative decisions and the character of its professional relationships.

Those characteristics may ultimately determine whether the numbers management finds so interesting continue moving in a favorable direction.

Measurement should inform managerial judgment, not relieve management of the responsibility to exercise it.

Define Success Before You Measure It

There is a fundamental question that should precede practically every discussion of business performance.

What are we actually trying to accomplish?

An entrepreneur attempting to develop a prestigious independent production company will evaluate certain commercial opportunities differently from one attempting to establish an extensive distribution business. A software company seeking to introduce an original technology may evaluate its progress differently from an established provider concerned principally with operational efficiency.

Until we understand what the enterprise is attempting to become, we cannot adequately determine which developments constitute progress.

This is one of the reasons I am reluctant to prescribe a universal collection of performance indicators for our industry.

Our businesses should share certain fundamental professional standards. They needn't share identical ambitions.

An interesting enterprise may deliberately accept lower short--term revenue in pursuit of greater independence, stronger intellectual property, more distinctive entertainment or a more valuable relationship with its audience.

Management must possess the financial intelligence to understand the implications of those decisions and the strategic conviction to distinguish a temporary sacrifice from a deteriorating business.

The numbers are there to help us make that distinction.

They shouldn't be permitted to determine our ambitions merely because some ambitions are easier to measure than others.

An entrepreneur should never become so fascinated with measuring the business that he forgets what made the business worth building.

CHAPTER 56

The Intelligence of Failure

“Be stubborn about what you're trying to achieve.
Be considerably less stubborn about
how you intend to achieve it.”

There is a fine line between entrepreneurial determination and an expensive refusal to acknowledge reality. Unfortunately, the entrepreneur is frequently the least qualified person to determine when that line has been crossed.

We admire the individual who persists in the face of considerable adversity, particularly when that persistence ultimately produces an extraordinary commercial accomplishment. Business literature is filled with accounts of entrepreneurs who refused to abandon ideas that practically everybody else considered ridiculous.

Considerably fewer books are written about the entrepreneurs who refused to abandon ridiculous ideas and eventually lost everything.

The difficulty, of course, is that both individuals may exhibit remarkably similar behavior while their respective stories are still unfolding.

I have no interest in discouraging entrepreneurial persistence. Much of what I advocate throughout this book will require considerable determination on the part of the people attempting to accomplish it. But determination becomes dangerous when it relieves the entrepreneur of the responsibility to continually examine the intelligence of what he's determined to accomplish.

Sometimes the most entrepreneurial decision you can make is to stop doing something you were once enormously enthusiastic about doing.

Your Money Doesn't Remember Where It Came From

Suppose a production company has invested seventy-five thousand dollars developing a new entertainment property. The undertaking has encountered several difficulties, commercial interest has been considerably less enthusiastic than anticipated, and management determines that another twenty-five thousand dollars will be necessary to complete and distribute the production.

The company's founder argues that abandoning the project would mean wasting the seventy-five thousand dollars already invested.

But that money has already been spent.

The relevant commercial question concerns the next twenty-five thousand dollars and what the enterprise can reasonably expect to accomplish with it.

Consider the following hypothetical alternatives:

Financial consideration	Complete the production	Abandon the production
Investment already incurred	$75,000	$75,000
Additional expenditure	$25,000	$0
Anticipated future net receipts	$18,000	$5,000
Net future financial contribution	($7,000)	$5,000

Assume that the five thousand dollars obtainable by abandoning the production represents the legitimate salvage value of existing assets after satisfying applicable contractual obligations.

Completing the production would leave the enterprise twelve thousand dollars worse off than abandoning it.

Naturally, an actual commercial decision might involve additional considerations. Completing the production could preserve an important professional relationship, satisfy contractual commitments or establish intellectual property possessing long-term commercial value.

Those considerations deserve examination. The seventy-five thousand dollars already spent doesn't, by itself, constitute a compelling reason to spend another twenty-five thousand.

Economists describe irrecoverable expenditures of this kind as *sunk costs*. The principle is relatively elementary. Applying it to something into which you've invested two years of your life, considerable personal resources and a substantial portion of your professional reputation can be considerably more complicated.

The money doesn't possess an emotional attachment to the undertaking.

You do.

The Increasing Expense of Being Right

In 1976, organizational psychologist Barry M. Staw published a study entitled *Knee-Deep in the Big Muddy: A Study of Escalating Commitment to a Chosen Course of Action*.[1]

His research examined how personal responsibility for an earlier decision could influence subsequent commitments of resources when that decision produced unfavorable results.

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1. Barry M. Staw, “Knee-Deep in the Big Muddy: A Study of Escalating Commitment to a Chosen Course of Action,” *Organizational Behavior and Human Performance* 16, no. 1 (1976): 27–44. https://doi.org/10.1016/0030-5073(76)90005-2.

The phenomenon has acquired considerable significance in the study of managerial behavior. An individual responsible for establishing a particular course of action may have additional psychological reasons for continuing it, including the desire to justify the original decision.

This can become particularly troublesome in independently owned enterprises, where the individual responsible for making a commercial decision is frequently also responsible for evaluating its intelligence.

A publisher invests heavily in a particular traffic acquisition strategy. The strategy produces disappointing commercial results, but the publisher becomes convinced that additional expenditure will eventually demonstrate its viability.

A software entrepreneur introduces a product whose capabilities generate little commercial interest. Rather than investigating the attractiveness of the underlying proposition, the entrepreneur continually introduces additional features in the hope that the marketplace will eventually recognize its brilliance.

A producer continues financing a particular series of entertainment because abandoning it would require acknowledging that the original creative judgment may have been mistaken.

In each circumstance, additional investment may be entirely appropriate. The danger arises when the justification for that investment gradually shifts from developing the business to vindicating the individual responsible for the decision.

The entrepreneur should periodically invite someone who wasn't involved in the original undertaking to evaluate its commercial prospects. Give that individual access to the relevant information and encourage an independent assessment of what the enterprise ought to do next.

A fresh evaluation can be particularly valuable when the people most intimately acquainted with an undertaking have become emotionally invested in its success.

You don't need somebody to explain why you originally believed in it.

You need somebody capable of determining whether you still should.

Don't Mistake Resistance for Rejection

There is another complication particularly relevant to our industry.

An unsuccessful commercial undertaking doesn't necessarily establish that the product itself lacks commercial merit.

A publisher introducing an original entertainment format may encounter difficulties because existing distribution arrangements cannot adequately accommodate it. A technology company may struggle to acquire customers because its prospective customers don't understand the problem its technology resolves. A production company may discover considerable enthusiasm for its entertainment while encountering financial institutions unwilling to facilitate its commercialization.

These circumstances require different managerial responses.

If the customer doesn't want the product, the entrepreneur has a product problem. If the customer wants the product but cannot conveniently acquire it, the entrepreneur may have a distribution or commercial infrastructure problem.

If the customer wants the product but not at the price necessary to sustain its production, the entrepreneur has an economic problem that enthusiasm alone cannot resolve.

Management should distinguish among several possible explanations for disappointing commercial performance:

- The proposition itself is insufficiently attractive.
- The proposition hasn't been adequately communicated.
- The intended customer cannot conveniently acquire it.
- The company cannot deliver it at a sustainable cost.
- The marketplace isn't sufficiently developed to support it presently.

These are different problems. Abandoning an excellent product because of an incompetent distribution arrangement can be every bit as foolish as financing an unattractive product indefinitely because management insists that its difficulties are exclusively attributable to distribution.

Our industry's unusual commercial circumstances provide entrepreneurs with legitimate reasons to investigate the causes of unfavorable results.

They also provide us with an extraordinarily convenient collection of explanations for our own mistakes.

We must learn to distinguish between the two.

Failure Is Not an Accomplishment

Entrepreneurial culture has developed a rather peculiar enthusiasm for failure.

People are encouraged to fail frequently, fail quickly and celebrate their failures as evidence of an innovative disposition. There is some intellectual merit to the underlying philosophy, but I find its more enthusiastic interpretations rather absurd.

Failure doesn't become valuable simply because it occurs in the vicinity of innovation.

In her 2011 Harvard Business Review article *Strategies for Learning from Failure*, management scholar Amy Edmondson distinguished among failures arising from avoidable mistakes, the complexities of operating environments and intelligent experimentation at the boundaries of existing knowledge.[2]

That distinction matters enormously.

A carefully designed experiment that produces an unexpected commercial result can provide valuable information. A company that repeatedly loses important production materials because it hasn't established dependable preservation procedures isn't engaged in entrepreneurial experimentation. It's being incompetently managed.

Similarly, we shouldn't employ the language of entrepreneurial risk-taking to characterize professional misconduct, failures of consent or preventable injuries. Those circumstances require accountability, appropriate intervention and corrective action.

The intellectual freedom necessary to investigate new ideas doesn't exempt an enterprise from the responsibility to conduct its experiments professionally.

We should become more enthusiastic about acquiring knowledge and less enthusiastic about the mere occurrence of failure.

Decide When to Quit Before You Start

One of the most useful things management can establish before undertaking a substantial commercial initiative is the circumstances under which it will reconsider that initiative.

Suppose an independent publisher intends to introduce a paid collection of specially commissioned entertainment through a new commercial arrangement.

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2. Amy C. Edmondson, “Strategies for Learning from Failure,” *Harvard Business Review* 89, no. 4 (2011): 48–55, 137.

Before the undertaking begins, management could establish the maximum financial resources it is prepared to commit, the commercial assumptions upon which the proposition depends and the period necessary to obtain meaningful information concerning its performance.

It might authorize an initial investment of twenty thousand dollars over six months, subject to several specific reviews.

Review period	Principal managerial question
Month Two	Are we reaching the intended audience, and can customers successfully acquire the product?
Month Four	Are customers purchasing and returning under conditions consistent with our commercial assumptions?
Month Six	Does the accumulated evidence justify further investment, modification or abandonment?

These aren't necessarily deadlines for profitability. They are occasions for exercising informed managerial judgment.

The company may discover that the product requires a longer development period than initially anticipated. It may identify an unexpected marketplace that justifies additional investment. But any decision to modify the original undertaking should have a more substantial foundation than management's reluctance to discontinue it.

An extension should be supported by new information, a credible explanation of the circumstances and a defensible commercial proposition concerning the additional resources required.

Otherwise, the original financial boundary becomes little more than an administrative inconvenience.

The Entrepreneurial Autopsy

Most businesses examine the causes of their most serious commercial mistakes after those mistakes have become expensive.

I would prefer to examine some of them considerably earlier.

Cognitive psychologist Gary Klein described a particularly useful planning technique in his 2007 Harvard Business Review article *Performing a Project Premortem*.[3] The approach involves imagining that a proposed undertaking has already failed and investigating the circumstances that might have caused its failure.

I would extend that exercise beyond individual projects to the entrepreneurial direction of the enterprise itself.

Let's call it the **Entrepreneurial Autopsy**.

Imagine that your business has failed three years from now. Which decisions you're making today would explain its demise?

The distinction between this exercise and an ordinary discussion of commercial risk is that management begins with the imagined failure of the enterprise and works backward to its present behavior.

A publisher might discover that its excessive dependence upon a single source of traffic has become commercially dangerous. A production company might recognize that its financing arrangements require an increasingly unrealistic volume of successful releases. A technology company might identify an architecture that would become prohibitively expensive to maintain as its customer population expands.

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3. Gary Klein, “Performing a Project Premortem,” *Harvard Business Review*, September 2007. https://hbr.org/2007/09/performing-a-project-premortem.

The purpose isn't to predict every conceivable disaster. It is to examine how apparently reasonable decisions being made today could collectively produce an unreasonable commercial outcome.

Ask the people participating in the exercise to develop their explanations independently before discussing them together. This reduces the likelihood that the founder's interpretation will immediately establish the boundaries of everybody else's thinking.

Then examine each plausible explanation in terms of four considerations:

- What present decision or practice could contribute to this outcome?
- What early evidence would indicate that the problem is developing?
- What could the enterprise change now to reduce its exposure?
- Who possesses the authority and responsibility to make that change?

The exercise shouldn't conclude with a fascinating discussion about hypothetical corporate mortality. It should produce a collection of practical managerial decisions.

A business may discover that it needs to diversify a commercial relationship, modify its financial commitments, establish additional operational capabilities or abandon a particularly dangerous assumption.

It may also discover that its most substantial commercial vulnerabilities are already well understood by practically everybody except the people responsible for determining its direction.

The Entrepreneurial Autopsy is an enterprise-level adaptation of the established premortem methodology, not a claim to having invented that methodology.

Its particular value lies in encouraging entrepreneurs to examine the cumulative consequences of their own decisions while they still possess the opportunity to make different ones.

Preserve the Knowledge When You Abandon the Product

A company that discontinues an unsuccessful undertaking shouldn't necessarily dispose of everything it developed in the course of pursuing it.

An entertainment property may have failed commercially while producing valuable knowledge concerning audience preferences, creative techniques or production economics. A software application may have failed to attract customers while generating useful technological capabilities that could subsequently become components of more successful products.

Management should distinguish the failure of the commercial proposition from the value of the intellectual resources acquired through investigating it.

Document what was learned. Preserve the useful software components and authorized creative assets. Examine whether the undertaking revealed opportunities the enterprise hadn't originally intended to investigate.

There is an important qualification here: the possibility of salvaging intellectual value shouldn't become an excuse for indefinitely preserving an unsuccessful commercial operation.

Knowledge can survive the project that produced it.

Sometimes the most valuable thing emerging from an invention is an understanding of what to invent next.

When Perseverance Becomes Vanity

The more publicly an entrepreneur has committed himself to the success of an undertaking, the more personally uncomfortable abandoning it can become.

He has announced the product, discussed its commercial possibilities with colleagues, encouraged people to participate in its development and perhaps established a portion of his professional identity around its anticipated accomplishments.

Discontinuing the undertaking may feel considerably more consequential than an ordinary managerial decision.

But the entrepreneur's reputation shouldn't become another expense the enterprise is required to finance.

There is no particular intellectual embarrassment in acknowledging that a proposition once considered attractive has subsequently become less attractive. Circumstances change. Information improves. Technologies evolve. Competitors introduce capabilities that weren't available when the original decision was made.

The ability to reconsider a decision in light of better information is an essential component of managerial intelligence.

I would have considerably more confidence in an entrepreneur capable of explaining why he abandoned an unsuccessful undertaking than in one who insists that every proposition he has ever conceived remains on the verge of a magnificent commercial breakthrough.

We shouldn't confuse consistency of purpose with consistency of method.

The entrepreneur committed to reinventing the entertainment experience may investigate several approaches that prove unsatisfactory. Abandoning those approaches needn't diminish his commitment to the larger undertaking. It may substantially improve his ability to accomplish it.

Be stubborn about what you're trying to achieve.

Be considerably less stubborn about how you intend to achieve it.

CHAPTER 57

Buy Yourself Time

“Financial independence isn't merely the ability to pay for what you want to do. It's the ability to decline what you don't.”

Among the most valuable things an entrepreneur can purchase with money is the freedom not to make a desperate decision.

We ordinarily associate financial resources with the acquisition of things: equipment, software, intellectual property, personnel and commercial opportunities. But money also purchases something considerably less tangible and occasionally more valuable. It purchases time in which to exercise intelligent judgment.

The publisher who desperately needs revenue by Friday may accept a commercial arrangement he would otherwise consider insulting. The producer who cannot finance another production may relinquish valuable distribution rights under circumstances that bear little relationship to their potential worth. The technology entrepreneur who cannot meet next month's operating expenses may abandon a promising invention before it has acquired a reasonable opportunity to succeed.

In each instance, the entrepreneur's commercial judgment becomes subordinate to the calendar.

Financial management should be concerned with more than determining whether the enterprise is profitable. It should be concerned with preserving the entrepreneur's ability to determine the direction of the enterprise.

Profitable and Broke

There is nothing particularly original about distinguishing profitability from liquidity. Accountants have been attempting to communicate the distinction to entrepreneurs for generations.

Nevertheless, it remains one of the most important distinctions in the administration of an entertainment business.

A production company can possess valuable intellectual property, profitable distribution agreements and considerable outstanding receivables while experiencing enormous difficulty meeting its immediate financial obligations.

The company may be profitable under an accrual accounting system, which recognizes revenue when earned and expenses when incurred according to applicable accounting principles, rather than exclusively when money changes hands. But the people responsible for making the entertainment cannot purchase groceries with the company's outstanding receivables.

The International Accounting Standards Board recognizes the importance of examining actual movements of cash through International Accounting Standard 7 (IAS 7), which distinguishes among operating, investing and financing cash flows.[1]

The managerial significance of these distinctions becomes apparent when examining how a business actually sustains itself.

An enterprise generating cash through its ordinary commercial activities occupies a substantially different financial position from one continually replenishing its accounts through borrowing or additional contributions from its owners.

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1. International Accounting Standards Board, *IAS 7: Statement of Cash Flows*, para. 10 (2022 issued standards, p. A1044). IFRS Foundation. https://www.ifrs.org/issued-standards/list-of-standards/ias-7-statement-of-cash-flows/.

Both may possess identical bank balances on a particular afternoon.

One may have developed a sustainable business. The other may simply have developed an effective means of financing an unsustainable one.

The Calendar Is a Financial Instrument

Entertainment companies frequently incur expenses considerably earlier than they receive the revenue those expenses are intended to produce.

A production must be financed before it can be distributed. Software must be developed before it can be licensed. Marketing expenditures may precede the acquisition of customers whose commercial value becomes apparent over an extended period.

The relevant financial question isn't exclusively whether those undertakings will eventually become profitable. It is whether the enterprise possesses sufficient financial resources to remain operational until they do.

Consider a hypothetical independent production company beginning the year with sixty thousand dollars in available cash.

Management anticipates that several completed productions will generate substantial distribution receipts during the ensuing months. Meanwhile, it intends to continue financing new productions and meeting its ordinary commercial obligations.

Illustrative Six-Month Cash Flow Projection

Month	Cash receipts	Cash expenditures	Closing cash balance
January	$10,000	$35,000	$35,000
February	$15,000	$40,000	$10,000
March	$20,000	$35,000	($5,000)
April	$50,000	$30,000	$15,000
May	$45,000	$30,000	$30,000
June	$60,000	$35,000	$55,000
Total	**$200,000**	**$205,000**	

The company anticipates finishing June with fifty-five thousand dollars, only five thousand dollars less than it possessed at the beginning of January.

But it runs out of money in March.

The negative balance represents an unfunded cash shortfall, not an assumption that the company's financial institution will automatically accommodate it. The projected subsequent recovery depends upon management finding a legitimate means of financing or avoiding that shortfall.

And the monthly figures may actually understate the problem. If substantial expenses become payable at the beginning of a month while receipts arrive near its conclusion, the company's maximum funding requirement could be considerably greater.

This is why the timing of commercial arrangements deserves nearly as much attention as their financial value.

Negotiating an earlier distribution payment, scheduling a discretionary production expenditure differently or establishing appropriate financing arrangements in advance could substantially alter the company's financial circumstances without altering the underlying creative ambitions of the enterprise.

Management should examine not merely how much money the company expects to receive, but when it can reasonably expect to receive it.

The Financial Value of Saying No

In September 2016, the JPMorgan Chase Institute published an examination of cash flows and balances based upon transactions involving approximately 597,000 small businesses during 2015.

The median business in the study possessed sufficient cash to sustain approximately twenty-seven days of its typical expenditures in the absence of further receipts.[2]

The research wasn't specific to our industry, and the figure shouldn't be interpreted as a contemporary estimate of the financial condition of adult entertainment enterprises. Nevertheless, it illustrates how little time many independent businesses historically possessed in which to respond to an interruption in revenue.

I find the strategic implications of financial reserves particularly interesting.

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2. Diana Farrell and Chris Wheat, *Cash Is King: Flows, Balances, and Buffer Days* (JPMorgan Chase Institute, September 2016). https://www.jpmorganchase.com/institute/all-topics/business-growth-and-entrepreneurship/report-cash-flows-balances-and-buffer-days.

Consider two publishers offered an undesirable advertising arrangement. One has sufficient financial resources to operate for several months while developing alternatives. The other cannot meet its forthcoming obligations without accepting the arrangement.

Both possess the formal authority to refuse the proposition.

Only one possesses much practical freedom to exercise that authority.

We have discussed publisher sovereignty extensively throughout this book. Financial reserves are an important component of that sovereignty because they allow the entrepreneur to withstand the immediate economic consequences of exercising independent judgment.

Money in reserve may appear unproductive when compared with money invested in acquiring additional customers, producing additional entertainment or developing additional technology.

But its productivity becomes rather apparent when it enables the enterprise to reject a commercially destructive proposition.

Not All the Money Is Yours

The balance appearing in a company's bank account can be a dangerously misleading indication of the financial resources available to its management.

A subscription business may collect annual membership fees in advance. A distributor may receive money that must subsequently be apportioned among several rights holders. A production company may possess funds advanced for the specific purpose of financing an undertaking whose expenses have not yet been incurred.

The presence of that money doesn't establish that the entrepreneur is free to employ it for unrelated commercial activities.

Consider a publisher that collects sixty thousand dollars through the sale of annual memberships. The immediate financial circumstances of the company may improve substantially.

But the publisher has also undertaken to provide entertainment and maintain a commercial service over the ensuing twelve months. Depending upon its agreements and accounting arrangements, it may have obligations associated with refunds, taxes and the recognition of revenue over that period.

Spending the entire sum on an unrelated development undertaking could create considerable difficulties for the enterprise responsible for fulfilling those obligations.

The same principle applies to money received on behalf of performers, producers, affiliates and other professional participants entitled to compensation.

Where funds are legally or contractually required to be segregated, they must be administered accordingly. More generally, management should maintain a clear distinction between money available for discretionary investment and money necessary to satisfy obligations already undertaken.

An entrepreneur who continually finances new commercial activities with funds necessary to fulfill previous commitments hasn't necessarily developed an ingenious financing strategy.

He may simply be accumulating obligations faster than he is fulfilling them.

Growth Can Make You Poorer

One of the more uncomfortable discoveries an entrepreneur can make is that the successful expansion of a business can create a financial emergency.

A production company acquires additional distribution agreements and responds by substantially increasing its production schedule. An infrastructure provider acquires several large customers whose requirements necessitate additional technological expenditure. A publisher successfully introduces a membership proposition requiring a substantially greater volume of original entertainment.

Demand increases. Commercial opportunities multiply. The business requires more money.

If the additional expenses occur before the additional receipts become available, growth can consume financial resources considerably faster than management anticipated.

This is why I am somewhat suspicious of the entrepreneur whose principal ambition is to double the size of his business without possessing a reasonably detailed understanding of what doubling its size would actually require.

Suppose a production company can finance one production each month at a cost of twenty thousand dollars, with the anticipated recovery of that expenditure occurring approximately three months later.

Ignoring other expenses and assuming those receipts arrive after the next production expenditure is due, the company may have to finance four productions, totaling eighty thousand dollars, before receiving its first distribution payment.

Increasing production to two each month could double that initial financing requirement to one hundred and sixty thousand dollars.

The expansion might ultimately prove enormously profitable. But profitability doesn't automatically provide the additional eighty thousand dollars required to undertake it.

Management should establish the financial requirements of growth before celebrating the commercial opportunities associated with it.

Know What You're Financing

I would encourage entrepreneurs to distinguish among three fundamentally different purposes for which they allocate financial resources.

The first is sustaining the enterprise. These expenditures include the legitimate compensation of its people, maintaining dependable infrastructure and fulfilling existing commercial and contractual obligations.

The second is expanding established commercial activities. The enterprise has developed a reasonably intelligible understanding of the economics associated with those activities and believes additional investment will produce additional value.

The third is investigating future commercial activities. These expenditures concern inventions, experiments and opportunities whose financial consequences remain substantially less predictable.

The three purposes deserve different managerial treatment.

An exploratory development project shouldn't necessarily be evaluated according to the same immediate profitability requirements as an established commercial operation. Conversely, an established commercial operation shouldn't continually excuse its inability to generate a sustainable financial contribution by describing itself as an investment in the future.

The distinction also helps management determine which expenditures could be postponed if the financial circumstances of the enterprise deteriorate.

A speculative development undertaking may legitimately be delayed. The compensation already owed to the people responsible for developing it cannot simply be treated as discretionary.

An intelligently financed enterprise should preserve its ability to pursue interesting commercial opportunities without making the fulfillment of existing obligations contingent upon their success.

Don't Sell the Future to Finance the Present

Creative businesses frequently possess assets whose long-term commercial significance is difficult to determine.

A collection of original entertainment may generate revenue for many years. An independently developed software architecture may acquire commercial applications its inventor hasn't yet considered. A distinctive brand may become considerably more valuable as the marketplace surrounding it develops.

When an enterprise encounters immediate financial difficulties, those assets can become attractive sources of financing.

There is nothing inherently wrong with licensing intellectual property, selling assets, accepting outside investment or establishing other legitimate arrangements to obtain capital.

What concerns me is the possibility that the entrepreneur will make a permanent commercial decision to resolve a temporary financial problem.

Consider a producer offered twenty-five thousand dollars in exchange for perpetual and exclusive distribution rights to an entire collection of entertainment.

The proposition may be attractive. It may also represent an enormous sacrifice of future commercial possibilities, depending upon the scope of the rights involved and the economic prospects of the collection.

If the producer requires twenty-five thousand dollars immediately, the attractiveness of the proposition may be evaluated principally according to its ability to resolve the immediate problem.

That is an extraordinarily narrow basis upon which to determine the commercial future of an intellectual asset.

Management should examine whether a more limited licensing arrangement, a nonexclusive agreement, an advance against future receipts or another appropriate financial arrangement might accomplish the immediate objective without relinquishing substantially more than necessary.

The alternatives may not always exist. Financial institutions may be reluctant to accommodate the enterprise, and prospective commercial partners may have little interest in accepting more limited rights.

Which makes preparing for the company's financial requirements before they become emergencies considerably more important.

Give Your Ambitions a Financial Architecture

An entrepreneur doesn't necessarily require an elaborate financial department to develop greater financial intelligence.

A small enterprise can begin with a reasonably dependable projection of anticipated receipts and expenditures, regularly updated to reflect changing circumstances.

Management should understand which receipts are reasonably dependable, which are contingent upon uncertain commercial developments and which expenses represent obligations that cannot legitimately be deferred.

It should also examine what would happen if its assumptions proved overly optimistic.

If distribution receipts arrived thirty days later than anticipated, would the company remain operational? If a major advertising customer discontinued its relationship with the publisher, could the company continue fulfilling its obligations? If a development undertaking required considerably more time than originally projected, could the enterprise finance its completion without compromising its existing business?

These scenarios should influence the amount of financial reserves management considers appropriate. There is no universally correct reserve requirement for businesses whose expenses, revenue patterns and exposure to commercial disruptions differ substantially.

Excessive reserves can also carry an opportunity cost. Money retained indefinitely without a compelling financial purpose may represent inventions not developed, talent not acquired and commercial opportunities not pursued.

The objective is to establish a financial position that accommodates the company's ambitions without leaving it perpetually vulnerable to its own optimism.

The Luxury of Thinking Clearly

Throughout this book, I've advocated greater entrepreneurial ambition. I want independent publishers to develop new technologies, filmmakers to investigate new creative possibilities and businesses throughout our industry to challenge commercial arrangements we've tolerated for far too long.

Those ambitions require financial discipline.

Not the sort of discipline that regards every expenditure as an unfortunate necessity, but the sort that recognizes how intelligently administered financial resources expand the possibilities available to the entrepreneur.

I don't want our businesses to accumulate money merely for the satisfaction of possessing it. I want them to develop sufficient financial strength to pursue opportunities on their own terms.

There is an enormous difference between selling something because you've negotiated an attractive commercial proposition and selling something because the rent is due.

The former is entrepreneurship. The latter may occasionally be unavoidable, but it shouldn't become the foundation upon which an enterprise conducts its business.

Buy yourself the time to invent something properly. Buy yourself the time to negotiate intelligently. Buy yourself the time to recognize a mistake without having to make another one to finance it.

Financial independence isn't merely the ability to pay for what you want to do.

It's the ability to decline what you don't.

CHAPTER 58

The Discipline of Execution

“The world is full of people who are going to do magnificent things. I am considerably more interested in the people doing them.”

The world is full of people who are going to do magnificent things.

I am considerably more interested in the people doing them.

Entrepreneurial conversation can be wonderfully intoxicating. Get several intelligent businesspeople together over dinner and, by the time the coffee arrives, they've reinvented an industry, developed three new products and established the conceptual foundations of a multinational corporation.

Six months later, get the same people together and you may have an opportunity to enjoy substantially the same conversation.

There is something enormously satisfying about conceiving an interesting business proposition. It exercises the imagination, generates enthusiasm and allows the entrepreneur to briefly inhabit a future considerably more attractive than the present.

Execution is a somewhat less romantic undertaking. It involves resolving technical deficiencies, negotiating agreements, administering expenses, correcting mistakes and attending to hundreds of relatively uninteresting details upon which the realization of an interesting idea depends.

But the commercial world doesn't reward the sophistication of our intentions. It rewards what those intentions eventually produce.

The Management of Almost

There are businesses in our industry that seem perpetually on the verge of becoming magnificent enterprises.

They're almost ready to introduce a new publishing platform. They're almost finished developing a new commercial arrangement. They're almost prepared to introduce a technology that will substantially improve their ability to compete.

Their management can describe these undertakings with extraordinary enthusiasm and considerable technical sophistication.

The customer, however, continues experiencing essentially the same business.

There is a danger in allowing the anticipated capabilities of an enterprise to become confused with its actual capabilities. Entrepreneurs become intimately acquainted with the products they're developing, sometimes to the extent that those products acquire a psychological existence considerably earlier than they acquire a commercial one.

The founder of a technology company may regard a particular capability as an important competitive advantage because the underlying software has been developed.

But has it been integrated into the product? Has it been tested under actual operating conditions? Can the customer successfully employ it without the assistance of the person who invented it?

A production company may possess an extensive collection of completed entertainment. But has the material been properly prepared for distribution? Have the necessary commercial arrangements been established? Can the intended audience actually acquire it?

Until an undertaking becomes accessible to the people for whom it was conceived, much of its anticipated commercial value remains precisely that: anticipated.

Everything Cannot Be a Priority

In his 1967 Harvard Business Review article *The Effective Decision*, Peter Drucker emphasized the importance of concentrating executive attention upon consequential decisions rather than becoming preoccupied with the sheer quantity of decisions being made.[1]

The principle deserves considerable attention among entrepreneurial businesses because entrepreneurs are frequently exceptionally good at discovering interesting things to do.

Their difficulty resides in determining which interesting things not to do.

A publisher wants to redesign its website, introduce a membership program, develop a mobile application, establish independent advertising capabilities and commission an original collection of entertainment.

Each proposition may possess legitimate commercial merit.

Collectively, they may constitute an irresponsible development agenda for an enterprise possessing two developers, a modest operating budget and several existing commercial obligations.

The entrepreneur hasn't necessarily made five bad decisions. He may have made five individually reasonable decisions without examining their consequences for one another.

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1. Peter F. Drucker, “The Effective Decision,” *Harvard Business Review* 45, no. 1 (January–February 1967): 92–98. https://hbr.org/1967/01/the-effective-decision.

Effective prioritization requires more than arranging undertakings according to their relative importance. It requires determining which undertakings the enterprise can responsibly pursue at the same time.

An organization's development agenda should reflect its actual capacity to accomplish things, not the capacity of its founder to conceive them.

Finish Something

Consider a small technology company possessing sufficient development resources to undertake four projects, each requiring approximately one hundred hours of work.

Management has allocated twenty-five hours of development time per week to these undertakings.

Assuming comparable development requirements, no dependencies between the projects and no additional costs associated with switching among them, the company could distribute its resources equally across all four projects or concentrate those resources upon completing one project at a time.

Illustrative Development Completion Schedule

Project	Concurrent development	Sequential development
Project A	Week 16	Week 4
Project B	Week 16	Week 8
Project C	Week 16	Week 12
Project D	Week 16	Week 16

Under either arrangement, all four projects require sixteen weeks to complete.

Under the second arrangement, however, the company possesses a completed product or capability after four weeks. It can begin examining the commercial consequences of that accomplishment while developing the next one.

If Project A produces useful revenue, the enterprise may acquire additional financial resources. If it reveals an important technical problem, management may be able to modify subsequent projects before investing extensively in them.

Actual development environments are rarely this straightforward. Some undertakings benefit from concurrent activity, particularly where different specialists are involved or where one project must await external developments.

Nevertheless, the example illustrates the potential economic significance of completing work earlier rather than accumulating partially completed work.

An organization can possess an impressive collection of development projects without possessing much to show for its development expenditure.

Progress acquires a different commercial significance when something is finished.

Define What Finished Means

One of the more troublesome characteristics of creative and technological work is the difficulty associated with determining when it has been completed.

A director can continue refining a production. A designer can continue modifying an interface. A software developer can continually discover additional capabilities worth incorporating into a product.

There is always something else that could be improved.

Throughout this book, I've advocated an uncompromising interest in excellence. But excellence shouldn't become an intellectual justification for indefinitely postponing the delivery of something excellent.

The Minimum Excellent Product introduced in Chapter 18 has practical managerial significance here. It establishes a distinction between delivering a product of genuinely impressive quality and attempting to incorporate every conceivable improvement into its first commercial incarnation.

Management should establish an intelligible understanding of what constitutes completion before substantial development begins.

For a new video publishing capability, completion might require that the following conditions be satisfied:

Area	Condition for completion
Functionality	The intended capability operates correctly under defined conditions.
Compatibility	It functions across the devices and environments the company promises to support.
Reliability	Important failure conditions have been identified and appropriately addressed.
Commercial readiness	Pricing, entitlements and reporting operate as intended.
Professional obligations	Applicable rights, privacy and security requirements have been satisfied.
Customer readiness	The customer can understand and employ the capability without unreasonable assistance.
Operational readiness	The company can maintain, support and correct the product after its introduction.

This isn't intended as a universal checklist for every development undertaking. It illustrates the difference between completing the technical construction of a capability and completing the commercial work necessary to introduce it responsibly.

Once those conditions have been satisfied, additional ideas can become candidates for subsequent development rather than reasons to continually postpone the original accomplishment.

There is nothing inconsistent about releasing an excellent product while possessing an ambitious collection of ideas for making it more excellent.

Somebody Has to Own the Outcome

A management meeting concludes with universal agreement that the company's publishing environment requires substantial improvement.

The creative personnel agree. The developers agree. The commercial personnel agree. The founder is particularly enthusiastic about the proposition.

Who is responsible for accomplishing it?

This relatively elementary question can become remarkably difficult to answer in organizations that confuse collective enthusiasm with individual accountability.

An undertaking may require contributions from several people. But somebody should possess sufficient authority and responsibility to coordinate those contributions, identify circumstances preventing progress and ensure that the undertaking reaches its intended conclusion.

This doesn't mean that the individual must personally perform every activity associated with the project. As we discussed in Chapter 52, that would defeat much of the purpose of developing an organization.

It means that the enterprise has established a clearly identifiable point of responsibility for the outcome.

A developer responsible for introducing a new playback capability should understand which commercial and creative requirements must be satisfied. A producer responsible for delivering a finished work should understand the distribution requirements associated with it.

Management must also provide those individuals with reasonable access to the resources and decisions upon which their responsibilities depend.

Holding somebody accountable for an accomplishment while withholding the authority necessary to achieve it is not particularly sophisticated management.

Stop Moving the Finish Line

Entrepreneurs can become enormously expensive participants in the development process.

They conceive a product, authorize its development and subsequently discover additional ideas that make the original proposition considerably more interesting.

The developer incorporates those ideas.

The entrepreneur examines the result and discovers several additional possibilities.

The developer incorporates those as well.

Eventually, the product has acquired considerably more capabilities than originally contemplated, consumed substantially more resources than originally allocated and become considerably less predictable in terms of its commercial introduction.

The entrepreneur wonders why development is taking so long.

Project management professionals commonly describe the uncontrolled expansion of a project's requirements as *scope creep*. I suspect that in entrepreneurial enterprises it frequently originates with the very people complaining about the project's inability to reach completion.

There is nothing wrong with acquiring better ideas during development. Indeed, the discovery of better ideas is one of the more interesting consequences of undertaking development in the first place.

The managerial responsibility is to determine whether those ideas warrant modifying the current undertaking or establishing a subsequent one.

A discovery that reveals a substantial deficiency in the original proposition may justify changing its requirements immediately. An attractive additional capability may be better suited to a subsequent release.

The distinction should be evaluated against the commercial consequences of the change, not exclusively the enthusiasm of the person proposing it.

Not every good idea belongs in the product currently being built.

Reduce the Distance Between Invention and Use

Software delivery research conducted under the DevOps Research and Assessment (DORA) program identifies working in small batches as an important practice for shortening feedback cycles and improving the administration of software changes.[2]

The principle has interesting applications throughout our business.

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2. DevOps Research and Assessment (DORA), “Working in Small Batches,” DORA Capabilities. https://dora.dev/capabilities/working-in-small-batches/.

A publisher undertaking an extensive reconstruction of its commercial environment needn't necessarily introduce every improvement simultaneously.

It may be possible to introduce a substantially improved video player independently of a new advertising arrangement. It may be possible to introduce better presentation templates independently of a complete reconstruction of the membership system.

Each properly implemented improvement provides an opportunity to evaluate its actual consequences.

This approach can also make it easier to identify the source of unfavorable developments. If an enterprise introduces twenty substantial changes simultaneously and customer retention subsequently deteriorates, determining which changes contributed to the deterioration may become unnecessarily complicated.

The approach does require intelligent architecture. Some improvements depend upon underlying capabilities that must be developed before the improvements themselves become commercially accessible. Others cannot safely be introduced independently.

The objective isn't to release everything immediately. It is to avoid unnecessary delays between the completion of useful work and the opportunity to learn from its actual employment.

The customer is frequently capable of teaching the entrepreneur things that months of additional internal discussion cannot.

But the customer cannot teach us much about a product that remains indefinitely under development.

The Forgotten Half of Implementation

Introducing a new commercial capability doesn't conclude the managerial undertaking.

It begins a different one.

Suppose a publisher develops an unusually sophisticated advertising system. The software operates correctly, the reporting capabilities have been tested and the commercial inventory can be administered with considerable precision.

But the people responsible for selling advertising don't adequately understand its capabilities. Existing advertisers haven't been introduced to the new formats. The publisher hasn't developed persuasive commercial materials demonstrating their advantages.

Technologically, the undertaking has succeeded.

Commercially, much of the work remains unfinished.

This is a particularly important consideration when technological development becomes a substantial component of an entertainment company's entrepreneurial ambitions.

The enterprise must develop the organizational capabilities necessary to employ its inventions.

A new interactive production technology may require filmmakers to approach their work differently. A sophisticated commercial reporting environment may require salespeople to acquire additional analytical capabilities. A new method of administering distribution rights may require changes to the company's contractual and operational practices.

The invention alone doesn't produce the anticipated improvement.

Management must attend to the professional knowledge, commercial relationships and operational arrangements through which that improvement becomes possible.

We should budget for implementation with the same intelligence we devote to budgeting for invention.

The Ninety-Day Conversation

I would encourage entrepreneurs to periodically examine the relationship between what they've discussed accomplishing and what they've actually accomplished.

An interesting place to begin is with the notes, correspondence and development plans produced approximately ninety days earlier.

Identify the undertakings management considered important at that time. Determine which were completed, which remain under development, which were deliberately abandoned and which seem to have simply disappeared from everybody's attention.

There may be perfectly legitimate reasons why the original agenda has changed. New information may have become available. Commercial circumstances may have made some undertakings less attractive. Unexpected opportunities may have deserved greater attention.

But if essentially the same collection of uncompleted undertakings repeatedly appears in the company's management discussions, the entrepreneur should examine whether the organization has developed a dependable means of converting decisions into action.

The exercise isn't intended to encourage blind adherence to previous plans. Chapter 56 made the importance of reconsidering decisions abundantly clear.

It is intended to distinguish deliberate changes of direction from the gradual disappearance of managerial commitments.

A business should know what it has chosen to abandon every bit as clearly as it knows what it has chosen to pursue.

Accomplishment Before Announcement

Our industry has developed an enormous appetite for announcing things.

We announce forthcoming platforms, revolutionary technologies, strategic partnerships and developments expected to transform the commercial circumstances of our enterprises.

There are legitimate reasons to communicate forthcoming developments. A production company may need to generate advance interest in a release. A technology company may need to coordinate implementation with its prospective customers. An entrepreneur may need to attract the resources necessary to complete an undertaking.

But we should become considerably more discriminating about the distinction between announcing an intention and announcing an accomplishment.

An announcement may generate attention, but it doesn't establish technological credibility. A demonstration may illustrate an interesting possibility, but it doesn't necessarily establish that the technology is commercially dependable.

The most convincing evidence of an enterprise's innovative capabilities remains its innovations in actual use.

I would much rather see our industry become famous for the things it has accomplished than for the magnificence of the things it continually promises to accomplish.

Make Something Happen

If there is one managerial principle I hope entrepreneurs acquire from this section of the book, it is that intellectual ambition must be accompanied by operational discipline.

Developing an excellent enterprise involves attracting talented people, establishing intelligent financial arrangements, encouraging original thinking, learning from mistakes and developing a coherent understanding of what the organization is attempting to achieve.

But those capabilities must eventually converge upon the creation of something.

An improved product. A more attractive experience. A better commercial arrangement. An invention that didn't previously exist.

The entrepreneur who continually develops plans for reinventing the business without establishing the organizational means of implementing them may become an extraordinarily accomplished theorist.

There is nothing wrong with theoretical accomplishment. But entrepreneurship offers the considerably more interesting possibility of seeing one's ideas acquire an existence outside one's imagination.

We have spent much of this book discussing what our industry is capable of becoming.

The distance between that industry and the one we presently occupy won't be traversed by declarations of enthusiasm, industry conferences or another decade of fascinating conversations about the future.

Somebody has to do the work.

PART VIII

AN INDUSTRY WORTH BUILDING

“Someone's sitting in the shade today because someone planted a tree a long time ago.”

Warren Buffett

Attributed statement, January 1991

CHAPTER 59

The Business of Being an Industry

“I want us to become as enthusiastic about developing the industry as we are about defending it.”

A collection of companies engaged in similar commercial activities doesn't necessarily constitute a particularly effective industry.

It constitutes a marketplace.

An industry, in the more ambitious sense of the word, possesses institutions through which its participants acquire knowledge, develop professional capabilities, represent common interests and establish conditions conducive to their collective advancement.

The distinction is important because there are commercial circumstances that even the most intelligently managed individual enterprise cannot substantially improve by itself.

An independent publisher may develop exceptionally responsible business practices without materially changing the perception of its industry among financial institutions. A production company may establish admirable professional standards without improving the availability of qualified personnel throughout its marketplace. A technology entrepreneur may introduce an important invention without possessing the resources necessary to establish its broader institutional acceptance.

Each company has an interest in developing a more favorable commercial environment. But developing that environment requires capabilities extending beyond those of the individual company.

We have spent the preceding section of this book examining how to build excellent enterprises.

Now we must examine what those enterprises could build together.

Everybody's Problem. Nobody's Responsibility.

In 1965, economist Mancur Olson published *The Logic of Collective Action*, an influential examination of the difficulties individuals and organizations encounter when attempting to advance their common interests.[1]

Olson challenged the assumption that people possessing a shared interest would naturally organize themselves to pursue it. An individual may benefit from the collective efforts of others without personally contributing to those efforts.

Under certain circumstances, it can appear more economically attractive to allow somebody else to finance the undertaking.

The difficulty, of course, arises when practically everybody reaches the same conclusion.

Consider the commercial restrictions frequently encountered by our industry. An enterprise may benefit from legal challenges to discriminatory practices, research concerning alternative regulatory approaches or efforts to improve institutional understanding of its legitimate commercial activities.

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1. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1965).

Yet the immediate financial benefit of contributing to those undertakings may be considerably less apparent than the benefit of spending the same money acquiring additional customers.

Management consequently directs its resources toward the latter.

Multiply that decision across several thousand independent businesses and the industry may find itself possessing considerable aggregate financial resources but remarkably little capacity to address the circumstances affecting practically everybody's business.

The companies aren't necessarily behaving irrationally from the perspective of their immediate commercial interests. But their collective behavior may produce circumstances considerably less favorable to those interests.

This is one of the difficulties we must become more sophisticated about resolving.

We cannot continually complain that nobody is doing anything about the problems confronting our industry while regarding the resolution of those problems as somebody else's operating expense.

Invest in the Neighborhood

Earlier in this book, we examined the deterioration of individual publishing environments and the importance of taking responsibility for the condition of our commercial properties.

There is a larger economic environment surrounding those properties that deserves comparable attention.

A production company benefits from the existence of qualified independent professionals. A publisher benefits from the availability of sophisticated technology providers. A technology company benefits from the existence of knowledgeable customers capable of understanding and employing its products.

These relationships illustrate how the capabilities of individual enterprises can depend substantially upon the capabilities of the commercial environment in which they operate.

Imagine an industry possessing excellent professional training resources, dependable commercial research, readily accessible technical expertise and an extensive collection of independent businesses capable of providing specialized services.

An entrepreneur entering that environment would possess advantages considerably different from those available to somebody entering an environment in which practically every necessary capability must be independently developed.

The first environment reduces the intellectual and financial expense associated with establishing an interesting business.

The second continually requires entrepreneurs to reconstruct the foundations upon which they hope to build one.

We should become interested in the development of those foundations, not merely the individual enterprises occupying them.

Beyond the Defense of Our Existence

Founded in 1991, the Free Speech Coalition (FSC) serves as a United States-based trade association representing the adult entertainment industry. Its work includes protecting the rights of industry participants, representing their interests in public affairs and assisting members with professional and commercial challenges.[2]

The defense of those rights is indispensable.

But I would like our industry's collective ambitions to extend considerably beyond the preservation of its ability to exist.

There is a distinction between an institution defending the legal and commercial circumstances under which an industry operates and an institution devoted to expanding what that industry is capable of accomplishing.

The two purposes are complementary. They needn't be administered by the same organization.

We should be investigating opportunities for professional institutions concerned with economic research, technological development, commercial education, entrepreneurship and the development of specialized professional capabilities.

Imagine an organization whose principal responsibility is investigating the emerging technologies likely to influence the economics of independent entertainment over the next decade.

Imagine a professional development institution through which performers, publishers and producers can acquire sophisticated business education without having to depend exclusively upon knowledge acquired informally from their contemporaries.

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2. Free Speech Coalition, “About the Free Speech Coalition.” https://www.freespeechcoalition.com/about-us.

Imagine an independent research organization producing reliable information concerning the commercial condition of our industry, including information that its financial supporters may not find particularly flattering.

These undertakings wouldn't diminish the importance of protecting our freedoms. They would expand the possibilities associated with exercising them.

I want us to become as enthusiastic about developing the industry as we are about defending it.

We Need More Than an Annual Gathering

Industry conferences can perform enormously useful commercial functions. Entrepreneurs establish relationships, discover technologies, negotiate agreements and acquire information that might otherwise be difficult to obtain.

But there is a distinction between assembling an industry and organizing one.

A fascinating discussion concerning an emerging commercial problem may accomplish relatively little if nobody assumes responsibility for investigating it after the participants return home.

A panel discussion concerning technological innovation may generate considerable enthusiasm without producing any continuing research or development activity.

What would interest me is the establishment of longer-term undertakings that acquire opportunities for examination, improvement and collaboration throughout the year.

A conference session examining the economics of video advertising might become the starting point for a twelve-month research project. A discussion concerning the difficulties of independent distribution might establish a working group responsible for investigating specific commercial and technical problems.

The subsequent conference could provide an opportunity to present the results.

That would establish a different intellectual purpose for the event. Rather than simply discussing the condition of the industry, its participants would periodically examine what they had collectively accomplished toward improving that condition.

I would like to see entrepreneurs leave an industry conference with something more than a collection of business cards, a hangover and several interesting things they intend to investigate someday.

Finance Something Everybody Can Use

Consider a hypothetical group of twenty independent entertainment companies interested in acquiring reliable research concerning audience retention, advertising practices and the commercial performance of different distribution arrangements.

Commissioning the research independently might be prohibitively expensive for many of the participating enterprises. Collectively, however, they could establish a substantial research budget through relatively modest individual contributions.

Illustrative Funding of a Shared Research Initiative

Annual contribution per company	Participating companies	Annual research budget
$1,000	20	$20,000
$2,500	20	$50,000
$5,000	20	$100,000

The figures don't represent proposed membership fees or actual research costs. They illustrate the intellectual resources that can become financially accessible through cooperation among relatively small enterprises.

The research would require appropriate methodological safeguards, independent administration and protections for commercially sensitive information. Participating companies shouldn't acquire access to competitors' confidential commercial records merely because they've contributed to the undertaking.

Nor should collective research become a mechanism through which competing businesses coordinate prices, divide markets or otherwise restrict competition.

Its purpose should be to establish knowledge that enables participants to make more intelligent independent decisions.

The entrepreneur who cannot individually finance a substantial research undertaking may nevertheless possess the financial capacity to contribute to one.

There is considerable entrepreneurial power in recognizing that distinction.

Don't Build Another Monopoly

The development of collective professional institutions introduces dangers of its own.

An organization established to advance the interests of an industry can gradually become an organization concerned principally with advancing the interests of its most influential participants.

The businesses providing substantial financial support may acquire disproportionate influence over its priorities. Independent entrepreneurs may discover that participation is unnecessarily expensive. Professionals whose interests differ from those of established commercial enterprises may find themselves inadequately represented.

Eventually, the institution may begin reproducing the very commercial disadvantages it was originally established to address.

We should be particularly attentive to this possibility in an industry whose entrepreneurial history owes much to the ingenuity of independent operators.

The development of common professional standards shouldn't become a means of preventing smaller enterprises from entering the marketplace. The administration of collective research shouldn't become the exclusive intellectual property of several large corporations. The representation of industry interests shouldn't automatically become the representation of the interests of those who own the largest distribution platforms.

In her 2009 Nobel Prize lecture, economist Elinor Ostrom examined the importance of institutional arrangements involving multiple centers of decision-making rather than assuming that complex collective problems necessarily require a single governing authority.[3]

Her research concerned economic governance across a variety of institutional settings. Its relevance to our circumstances lies in the possibility of developing cooperation without concentrating unnecessary authority.

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3. Elinor Ostrom, “Beyond Markets and States: Polycentric Governance of Complex Economic Systems,” Nobel Prize lecture, December 8, 2009, p. 411; published in *American Economic Review* 100, no. 3 (2010): 641–672. https://doi.org/10.1257/aer.100.3.641.

We needn't establish one enormous organization attempting to administer every conceivable dimension of the industry's advancement.

Different institutions could address different professional and commercial requirements. Their participants could overlap, their work could complement one another and their respective capabilities could develop independently.

An industry committed to entrepreneurial independence should be capable of organizing itself without requiring its entrepreneurs to surrender that independence.

Give Everybody a Place at the Table

One of the more significant difficulties associated with discussing the collective interests of our industry is determining whose interests we're actually discussing.

The interests of a multinational distribution company aren't necessarily identical to those of an independent filmmaker. The commercial interests of a publisher aren't necessarily identical to the professional interests of a performer. A technology provider and its customers may possess substantially different opinions concerning what constitutes a desirable commercial arrangement.

An intelligent institutional environment should acknowledge those differences rather than pretend they don't exist.

Performers should possess meaningful opportunities to influence discussions concerning their professional circumstances. Independent producers should be represented when policies affecting production are developed. Smaller publishers should have opportunities to contribute to decisions concerning distribution technologies and commercial practices.

This isn't exclusively a matter of fairness. It is a matter of intellectual competence.

An organization investigating the quality of working conditions without adequately involving the people experiencing those conditions has deprived itself of an essential source of information.

An institution attempting to improve independent publishing without understanding the financial and technological circumstances of small publishers may develop solutions useful principally to companies that already possess the necessary resources.

The collective intelligence of an industry resides in the experiences of its various participants.

We should organize ourselves in ways that allow considerably more of that intelligence to become useful.

Demand Something in Return

I have no objection to asking businesses to contribute financially to the development of their industry.

I do, however, think those businesses are entitled to expect something meaningful in return.

Organizations established to advance our collective interests should be capable of explaining what they've accomplished, what resources they've employed and what they intend to accomplish next.

Research institutions should publish their methodologies and findings. Professional development organizations should examine whether their programs produce useful professional capabilities. Trade associations should communicate the substance of their work while recognizing that some advocacy and legal activities cannot reasonably be conducted in public.

There is no reason the managerial principles discussed throughout Part VII shouldn't apply to the institutions through which we pursue our collective ambitions.

A nonprofit organization isn't necessarily an effective organization simply because it doesn't distribute profits.

An institution established to advance innovation should demonstrate some capacity for innovation. An institution advocating professional excellence should conduct its own activities professionally.

The entrepreneur considering a financial contribution should understand whether that contribution is supporting an intelligible undertaking with identifiable responsibilities and a reasonable prospect of producing something useful.

Equally, the entrepreneur should recognize that some of the most important benefits of institutional development may accrue gradually and across the marketplace rather than immediately to the contributing company.

Supporting the development of an industry requires a somewhat longer commercial perspective than purchasing another advertising campaign.

The Industry Is Part of Your Business

There is a temptation among entrepreneurs to regard the circumstances of their industry as conditions external to their businesses.

The availability of qualified personnel, the attitudes of financial institutions, the development of technical standards and the quality of professional education become things management must contend with rather than things management might influence.

Certainly, no individual enterprise can substantially influence all of those circumstances.

But every enterprise can determine whether it contributes something toward improving the environment upon which its own commercial prospects depend.

That contribution needn't always involve substantial financial expenditure. An experienced producer may contribute professional knowledge. A software company may develop and share a useful technical specification. An accomplished entrepreneur may devote several hours to helping inexperienced business owners understand financial responsibilities that would otherwise take them years to discover.

There are numerous ways in which companies can contribute to the development of an industry without abandoning their legitimate commercial interests.

Indeed, the commercial interests of those companies may ultimately be strengthened by the development of a marketplace in which more people are capable of conducting business intelligently.

I have little enthusiasm for the sort of collective sentimentality that encourages entrepreneurs to pretend their competitors are all wonderful people with whom they should become lifelong friends.

Competition can be enormously productive. I want us to compete vigorously for audiences, talent, commercial opportunities and technological leadership.

But I also want us to develop an industry within which that competition becomes more interesting.

Let us compete over who makes the better film, builds the better technology or creates the more satisfying entertainment experience.

We shouldn't have to compete over who is better equipped to survive the inadequacies of the industry itself.

We can do something about those inadequacies together.

CHAPTER 60

The Capital We Deserve

“The wrong money can become remarkably expensive, even when it arrives under superficially attractive circumstances.”

Imagine approaching a prospective investor with a proposition to develop a sophisticated new technology for the distribution of independently produced motion pictures.

You describe the architecture, explain the commercial model, demonstrate the technology and identify the market it is intended to serve. The investor expresses considerable enthusiasm until discovering the particular category of motion pictures your technology was designed to accommodate.

Suddenly, the conversation becomes considerably less interesting.

The technology hasn't changed. The commercial model hasn't changed. The qualifications of the people responsible for developing it haven't changed. What has changed is the investor's perception of the enterprise based upon the nature of its intended customers.

That is a legitimate commercial frustration familiar to many entrepreneurs in our business.

But imagine a different conversation. The investor expresses no objection whatsoever to the nature of the entertainment. Instead, he begins asking questions about customer acquisition costs, intellectual property ownership, financial projections, management qualifications, contractual obligations and the company's prospects for growth.

How many of our entrepreneurs are adequately prepared for that conversation?

We have legitimate reasons to object to the financial disadvantages imposed upon our industry. But we mustn't allow those disadvantages to distract us from examining the quality of the investment propositions we're presenting.

The Institutional Disadvantage

The difficulties encountered by our industry in acquiring capital aren't entirely matters of perception.

In the United States, for example, federal regulations governing eligibility for Small Business Administration business loans expressly exclude certain businesses offering sexually explicit products, services or performances characterized by the regulation as prurient.[1]

Consider the entrepreneurial implications.

Two companies may possess comparable financial records, comparable management qualifications and comparable prospects for growth. Yet one may be ineligible for a government-supported financing program because of the nature of its commercial activities.

The excluded company must investigate alternative sources of financing, potentially under less attractive commercial conditions.

This constitutes another manifestation of the Exclusion Premium introduced earlier in this book. But its consequences extend beyond the immediate expense of obtaining money.

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1. 13 C.F.R. § 120.110(p) (2026), “What businesses are ineligible for SBA business loans?”

Restricted access to capital can influence the kinds of enterprises entrepreneurs are capable of establishing. It can delay technological development, reduce the financial capacity of independent producers and create advantages for established companies possessing sufficient internal resources to finance their own expansion.

The institutional consequences can become self-perpetuating. An industry whose independent enterprises experience difficulty acquiring capital may become increasingly concentrated among businesses that already possess it.

That should concern anybody interested in preserving entrepreneurial competition.

Discrimination Isn't the Only Explanation

An investor's unwillingness to finance an adult entertainment enterprise doesn't necessarily constitute evidence of discrimination.

The investor may have legitimate concerns about the enterprise's dependence upon a particular financial institution, its exposure to changing regulations, the reliability of its revenue or the enforceability of its commercial agreements.

Those concerns may themselves be consequences of the institutional disadvantages confronting our business. But their financial significance cannot be dismissed merely because we find their origins objectionable.

An investor examining a company whose principal source of revenue could disappear following a unilateral change in the policies of an external service provider is investigating a genuine commercial vulnerability.

The entrepreneur's responsibility is to demonstrate an understanding of that vulnerability and explain how the enterprise intends to administer it.

Similarly, a production company possessing inadequately documented distribution rights presents a different investment proposition from one possessing a professionally administered collection of intellectual property.

A publisher that cannot reliably distinguish recurring customer revenue from temporarily successful marketing campaigns may be difficult to value irrespective of the entertainment it distributes.

We shouldn't expect investors to suspend their financial judgment in order to demonstrate their tolerance of our industry.

What we should expect is the opportunity to be evaluated upon the merits of our businesses.

And we should become considerably more accomplished at demonstrating those merits.

There Is No Such Thing as Generic Capital

Entrepreneurs frequently discuss their need for investment as though money were a relatively homogeneous commercial resource.

But different sources of capital possess substantially different economic characteristics.

A lender may principally be interested in the enterprise's ability to repay borrowed money. An equity investor may be interested in its long-term appreciation. A commercial partner may be interested in acquiring access to a particular technology or distribution capability.

A film financier may be perfectly satisfied with an attractive return from an individual production without possessing any interest in acquiring permanent ownership of the production company.

These are different financial relationships, established for different purposes.

Financing arrangement	Principal commercial consideration
Commercial debt	Repayment capacity and applicable security or guarantees.
Equity investment	Enterprise growth, ownership value and potential returns to shareholders.
Production financing	Recovery of investment and participation in the economics of a particular production.
Strategic investment	Financial returns combined with access to complementary commercial capabilities.
Licensing advances	Anticipated value of intellectual property or distribution rights.
Customer-financed development	Demand for a capability supported by advance payments or commercial commitments.

Each arrangement can establish different obligations, restrictions and consequences for the entrepreneur.

The financial requirements of developing a new software architecture may bear little resemblance to those associated with financing a collection of motion pictures.

Similarly, the capital appropriate to an established publisher seeking to expand a profitable business may differ considerably from that required by an entrepreneur attempting to establish an entirely new category of entertainment technology.

The objective isn't simply to obtain money. It is to establish a financial relationship appropriate to what the enterprise is attempting to accomplish.

The wrong money can become remarkably expensive, even when it arrives under superficially attractive circumstances.

Not Every Business Needs Venture Capital

There is a peculiar tendency in contemporary entrepreneurial culture to regard acquiring venture capital as an accomplishment in its own right.

A company announces that it has raised several million dollars, and the announcement is frequently treated as evidence of commercial success before the enterprise has demonstrated much capacity to generate commercial revenue.

Raising capital is an accomplishment of financing. It isn't necessarily an accomplishment of business development.

Venture capital operates according to economic requirements that may be incompatible with the ambitions of many otherwise excellent enterprises.

An independent publisher may develop a remarkably profitable business serving a relatively specialized audience. A production company may generate dependable returns through a carefully administered collection of original entertainment.

Neither enterprise necessarily possesses the growth characteristics sought by investors whose financial model depends upon a relatively small number of exceptionally successful investments.

That doesn't diminish the quality of either business.

In their 2020 study published in the *Journal of Financial Economics*, Paul Gompers, Will Gornall, Steven Kaplan and Ilya Strebulaev examined the decision-making practices of institutional venture capitalists. Among their findings was the considerable importance investors attributed to the management team when evaluating prospective investments.[2]

The research also examined how venture capitalists select investments, structure financial relationships and contribute to the development of the companies they finance.

Understanding those circumstances should encourage entrepreneurs to examine whether their ambitions are compatible with the expectations of the people whose money they're seeking.

A business designed to generate attractive and dependable income for its owners needn't become a business designed to produce an eventual acquisition worth several hundred million dollars.

Both can represent interesting entrepreneurial accomplishments.

The mistake is accepting capital from people expecting the latter when the founder intends to build the former.

Make the Business Intelligible

One of the more useful things an entrepreneur can do in preparation for seeking outside investment is to examine the business from the perspective of somebody who hasn't spent the preceding several years developing it.

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2. Paul Gompers, Will Gornall, Steven N. Kaplan, and Ilya A. Strebulaev, “How Do Venture Capitalists Make Decisions?” *Journal of Financial Economics* 135, no. 1 (2020): 169–190. https://doi.org/10.1016/j.jfineco.2019.06.011.

The founder possesses an enormous collection of information concerning the enterprise that may exist nowhere except in his own head.

He understands why particular commercial relationships exist, why certain technologies were developed, what distinguishes the product from competing products and how he expects the enterprise to evolve.

The prospective investor doesn't.

That individual must acquire a sufficiently coherent understanding of the enterprise to evaluate its commercial prospects without relying exclusively upon the enthusiasm of its founder.

Consider the difference between telling an investor that your publishing technology is revolutionary and demonstrating that it reduces the operational expenses associated with distributing entertainment, enables particular commercial arrangements or provides capabilities unavailable through competing products.

The former is an opinion. The latter establishes propositions capable of investigation.

Similarly, telling an investor that your company possesses an enormous entertainment library is considerably less informative than providing an intelligible account of the material, the rights associated with it, its historical commercial performance and the expenses involved in maintaining its distribution.

An investment proposition should make it possible for a sophisticated outsider to understand the machinery responsible for generating commercial value.

Financial statements, contractual documentation, intellectual property records, operational data and independently verifiable product demonstrations contribute to that understanding.

Their absence cannot adequately be compensated for by the magnificence of the presentation.

Stop Selling the Size of the Industry

I am generally unimpressed by entrepreneurial presentations that devote considerable attention to establishing the enormous size of a marketplace while devoting considerably less attention to establishing the commercial opportunities available to the particular enterprise seeking investment.

Interestingly, we have considerable difficulty establishing the precise economic magnitude of our own industry.

Commercial research estimates place the worldwide online adult entertainment market at approximately seventy-four to eighty-two billion dollars in 2025, although estimates employing narrower definitions of adult entertainment services are substantially lower. One such study places the global market for primarily paid adult entertainment services at thirteen billion dollars for the same year.[3]

The differences in these estimates reflect, among other things, differences in what researchers consider to constitute the industry. The inclusion of advertising, subscription services, interactive entertainment, creator platforms and related commercial activities can substantially influence the resulting figures. Differences in research methodology and the availability of financial information introduce further uncertainty.

3. Cognitive Market Research, *Online Adult Entertainment Market*; 360iResearch, *Online Adult Entertainment Market*; Compare Market Research, *Adult Entertainment Market* (2025 estimates, accessed November 28, 2026). Commercial estimates; underlying methods not independently validated.

I find it somewhat embarrassing that a technologically sophisticated industry of such considerable economic significance cannot provide its entrepreneurs with a more dependable account of its own commercial dimensions. This is precisely the sort of deficiency that the independent research institutions discussed in the preceding chapter could help address.

Nevertheless, even if we were capable of establishing the industry's annual revenue with absolute precision, that figure wouldn't establish the number of independent publishers willing to purchase a particular software application.

Nor does the popularity of online video establish the amount consumers will pay for a particular collection of entertainment.

The entrepreneur should be capable of distinguishing the total marketplace from the portion of that marketplace the company can realistically serve.

Suppose an infrastructure developer identifies ten thousand prospective business customers. Further investigation suggests that two thousand possess the technical and commercial requirements appropriate to its product.

Of those, the company anticipates acquiring two hundred customers over the next several years at an average monthly expenditure of one hundred dollars.

That would represent twenty thousand dollars in monthly recurring revenue, or an annualized revenue run rate of two hundred and forty thousand dollars, before accounting for customer departures, expenses or other changes.

The assumptions deserve substantial investigation. But at least the proposition establishes a relationship between the intended customer, the anticipated price and the potential economic performance of the enterprise.

That is considerably more useful than explaining that pornography is a multibillion-dollar business.

An investor cannot purchase a percentage of your enthusiasm for the industry.

He is evaluating the economic possibilities of your particular enterprise.

Money Should Purchase an Accomplishment

Consider two entrepreneurs, each seeking two hundred and fifty thousand dollars.

The first describes the money as necessary to expand the business, accelerate development and establish a stronger commercial presence.

The second presents the following hypothetical allocation:

Intended use of capital	Amount
Completion of a defined technology platform	$90,000
Commercial integration and customer onboarding	$45,000
Customer acquisition and market development	$50,000
Legal, contractual and intellectual property administration	$15,000
Working capital and contingency reserves	$50,000
Total	**$250,000**

The second entrepreneur must still explain why these expenditures are reasonable, how their effectiveness will be evaluated and what the enterprise expects to accomplish through them.

But the proposed investment has acquired an intelligible purpose.

The capital is intended to establish specific capabilities, rather than merely finance a more expensive version of the existing business.

An attractive investment proposition should establish a relationship between the money being requested and the commercial position the enterprise expects to occupy once that money has been employed.

What will the company possess that it doesn't possess presently? What will it be capable of accomplishing? What uncertainties will have been resolved?

The answers should help an investor understand whether the proposed financing is likely to create additional enterprise value or merely postpone the need to obtain additional financing.

Understand What You're Selling

When an entrepreneur accepts equity investment, he isn't merely acquiring financial resources.

He's selling a portion of something he hopes will become considerably more valuable.

Suppose a company is valued at seven hundred and fifty thousand dollars immediately before receiving an investment of two hundred and fifty thousand dollars in newly issued equity.

Under a simplified arrangement, with no other changes to ownership, the resulting post-investment valuation would be one million dollars. The new investor would acquire twenty-five percent of the company.

If the enterprise subsequently acquired a value of five million dollars, that twenty-five percent interest would possess an implied value of one million two hundred and fifty thousand dollars, assuming no subsequent dilution and ignoring preferences, expenses and other contractual arrangements.

Those figures aren't an argument against accepting investment. The enterprise might never have acquired a value of five million dollars without it.

They illustrate why the cost of equity cannot adequately be understood by examining the amount of money the entrepreneur receives.

The accompanying rights deserve equal attention.

Who determines the commercial direction of the enterprise? What happens if the company requires additional financing? Under what circumstances can investors require or prevent particular decisions? What happens if the founder wishes to sell the company or pursue a different commercial proposition?

An investor's percentage of ownership may reveal considerably less about the resulting relationship than the agreements through which that ownership is administered.

An entrepreneur interested in preserving the sovereignty of his enterprise should understand those agreements before becoming dependent upon the money associated with them.

There Is Capital Within Our Own Industry

We should become considerably more interested in the possibility of financing our own technological and commercial development.

There are experienced entrepreneurs throughout our business who have accumulated valuable commercial knowledge, established successful enterprises and developed financial resources that could potentially contribute to the development of subsequent generations of businesses.

Their industry knowledge may provide advantages unavailable to conventional investors.

An experienced producer may understand the significance of a technology that makes complicated distribution arrangements easier to administer. An accomplished publisher may recognize the commercial possibilities of an advertising architecture that an investor unfamiliar with our business might struggle to appreciate.

These individuals can potentially contribute something beyond financial resources: informed commercial judgment, professional relationships and an understanding of the circumstances confronting the entrepreneur.

We should encourage the development of professional investment relationships through which such capabilities can become accessible to emerging enterprises.

But familiarity with the industry is no substitute for financial diligence.

An investor shouldn't finance an enterprise merely because its founder is a respected colleague. Nor should an entrepreneur regard money acquired from friends as money accompanied by fewer professional responsibilities.

Indeed, the preservation of those friendships may depend substantially upon administering the investment with considerably greater formality than either party initially considers necessary.

Capital Doesn't Always Arrive in Cash

A technology enterprise may require access to infrastructure, specialized development capabilities, professional services or distribution relationships that would otherwise consume substantial financial resources.

Under appropriate circumstances, those capabilities can become part of a legitimate commercial or investment arrangement.

A strategic partner might contribute engineering resources toward the development of a product. A distribution company might provide access to a commercial environment in which an emerging technology can be tested. An experienced professional might contribute specialized services in exchange for an appropriately documented interest in the enterprise.

Such arrangements can be enormously useful to businesses whose immediate financial resources are limited.

But the commercial significance of the contribution must be evaluated carefully.

A service ordinarily sold for fifty thousand dollars doesn't necessarily create fifty thousand dollars of value for an enterprise that requires only a relatively small portion of it.

Similarly, prospective introductions, promises of future promotion and vaguely described professional assistance should not automatically acquire financial valuations merely because the people offering them are enthusiastic about the business.

Management should establish what is actually being contributed, when it will be delivered, how it will be valued and what happens if the contribution never materializes.

The same professional and legal considerations associated with conventional investment arrangements may apply to arrangements involving noncash contributions.

Under United States securities law, an offering of securities generally requires registration or an applicable exemption. The Securities and Exchange Commission identifies several legally established pathways through which eligible businesses can raise capital without a conventional registered public offering.[4]

The appropriate structure depends upon the circumstances of the offering, and qualified legal and financial counsel should be involved in establishing it.

Calling something a partnership, a contribution or an informal investment doesn't necessarily change its legal character.

Give Capital Something Worth Believing In

I don't want our industry's investment propositions to become apologetic exercises in convincing conventional businesspeople that pornography is somehow less offensive than they previously imagined.

I want them to become sophisticated commercial propositions whose merits can withstand intelligent examination.

We should be developing enterprises possessing demonstrable technological capabilities, clearly administered intellectual property, responsible financial arrangements and talented management.

We should be producing financial information that doesn't require an investor to become a forensic accountant in order to understand the business.

We should be capable of explaining what we intend to accomplish with additional resources and why those accomplishments possess commercial significance.

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4. U.S. Securities and Exchange Commission, “Exempt Offerings.” https://www.sec.gov/resources-small-businesses/exempt-offerings.

There will remain investors who won't participate in our industry regardless of the quality of our propositions.

Their decisions shouldn't establish the limits of our ambitions.

But I would like the entrepreneur who encounters an investor prepared to examine the business upon its merits to be extraordinarily well prepared for that opportunity.

We have every reason to challenge the institutions that make acquiring capital unnecessarily difficult.

We have considerably fewer reasons to make it unnecessarily difficult ourselves.

Capital isn't a reward for being an entrepreneur.

It's a commercial resource entrusted to an entrepreneur in anticipation of what that individual might accomplish with it.

Let's give the people possessing that resource something genuinely interesting to finance.

CHAPTER 61

Credibility Without Respectability

“We cannot compel the world to respect our business.
But we can build a business worthy of respect...”

I've said it before, and it bears repeating: I have no particular interest in making pornography respectable.

I have an enormous interest in making the business of pornography respected.

The distinction is fundamental to everything I've advocated throughout this book. We needn't persuade people to appreciate our entertainment, approve of its subject matter or incorporate it into their personal lives in order to establish ourselves as competent businesspeople deserving of professional consideration.

A banker needn't enjoy a particular kind of motion picture to evaluate the financial condition of the company producing it. An engineer needn't consume our entertainment to appreciate the intellectual merits of a technology developed for its distribution.

The professional credibility of an enterprise should be established through the manner in which it conducts its business, not through the personal entertainment preferences of the people evaluating it.

I don't expect universal agreement with that proposition. But I would like us to become considerably more sophisticated about establishing the circumstances under which it becomes increasingly difficult to dispute.

The Peculiar Burden of Being Us

When a conventional software company encounters financial difficulties, people generally investigate the circumstances of that particular software company.

When an enterprise in our industry encounters a significant professional controversy, there is frequently a temptation to interpret the circumstances as evidence concerning the character of the entire industry.

This creates a rather difficult commercial environment for independently operated businesses. The professional credibility of an individual enterprise may be influenced by the activities of companies with which it possesses no commercial relationship, whose management it cannot influence and whose practices it may actively oppose.

Organizational researchers have examined related phenomena through the study of institutional legitimacy and organizational stigma.

In his influential 1995 article *Managing Legitimacy: Strategic and Institutional Approaches*, organizational scholar Mark Suchman examined how organizations acquire, maintain and restore acceptance within the institutional environments surrounding them.[1]

1. Mark C. Suchman, “Managing Legitimacy: Strategic and Institutional Approaches,” *Academy of Management Review* 20, no. 3 (1995): 571–610. https://doi.org/10.5465/amr.1995.9508080331.

Bryant Ashley Hudson subsequently developed an interesting distinction between stigma arising from a particular organizational event and stigma associated with the fundamental character of the organization itself.[2]

The distinction has obvious implications for our business.

A company experiencing reputational damage because of an identifiable managerial failure may have an opportunity to restore its credibility by addressing that failure. A company encountering institutional resistance because of the fundamental nature of its commercial activities confronts a substantially different problem.

The latter cannot necessarily resolve its difficulties by becoming better managed.

That doesn't diminish the importance of better management. It simply establishes that professional improvement and institutional acceptance aren't automatically equivalent.

We should pursue professional excellence because it is intrinsically valuable, commercially advantageous and deserving of the people whose work sustains our enterprises.

If it also contributes to greater institutional acceptance, so much the better.

Stop Asking People to Like Us

I suspect we occasionally devote too much intellectual energy to attempting to persuade people that our industry isn't what they think it is.

2. Bryant Ashley Hudson, “Against All Odds: A Consideration of Core-Stigmatized Organizations,” *Academy of Management Review* 33, no. 1 (2008): 252–266. https://doi.org/10.5465/amr.2008.27752775.

There will always be individuals who object to pornography on moral, religious, political or philosophical grounds. They are perfectly entitled to their opinions, just as adults are entitled to make their own lawful decisions concerning the entertainment they consume.

But an important distinction exists between disagreeing with the existence of a particular product and establishing the professional competence of the enterprise responsible for producing it.

I don't particularly enjoy every form of contemporary entertainment. That doesn't prevent me from recognizing the creative, technological and commercial accomplishments of the people responsible for producing it.

Nor should professional recognition require personal enthusiasm for the product.

Our objective in developing institutional relationships should therefore be considerably more sophisticated than attempting to generate favorable opinions about pornography.

We should be demonstrating that our engineers are capable of developing excellent technology, that our producers are capable of administering sophisticated creative undertakings and that our entrepreneurs are capable of establishing intelligently managed enterprises.

We shouldn't require a prospective business associate to undergo an ideological conversion before becoming capable of evaluating our work.

We should require that individual to exercise professional judgment.

Speak the Language of the Institution You're Addressing

One of the responsibilities of an entrepreneur seeking to establish a commercial relationship is to understand the intellectual concerns of the other party.

Suppose an industry representative meets with executives responsible for administering financial risk at a major financial institution.

An impassioned discussion concerning freedom of expression may have legitimate philosophical significance. But those executives are principally responsible for evaluating financial exposure, regulatory obligations and the commercial consequences of the relationships their institution establishes.

An effective presentation should address those concerns.

What procedures exist for preventing unauthorized transactions? How are disputes administered? What information can the enterprise provide concerning the reliability of its commercial activities? Which mechanisms exist for identifying and resolving legitimate compliance deficiencies?

These are questions our representatives should be prepared to discuss with considerable sophistication.

The same principle applies when addressing legislators, research institutions, technology providers and prospective investors. Each operates within an environment possessing its own responsibilities, professional conventions and criteria for evaluating information.

Our arguments become considerably more useful when we understand those criteria.

This isn't a suggestion that we abandon our principles or tell different institutions whatever we believe they want to hear.

It is a suggestion that we become more accomplished at communicating the relevance of those principles to the people whose decisions affect our businesses.

The ability to conduct an intelligent conversation across institutional boundaries is itself an important entrepreneurial capability.

Don't Confuse Publicity with Credibility

Our industry possesses some extraordinarily accomplished publicists.

We understand how to generate attention, provoke controversy and establish public interest in personalities and entertainment properties. These capabilities have considerable commercial value.

But the techniques associated with attracting attention aren't necessarily the techniques associated with establishing institutional confidence.

A provocative publicity campaign might attract several million visitors to an entertainment website without contributing anything to the credibility of the company operating it among prospective financial partners.

A widely circulated interview might generate considerable enthusiasm among consumers without providing an institutional researcher with useful information concerning the company's commercial activities.

Attention and credibility are different commercial assets.

The entrepreneur should understand which one he's attempting to acquire.

There is room for enormous irreverence in the promotion of entertainment. I would be profoundly disappointed to see our industry abandon its capacity to offend conventional sensibilities simply because it has developed more sophisticated managerial ambitions.

But when we're communicating with institutions responsible for evaluating our professional capabilities, we should possess something more substantial to offer than our ability to attract attention.

We can be outrageous entertainers and extraordinarily boring accountants.

I see no contradiction whatsoever.

Evidence Is More Persuasive Than Indignation

When our industry encounters unfavorable institutional treatment, we frequently respond by explaining why that treatment is unfair.

Sometimes it is.

But the more useful response may involve establishing precisely what has occurred, examining its commercial consequences and developing an intelligible basis upon which the decision might be challenged.

Consider a group of independent businesses experiencing difficulty acquiring conventional financial services.

A collection of individual accounts describing those difficulties may establish that a problem exists. A professionally conducted investigation examining the circumstances under which services were refused or terminated, the characteristics of the affected businesses and the resulting economic consequences could provide a substantially more useful foundation for institutional discussion.

Such research should distinguish documented facts from the interpretations of the people involved. It should consider alternative explanations and acknowledge information that remains unavailable.

If some of the findings reveal deficiencies within our own business practices, those findings should be included.

The credibility of the undertaking depends substantially upon its willingness to produce information that doesn't necessarily advance the argument its sponsors originally intended to make.

The independent research capabilities advocated in Chapter 59 would have particular significance here.

We should become an industry capable of bringing something more than grievances to a discussion concerning our commercial circumstances.

We should bring evidence, economic analysis and professionally developed alternatives.

Establish a Professional Record

Imagine an independent production company seeking to establish a relationship with an institution unfamiliar with its business.

The company could begin by describing its commitment to responsible production, technological innovation and professional excellence.

Alternatively, it could demonstrate that commitment through a documented record of its activities.

It could provide appropriately redacted evidence of its financial performance, explain its procedures for administering intellectual property, describe the professional obligations it undertakes toward its personnel and demonstrate the operational capabilities of its distribution environment.

The latter approach provides the institution with propositions it can investigate.

Documentation needn't become an elaborate exercise in corporate bureaucracy. Nor should the desire to establish professional credibility justify the unnecessary disclosure of sensitive information.

The objective is to make the legitimate activities of the enterprise intelligible to qualified parties with legitimate reasons to examine them.

Area of professional activity	Evidence of credibility
Financial management	Reliable financial statements and documented commercial obligations.
Intellectual property	Clearly established ownership, licensing and authorization records.
Technology	Demonstrable capabilities, technical documentation and appropriate security practices.
Production	Responsible working procedures and clearly administered professional agreements.
Commercial relationships	Consistent fulfillment of contractual commitments and dependable reporting.
Accountability	Documented procedures for identifying, investigating and resolving deficiencies.

The information appropriate to a particular institutional relationship will vary. A prospective technology partner doesn't necessarily require access to the same information as a financial auditor.

What matters is that the enterprise possesses evidence of its professional capabilities rather than merely an enthusiastic opinion of them.

We should develop that evidence during the ordinary administration of our businesses, not hastily reconstruct it whenever somebody important asks to see it.

Don't Defend the Indefensible

One of the more difficult responsibilities associated with representing an industry is knowing when not to defend it.

There is an understandable temptation among people operating within a frequently criticized commercial environment to respond defensively to virtually every criticism directed toward it.

But professional solidarity should never require intellectual dishonesty.

If a company has failed to fulfill its legitimate obligations to performers, the appropriate response isn't to explain that conventional entertainment companies occasionally behave badly too.

If a publisher has knowingly distributed unauthorized material, the appropriate response isn't to remind everybody that copyright infringement occurs throughout the Internet.

If a business has misrepresented its financial circumstances, mistreated its customers or engaged in irresponsible commercial practices, the industry's credibility isn't strengthened by attempting to minimize the significance of those activities.

It is strengthened by demonstrating that we possess the professional judgment to recognize them as unacceptable.

We discussed individual and collective responsibility extensively in Chapter 16. The institutional implications of that responsibility deserve particular attention here.

An industry that cannot distinguish legitimate criticism from institutional prejudice will eventually find itself responding to both with substantially the same arguments.

That makes its objections to genuine prejudice considerably less persuasive.

The intellectually mature response to criticism is to determine whether the criticism is valid.

Sometimes our critics will be wrong. Sometimes we will be wrong. We should be sufficiently confident in the legitimacy of our business to acknowledge the difference.

Participate in Conversations That Aren't About Pornography

I would like to see considerably more of our technical professionals participating in the broader intellectual life of the entertainment and technology industries.

Not exclusively attending conferences concerned with adult entertainment. Not exclusively publishing in industry trade publications. Not exclusively discussing technologies with people who understand their relevance to our particular commercial circumstances.

An engineer developing original audiovisual technology should be encouraged to participate in professional discussions concerning audiovisual technology generally.

A researcher examining advertising economics should consider contributing to the broader literature concerning digital advertising. A creative professional investigating nonlinear narrative should participate in discussions concerning the development of interactive entertainment.

Our professional contributions should become intelligible and useful beyond the boundaries of our immediate marketplace.

This extends the argument developed in Chapter 51. The establishment of technological leadership can also provide an opportunity to develop professional relationships that might otherwise never occur.

Two engineers discussing the architecture of an interesting software application may discover that they possess substantially more in common professionally than either anticipated.

That relationship needn't begin with an extensive discussion concerning the social acceptability of pornography.

It can begin with an interesting piece of engineering.

We should create considerably more opportunities for such relationships to develop, without expecting individuals to disclose professional affiliations against their wishes or conceal them as a condition of participation.

Represent Ourselves as Businesspeople

I believe the public understanding of our industry would benefit from greater exposure to the extraordinary diversity of professional activities occurring within it.

There are people administering complicated international commercial arrangements, developing sophisticated software, managing substantial creative undertakings, negotiating intellectual property agreements and investigating entirely new business models.

Yet much of the public attention devoted to our industry understandably concerns the entertainment itself and the personalities associated with it.

We should become more accomplished at telling the other stories.

Tell the story of an independent producer who develops an interesting method of financing creative work. Tell the story of a developer who resolves a difficult problem in audiovisual distribution. Examine the entrepreneurial accomplishments of a performer who establishes a professionally administered company capable of creating opportunities for other people.

Those stories deserve attention not because they demonstrate that people in our industry are secretly conventional, but because they reveal dimensions of our business that are frequently overlooked.

The industry should possess a public intellectual identity extending beyond the entertainment it produces.

That identity cannot be manufactured entirely by public relations professionals. It must emerge from the substantive accomplishments of the people whose work gives the industry its professional character.

Success Without Assimilation

There is something rather unappealing about the possibility that our industry might eventually acquire greater institutional acceptance by becoming progressively less interesting.

We shouldn't have to disguise what we produce, diminish the independence of our creative professionals or exchange our entrepreneurial character for an imitation of conventional corporate culture.

A sanitized version of our business isn't necessarily a better version of our business.

What I want is an industry capable of conducting increasingly sophisticated commercial activities while preserving the creative independence that made it interesting in the first place.

We can insist upon responsible professional conduct without advocating conventional morality. We can demand financial accountability without diminishing creative risk-taking. We can establish rigorous technological standards while remaining delightfully unconventional in our artistic ambitions.

The two sets of characteristics are not mutually exclusive.

Indeed, I would argue that greater professional competence provides a stronger foundation upon which creative independence can flourish.

An enterprise possessing dependable finances, sophisticated distribution capabilities and responsible professional relationships can afford to undertake creative projects that a perpetually unstable enterprise cannot.

Excellence should become a means of preserving our freedom to be unconventional, not a condition under which we agree to become conventional.

Respect the Work

I don't expect the publication of this book to persuade every institution to conduct business with us.

I don't expect every critic to reconsider an objection to pornography, every investor to discover an interest in financing our enterprises or every conventional technology company to recognize the commercial possibilities associated with serving our industry.

Those decisions will remain theirs to make.

What concerns me more is the quality of the work upon which they make those decisions.

If somebody declines to finance an enterprise because of a genuine deficiency in its commercial proposition, let us develop a better proposition. If somebody questions the performance of our technology, let us produce better technology and demonstrate its performance. If somebody identifies a legitimate professional deficiency, let us correct it.

And if, after all that, somebody remains unwilling to acknowledge our accomplishments because of the nature of the entertainment we produce, that individual has revealed considerably more about his own limitations than ours.

We cannot compel the world to respect our business.

But we can build a business worthy of respect without ever asking the world to approve of its indecency.

CHAPTER 62

Leave Something Behind

“What has become possible for other people because your company existed?”

There comes a point in an entrepreneur's professional life when the question of what he's accomplished becomes considerably less interesting than the question of what will remain of those accomplishments after he's gone.

A successful business is certainly something worth leaving behind. So is a valuable collection of intellectual property, a recognizable brand or an enterprise capable of providing financial security for one's family.

But there are other forms of entrepreneurial wealth that deserve consideration.

The people whose careers we helped establish. The knowledge we made available to subsequent generations. The technologies that continued evolving after we stopped developing them. The professional opportunities that exist because somebody before us possessed sufficient imagination to create them.

These are accomplishments whose significance cannot adequately be established by examining the balance sheet of an individual enterprise.

They represent a different kind of entrepreneurial legacy, one measured partly by what other people subsequently become capable of accomplishing.

I would like to see our industry become considerably more conscious of that possibility.

An Industry with a Short Memory

One of the unfortunate characteristics of an industry undergoing continuous technological and commercial transformation is that an enormous amount of useful professional knowledge can disappear during the process.

The entrepreneur who established a successful mail-order entertainment business may possess insights into direct customer relationships that remain relevant to contemporary publishers. The distributor who negotiated complicated international licensing arrangements during the videocassette era may understand aspects of territorial distribution that contemporary entrepreneurs are encountering in digital form.

The technologies have changed. Many of the underlying commercial questions haven't.

Yet when experienced professionals retire, companies disappear or entire distribution models become obsolete, much of the knowledge acquired through their operation can disappear with them.

In their 1991 paper *Organizational Memory*, management scholars James P. Walsh and Gerardo Rivera Ungson examined how information acquired through an organization's experiences can be retained and subsequently employed in decision-making.[1]

Their work raises an interesting question when applied beyond the boundaries of an individual enterprise.

Where does the memory of an industry reside?

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1. James P. Walsh and Gerardo Rivera Ungson, “Organizational Memory,” *Academy of Management Review* 16, no. 1 (1991): 57–91. https://doi.org/10.5465/amr.1991.4278992.

Some of it resides in trade publications, historical records, commercial archives and the documentation produced by its professional institutions. Much of it resides in the minds of individuals who have spent decades discovering how to conduct business under unusual circumstances.

If those individuals have no means of communicating what they've learned, the next generation of entrepreneurs may spend considerable resources rediscovering things their predecessors already understood.

That is an unnecessary form of intellectual expenditure.

The History Behind the Headlines

Our industry's history has considerable entertainment value. Its eccentric personalities, controversial publications, legal battles and unconventional entrepreneurial undertakings have provided plenty of material for documentaries, biographies and popular journalism.

But I would like to see considerably more attention devoted to its history as a business.

How were early independent productions financed? How did publishers establish distribution arrangements before electronic commerce existed? What happened to the economics of entertainment when distribution migrated from physical products to digital services?

Which commercial innovations proved successful, which failed and why?

An account of how a particular publisher developed a profitable distribution operation may possess greater practical significance for a contemporary entrepreneur than another colorful account of the publisher's personal eccentricities.

The historical record should encompass the experiences of performers, production personnel, distributors, engineers, independent entrepreneurs and the numerous other professionals whose contributions may never have attracted much public attention.

Their recollections should be documented while they remain available, with appropriate permission and an understanding that personal recollections aren't necessarily equivalent to independently verified historical facts.

We shouldn't leave the responsibility for documenting our commercial history exclusively to people whose principal interest in it is its entertainment value.

There is an enormous business education concealed within that history.

Teach Somebody What Took You Twenty Years to Learn

Suppose an experienced independent producer devotes two hours each month to mentoring somebody attempting to establish a production company.

Over the course of a year, the producer contributes twenty-four hours of professional experience.

During those discussions, the aspiring entrepreneur might acquire a better understanding of production financing, contractual responsibilities, distribution arrangements and the financial consequences of common managerial mistakes.

There is no reliable means of assigning a universal monetary value to that contribution. Its significance depends upon the quality of the guidance, the circumstances of the recipient and the manner in which the knowledge is subsequently employed.

But consider the difference between learning about an expensive mistake from somebody who has already made it and learning about it by making the mistake yourself.

In her 1983 research concerning mentoring relationships, organizational scholar Kathy E. Kram examined how such relationships develop over time and how they can contribute to professional and personal development.[2]

The interesting aspect of mentorship is that its value frequently extends beyond communicating technical information. Experienced professionals can help people develop judgment, recognize opportunities, understand institutional relationships and acquire confidence in their own professional capabilities.

Those are things that can be remarkably difficult to acquire from a conventional educational program.

An industry possessing several generations of experienced entrepreneurs should become more organized about making their knowledge accessible to the people who will eventually succeed them.

Don't Teach Them to Become You

There is a danger associated with the transfer of professional experience.

The experienced entrepreneur may become so convinced of the intelligence of the methods through which he established his own success that he encourages subsequent generations to reproduce them under circumstances in which they are no longer particularly intelligent.

The objective of mentorship shouldn't be the reproduction of the mentor.

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2. Kathy E. Kram, “Phases of the Mentor Relationship,” *Academy of Management Journal* 26, no. 4 (1983): 608–625. https://doi.org/10.5465/255910.

A publisher who developed a successful business through particular traffic acquisition arrangements may possess valuable knowledge concerning audience development. But those arrangements may no longer be commercially attractive.

A producer who developed a successful model for distributing feature-length productions may encounter an aspiring filmmaker interested in creating an entirely different form of entertainment.

The experienced professional has an opportunity to help that individual understand the economics of creative work without imposing the creative and commercial assumptions of an earlier generation.

Explain what motivated a decision. Explain the circumstances under which it succeeded. Explain what might have been done differently with better information or different technological capabilities.

Then allow the next generation to develop its own conclusions.

Indeed, some of the most interesting professional relationships are those in which both individuals acquire knowledge. The experienced producer may understand the economics of financing entertainment considerably better than the inexperienced entrepreneur. The inexperienced entrepreneur may understand emerging technologies considerably better than the experienced producer.

Each possesses something the other can use.

The greatest satisfaction associated with teaching somebody how to conduct business should be seeing that individual eventually conduct it better than you did.

Create Opportunities, Not Dependencies

Our industry should become more interested in establishing professional opportunities through which inexperienced people can acquire meaningful responsibilities under appropriate supervision.

There are technical, creative and managerial capabilities that cannot adequately be developed through classroom instruction alone.

An aspiring editor benefits from working on an actual production. A developing software engineer benefits from confronting the complexities of an actual commercial application. An individual interested in production management benefits from understanding how creative ambitions, financial limitations and contractual obligations interact during an actual undertaking.

Established companies can provide opportunities for developing those capabilities through paid apprenticeships, supervised assignments, professional mentorship and appropriately structured training arrangements.

Such opportunities should benefit the people undertaking them rather than become convenient sources of inexpensive labor.

Nobody's desire to acquire professional experience should become a justification for exploitation, unpaid productive work where compensation is required, or pressure to participate in activities outside the agreed scope of a professional arrangement.

This deserves particular attention in our business, where professional ambitions may coexist with unusual personal, financial and institutional vulnerabilities.

The objective is to expand the individual's professional independence.

An excellent mentor should eventually become unnecessary. An excellent training arrangement should eventually produce somebody capable of exercising considerably more judgment than was required at its commencement.

We should take pride in developing people who subsequently establish successful enterprises of their own, even when those enterprises become our competitors.

Give Something Away That Isn't Entertainment

We have developed an industry enormously proficient at making its entertainment freely available.

I would like us to become more proficient at making useful professional knowledge freely available.

Consider the independent entrepreneur attempting to understand the financial requirements of establishing a video publishing business. That individual may possess considerable creative ambition but relatively little understanding of infrastructure, commercial agreements, advertising systems or the economics of customer acquisition.

Imagine the value of a substantial collection of independently contributed educational materials addressing those subjects.

Experienced professionals could publish practical explanations of commercial arrangements, documented case studies, technical specifications and educational resources. Companies could make certain internally developed utilities available for broader professional use.

None of this requires the indiscriminate distribution of proprietary intellectual property. Businesses are entitled to protect commercially valuable inventions, and individuals are entitled to protect confidential information.

But there are things an entrepreneur knows that may no longer constitute a significant competitive advantage to the enterprise while possessing enormous educational value to somebody establishing a business.

We should become more attentive to those things.

An experienced publisher explaining how to evaluate a distribution agreement needn't disclose the confidential commercial terms of his own agreements. A software engineer explaining the principles behind a dependable playback environment needn't surrender the proprietary source code of the company's products.

Knowledge can frequently be made useful without relinquishing everything associated with its acquisition.

The entrepreneur who becomes known for contributing useful knowledge may also establish valuable professional relationships, attract interesting talent and acquire opportunities that would never have developed through the exclusive preservation of that knowledge.

Generosity and commercial intelligence needn't occupy separate departments.

The Industry Contribution Test

Suppose your company disappeared tomorrow.

Assume, for the purposes of this exercise, that its outstanding professional and financial obligations were properly fulfilled, its legitimately transferable assets were acquired by other enterprises and its customers subsequently found alternative sources of entertainment or services.

What would the industry lose besides another supplier?

That is the **Industry Contribution Test**.

The distinction I'm interested in establishing is between the value a company creates through its ordinary commercial activities and the more enduring professional capabilities it contributes to the environment in which those activities occur.

Has the enterprise developed technologies that other businesses can employ? Has it contributed useful knowledge to the professional literature? Have its people subsequently established interesting companies of their own? Has it developed creative or operational methods that have influenced the work of other professionals?

Perhaps it has established professional standards that competitors have subsequently found worth adopting. Perhaps it has helped develop an institution whose usefulness extends considerably beyond the company that supported its establishment.

These contributions may continue producing value after the commercial entity responsible for them has ceased to exist.

The following distinctions may help an entrepreneur administer the test:

Area of contribution	What might endure beyond the enterprise?
Technology	Useful specifications, documented inventions and independently maintained technologies.
Professional development	People equipped to establish businesses, advance their professions or teach others.
Knowledge	Published research, educational materials and documented commercial experience.
Creative development	Original techniques, artistic approaches and production methods.
Institutional advancement	Programs, professional resources and organizations capable of continuing independently.

This isn't a requirement that every company become a research institution, establish an educational program or develop technologies possessing significance beyond its immediate commercial activities.

An entrepreneur who operates an excellent small business, fulfills professional obligations and provides a worthwhile product has accomplished something entirely legitimate.

Nor should contributions to the industry become another means of overlooking deficiencies within the contributing enterprise.

The Industry Contribution Test simply invites the entrepreneur to examine a dimension of commercial accomplishment that receives relatively little attention in conventional financial reporting.

What has become possible for other people because your company existed?

I find that an enormously interesting measure of entrepreneurial success.

Build Things That Can Survive Your Enthusiasm

Some of the more interesting collective undertakings within entrepreneurial industries originate with individuals possessing enormous personal enthusiasm for a particular subject.

A founder establishes an educational initiative, organizes a professional association, develops an independent archive or begins publishing technical research.

The undertaking acquires considerable momentum through the individual's personal efforts.

But when those efforts diminish, the undertaking gradually disappears.

We discussed the importance of reducing founder dependency in Chapter 52. The principle acquires additional significance when the founder is developing something intended to benefit an entire professional community.

An educational resource should possess arrangements for its continued maintenance. An independent archive should have a reasonable preservation strategy. A technical specification should be documented in sufficient detail that subsequent developers can understand and potentially improve it.

Where appropriate, the founder should establish clear responsibilities, succession arrangements and access to the resources necessary to sustain the undertaking.

The objective isn't to create institutions that endure indefinitely regardless of their continued usefulness. Some undertakings should eventually conclude.

The objective is to ensure that their usefulness doesn't end merely because the person responsible for establishing them becomes occupied with something else.

An interesting invention can become a lasting contribution when the inventor gives sufficient thought to what happens to it afterward.

Preserve More Than the Product

Our entertainment constitutes an important part of our commercial and cultural history, but the entertainment alone doesn't communicate the entirety of what we accomplished.

The development of a film involves creative decisions, financial arrangements, technological experiments and professional collaborations that may be almost entirely invisible in the finished work.

The development of an independent publishing technology may involve years of research and experimentation whose significance cannot readily be reconstructed from the software itself.

Where appropriate, preserve the documentation surrounding these accomplishments.

A filmmaker might preserve authorized production records, technical notes and reflections on creative decisions. A technology entrepreneur might preserve architectural specifications, development histories and explanations of significant engineering decisions.

Such materials can acquire educational and historical value independently of the immediate commercial value of the products associated with them.

Preservation must, of course, respect confidentiality, applicable rights, the privacy of individuals and the circumstances under which material was originally authorized. An archive doesn't acquire an unrestricted entitlement to distribute sensitive information merely because that information possesses historical significance.

But within appropriate boundaries, we should become considerably more deliberate about preserving the intellectual circumstances surrounding our accomplishments.

Future generations should have an opportunity to understand not merely what we produced, but how we produced it, why we developed it and what we learned in the process.

Leave the Door Open Behind You

Many successful entrepreneurs take considerable pride in having established their businesses despite circumstances that made doing so unnecessarily difficult.

I understand that pride.

But I have little enthusiasm for the proposition that subsequent generations should encounter those same difficulties merely because overcoming them constituted an important component of our own entrepreneurial experience.

If it took us twenty years to discover how to establish certain commercial relationships, perhaps we can help somebody else accomplish it in two. If we developed technologies because existing providers wouldn't accommodate us, perhaps those technologies can make establishing a subsequent enterprise considerably less expensive.

The accomplishments of one generation should expand the possibilities available to the next.

Otherwise, the industry may remain a remarkably impressive collection of individual success stories without becoming substantially easier for intelligent, ambitious people to enter.

I don't want the entrepreneurs who follow us to spend their most creative years reconstructing capabilities we've already developed.

I want them to begin with those capabilities and invent something more interesting.

And when their inventions make some of ours obsolete, I hope we'll possess sufficient professional maturity to take satisfaction in that accomplishment.

The objective of this book isn't to establish the final word on the reinvention of adult entertainment.

It is to encourage considerably more people to have something worth saying about it.

An industry begins to mature intellectually when the accomplishments of its entrepreneurs become the starting point, rather than the destination, for those who follow them.

Build something profitable. Build something excellent. Build something that deserves to exist.

And, if you can, leave something behind that somebody else can build upon.

CHAPTER 63

The Next Generation of Entrepreneurs

“The future of this industry doesn't belong to the people who've been in it the longest. It belongs to the people who can imagine what it hasn't yet become.”

If you're entering this industry today, you possess one extraordinarily valuable commercial asset that many of its established entrepreneurs don't.

You have nothing to defend.

You haven't invested twenty years developing a particular distribution model. You haven't established an organization whose financial survival depends upon the continued popularity of a particular advertising format. You haven't accumulated a collection of technologies that must remain commercially relevant simply because replacing them would be enormously expensive.

You're free to examine this business as it exists today and determine what kind of enterprise deserves to exist within it tomorrow.

I would encourage you to take full advantage of that freedom.

One of the more disappointing things a new entrepreneur can do is enter an industry in desperate need of reinvention and proceed to establish another perfectly conventional example of the businesses that already occupy it.

We don't need the next generation of entrepreneurs to become younger versions of the previous generation. We need them to recognize commercial possibilities that the previous generation has become too professionally comfortable, financially committed or intellectually conditioned to recognize.

The Advantage of Arriving Late

There is a tendency to regard established businesses as possessing an almost insurmountable advantage over inexperienced entrepreneurs.

They possess financial resources, recognizable brands, established customer relationships and considerable commercial experience. These are substantial advantages that shouldn't be underestimated.

But every established business also possesses a history of decisions.

Its technology reflects decisions made when different technological capabilities were available. Its commercial arrangements reflect decisions made under different economic circumstances. Its organizational structure reflects decisions made when the enterprise may have possessed substantially different ambitions.

Each decision potentially introduces limitations upon subsequent decisions.

An inexperienced entrepreneur needn't reproduce any of them.

Consider the publisher establishing an entirely new commercial operation. There is no inherent requirement to begin with the same website architecture, advertising arrangements, membership structure or administrative practices employed by publishers who entered the business twenty years earlier.

The new enterprise can be conceived around contemporary technological capabilities and the expectations of contemporary consumers.

The incumbent may possess considerably more resources with which to pursue innovation. The newcomer may possess considerably fewer reasons not to pursue it.

That is an interesting competitive relationship.

Admission Is Not Entrepreneurship

The democratization of publishing technology has created enormous opportunities for individuals to participate in the entertainment business.

But acquiring the ability to participate in a business and establishing a business of one's own are substantially different accomplishments.

An individual may acquire access to an established distribution platform, begin publishing original entertainment and generate considerable personal income. Those are legitimate professional achievements.

Whether the individual has established an independently sustainable enterprise depends upon additional considerations.

What intellectual property does the individual control? What happens to the commercial activity if the distribution arrangement changes? Which capabilities belong to the individual, and which are provided exclusively through the platform?

These questions are particularly relevant to the generation of creative professionals whose first experience of entrepreneurship occurs within somebody else's technological and commercial environment.

As we discussed in Chapter 25, access to an audience doesn't necessarily establish a durable relationship with that audience.

The next generation of entrepreneurs should become increasingly conscious of the distinction between earning money through an enterprise and building an enterprise capable of generating value independently of a particular commercial intermediary.

Established platforms can provide excellent starting points. They needn't establish the ultimate boundaries of an individual's entrepreneurial ambitions.

Begin with What You Possess

In her 2001 paper *Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency*, entrepreneurship scholar Saras D. Sarasvathy examined an approach to entrepreneurial decision-making known as effectuation.[1]

Rather than beginning exclusively with a predetermined commercial objective and subsequently identifying the resources necessary to accomplish it, entrepreneurs can begin with their existing knowledge, capabilities and relationships and investigate what those resources enable them to create.

The approach also emphasizes the importance of considering what the entrepreneur can afford to lose, particularly when the financial consequences of a new undertaking cannot reliably be predicted.

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1. Saras D. Sarasvathy, “Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency,” *Academy of Management Review* 26, no. 2 (2001): 243–263, esp. 245 and 251 (table 1). https://doi.org/10.5465/amr.2001.4378020.

I find this particularly relevant to people entering an industry in which acquiring conventional financing may be difficult.

An experienced editor may not possess sufficient resources to establish a production company. But that individual's knowledge of post-production could provide the foundation of a specialized professional services enterprise.

A software developer may not possess the resources necessary to establish a comprehensive entertainment infrastructure platform. But the developer might possess sufficient expertise to resolve one unusually troublesome problem confronting independent publishers.

The initial enterprise needn't represent the entirety of the entrepreneur's ambition. It can establish the knowledge, financial resources and professional relationships from which considerably more ambitious undertakings become possible.

The absence of sufficient resources to accomplish everything shouldn't prevent an intelligent examination of what can be accomplished with the resources already available.

Find the Business Inside the Business

Our industry contains numerous specialized commercial activities that have traditionally been administered as components of larger enterprises.

The administration of creative rights, the preservation of production materials, the preparation of audiovisual assets for different distribution environments and the reconciliation of commercial reporting are all activities that businesses must perform.

They are also potential businesses in their own right.

An entrepreneur needn't establish another production company simply because he's interested in the economics of production. He might establish a business providing capabilities that make hundreds of production companies more efficient.

Nor does an individual interested in entertainment technology necessarily need to develop another comprehensive publishing platform. There may be a more attractive commercial opportunity in developing one exceptionally useful component that independently operated platforms can employ.

This distinction deserves particular attention among aspiring entrepreneurs because our industry tends to identify itself through the entertainment it produces. Consequently, people investigating opportunities within it frequently begin by considering what kind of entertainment business they might establish.

I would encourage them to examine the business surrounding the entertainment with equal enthusiasm.

Every unnecessarily complicated professional activity represents a possible commercial opportunity. Every specialized capability that several businesses must independently develop deserves examination as a potential service. Every established expense should be investigated for the possibility that somebody might administer it more intelligently.

Some of the most interesting enterprises of the next generation may never produce or publish any entertainment whatsoever.

Small Is a Perfectly Interesting Ambition

We have developed a rather peculiar commercial culture in which the attractiveness of an entrepreneurial undertaking is frequently evaluated according to its potential size.

How many millions of customers could it acquire? How rapidly could it expand internationally? How much might somebody eventually pay to acquire it?

Those are perfectly legitimate questions for certain enterprises. They aren't necessarily the most interesting questions for every enterprise.

Consider a hypothetical specialist technology business serving independent production companies and publishers. Assume that it provides a narrowly defined professional service for an average monthly fee of two hundred dollars.

Active business customers	Monthly revenue	Annualized revenue
25	$5,000	$60,000
50	$10,000	$120,000
100	$20,000	$240,000
250	$50,000	$600,000

These figures represent gross recurring revenue before expenses, taxes, customer departures or other financial considerations. They establish neither profitability nor the likelihood of acquiring the indicated number of customers.

But they illustrate something worth considering.

An enterprise needn't acquire millions of customers to establish meaningful commercial activity. Depending upon its expenses and the nature of its services, a business serving a relatively modest professional marketplace might provide an attractive livelihood for its founder, employment for several talented people and sufficient resources to finance further development.

The entrepreneur who recognizes such an opportunity shouldn't necessarily abandon it because it lacks the financial characteristics of a prospective multinational corporation.

Not every interesting business needs to become an empire.

Some should simply become exceptionally good businesses.

Build Across Professional Boundaries

One of the more interesting characteristics of future entrepreneurial undertakings may be the combination of professional capabilities that have traditionally existed independently of one another.

Imagine a partnership between an experienced filmmaker, a software engineer and somebody possessing substantial knowledge of commercial distribution.

Each understands a different dimension of the entertainment business. Together, they may recognize possibilities that none would readily identify independently.

The filmmaker understands the creative circumstances under which entertainment is produced. The engineer understands what contemporary technology makes possible. The commercial professional understands the circumstances under which those capabilities might acquire economic value.

The resulting enterprise needn't resemble any of the businesses from which its founders acquired their experience.

This is why I would encourage aspiring entrepreneurs to develop professional relationships well beyond the particular occupations in which they presently operate.

Attend a conference concerned with a technology you've never employed. Become acquainted with people developing products for entirely different industries. Examine the business practices of enterprises whose customers and commercial circumstances bear little resemblance to your own.

The objective isn't to become an expert in everything. It is to acquire sufficient intellectual familiarity with other professions to recognize what might become possible through collaboration with their practitioners.

Some inventions are the product of extraordinary individual specialization. Others emerge precisely because somebody recognized a relationship between several specialties that had previously been treated as unrelated.

Our industry has ample room for both.

Don't Inherit Our Excuses

The generation entering this business will encounter many of the institutional disadvantages confronting its predecessors.

Financial restrictions haven't disappeared. Commercial prejudice remains a legitimate consideration. The regulatory environment will continue developing in ways that may complicate entrepreneurial activity.

Those circumstances deserve serious attention.

But I hope the next generation distinguishes between the disadvantages it has genuinely inherited and the deficiencies it has merely been encouraged to accept.

There is no compelling reason an unattractive publishing environment should become an established characteristic of the industry. There is no intellectual justification for incompetent commercial reporting becoming an accepted condition of doing business.

The new entrepreneur should feel no obligation to preserve arrangements that originated under circumstances that no longer exist.

And when an experienced industry professional explains that a particular improvement isn't possible because nobody has previously succeeded in implementing it, the appropriate response may be to investigate whether the reasons for those earlier failures remain relevant.

Experience deserves respect. It doesn't deserve unquestioned authority.

Some of the industry's most expensive limitations may reside in conclusions that were perfectly reasonable when they were originally reached and haven't been adequately reconsidered since.

Establish Your Own Definition of Success

There is an enormous difference between entering a business because you've observed somebody else making money and entering it because you've recognized something worth accomplishing.

The former can provide a perfectly legitimate financial motivation. But it may leave the entrepreneur perpetually dependent upon observing what other people are doing successfully.

I would encourage the next generation to develop ambitions that extend beyond reproducing the visible accomplishments of its predecessors.

Perhaps you want to establish the most technically sophisticated independent production company of your generation. Perhaps you want to develop a technology that improves the professional independence of creative people. Perhaps you want to establish a publication whose editorial judgment becomes sufficiently valuable that its audience seeks it out independently of the entertainment it distributes.

The important consideration is that the enterprise possesses a reason for existing beyond the availability of an opportunity to make money.

Financial success will remain essential to its sustainability. But a more substantial entrepreneurial purpose can influence which opportunities you pursue, which commercial arrangements you reject and which people become interested in contributing to the undertaking.

It can also provide a basis for determining whether the enterprise is becoming the business you originally wanted to build.

Making money is an objective.

Deciding what kind of business deserves to make that money is an entrepreneurial proposition.

You Don't Have to Wait Your Turn

Established industries occasionally develop an unfortunate tendency to confuse professional seniority with intellectual authority.

The inexperienced entrepreneur is expected to spend several years learning how the industry operates before becoming sufficiently qualified to question how it operates.

There are certainly advantages to acquiring experience. Nobody should underestimate the complexity of administering creative rights, managing financial obligations or establishing responsible production environments.

But I see no reason an individual must spend twenty years tolerating an unnecessarily complicated commercial arrangement before becoming qualified to invent a better one.

An exceptional idea doesn't become more exceptional because its inventor has acquired several additional gray hairs.

The industry should establish opportunities for newcomers to demonstrate their capabilities without requiring them to first accumulate the professional credentials associated with conventional advancement.

And newcomers should develop sufficient confidence to recognize that their unfamiliarity with established practices may occasionally constitute an intellectual advantage.

We need people capable of looking at the business with the sort of astonishment that those of us who've spent decades within it may no longer possess.

The Industry We Won't Recognize

I hope that twenty years from now, much of the commercial and technological environment described in this book will appear hopelessly antiquated.

I hope future entrepreneurs will find some of our present difficulties difficult to comprehend. I hope they'll wonder why the independent distribution of entertainment was once unnecessarily complicated, why our commercial technologies were so unimaginative and why some of our most fundamental professional requirements were ever considered ambitious objectives.

And I hope they'll have discovered opportunities that haven't occurred to me anywhere in these pages.

That would represent a considerably greater accomplishment than establishing an industry that conforms precisely to the propositions advanced in this book.

I don't want the next generation merely to implement our vision. I want them to possess the capabilities and intellectual freedom to exceed it.

Those of us who've spent much of our professional lives in this business should become increasingly interested in creating the circumstances under which somebody considerably younger, with considerably fewer resources and a considerably more interesting idea, can come along and make us wonder why the hell we never thought of it ourselves.

The future of this industry doesn't belong to the people who've been in it the longest.

It belongs to the people who can imagine what it hasn't yet become.

CHAPTER 64

The Courage to Lead

“The approval of one's competitors is a rather peculiar objective for a business attempting to establish a competitive advantage.”

One of the less attractive characteristics of leadership is that it occasionally requires you to disappoint people whose opinions you value.

Your colleagues may consider your commercial ambitions unrealistic. Your business associates may regard your decisions as unnecessarily disruptive. People with whom you've enjoyed long-standing professional relationships may become uncomfortable with your criticism of practices upon which their businesses depend.

There is considerable social and commercial comfort associated with agreeing with the people around you.

There is considerably less comfort associated with telling those same people that the business they've spent twenty years developing needs to be fundamentally reconsidered.

But I cannot imagine an industrial revolution originating from an overwhelming desire among its participants not to make anybody uncomfortable.

Leadership requires a willingness to disturb arrangements that have become familiar, profitable and professionally convenient. It requires an understanding that the people who ultimately benefit from an improvement may initially be among the people most resistant to its introduction.

And it requires sufficient humility to recognize that being unpopular doesn't necessarily establish that you're right.

The Price of Going First

Throughout this book, I've advocated changes to our industry that may appear intellectually attractive while presenting considerable commercial difficulties to the entrepreneurs attempting to implement them.

Consider the independent publisher who decides to eliminate intrusive advertising before developing a completely dependable alternative source of revenue.

The decision may establish a substantially better experience for the audience. It may contribute to the long-term commercial value of the business itself. It may even become an important competitive advantage.

But the publisher must finance the interval between the disappearance of the old revenue and the arrival of the new.

Meanwhile, competitors continuing to employ those advertising practices may experience no corresponding financial difficulty.

That is one of the more uncomfortable realities associated with introducing professional improvements into an industry that hasn't collectively embraced them.

The individual entrepreneur can incur an immediate financial cost while some of the eventual benefits accrue more broadly.

Similarly, the technology company investing in an interoperable architecture may make it easier for competitors to develop complementary or competing products. The producer establishing more sophisticated professional arrangements may initially encounter higher administrative expenses than competitors operating less responsibly.

None of this establishes that the improvements are commercially misguided.

It establishes that leadership has economics of its own.

The entrepreneur must understand those economics sufficiently well to make the improvement sustainable. Otherwise, the industry may acquire another admirable example of something everybody should do from a company that can no longer afford to do it.

Conviction Is Not a Substitute for Competence

I have considerable admiration for people willing to undertake something everybody else considers impractical. But the operative word is *undertake*.

Disagreeing with conventional wisdom doesn't require much entrepreneurial ability.

Developing something sufficiently useful to demonstrate the deficiencies of conventional wisdom requires considerably more.

A publisher convinced that existing advertising practices are commercially destructive must eventually develop or adopt an alternative capable of sustaining the business.

A developer convinced that contemporary video players are intellectually unimaginative must produce something that makes the experience appreciably better.

A filmmaker convinced that established distribution arrangements diminish the value of creative work must investigate commercially viable alternatives.

The strength of the entrepreneur's conviction should become evident in the quality of the work undertaken to substantiate it.

I would much rather encounter somebody who has modestly introduced an important improvement than somebody who has become enormously famous for explaining why everybody else needs to improve.

Our industry has no shortage of commentators. What interests me is the commentator who becomes a constructor.

Your Colleagues Aren't Your Constituency

There is a tendency within relatively specialized industries for entrepreneurs to become disproportionately concerned with how their decisions are perceived by other industry professionals.

We attend the same conferences, read the same publications, conduct business with many of the same people and become intimately acquainted with one another's professional opinions.

Over time, there is a danger that this relatively small collection of people acquires considerable influence over our entrepreneurial judgment.

But the people whose opinions matter commercially may occupy an entirely different environment.

The audience doesn't necessarily share the publisher's understanding of why a particular advertising arrangement is financially necessary. The independent filmmaker doesn't necessarily share the distributor's enthusiasm for an established licensing practice. The customer purchasing software doesn't necessarily appreciate the historical circumstances under which its limitations originated.

Those individuals are evaluating the product or commercial relationship from the perspective of what it does for them.

We should become more attentive to that perspective, even when doing so introduces considerable disagreement among our professional contemporaries.

A publisher who introduces a genuinely better experience for its audience may encounter considerable criticism from other publishers whose businesses depend upon different assumptions concerning what constitutes an acceptable experience.

That criticism deserves examination, particularly when it raises legitimate economic questions.

But it shouldn't automatically establish the boundaries of the publisher's ambitions.

The approval of one's competitors is a rather peculiar objective for a business attempting to establish a competitive advantage.

Make Disagreement Useful

We have previously encountered the work of economist Albert O. Hirschman, whose 1970 book *Exit, Voice, and Loyalty* examined the alternatives available to individuals dissatisfied with the deterioration of organizations and their performance.[1]

An individual can withdraw from an unsatisfactory relationship or attempt to improve it by expressing dissatisfaction and influencing change.

I find the latter possibility particularly interesting in relation to our industry.

There are entrepreneurs who have spent years privately expressing frustration with commercial arrangements they continue publicly accommodating. They recognize the deficiencies of those arrangements, understand their economic consequences and occasionally possess interesting ideas concerning how they might be improved.

Yet their dissatisfaction remains largely confined to private conversations.

Professional disagreement becomes considerably more useful when it acquires an intelligible public expression.

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1. Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970).

Publish an argument. Document an alternative. Demonstrate a technology. Participate in the development of a different commercial arrangement.

The objective needn't be to establish one's intellectual superiority over the people responsible for existing practices. It should be to create circumstances under which those practices can be examined and better ones can emerge.

And we should extend the same intellectual courtesy to people who disagree with us.

Anybody advocating substantial changes to an industry should be prepared to hear intelligent arguments concerning the possible deficiencies of those changes.

I would be rather suspicious of a revolutionary who considered disagreement a professional offense.

The Responsibility of Being First

Introducing an original commercial or technological capability creates responsibilities that may be less apparent to its inventor than the opportunities associated with it.

A new technology can establish possibilities its developer hadn't anticipated. A new commercial arrangement can influence the circumstances of professionals who weren't involved in its conception. A seemingly attractive improvement can introduce complications elsewhere in the enterprise or marketplace.

Sociologist Robert K. Merton examined this broader problem in his 1936 paper *The Unanticipated Consequences of Purposive Social Action*.[2]

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2. Robert K. Merton, “The Unanticipated Consequences of Purposive Social Action,” *American Sociological Review* 1, no. 6 (1936): 894–904, esp. 898. https://doi.org/10.2307/2084615.

The enduring significance of his work lies partly in recognizing the limitations of our ability to anticipate all the consequences of deliberate action.

Entrepreneurs should take that limitation seriously.

Consider the development of sophisticated technologies capable of altering audiovisual material. Their creative possibilities may be substantial. So are the potential consequences for the rights and professional identities of the people represented in that material.

The inventor cannot reasonably be expected to anticipate every possible future application. But the inventor can investigate foreseeable risks, establish appropriate safeguards and respond intelligently when previously unanticipated problems become apparent.

This responsibility extends to our commercial innovations as well.

A technology that makes distributing entertainment considerably easier should be accompanied by appropriate consideration of the circumstances under which that distribution is authorized. A commercial arrangement intended to increase publisher independence shouldn't accomplish that objective by diminishing the legitimate independence of performers or other creative professionals.

Leadership involves considerably more than being the first person to introduce a capability.

It involves accepting responsibility for the manner in which that capability enters the world.

Somebody Has to Establish the Precedent

There are circumstances in which entrepreneurs hesitate to undertake an improvement because they cannot identify a sufficiently successful precedent for it.

A publisher contemplating an original commercial model wants to know which other publishers have successfully implemented it. A producer contemplating an unfamiliar entertainment format wants evidence of its commercial performance. An entrepreneur considering an unconventional technological architecture wants reassurance that somebody else has demonstrated its viability.

These are reasonable concerns.

But the absence of an established precedent cannot become a permanent justification for the absence of innovation.

Eventually, somebody must undertake the work from which the precedent emerges.

The responsible approach isn't to disregard the absence of evidence. It is to determine how evidence might be acquired without unnecessarily jeopardizing the enterprise or the people involved in the undertaking.

The first implementation may be modest. It may occur within a carefully defined professional environment. It may produce disappointing results requiring substantial reconsideration of the original proposition.

Nevertheless, it can establish knowledge that previously didn't exist.

There is something particularly interesting about the entrepreneur willing to incur the intellectual and financial expense of discovering whether something is possible.

The discovery may ultimately become considerably more valuable than the advantage associated with being its original beneficiary.

An industry advances when what was previously somebody's experiment becomes somebody else's available capability.

The Leadership of Saying No

We tend to associate leadership with the things an entrepreneur decides to undertake.

I think we should devote comparable attention to the things an entrepreneur decides not to undertake.

The publisher who declines a commercially lucrative arrangement because it would diminish the integrity of the product is exercising a form of leadership. So is the producer who refuses to compromise legitimate professional obligations in order to meet an unnecessarily ambitious schedule.

The entrepreneur who declines to introduce a technologically impressive capability because its foreseeable consequences haven't been adequately addressed may be demonstrating greater professional judgment than the competitor who introduces it first.

These decisions can be particularly difficult when the enterprise possesses limited financial resources and the rejected opportunity might have produced substantial immediate revenue.

But a commercial philosophy acquires little significance if the entrepreneur observes it exclusively when doing so is financially convenient.

The principles we've developed throughout this book should influence the opportunities we decline every bit as much as the opportunities we pursue.

It is relatively easy to describe the kind of business you want to operate.

The character of that business becomes considerably more apparent when you're offered money to operate a different one.

You May Have to Lead Alone

I would like the reinvention advocated throughout this book to become a substantial collective undertaking involving entrepreneurs from practically every dimension of our industry.

But I don't expect everybody to participate. Nor do I expect the people who participate to agree upon every aspect of it.

Some businesses will find the existing commercial environment sufficiently profitable that they possess little enthusiasm for changing it. Others will acknowledge the desirability of substantial improvements while preferring to allow somebody else to assume the risks associated with introducing them.

That is perfectly understandable.

It shouldn't prevent the entrepreneur who recognizes an interesting opportunity from investigating it.

You don't need an industry-wide agreement to improve your own publishing environment. You don't need a trade association to authorize the development of an original software application. You don't need the approval of every competing producer to introduce a better creative or commercial arrangement.

Collective action can accomplish things individual enterprises cannot. But the absence of collective action should never become an excuse for failing to accomplish those things individual enterprises can.

Some of the most consequential improvements in this industry may begin with relatively obscure businesses whose entrepreneurs have become thoroughly dissatisfied with the proposition that things are the way they are because that's the way things are.

I am writing this book for those people.

The Courage to Be Wrong

There is a final characteristic of entrepreneurial leadership that deserves attention before we conclude this part of the book.

The leader must possess the intellectual courage to acknowledge when somebody else has developed a better idea.

The entrepreneur who advocates change cannot subsequently regard his own inventions as immune from it. The person who challenges established commercial assumptions must remain willing to have his own assumptions challenged.

That includes the author of a book advocating the reinvention of an industry.

Some of the propositions I've advanced throughout these chapters may eventually prove inadequate. Some of the technologies I've discussed may become commercially irrelevant. Some of the managerial concepts I've developed may require considerable modification when applied under circumstances I haven't sufficiently considered.

I would welcome those discoveries, provided they emerge from serious intellectual examination and actual professional experience.

This book isn't intended to establish another collection of conventions that subsequent generations of entrepreneurs must obediently observe.

It is intended to encourage them to become more interesting entrepreneurs.

I would consider it a magnificent accomplishment if somebody read this book, disagreed intelligently with half of it and proceeded to build something better than anything I've imagined.

The purpose of leadership shouldn't be to establish a permanent collection of followers.

It should be to establish the circumstances under which more people become capable of leading.

Let's Stop Waiting

We have examined the history of our industry, the deterioration of its commercial environment, the economics of its entertainment, the technological opportunities available to its entrepreneurs and the professional responsibilities associated with building excellent enterprises.

We've considered what our businesses could become and what those businesses could accomplish together.

There remains a temptation to regard the reinvention of the industry as something that must await more favorable circumstances.

Perhaps when financial institutions become more accommodating. Perhaps when advertisers become more sophisticated. Perhaps when publishers become more receptive to technological innovation. Perhaps when somebody develops sufficient capital to undertake a substantial transformation of the business.

Those circumstances may eventually arrive.

I would prefer that some of us participate in creating them.

We cannot choose every condition under which we conduct business. But we can choose considerably more of the conditions under which we conduct it than we've sometimes been willing to acknowledge.

We needn't wait for the entire industry to become excellent before making our own enterprises excellent.

We needn't wait for the world to recognize our technological leadership before doing something worthy of that recognition.

And we needn't wait for the next generation to reinvent the business we've spent so much of our lives building.

We can give them a considerably more interesting business to inherit.

Leadership doesn't begin when everybody agrees that the time has come.

It begins when somebody decides that he's waited long enough.

P A R T I X

THE MANIFESTO

“Don’t let the noise of others’ opinions drown out your own inner voice.”

Steve Jobs
Stanford commencement address, June 12, 2005

CHAPTER 65

Ten Principles of Indecent Excellence

“Pornography doesn't need a revolution in morality. It needs a revolution in management, technology, commerce and imagination.”

Pornography doesn't need a revolution in morality. It needs a revolution in management, technology, commerce and imagination.

That is the proposition upon which this book was conceived.

I've spent the preceding chapters examining the circumstances under which we became technological pioneers, the decisions through which we diminished the perceived value of our entertainment and the opportunities available to us should we become sufficiently dissatisfied with the present condition of our business.

We've examined management theories, economic models, emerging technologies and the intellectual responsibilities of entrepreneurship. But the usefulness of all that material ultimately depends upon whether it influences the decisions people make in the actual administration of their enterprises.

What follows is a distillation of the philosophy I've advocated throughout this book. These aren't ten commandments issued to an industry in need of moral instruction. They're ten commercial and professional commitments that I believe could fundamentally alter the character of our business if enough of us became sufficiently enthusiastic about observing them.

I offer them to the industry not as conditions of membership, but as instruments of reinvention.

I. Indecency Is No Excuse for Mediocrity.

The nature of our entertainment doesn't establish the standard of excellence appropriate to its creation, presentation or commercialization.

A beautifully photographed production deserves an equally thoughtful presentation. An independently produced scene deserves dependable distribution. A customer purchasing access to pornography deserves the same professional consideration as a customer purchasing access to any other form of entertainment.

There is no intellectually defensible reason for accepting technological incompetence, unattractive design, unreliable customer service or irresponsible management simply because the product happens to be sexually explicit.

Indeed, considering the institutional disadvantages confronting our business, we have compelling commercial reasons to become exceptionally good at the things over which we possess control.

I don't want our websites to look impressive *for porn sites*. I want them to look impressive. I don't want our technology to perform well *considering the industry it serves*. I want it to perform exceptionally well.

The qualification is an insult we've become entirely too comfortable accepting.

Excellence requires us to eliminate it.

II. Restore the Value of What We Create.

We cannot continually diminish the perceived value of our entertainment and then express surprise at the declining willingness of consumers and advertisers to finance it.

The millions of dollars invested in creative work throughout this industry deserve a commercial environment that communicates something of their worth. That applies equally to the independent creator investing personal resources in a single production and the established studio financing an extensive collection of original entertainment.

Giving entertainment away can be an intelligent commercial strategy. Presenting it as though it were worthless is considerably less intelligent.

We must become more sophisticated about how we introduce our productions, differentiate our creative offerings, establish relationships with audiences and develop commercial arrangements capable of financing subsequent work.

A film shouldn't become an anonymous file occupying a rectangle between advertisements. A performer shouldn't become an interchangeable image in an endless collection of thumbnails.

The entertainment we create possesses identities, creative histories, professional contributions and commercial possibilities that deserve recognition.

Our responsibility is to establish circumstances under which those characteristics acquire meaning to the audience.

If we want people to value our product, perhaps we should begin by demonstrating that we do.

III. Treat the Audience as Customers, Not Traffic.

The word *traffic* has acquired an unfortunate degree of intellectual authority within our business.

It encourages us to regard human beings principally as measurable commercial movements through digital properties. We purchase them, redirect them, exchange them, monetize them and periodically congratulate ourselves on having acquired more of them.

But people don't ordinarily develop affection for a website because it has become exceptionally proficient at redirecting them.

They return because they find something worth returning to.

The distinction between traffic and an audience should become fundamental to our commercial thinking. Traffic may be acquired through an advertising expenditure. An audience must be developed through the experience we provide.

We should respect the privacy, intelligence, time and preferences of the people consuming our entertainment. We should make their commercial relationships with us intelligible and voluntary. We should give them compelling reasons to return without developing technological contrivances intended to make leaving unnecessarily difficult.

And we should remember that a person viewing our entertainment without directly purchasing it is still experiencing the product of our enterprise.

Our responsibility to that person doesn't begin with the entry of a credit card number.

IV. Make Monetization Worthy of the Entertainment.

An intelligent commercial arrangement should sustain the product without unnecessarily diminishing the experience of consuming it.

For too long, we've accepted a particularly unattractive relationship between pornography and advertising. We've tolerated commercial interruptions possessing little resemblance to the professionally administered advertising experiences audiences have encountered throughout the history of audiovisual entertainment.

We've allowed advertisements to compete with our own product for control of the screen, the browser and occasionally the patience of the customer.

This needn't remain an established characteristic of our business.

We should develop advertising products worthy of the entertainment surrounding them. We should investigate more sophisticated subscription arrangements, commercial partnerships, individual purchases and emerging methods of financing creative work.

The purpose of monetization isn't merely to extract the maximum immediate revenue from a visitor. It is to establish an economic relationship capable of sustaining the enterprise without destroying the reasons people find it attractive.

Every publisher should understand the financial requirements of replacing undesirable revenue. Every advertiser should recognize the value of appearing within a professionally presented entertainment environment.

And every technology provider should become interested in making those arrangements more commercially accessible.

We shouldn't have to vandalize the cinema to pay for the projector.

V. Establish Sovereignty Over Your Enterprise.

An independently operated business should possess an intelligible degree of authority over its creative assets, technological infrastructure, commercial relationships and financial affairs.

This doesn't require developing every necessary technology internally or refusing to conduct business through established platforms. Specialized service providers can contribute enormous value to an enterprise.

But entrepreneurs must distinguish between employing the capabilities of another business and allowing that business to determine the possibilities available to their own.

Understand the arrangements through which your entertainment is distributed. Understand the rights you've granted, the commercial information you can access and the circumstances under which your service providers can discontinue their relationships with you.

Develop alternatives where alternatives are necessary. Preserve the legitimate portability of your intellectual property and business information. Establish financial arrangements that don't leave your entire enterprise vulnerable to a single external decision.

Sovereignty is particularly important in an industry whose commercial circumstances can be substantially altered by institutions possessing little interest in its continued existence.

We cannot eliminate every external dependency. We can become considerably more intelligent about the dependencies we accept.

Independence shouldn't merely describe the ownership of the company. It should describe its ability to exercise entrepreneurial judgment.

VI. Invent the Technology, Not Just the Entertainment.

Our industry once acquired considerable technological significance because its entrepreneurs recognized commercial possibilities in inventions that conventional entertainment businesses were hesitant to employ.

I want us to become technologically significant again, but I want our ambitions to extend beyond the early adoption of somebody else's inventions.

We should be developing original architectures for audiovisual entertainment. We should be investigating new creative formats, new playback environments, new commercial technologies and new methods of administering intellectual property.

We should be publishing technical research, documenting our inventions and contributing to the development of professional standards.

There is no compelling reason that the next important advancement in digital video technology cannot originate within an enterprise whose initial commercial interest was pornography.

Nor should we regard the development of technologies with applications beyond our own industry as somehow outside the scope of our business.

Some of the most commercially significant things our generation might produce may never appear in front of a camera.

Our entrepreneurial heritage deserves more than another affectionate recollection of how technologically adventurous we used to be.

It deserves another generation of inventions.

VII. Establish an Uncompromising Professional Floor.

The creative freedom associated with our entertainment must be accompanied by an equally substantial commitment to the rights, safety, dignity and professional independence of the people responsible for creating it.

Consent, lawful participation, valid authorization, proper compensation and responsible working conditions aren't optional characteristics of an excellent production.

They are fundamental conditions of its legitimacy.

The same principle applies to the technologies and commercial arrangements through which our entertainment subsequently travels.

An innovative distribution technology that disregards legitimate creative rights hasn't advanced the industry in any meaningful professional sense. A financially successful enterprise that depends upon exploitation hasn't demonstrated entrepreneurial excellence.

We should be enormously ambitious about expanding the possibilities available to creative professionals while remaining uncompromising about the obligations we undertake toward them.

There should be practically no ceiling upon our creative imagination.

There must be a floor beneath our professional conduct.

The freedom to produce unconventional entertainment doesn't include the freedom to behave irresponsibly toward the people who make it possible.

VIII. Build Excellent Businesses, Not Merely Profitable Operations.

Profitability is essential to the sustainability of a commercial enterprise. It isn't a comprehensive definition of its excellence.

A business can generate substantial revenue while possessing inadequate management, unreliable technological infrastructure, deteriorating professional relationships and relatively little capacity for further development.

Its financial performance may conceal those deficiencies for a remarkably long time.

We should build organizations capable of attracting exceptional people, administering their resources intelligently, learning from their mistakes and converting original ideas into actual commercial accomplishments.

We should examine the quality of our decisions with at least as much enthusiasm as we examine the quantity of our revenue.

The tests, audits and managerial instruments introduced throughout this book are intended to encourage precisely that examination.

An enterprise committed to excellence should become progressively more capable, more dependable and more interesting as it develops.

It should possess ambitions extending beyond its next profitable quarter and managerial capabilities sufficient to pursue those ambitions responsibly.

We have become extraordinarily accomplished at discovering ways to make money from pornography.

Let's become equally accomplished at building the businesses through which that money is made.

IX. Contribute Something Beyond Your Own Success.

The advancement of our industry cannot be measured exclusively through the financial accomplishments of its individual enterprises.

We must also examine what those enterprises make possible for one another and for the people who will eventually succeed them.

Develop technologies that expand entrepreneurial opportunities. Publish knowledge that helps other professionals exercise better judgment. Establish institutions capable of conducting useful research, improving professional education and advancing legitimate commercial interests.

Mentor somebody. Preserve something historically significant. Contribute to a technical specification. Make an independently developed capability available under circumstances that allow other people to build upon it.

These activities needn't diminish commercial competition. They can make competition considerably more productive by improving the environment within which it occurs.

I want the next generation of entrepreneurs to inherit an industry possessing more knowledge, better technologies, greater professional opportunities and fewer unnecessary obstacles than the industry we inherited.

Our individual commercial accomplishments deserve recognition.

What we collectively make possible may deserve considerably more.

X. Never Ask Permission to Pursue Excellence.

We operate within an industry that has spent an enormous portion of its existence negotiating the boundaries of its commercial freedom with institutions that don't necessarily share our interest in its advancement.

That makes it particularly important that we not establish unnecessary intellectual boundaries of our own.

We don't require mainstream recognition to develop interesting technologies. We don't require the unanimous approval of our contemporaries to establish a better commercial environment. We don't require the endorsement of a trade association to become more imaginative entrepreneurs.

Nor should we allow the reluctance of conventional institutions to accommodate our businesses to determine the quality of the businesses we attempt to build.

We must observe our legitimate legal, ethical and professional obligations. Beyond those obligations, however, there is an enormous territory of entrepreneurial possibility that remains ours to investigate.

Nobody needs to authorize our ambition to produce excellent entertainment, develop excellent technology or establish excellent enterprises.

That authority belongs to us.

Let us become considerably more enthusiastic about exercising it.

The Commitment

These principles aren't intended to become another collection of attractive statements displayed on the wall of somebody's conference room.

Their significance resides in the decisions they influence.

The advertisement you refuse. The technology you develop. The professional you compensate properly. The commercial arrangement you reconsider. The customer experience you improve. The knowledge you share.

There will be occasions when observing these principles proves financially inconvenient. There will be occasions when other entrepreneurs consider them unnecessarily ambitious. There will be occasions when implementing them requires developing capabilities your business doesn't presently possess.

That is precisely when they acquire meaning.

I don't expect every enterprise to pursue excellence in exactly the same manner. I would be disappointed if it did. An industry genuinely committed to excellence should produce an extraordinarily diverse collection of creative products, technological inventions and commercial models.

But I would like those enterprises to share a fundamental conviction that the unconventional nature of their business never constitutes a justification for conducting it poorly.

We can be irreverent, provocative, sexually explicit, commercially aggressive and thoroughly offensive to conventional sensibilities.

We can also be among the finest businesspeople, engineers, artists and entrepreneurs in the world.

There is no contradiction in that proposition.

Therein lies the meaning of Indecent Excellence.

CHAPTER 66

An Open Letter to the Adult Entertainment Industry

“We have spent much of our history fighting for the right to conduct our business. Let's devote the next chapter of that history to conducting it magnificently.”

Dear Colleagues,

I haven't written this book because I've become disenchanted with pornography. I've written it because I've become disenchanted with what we've allowed the business of pornography to become.

There is a great deal about this industry that I love. Its entrepreneurial eccentricity, its intellectual irreverence, its extraordinary capacity to survive unfavorable circumstances and its historical willingness to venture into commercial and technological territory that more conventional businesspeople were reluctant to explore.

What frustrates me is the disparity between the intelligence of so many of the people working in this business and the condition of the business in which they're working.

We have talented filmmakers, accomplished engineers, sophisticated entrepreneurs and remarkably inventive creative professionals. How, then, have we become so comfortable delivering an entertainment experience that so frequently betrays their talents?

We should be embarrassed when an exquisitely produced motion picture is presented on a website that looks as though nobody associated with its design has ever attended a movie theater. We should be embarrassed when the advertisements surrounding a production are more technologically aggressive than the production is creatively ambitious.

And we should be particularly embarrassed when our explanation for these circumstances is that this is simply how the porn business works.

Who decided that?

More importantly, who's responsible for deciding how it works from now on?

We Are Not in the Traffic Business

Somewhere during our migration from physical entertainment products to digital distribution, we became increasingly preoccupied with the movement of people rather than the entertainment those people were presumably interested in consuming.

The language of our business changed accordingly. Visitors became traffic. Films became content. Performances became inventory. Viewers became impressions.

There are legitimate technical and commercial applications for all those terms. But when they begin to dominate our intellectual understanding of the business, something important disappears.

A director doesn't spend months conceiving and producing a motion picture because he aspires to create an impression.

A performer doesn't develop a distinctive professional identity in order to become an interchangeable component of somebody's inventory.

And the person visiting a website isn't particularly interested in becoming part of its traffic acquisition statistics.

We're in the entertainment business. We should occasionally remind ourselves of that rather elementary proposition, particularly when making decisions concerning the experience of the people we're supposed to be entertaining.

I would like the word *audience* to recover some of its commercial significance. I would like our producers to become as interested in the exhibition of their work as they are in its creation. I would like our publishers to develop recognizable editorial identities rather than distinguish themselves primarily by the quantity of material they make available.

Above all, I'd like us to stop confusing the availability of entertainment with the quality of an entertainment business.

To the Publishers

You occupy an extraordinarily important position in the economics of this industry.

You determine the environment in which much of our entertainment is experienced. Your decisions concerning presentation, advertising, discovery and distribution can substantially influence the perceived value of somebody else's creative work.

That is an important commercial responsibility.

I understand why many publishers continue employing advertising arrangements they know aren't particularly attractive to their audiences. Those arrangements pay bills. Eliminating them without developing alternative sources of revenue can introduce genuine financial difficulties.

I haven't spent sixty-five chapters pretending those difficulties don't exist.

But I would ask you to consider how much of your development expenditure is devoted to making the existing commercial arrangement more profitable and how much is devoted to developing a better one.

If practically all your entrepreneurial ingenuity is being employed to improve the efficiency with which an undesirable business model operates, you're making a substantial intellectual investment in its continued existence.

Begin treating the replacement of that model as a commercial development project.

Nobody expects you to dismantle your revenue overnight. But somebody should be investigating how you might eventually afford to dismantle the parts of it that diminish your product.

That somebody should probably be you.

To the Producers and Directors

Become considerably more demanding about what happens to your work after it leaves the editing room.

The production doesn't cease to be your creative accomplishment when it becomes somebody else's distribution asset.

You may not possess contractual authority over every environment in which your entertainment appears. But you can become more attentive to the distribution arrangements you establish, the rights you grant and the professional standards you expect of your commercial partners.

Imagine if filmmakers devoted a fraction of their enthusiasm for camera technology to understanding the technology through which their images are ultimately exhibited.

What might happen if the quality of digital presentation became a meaningful consideration in distribution negotiations? What if producers became more interested in the commercial possibilities of individual releases, alternative editions and professionally administered premieres?

We should be exploring those opportunities rather than resigning ourselves to the proposition that the commercial life of a production begins and ends with its availability on a collection of websites.

You made something. Presumably, you wanted it to be something worth experiencing.

Don't lose interest in that experience merely because somebody else is responsible for delivering it.

To the Performers and Independent Creators

Your entrepreneurial significance extends considerably beyond your ability to attract attention.

You possess creative knowledge, professional experience, recognizable identities and an understanding of audiences that many of the people developing technologies and commercial arrangements for this business would do well to acquire.

You should have a meaningful voice in determining how those technologies and commercial arrangements develop.

Become interested in the business surrounding your entertainment. Understand the agreements through which your work is distributed, the intellectual property you control and the commercial significance of the relationships you establish.

Your ambitions needn't remain confined to performing. Nor should anybody presume that becoming a producer, publisher or entrepreneur is necessarily preferable to remaining a performer.

The important consideration is that those choices belong to you.

The technology we develop should expand your professional possibilities rather than introduce additional circumstances under which other people determine them.

I want an industry in which creative people possess more opportunities, more intelligible commercial relationships and greater control over their professional futures.

Anything less would represent a rather incomplete revolution.

To the Advertisers and Advertising Networks

I am not advocating the disappearance of advertising from adult entertainment. Quite the contrary.

I want us to develop an advertising business of substantially greater economic and creative significance than the one we've become accustomed to operating.

But that requires reconsidering what we're selling.

The opportunity to interrupt somebody's entertainment isn't necessarily a particularly sophisticated advertising product. Neither is the ability to induce somebody to click on something he hadn't intended to click on.

What interests me is the development of commercially valuable relationships between advertisers, publishers and audiences.

We should be producing better commercials, establishing more attractive advertising environments and developing measurements that reveal something meaningful about the effectiveness of the advertising itself.

There is no reason an advertiser purchasing exposure within adult entertainment should be permanently condemned to an advertising environment that conventional advertisers would consider unacceptable.

We can do better for the advertiser and the audience simultaneously.

Doing so will require imagination on both sides of the transaction, particularly in establishing advertising products whose economic value reflects the quality of the experience surrounding them.

The advertising business should become an important participant in the restoration of the value of our entertainment, rather than an impediment to it.

To the Technologists

Please give us something more interesting than another porn script.

We have an opportunity to develop technologies that could influence the future of audiovisual entertainment well beyond the immediate boundaries of our industry.

There are fascinating problems to investigate in interactive filmmaking, personal playback environments, distributed publishing, privacy, creative rights administration and the economics of digital commerce.

These are serious engineering opportunities.

I would like to see our developers become recognized for original intellectual contributions to those fields. I want our inventions discussed by engineers who have absolutely no commercial interest in pornography but considerable professional interest in the technologies we've developed.

And I want us to stop treating the industry as a marketplace to which conventional technology is occasionally adapted after somebody determines that serving it might be financially worthwhile.

Design for our requirements. Investigate our peculiarities. Discover the opportunities concealed within them.

Build something Hollywood might eventually need.

To the People Making Money Exactly the Way Things Are

I suspect some of you will find much of this book rather irritating.

Your businesses may be profitable. Your commercial relationships may be well established. You may have invested substantial resources developing the very arrangements I'm suggesting the industry needs to reconsider.

I understand your reluctance.

But profitability is a description of the commercial relationship that presently exists between your enterprise and its marketplace. It is not a guarantee that the marketplace will remain favorably disposed toward that relationship.

Consumer expectations will evolve. Technologies will improve. New entrepreneurs will enter the business without possessing your financial attachment to its existing arrangements.

Somebody may eventually discover how to provide your customers with a substantially better experience while operating a perfectly profitable enterprise.

I would suggest becoming that somebody.

The best time to reconsider a successful business model is while it remains sufficiently successful to finance the development of its successor.

To All of Us

We have legitimate reasons to complain about the treatment our industry receives from financial institutions, technology companies, legislators and other organizations whose decisions influence our commercial circumstances.

But there is something profoundly unsatisfying about an industry founded upon the exercise of personal freedom becoming intellectually resigned to the limitations imposed upon it.

Our objections to institutional prejudice should be accompanied by an equally passionate objection to our own complacency.

We cannot credibly demand that financial institutions recognize the sophistication of our businesses while neglecting the financial sophistication of those businesses. We cannot insist that the world acknowledge our technological significance while remaining content to employ technologies somebody else invented twenty years ago.

And we cannot expect consumers to appreciate the value of our entertainment while continually presenting it in circumstances that suggest we don't appreciate it ourselves.

Nobody owes us commercial success. Nobody owes us technological leadership. Those are accomplishments we must establish through the quality of our work.

I believe we're capable of establishing them.

That conviction is the reason this book exists.

I Am Not Asking You to Agree with Me

I would be considerably more interested in seeing you prove me wrong about some of these things than seeing you enthusiastically agree with everything I've written and subsequently change nothing.

If you've developed a better economic model, demonstrate it. If you've conceived a superior technological architecture, build it. If your experience contradicts one of my arguments, publish your findings.

Challenge the mathematics. Challenge the management principles. Challenge the technologies and the commercial assumptions.

Give this industry the intellectual conversation it deserves.

But for Christ's sake, let's have a conversation about what we can build rather than another twenty years of conversation about what nobody will let us do.

We have spent much of our history fighting for the right to conduct our business.

Let's devote the next chapter of that history to conducting it magnificently.

Sincerely,

Phil Autelitano

CHAPTER 67

Steal These Principles

“If the ideas are sufficiently interesting,
let them travel.”

There is a certain irony in writing a book that advocates restoring the economic value of an intellectual product and subsequently giving the book away.

But as we've discussed extensively throughout these pages, there is an important distinction between making something freely available and regarding it as worthless.

I happen to believe that the ideas contained in this book possess considerably greater potential economic value when they're circulating throughout the industry than when they're generating royalties for their author.

I didn't undertake the writing of *Indecent Excellence* because I recognized an attractive commercial opportunity in selling management literature to people in the pornography business.

I undertook it because I recognized an attractive commercial opportunity in changing the pornography business.

Selling the book would be an interesting little business.

Getting the industry to do something with it would be a considerably more interesting accomplishment.

The Economics of Giving It Away

In 2000, marketing author Seth Godin published *Unleashing the Ideavirus*, a book examining how ideas propagate through the people who encounter them. Rather than relying exclusively upon conventional publishing arrangements, Godin made the electronic edition freely available and explicitly encouraged its circulation.[1]

I admired the intellectual consistency of that undertaking. Here was an author advocating a particular commercial philosophy and employing the publication of his own book as a demonstration of it.

That philosophy has influenced my approach to the digital distribution of *Indecent Excellence*.

Consider what would happen if every reader encountering an interesting proposition in this book were able to immediately introduce it to somebody else without requiring that individual to purchase anything.

A publisher could send the book to a developer. A developer could introduce it to a prospective business partner. A producer could circulate a particular chapter among the people responsible for distributing his work.

The book could become part of a professional conversation extending well beyond the circumstances under which it was originally discovered.

I have deliberately chosen not to establish a commercial barrier between that conversation and the people who might contribute to it.

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1. Seth Godin, *Unleashing the Ideavirus* (Do You Zoom, Inc., 2000), original digital edition, pp. 2–3.

The digital edition is yours to read without charge. No purchase necessary. No registration. No requirement that you become a customer of anything else I happen to be doing.

If the ideas are sufficiently interesting, let them travel.

I Don't Need Another Customer. I Need Another Competitor.

One of the more gratifying consequences of publishing this book would be discovering that somebody employed its ideas to establish a business that competes directly with one of mine.

I would find that considerably more encouraging than discovering that somebody downloaded the book, consigned it to a virtual bookshelf and spent the next several years conducting business exactly as before.

The reinvention of this industry cannot become the exclusive commercial undertaking of one technology company, one publisher, one entrepreneur or one author.

It requires competition among people attempting to accomplish substantially better things than we've collectively become accustomed to accomplishing.

If I've encouraged you to develop a better video player, develop one. If you've identified deficiencies in the infrastructure I've advocated, resolve them. If you can establish a more economically attractive relationship between independent publishers and advertisers, I would very much like to see it.

You don't owe me commercial loyalty because something I've written influenced your thinking.

Ideas should establish opportunities for competition, not obligations to the people who originally communicated them.

And if enough entrepreneurs become sufficiently enthusiastic about pursuing the opportunities described throughout this book, we may eventually find ourselves competing in a substantially more interesting industry.

That would benefit my businesses every bit as much as yours.

Take the Tests

Throughout the book, I've introduced a collection of managerial tests, audits and conceptual frameworks intended to encourage entrepreneurs to examine their businesses from perspectives they might not ordinarily consider.

They weren't developed merely to provide interesting material for a management book.

Administer them.

Take the Professional Entertainment Test and examine the experience you're presently providing your audience. Undertake the Sovereignty Audit and determine how much practical authority you possess over your own enterprise. Conduct the Entrepreneurial Autopsy before circumstances require somebody else to conduct the real one.

Introduce the Permission Test at your next management meeting. Ask the people working within your organization whether they recognize the culture your Cultural Integrity Audit suggests you've established.

You may find some of the results uncomfortable.

Excellent.

The usefulness of these instruments resides partly in their capacity to reveal circumstances that management would otherwise find convenient not to examine.

Adapt the exercises to the particular characteristics of your enterprise. Develop additional questions. Improve the methodologies. If an instrument proves inadequate, investigate why it proves inadequate and construct a better one.

I have little interest in establishing proprietary management ceremonies that entrepreneurs must perform precisely as their author prescribed them.

I have considerable interest in encouraging entrepreneurs to think more intelligently about their businesses.

Put This Book in the Wrong Hands

I would encourage you to circulate *Indecent Excellence* beyond the people you ordinarily discuss the adult entertainment business with.

Give it to somebody developing software for conventional television. Give it to an investor who has never considered financing an adult enterprise. Give it to an advertising executive, a business professor, an independent filmmaker or an entrepreneur investigating opportunities in digital commerce.

Some may discover commercial possibilities they hadn't previously considered. Others may develop a more sophisticated understanding of the technological and economic circumstances surrounding our industry.

Some may simply disagree with an enormous portion of what I've written.

Their disagreement could be useful.

One of the problems associated with conducting practically all our professional conversations within the industry is that the people participating in them frequently possess substantially similar assumptions concerning the business.

Introducing these discussions to people who haven't acquired those assumptions can produce some fascinating results.

An engineer unfamiliar with pornography may recognize a technological opportunity we've been overlooking for years. An experienced retail entrepreneur may identify deficiencies in our customer relationships that we've gradually come to regard as ordinary characteristics of the business.

The discussion of our industry's future shouldn't become an exclusively internal conversation merely because the subject of our entertainment makes some people uncomfortable.

We possess enough interesting business problems to make the conversation worthwhile to people who have absolutely no interest in consuming the product.

Disagree in Public

I don't expect these ideas to survive serious intellectual examination entirely intact.

Nor should they.

The purpose of publishing a book of this nature is partly to expose its propositions to people whose professional experiences differ substantially from those of its author.

If you believe I've misunderstood the economics of a particular commercial arrangement, explain the economics. If you possess information that contradicts one of my conclusions, make that information available where appropriate.

Write an article. Publish a technical paper. Organize a discussion. Conduct an experiment and document the results.

An industry capable of producing a substantial body of literature challenging the arguments advanced throughout this book would be an industry considerably closer to the intellectual maturity I've been advocating.

We should become sufficiently comfortable disagreeing about business that disagreement ceases to constitute a personal or professional affront.

The most interesting outcome of a disagreement isn't necessarily determining who was right.

Sometimes it's discovering something neither participant previously understood.

I would rather initiate a substantial intellectual argument throughout the industry than acquire a collection of admirers.

Don't Turn Indecent Excellence into a Club

I have no ambition to establish an exclusive community of entrepreneurs who have become sufficiently enlightened to regard themselves as superior to everybody else conducting business in pornography.

Excellence shouldn't become another professional distinction that people acquire by joining an organization, purchasing a certificate or attending an expensive seminar.

It should become apparent in the quality of their work.

Nobody needs my approval to employ the principles advanced throughout this book. Nobody needs to establish a commercial relationship with me in order to pursue them.

You don't even need to particularly like me.

If the propositions possess intellectual merit, that merit should survive independently of the personality of the individual advancing them.

I would find it disappointing if the philosophy of Indecent Excellence became associated more closely with its author than with the accomplishments of the entrepreneurs who found it useful.

The objective is to establish better businesses, not a movement organized around somebody's business card.

Give the Ideas a Life Beyond the Book

The commercial and technological circumstances described throughout these pages will inevitably change.

Some of the technologies we've examined will become obsolete. Some of the commercial problems we've discussed will acquire entirely different characteristics. New professional opportunities will emerge that neither the author nor the reader presently anticipates.

That is precisely why I don't want these ideas to remain confined to their original expression.

The distinction between traffic and an audience will remain worth examining long after today's traffic acquisition technologies have disappeared. The distinction between creative freedom and professional irresponsibility will remain important regardless of what forms of entertainment subsequently emerge.

The importance of entrepreneurial independence won't disappear simply because the technologies through which it is exercised become substantially more sophisticated.

Take those underlying principles into circumstances I haven't contemplated.

Develop them through the experience of operating your own enterprises. Introduce them to people whose professional concerns differ from ours. Employ them to investigate problems that don't yet exist.

Give the next generation of entrepreneurs something more useful than an affectionate account of a book that once encouraged the industry to reinvent itself.

Give them the inventions, businesses and professional opportunities that emerged because people actually took that encouragement seriously.

How I Intend to Measure the Success of This Book

It would be enormously gratifying to discover that thousands of people had downloaded *Indecent Excellence*.

But downloads aren't necessarily evidence of intellectual influence any more than video impressions are necessarily evidence of audience appreciation.

We've spent enough time discussing the dangers of confusing activity with accomplishment.

I would consider the book considerably more successful if it encouraged a publisher to develop a better commercial environment, a filmmaker to reconsider the distribution of his work or an engineer to investigate a technological possibility that hadn't previously occurred to her.

I would like to hear that somebody administered one of our tests and discovered something sufficiently important to alter the direction of a business.

I would like to discover that somebody read the chapter concerning intellectual exports and developed a technology eventually employed outside the industry.

And I would be particularly delighted to encounter an entrepreneur who built an excellent business without ever having met me, purchased anything from me or asked me whether I thought the undertaking was a good idea.

Those are returns upon an intellectual investment that a conventional publishing statement would have considerable difficulty accommodating.

They're also the returns I'm most interested in acquiring.

Steal the Principles. Earn the Accomplishments.

The title of this chapter is an invitation to appropriate ideas, not somebody else's intellectual property. Credit the work where appropriate, respect the rights of its contributors and observe the publication's stated terms when reproducing or redistributing the text.

But don't become so preoccupied with preserving the words in which these ideas were originally expressed that you neglect to do something original with them.

I haven't spent this much time advocating entrepreneurial imagination in order to produce a collection of people who faithfully reproduce my opinions.

Take what you find useful. Discard what you find inadequate. Improve what you believe deserves improvement.

Then go out and accomplish something that makes this book more interesting in retrospect than it is today.

I am giving you the book.

What you make of it is yours.

CHAPTER 68

The Future Is Ours to Build

“We are in the business of desire. It's about time we developed an insatiable appetite for excellence.”

There is something wonderfully inappropriate about an industry devoted to stimulating the imagination having become so unimaginative about its own future.

Of all the businesses in the world, pornography should be among the least susceptible to conventional thinking. Our very existence represents a departure from convention. We have built enterprises around things other people wouldn't discuss, distributed products other people wouldn't sell and established commercial relationships under circumstances other entrepreneurs would have considered intolerable.

We've made an entire business out of challenging prohibitions.

Why, then, have we become so obedient to the conventions of our own industry?

That question has occupied much of my thinking throughout the writing of this book. And the more I've examined the technological and commercial possibilities available to us, the less inclined I've become to accept the proposition that our industry has already experienced its most interesting years.

I suspect we haven't even begun to discover some of them.

The Revolution We Never Finished

The Internet offered us an extraordinary opportunity to reinvent adult entertainment. To an extent, we did. We dismantled geographical limitations, established direct relationships between creative professionals and their audiences, and developed commercial enterprises that would have been practically inconceivable during the preceding era of physical distribution.

But somewhere along the way, we became more interested in the economics of distributing entertainment than in the possibilities of reinventing entertainment itself.

We acquired the means to deliver moving pictures to virtually any connected device in the world. What an extraordinary accomplishment. And what a remarkably limited conception of the possibilities associated with it we've subsequently demonstrated.

The camera became digital. The distribution became digital. The transaction became digital. Yet the entertainment experience remained, in many respects, a conventional motion picture displayed inside an electronic rectangle.

We should have been asking what a motion picture could become once it was no longer confined to film, tape or disc. We should have been investigating what a theater could become once its architecture was no longer composed of bricks and mortar.

Instead, much of our ingenuity went into figuring out how many advertisements we could fit around the rectangle.

I don't consider that the conclusion of the digital revolution in adult entertainment. I consider it an unfortunate detour.

Imagine the Industry We Could Have

Imagine an independent filmmaker releasing a production through a beautifully conceived digital exhibition environment, one that communicates the creative significance of the work before the audience has even pressed play.

Imagine that the filmmaker can determine how the work is presented, establish appropriate commercial arrangements for its distribution and examine its financial performance without having to reconstruct the information from several incompatible reporting systems.

The audience can select an experience suited to its interests and viewing environment. Advertising, where applicable, contributes to the economics of the production without degrading its presentation. The people responsible for creating the entertainment understand their professional rights and the arrangements through which their work generates revenue.

Now imagine that none of this requires the financial resources of a major studio.

The necessary technologies are commercially accessible to independent creative professionals. Specialized companies compete to provide better production, exhibition and monetization capabilities. Developers continually introduce inventions that expand what filmmakers and performers can accomplish.

An individual entrepreneur can begin with a single production and develop an enterprise around it. A software engineer can establish a company around an original technological capability. An experienced performer can pursue entrepreneurial ambitions without having to surrender an unreasonable degree of professional independence in exchange for access to the marketplace.

There is nothing inherently utopian about that proposition.

Its individual components are problems of engineering, economics, management and professional judgment. They deserve to be approached with the same intellectual seriousness that other industries devote to developing their futures.

The technology needn't perform miracles.

The entrepreneurs need to perform a little entrepreneurship.

Make Pornography Interesting Again

I am speaking here not merely of the entertainment, but of the business itself.

I want an aspiring engineer to discover a fascinating technological challenge in this industry. I want an accomplished filmmaker to recognize creative opportunities unavailable through conventional production arrangements. I want a business school graduate to encounter economic questions sufficiently interesting to justify spending a professional lifetime investigating them.

We shouldn't have to rely exclusively upon the provocative nature of our entertainment to make our industry provocative.

Imagine an adult entertainment trade publication in which an important technological invention receives as much editorial attention as a celebrity controversy. Imagine industry conferences at which entrepreneurs arrive to demonstrate genuinely original commercial capabilities rather than discuss incremental variations upon familiar business models.

Imagine university researchers discovering questions within our industry that deserve serious investigation because their answers might influence the economics of digital entertainment generally.

There is an intellectual richness to this business that we haven't adequately explored, much less communicated.

We occupy a rather fascinating intersection of human desire, creative expression, technological development, commercial freedom, privacy and economics. The opportunities for serious entrepreneurial investigation are extraordinary.

Why the hell should anybody working in such an interesting business ever find himself intellectually bored?

Stop Looking Backward for Evidence of Our Importance

Our industry's historical accomplishments will remain important, but they cannot indefinitely constitute the principal evidence of our technological significance.

I don't want us to enter another decade proudly explaining that pornography helped popularize technologies invented in the previous century.

I want to see what we can invent in this one.

Perhaps the most interesting entertainment technology of the next generation will originate with a programmer presently working alone in a modest apartment. Perhaps an independent performer will develop a commercial model that substantially alters the financial relationship between creative professionals and their audiences.

Perhaps a filmmaker will discover an entirely new approach to audiovisual storytelling that makes some of the technologies discussed in this book appear hopelessly unimaginative.

There is no reason any of those accomplishments must originate outside our industry.

Nor is there any reason to assume that the most important entrepreneurial contribution will come from one of its largest or most established companies.

The future has no particular obligation to respect the present hierarchy of the business.

That should be enormously encouraging to anybody who possesses more imagination than money.

The Revolution Begins with Your Business

An industry is an abstraction until somebody does something differently within it.

The reinvention of adult entertainment won't necessarily begin with an extraordinary technological breakthrough or a dramatic transformation of its commercial circumstances. It may begin with a relatively modest decision made by somebody reading this book.

A publisher decides that the appearance of his website no longer adequately reflects the quality of the entertainment it distributes.

A producer begins investigating what happens to her work after it enters the commercial marketplace.

A developer becomes dissatisfied with the limitations of a particular technology and starts constructing an alternative.

An entrepreneur administers one of the tests contained in these pages and discovers that the business he's been operating bears remarkably little resemblance to the business he originally wanted to build.

Each of those decisions creates an opportunity for something to change.

Multiply them across hundreds of enterprises, thousands of professionals and an entire generation of new entrepreneurs, and we begin to develop something resembling an industrial transformation.

It needn't occur simultaneously. It needn't occur according to a universally accepted plan. Indeed, some of its most interesting developments will probably originate with people who disagree with one another about what the industry ought to become.

I would welcome that.

The last thing we need is a revolution in entrepreneurial thinking that requires everybody to think alike.

What I Want for Us

I want the word *adult* preceding the description of a business to become an indication of its marketplace, not a qualification of its professional competence.

I want our filmmakers to take enormous pride not only in the entertainment they produce, but in the circumstances under which people experience it. I want our engineers to become intellectually ambitious enough to develop technologies that other industries eventually adopt.

I want our advertisers to become interested in producing advertising worthy of an audience's attention, and our publishers to discover that treating an audience exceptionally well can constitute a perfectly intelligent commercial strategy.

I want creative professionals to possess the freedom, knowledge and resources necessary to exercise meaningful authority over their careers.

I want the independent entrepreneur entering this business with an interesting idea to encounter an industry sufficiently sophisticated to recognize what that idea might become.

And I want the people who've devoted their professional lives to adult entertainment to feel an enormous sense of pride in the business they've helped create.

Not because we've finally persuaded the world that pornography is respectable.

Because we've built something extraordinary without having to make that concession.

Beyond These Pages

I have attempted throughout this book to provide more than a criticism of the industry's present condition. Criticism is relatively inexpensive. Constructing an alternative is a considerably more demanding intellectual and commercial undertaking.

I've offered economic models, technological propositions, managerial principles and practical instruments through which entrepreneurs might begin examining the possibilities of such an undertaking.

They aren't the final answers.

I hope they become the beginnings of better questions, more interesting inventions and more ambitious enterprises. I hope this book becomes increasingly obsolete as the industry develops the very capabilities I've argued it needs.

There would be something particularly satisfying about a future reader encountering these chapters and wondering how the conditions described within them could ever have been considered acceptable.

That reader may be working in a business established by somebody reading these words today.

What a magnificent possibility.

Indecent. Excellent.

I chose those two words because their apparent incompatibility reveals something about the conventional understanding of our business that deserves to be challenged.

There is nothing inherently incompatible about producing indecent entertainment and pursuing excellence. There is nothing contradictory about being professionally rigorous and creatively outrageous, commercially sophisticated and intellectually irreverent.

We can challenge conventional morality without challenging the fundamental obligations of professional conduct. We can offend people's sensibilities without offending their intelligence. We can make a great deal of money without making a terrible business out of making it.

And we can become technologically influential without becoming culturally conventional.

That is the industry I want to help build.

We have never been particularly good at conforming to other people's expectations of us. Let's not begin by conforming to their expectation of our mediocrity.

We are in the business of desire.

It's about time we developed an insatiable appetite for excellence.

The future is ours to build.

Let's make it magnificent.

PART X

THE UNWRITTEN FUTURE

“My position has always been that there's two types of people opposed to pornography: those who don't know what they're talking about, and those who don't know what they're missing.”

Larry Flynt

The Henry Rollins Show, episode 313.

CHAPTER 69

This One's Yours.

“Your quote here.”

It wasn't my intention to write sixty-eight chapters in nine parts. That's simply how the book turned out. But having devoted an entire book to the business of pornography, I could hardly resist the temptation to add a Part X and a sixty-ninth chapter.

Some opportunities are simply too good to pass up.

Besides, there is one chapter in the reinvention of adult entertainment for which I am rather deliberately leaving the pages unwritten.

It's the chapter in which the ideas become inventions, the propositions become businesses and the ambitions expressed throughout this book become commercial and creative accomplishments.

I'm afraid I can't write that chapter for you.

That's the chapter YOU get to write.

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Indecent Excellence brings together his professional experience, intellectual interests and conviction that an unconventional business need not accept conventional mediocrity.

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“This is not a book about making pornography respectable. Frankly, I have very little interest in seeking the approval of people who object to the existence of adult entertainment in the first place. It is a book about making the business of adult entertainment exceptional.”

Phil Autelitano
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