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Business

It's Just a Game, but Hollywood Is Paying Attention

By NORMALSTER

DAVE KILLINGSWORTH, 33 and a former disc jockey, is so immersed in pop culture that he has images of Spider-Man and Batman tattooed on his back. In his free time, he puts that passion to work betting in an online game, guessing which films will make it big. He is so good at forecasting the public's taste that he has reaped a windfall, at least in play dollars, turning \$2 million into \$460 million.

Mr. Killingsworth is one of a million people who have traded on the Hollywood Stock Exchange (www.hsx.com), where players can register at no cost to predict box office receipts for films. For him, it's a game, and it's fun.

But for Hollywood studios and entertainment executives, along with real traders and others, the game has become something to take quite seriously. Studios, along with academics, are interested in it as a way to predict which movies will succeed. Traders are working to turn the concept into an actual financial market, like those for futures in corn, oil and other commodities. It has also served as the model for a television show merging trading and music.

All this interest revolves around a fantasy game that allows online players to trade "securities" whose prices forecast the first four weeks of box office revenue for new and yet-to-be-released films. Late last week, traders could "buy" stock in "The Cat in the Hat" (released on Friday), at \$130 a share, meaning that the market expected four-week box office receipts of \$130 million. Or they could buy "Spider-Man 2," due for release next May, at \$235 a share, or even "Spider-Man 3," which



Kevin Moloney for The New York Times

Dave Killingsworth has turned \$2 million into \$460 million — in play money — by placing bets on the Hollywood Stock Exchange on which films will make it big.

has not yet been made and won't be released for years, at \$87.

The exchange's appeal lies in the premise that the collective wisdom of large numbers of traders can most efficiently determine the value of properties that would otherwise be hard to assess.

The Hollywood Stock Exchange, known as HSX, was started in 1996 by Max Keiser, who had been a stockbroker, and Michael Burns, a former investment banker who is now vice chairman of Lions Gate Entertainment, which produces and distributes films and television shows. In 2001, they sold HSX to Cantor Index Holdings, a London-based unit of Cantor Fitzgerald, the Wall Street firm. After buying the game, Cantor introduced film futures for its investment clients in Britain, using real money in this case. With the Hollywood Exchange as a guide, Cantor puts a price on a certain film and the customers can bet

on whether that will ultimately be too high or too low.

"We're matching buyers and sellers and making money on the spread," said Dominic Crosthwaite, head of business development for Cantor Index Holdings. "It shows you can trade an entertainment product."

Mr. Crosthwaite said he thought a futures product relating to media could also work in the United States. "We've proven its viability with consumers," he said. The futures might also be a way for studios, distributors and cinema chains to hedge their own investments in films not yet released.

The game has inspired a similar approach in the music business. Fuse, a cable network owned by Cablevision Systems that mostly shows music videos, licensed the HSX software last year and set up its own Website, where 70,000 players now trade

“stocks” of artists and videos. In January, the network introduced a nightly television show, the Interactive Music Exchange, which often invites bands to appear based on their soaring values on the exchange. A ticker crawls across the bottom of the screen, showing price quotations for Metallica (METAL) and Limp Bizkit (LIMPB) instead of Microsoft and Wal-Mart. The show has attracted advertisers like Sony and Coca-Cola.

The success of the music show is inspiring Cantor to consider other possibilities for the game. Developing a television show based on the movie exchange “is definitely a consideration,” said Alex Costakis, managing director of HSX. An online exchange based on video game sales is also a possibility, said Mr. Crosthwaite at Cantor.

But Cantor’s more immediate objective is the sale of its research to Hollywood studios, which have long sought better box office forecasting tools. Most research firms determine consumer attitudes through interviews, surveys and focus groups, but HSX, by analyzing trading, can get a day-by-day picture of shifts in sentiment.

Cantor has started offering research generated from the game on a test basis. “What we’re offering is a real-time update of consumer opinion,” Mr. Costakis said. “We’re using the predictive market versus going out on the street with a clipboard and asking people questions.”

Information on a film’s evolving appeal to different demographic groups is coveted by studios, which may want to tweak scripts to broaden their appeal or focus on a specific audience. But this data is hard to get.

“Forecasting has been wildly unreliable,” said Jeff Blake, vice chairman of Sony Pictures Entertainment. “What research companies think movies will do is at times comforting and at times worrisome — and almost always unreliable.”

Some studio executives question the usefulness of HSX’s approach.

“I don’t go by HSX,” said Erik Lomis, president for distribution at Metro-Goldwyn-Mayer. Instead, he said, he considers factors like a film’s director and stars, along with performance of other films in its genre at a specific time of year. That yields a preliminary projection; it is then refined by market researchers hired by MGM to survey consumer awareness and intent.

Opinions about HSX’s predictive potential often follow generational lines, said one midlevel manager at a major studio who did not want to be identified. Older executives, he said, often do not trust online data; younger ones tend to be more interested, but typically don’t make budget decisions.

This executive said he liked the HSX data because it gave an early indication of consumer interest. Stocks start trading on the exchange as soon as a studio gives a green light to a project, while market research typically begins less than four weeks before a film’s release. He said the HSX data had proved valuable in predicting box office receipts for blockbusters but had been less accurate for children’s films.

Anita Elberse, an assistant professor who teaches marketing at Harvard Business School, said the last HSX trading price of a film before it opens is a more accurate

indicator of how a movie will do than any other single measure — which is not to say that it is precise. She estimated that the closing prices ended up being within a range of 16 percent above or below the actual receipts.

MS. ELBERSE and her research colleagues at the Wharton School of the University of Pennsylvania and the University of California at Berkeley are studying whether the sort of technical analysis usually applied to equities — examining patterns in trading volume, for example — can give clues to the future value of HSX stocks. If so, Hollywood may be able to gauge interest in a movie earlier, when many budgeting decisions are made. In the preliminary draft of a paper, the researchers concluded that technical analysis could substantially improve on predictions based on HSX share prices alone.

Ms. Elberse said she also believed that HSX’s rich trading database could be mined to improve forecasts — by following expert traders, for example. “I would assume you could bring down the median error to less than 10 percent by just focusing on the people that are always right,” she said.

One person who is often right is Mr. Killingsworth, who has a fortune in play money. But he is not so sure he wants the Hollywood Stock Exchange to become more efficient in its forecasts. Mr. Killingsworth, a computer specialist at Children’s Hospital in Denver, said it was becoming tougher to outguess the market. “We’re all guessing so well it’s hard to make any money,” he said.