

**The Comic Book is Dead,
Long Live the Comic Book
V3.0
A White Paper**

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Abstract

Comic books in the United States of America lack a mainstream acceptance. This paper attempts to establish accountability, with some foresight and suggestions for the future through an analysis of dollar market share for the past 20 years, and personal experience. While not touching on all aspects of comic book publishing and certainly not every publisher within the past two decades, recommended practices for reaching new customers and elevating the art form's credibility are covered to some degree.

Introduction

One of the more notable characteristics of comic book publishing in the United States of America is the absence of a mainstream audience. This may seem surprising for publishers in countries that have established themselves as cultures rich in visual storytelling in all media. For example, in Japan, a country with less than half the population of the USA, sell Manga, their equivalent to comic books, in the billions of copies, as opposed to millions in the USA.

This paper summarizes the key elements, or the "Five-Headed Monster" that has wrecked havoc on the comic book publishing industry in the USA for decades. It includes specific diagrams and charts with dollar market share as a means of measurement, along with the personal experiences of the author.

This white paper is not a how-to guide of comic book publishing, nor does it attempt to explain the many techniques used by the successful companies and entrepreneurs as each have found different paths to success. Instead, it shows how these five key factors lead to an ever declining market, and the growing domination of Manga in the USA.

Overview of Comic Book Publishing

The book *How to Self-Publish Your Own Comic Book* is prerequisite reading for this white paper. You can also find resources online through www.comicarts.org, www.ComicBookResources.com, or www.pophought.com.

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The information contained in this document represents the current view of Tony C. Caputo on the issues discussed as of the date of publication. Because Author must respond to changing market conditions, it should not be interpreted to be a commitment on the part of Author, and Author cannot guarantee the accuracy of any information presented after the date of publication.

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THE FIVE-HEADED MONSTER

When someone asks me to write about the state of the comic book industry, I usually point to my book *How to Self-Publish Your Own Comic Book*, which covers it all. However, many believe the 1997 book is “out-of-date,” given the changes in the overall industry in distribution and Marvel’s recent bankruptcy, but the same driving forces haven’t changed much over the past two decades. The same **five-headed monster** still runs rampant and I’ll explain why, because it’s not what you may think.

PRODUCT OVERVIEW

There are now four popular formats for the “comic book,” an antiquated term from the last century, when publishers collected newspaper comic strips into periodical form. Yes, today there are still sales of physical comic books periodicals. The new graphic novel is a perfect bound paperback or hardcover containing a sequentially illustrated self-contained story. The trade paperback is also a perfect bound paperback, but containing an anthology of previously published serial stories. There are also “collectible” signed and numbered versions of hardcover books offered. The most influential format is an import from Asia, called Manga (pronounced MANG-AH). Manga is the Japanese term for “comic book,” with longer serial stories in digest size paperback form.

MARKET OVERVIEW

There are two primary channels of distribution for comic books in North America. The “direct market” is a market space consisting of about 3,000 comic book specialty shops, generating about half of the industry’s sales, with the remainder from “newsstand” periodical distribution, the traditional consignment method of distribution for magazines, and the consignment based

bookstore sales. While your traditional newsstand and bookstore distribution burdens the financial risk solely on the publisher, the direct market typically places the risk on the retailer, who purchases product non-returnable, and the distributor pays the publisher at 30 days net credit terms. These guaranteed sales created conservative retailers, relying on reorders for popular products, but it also made it possible for independent publishers to flourish with guaranteed sales numbers a few months before printing. This, however, is slowly changing as the periodical format ("comic book"), gives way to the book formats ("graphic novel" and "Manga"), which sells record numbers in bookstores. So much so, in fact, that Diamond Comic Distributors, the world's largest distributor of English speaking comic books and the largest distributor to the Direct Market channel (about 90%), recently became a bookstore wholesaler of graphic novels and Manga.

Unfortunately, the comic book publishing industry still suffers from many decades of devastating forces in legislation, idiocy, and greed.

The Speculator

In 1987, Glenwood Distributors was the largest of eight direct market distributors. Glenwood accounted for about 50-60% of NOW Comics' orders (the company was about a year old at the time), so when Glenwood filed bankruptcy, they crushed many small and midsized publishers. If it were not for a secured loan to keep the company alive, NOW Comics would've died as well. Glenwood felt the pressure of the insidious "black-and-white glut" of the 1980s. The result of a mass of rampant speculators hoarding multiple copies of premiere issues of all new black-and-white comic books for future resale. In the 1990s, publishers manufactured "special issues," and the market became oversaturated by speculators hoarding multiple copies, creating a false sense of value, again, until the industry collapsed. The most innovative small and midsized publishers felt the economic hardship again, with companies such as Acclaim, Defiant, Innovation, NOW and Eclipse ceasing operations.

The Speculator is one of the heads of the five-headed monster. The lessons learned from the late 1980s and again in the mid-1990s, indicate that speculators gobble up comic books not to "read," but "collect," or "invest," creating perceived value from a lack of supply for high demand. At which point, many new customers may jump into the industry, like a crowd entering a new casino, hoping to reap the benefits. There was no interest in the books, or art form, just investing for a big payoff, and when it doesn't come, they all leave.

Why are there speculators in the comic book industry? I recall as a child in the 1970s, a fellow collector showing me this "pristine mint" copy of an early Spider-man comic book. He was a

"collector," not a "reader," so all his books had acid free boards, bagged with special collector comic book bags, and sealed with a one inch piece of scotch tape.

While putting the book back in its bag, the scotch tape stuck to the back cover. He literally screamed, and demanded full "price guide" value from me. It didn't do any major damage at all, and I was shocked at his reaction, asking him "how are you going to enjoy the story and art if you keep them sealed away?"

Unrelenting, I paid him for the book and in front of him, pulled it back out of the acid free board and plastic bag, and stuck the comic book inside a geometry book. Unfortunately, collectivity has become part of our comic book culture in America, considered "cooler" than reading them, and even if you read them, you would never admit it, because it was considered the "dummy's literature." A stigma left to endure from the comic book burning days of the 1950s. Most teenagers today do not read comic books, not necessarily for the same reason, but more so because they now have a plethora of other entertainment choices at their disposal. Their fascination with Anime (Japanese animation) has opened their eyes to Manga, considered "cooler" for that reason. My teenager tells me he sees fellow students sitting in study hall reading Manga and graphic novels, today. We're in the midst of a paradigm shift in reading entertainment. Let's hope the ghosts of the past, stay in the past.

I can honestly say that if it wasn't for those creative and colorful words and pictures, I wouldn't be an author today. Yes, as a child, comic books taught me the joys of reading and creating, but also introduced me to the idea of *profits*. My first profitable business transaction was at ten-years-old, when I sold a comic book I bought off the newsstand for fifteen cents to a fellow collector for a whole dollar. I was able to buy six more comic books with that money. Suddenly, collecting seemed very cool.

Speculators can be individual collectors, dealers, retailers and even distributors – they infect every part of the value chain, having a devastating blow to an industry and art form struggling for the same literary credibility attained in other countries around the globe with more respect for graphical storytelling.

There is also a more sophisticated speculator, still attracted by greed. They come from all walks of life and industries (typically outside of entertainment), but are high-profile investors and financiers, who invest millions, some because they think it'll be "fun," while others hoping for that mega-million short-term payday; sucking the companies and industry dry. The aftermath is still felt today.

The battle over Marvel Comics by Ronald Perelman and Carl Icahn wasn't the only crushing weight of ignorant investors on this industry. CrossGen, First Comics, Comico, NOW, Acclaim, Defiant, and more, all went through similar situations. DC Comics has been in the best market position, as a subsidiary of Time Warner with over \$25 billion in combined revenues. Warner's deep pockets, contacts, and an understanding of the entertainment industry and the speculator assisted with survival tactics through tough economic times. DC Comics is a publishing division of Time Warner, yet is not under any Time Warner publishing banner, but as part of Warner Bros, Inc.

Ben Feingold, then the Vice-President of Finance of Sony Pictures (now president of Columbia/Tri-star Home Video), once told me a story about when Coca-Cola first purchased Columbia Pictures in the 1980s. The corporate beverage giant thought after a hugely profitable year (thanks to the movie GHOSTBUSTERS), that the "entertainment industry was easy." However, after hundreds of millions in losses the following year, Coca-Cola asked, "What happened?" Columbia's response was "Welcome to the Entertainment Industry." It's impossible to project which products will "click" with the populace. It's not as simple as "Well, just produce the ones that sell." It is part ingenuity, foresight, fortune-telling and luck, and even after years of experience, you may get better at it, but there are absolutely no guarantees.

The "speculator" uses comic books as a gambler uses chips. They are just a decorative substitute for cash, and although comic book publishing is a business, and businesses need to make money, it shouldn't be at the expense of the livelihood of an art form.

Marketing

The comic book industry is an oligopoly, with the "Big Two" companies (Marvel Entertainment Group, Inc. and DC Comics), consistently controlling about 60% of comic book sales (see *By the Numbers*), each continuously battle for a bigger chunk of the pie. Image Comics and Dark Horse Comics are about another 15% to 20%, and the remaining 300+ companies struggle for the residual 10% to 15% or so. As you can see from *By the Numbers*, these percentages haven't changed much in over 20 years.

Up until the mid-1990s, there were several direct market distributors, all relying on Marvel's products as their lion's share. When Wall Street speculators realized Marvel Comics' stranglehold on the market, they instantly initiated a plan for total domination [insert echo]. They would crush

the competition completely by buying one of the distributors, and funneling their products exclusively through that single distributor. Hero's World Distribution was the third largest, but only regionally focused, so they lacked the international infrastructure, and thus, their plan failed miserably.

Diamond Comics Distributors was the largest, with about 50% of the retailers buying through them. DC Comics, Dark Horse and Image Comics signed exclusive contracts with Diamond, and shortly thereafter, after Hero's World demise, took over Marvel's distribution also, changing the direct-market from several healthy distributors, to only one, monopolistic titan. At least, this is how others see Diamond's position, but I see it more realistically. Diamond was the only company, financially strong enough to survive Marvel Comics' ludicrous attempt at total domination [insert echo].

Diamond wasn't and/or isn't the enemy – they happen to be the only distribution survivor of the Direct Market. If Diamond would've folded, there wouldn't be any direct market at all. This is very important to understand because Diamond Comic Distributors kept a channel alive which creates a lower barrier to entry for publishing comic books and thus, expanded the marketplace to more than just superheroes. If not for the Direct Market, we would never have been introduced to Manga or Anime, to Matt Wagner's MAGE, to Terry Moore's STRANGERS IN PARADISE, to Dave Sim's CEREBUS, Harvey Pekar's AMERICAN SPLENDOR, the TEENAGE MUTANT NINJA TURTLES, THE CROW, MEN IN BLACK, just to name a few.

The only other game in town at the time is the traditional consignment newsstand market. As a new periodical publisher, my experience with the newsstand market drained all my resources. However, it was the single most important (and expensive) marketing strategy NOW ever initiated (see Table 1). NOW Comics signed for newsstand distribution with Warner Publisher Services in 1988. It took months of discussions between me, the best magazine consultants in the industry, who I hired on a monthly retainer, and the key executives at Warner Publisher Services. We presented a commitment for eight monthly titles like THE REAL GHOSTBUSTERS, SLIMER, SPEED RACER, and THE TERMINATOR, and an exceptional shipping record for them to accept. They provided us with a low-risk (on their part) 5% advance on the consignment for about one million printed comic books per month, until the fifth issue, where the 5% advance turned into a percentage of a percentage of the estimated final sales figure. Meanwhile, the printer made close to half a million dollars, and I was still waiting for my settlement monies from Warner. The risk is on the publisher, and an undercapitalized publisher has little chance of success (more on this in my book *How to Self-Publish Your Own Comic Book*, Watson-Guptill, 1997).

WHAT TO LOOK OUT FOR IN NEWSSTAND (RETURNABLE) DISTRIBUTION

DETAILED CASH FLOW PROJECTIONS NEWSSTAND (\$1.75 cover price)

MONTH	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Total Allotment Order:	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	1,200,000
Wholesale retention:	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	
Wholesale Value:	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	840,000
Second Advance Retention	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
First Advance (% of total allotment):	0.05	0.05	0.05	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	
Second Advance (75% of % of estimated sales)	0.15	0.15	0.15	0.27	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	
Settlement of Final Sale (Final sales minus all previous payments)	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	
First Advance Payment (30 Days from Shipping)	0	3,500	3,500	3,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	150,500.00
Second Advance (60 days from OFF-SALE, or about 100 days from shipping)	0	0	0	0	4,375	4,375	4,375	-3,325	-4,375	-4,375	-4,375	-4,375	(7,700.00)
Settlement	0	0	0	0	0	15,925	15,925	15,925	9,625	10,675	10,675	10,675	89,425.00
GROSS RECEIPTS	0	3,500	3,500	3,500	21,875	37,800	37,800	30,100	22,750	23,800	23,800	23,800	232,225.00
Printing & Shipping Costs	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000.00
P.O.P CHARGES (ESTIMATED AT 4% OF SALES)	0	140	140	140	875	1,512	1,512	1,204	910	952	952	952	9,289.00
NET REVENUE	-15,000	-11,500	-11,500	-11,500	6,875	22,800	22,800	15,100	7,750	8,800	8,800	8,800	52,225.00
Accumulated Net P&L:	(15,000.00)	(26,500.00)	(38,000.00)	(49,500.00)	(42,625.00)	(19,825.00)	2,975.00	18,075.00	25,825.00	34,625.00	43,425.00	52,225.00	
TIMES 14 MONTHLY TITLES:	(210,000.00)	(371,000.00)	(532,000.00)	(693,000.00)	(596,750.00)	(277,550.00)	41,650.00	253,050.00	361,550.00	484,750.00	607,950.00	731,150.00	

Table 1: Newsstand Distribution requires almost a year to recoup your investment, if ever.

The only reason the comic book industry evolved and grew out of its stigma from the 1950s is the Direct Market, which opened the doors for innovation. I've been publishing NOW Comics (as a book publisher this time) again for about a couple years, and after a decade, the industry hasn't improved, even with the onslaught of the Japanese invasion of Manga, which really started in the late 1980s. First Comics' released LONE WOLF AND CUB Manga adaptations as trade paperbacks/graphic novels, and Comico The Comic Company released a series based on the anime ROBOTECH. Even at its peak in 1993, the U.S. comic book industry is still a fraction of Japan's Manga market. In 1995, the total number of issues for comic magazines reached 1.6 *billion* issues in Japan, with an additional 708 million comic books published and many published outside Japan, all over the world. The Japanese have not had the glaring obstacles as in this country. They have embraced visual storytelling in print, retained its respect, and evolved into an international cultural giant. Anime and Manga includes stories from all walks of life, from school kids to romance to golf, while in the U.S., the only enduring characters coming out of the big US companies are the superheroes (still about 80% of all comic book periodicals in North America since the 1980s). Realistically, superheroes are only a niche market and not the mass market, as even pre-1950, there were hundreds of comics out about romance, horror, and sports in this country, too, and they sold in the millions as well.

The Comic Magazine Association of America (CMAA), which spearheaded the newsstand distribution, withered away from outdated ideals for fear of persecution or extinction, decades of bad press for the censorship-like "Comics-Code" regulations, and Marvel Comic's divorce in 2001. Every new publisher builds upon this cracked foundation. Personally, I'd like to see how these "young comic book revolutionaries" handled comic book burning McCarthyism in the 1950s (more on regulatory censorship in visual storytelling at <http://www.visualstorytelling.com>). Is slipping a graphic novel with graphic sex scenes into bookstores without an advisory really going to change how the public perceives comic books, or will it only steer politicians away from the larger, richer more powerful video game or television industry to the weaker more volatile comic book industry (see the *Comic Book Legal Defense Fund* at www.cbldf.org).

Diamond Comic Distributors did initiate more obstacles since the early 1990s, making the barrier-to-entry now higher than ever before in an effort to protect the struggling direct market retailers from extinction, raise the bar of quality and professionalism, and give the select few in this oligopoly continued control. Today, everyone *still* competes for the same shelf space, same talent; better placement in catalogs and press; still feel the pain of distributors filing bankruptcy (Inland Book Company and LPC group); still selling Manga and Anime adaptations as the alternative to superheroes, and still haunted by the past. The vast majority of all new comic book

publishers are still inexperienced, young and still undercapitalized, and those with a healthy capital infusion believe the key is to throw money at it for a little while, sit back, and rake in the financial rewards, having little patience or interest in the books, the people, or the art form.

The second head of the **five-headed monster is the marketing machine for comic books in America, or actually, the lack thereof.** It's not about the overpowering forces of the oligopoly, or the lack of support and enormous expense of newsstand distributors, but the channel of marketing the comic book as an entertainment choice for the consumer like movies, games and music. Where are the posters of Jessica Simpson or Tony Hawk holding a graphic novel or comic book with a caption supporting comic books as a reader's choice? This is why I always believed that Mr. T's personal support for MR. T & THE T-FORCE was more important to the entire industry, than to NOW Comics. Who cares if the comic book lacked backbone, Mr. T probably did more for the comic book itself in 1993 than anyone. He was on ENTERTAINMENT TONIGHT *holding a comic book.*

Changing how our country looks at comic books will not happen if we continue to find comic books on rickety racks labeled "Hey, Kids! Comics!" or in your local comic book shop, typically structured to service the collector or superhero crowd. I was in a comic book shop in Baltimore Maryland, where there was a furious debate over who was faster, the old FLASH or the new FLASH, and reprimanded for opening a plastic bagged back issue. I wanted to look at the artwork inside, but no, no, no - only managers can do that.

Much like any other value chain, there's a cyclical process of elimination, and it's about the survival of the fittest. The old-world decontamination of this particular value chain would involve thinking outside the box, much like bookstores when they merged with coffee houses. Comic book shops are social gathering places. A powerful variable mostly ignored in many retail marketing strategies. They should create an environment that doesn't steer away new costumers, but entices them to come in and to return. You'll find the most successful comic shops are welcoming gathering places for events. Comic shops sell the most imaginative pop culture products anywhere, with publishers supplying displays, posters, giveaways, etc – all the elements for attracting people, but rather than create an inviting social environment for people to return and explore, they pile up boxes and books, and display the most valuable collectibles on the wall behind the counter like a swap meet. This is why many comic book shops who service the collector are losing out to an eBay Store.

The Super-hero as Super-villain

There are five segments in the comic book (the 32-page, 6 5/8" X 10 1/4" periodical) industry: superheroes, horror, science-fiction/fantasy, adult, and children's comics. By far, the largest category is the "superhero" group, which accounts for an estimated 80% of the total domestic market. The market leaders are Marvel (X-MEN, SPIDERMAN, THE HULK, etc.) and DC (SUPERMAN, BATMAN, FLASH, etc.). This segment attracts a large, affluent audience comprised mostly of males between the ages of 15 and 39. These buyers, particularly the teenagers and collectors, are among the most avid and loyal buyers of any in the entire entertainment industry. Despite the graphic depiction of violence in some of these books, they are mostly, "good wins over evil" stories and considered tame by most parents, as compared to television and film.

The second largest category consists of horror, which can include graphic violence and gore at various levels, depending on the publisher and product scope. Many are vampire or monster driven, while others follow the context of a video game. The primary buyers in this category are young males and females aged 13 to 29.

Science-fiction and fantasy comics include licensed properties such as STAR WARS and STAR TREK, or adaptations of popular novels such as George R.R. Martin's THE HEDGE KNIGHT. These primary buyers are young males and females aged 10 and up, as it can attract the audience of the intellectual property itself.

The third category is sexually suggestive material or adult humorous themes, which is a smaller category for adults 18-years and older, and are typically promoted in a separate manner. Diamond Comic Distributors has a separate Adult Catalog which took in initial orders of about 250,000 units in 2004, with a retail value of approximately \$2.5million. Robert Randle of Diamond also suggested a reorder factor of another 10-20%. The numbers from Last Gasp, a predominantly adult comic's distributor was unavailable.

The "G-rated" titles whose main appeal is to elementary and middle school readers of both sexes. Many titles in this group are licensed properties, considered popular with children. Competitors in this group are few, published by Disney, Dark Horse, DC, Marvel and Archie Comics. This category accounts for less than 5% of the market, because the industry leaders have moved from newsstand distribution to the comic specialty shops, where the superhero is king. Many new comic book publishers believe they can "create the next Image Comics," but Image Comics, originally founded by seven comic book artists, wasn't an innovation, but a superhero

fan-following built by their careers at Marvel Comics. NOW Comics' fans rarely came from the direct market devotees, but from outside the comic book industry by introducing new stories of non-costumed superhero characters and concepts like RALPH SMART ADVENTURES, SPEED RACER, MARRIED WITH CHILDREN, REAL GHOSTBUSTERS, THE TERMINATOR, THE TWILIGHT ZONE, and FRIGHT NIGHT. This wasn't an exclusive NOW formula. Other publishers have had great success with HE-MAN AND THE MASTERS OF THE UNIVERSE, THE TRANSFORMERS, STAR WARS, STAR TREK to name a few. Yes, these are licensed characters with an existing audience, but most (at least in respect to NOW Comics) were not originally comic book readers and thus, expanded the marketplace.

Innovation is difficult, based on the many factors I've covered. The leaders have pandered to the superhero, which only added to reader deterioration over many decades. When Jim Valentino, founder and former publisher of Image Comics announced the discontinuation of their line of diverse genre comics due to poor sales, he stated, "the current [direct] market is not a comic-book market; it's a superhero market." Image Comics built their success with superhero artists and those superhero/comic art fans from Marvel Comics creating new superheroes (SPAWN, YOUNGBLOOD, ETC). A strong foundation that garnished a large piece of the market share pie at select times (see *By the Numbers*), but they still find it difficult to break out of the mold. It's the American consumers' mindset that "comic books = superheroes." They are not looking for anything else.

It's unfortunate, in some respects that it took the mega force that is Anime and Manga to educate the new generations of readers to something other than superheroes. A few visionary, steadfast publishers were able to ride out the various storms of change in the comic book market in this country over the past two decades to be a major contender in this area. A leading U.S. publisher of Manga is VIZ Media, LLC, founded in 1986. VIZ publishes now over 20 titles every month including RANMA 1/2, GUNDAM and DRAGON BALL Z. While not even listed on the market share chart in 1987, they're number six today, and only behind TokyoPop, another Manga giant (see *By the Numbers*).

NOW Comics published SPEED RACER beginning in 1987, along with ASTROBOY. I knew Anime was popular because Comico had great success with the ROBOTECH series. After some analysis, I deciphered that SPEED RACER was actually the most popular Japanese animation in America at the time, because it aired on television syndication from 1967 to 1974 in Chicago (at which point it was banned due to excessive violence) and up until 1981 in other cities. We reproduced the original SPEED RACER Manga as SPEED RACER CLASSICS in 1988 and 1989 as trade paperbacks, which did quite well, as did the SPEED RACER video tapes we also

released. It was obvious to me that the public was interested in a capeless superhero back then, and so I pursued licenses that included a built-in audience (THE REAL GHOSTBUSTERS, SLIMER, THE GREEN HORNET, FRIGHT NIGHT, TWILIGHT ZONE, etc), and decided to introduce the comic book to them. This wasn't something I invented, just a reality of the entertainment business. For example, there's less risk in creating a children's animated series based on a successful movie, or nostalgic series, because parents then know of the content. They saw the movie, or watched it as a kid, so they know its context, and feel less concerned about their children watching it. The same holds true with the comic book and one of the main reasons successful children's comic books are "hot licenses," being advertised in films, toys and television commercials.

Historically, the magazine distribution channel (newsstand) is the primary means of recruiting new comic book readers, but the huge expense, lack of support from investors, and decline of that channel's primary marketing engine (CMAA) is a contributing factor in the decline of the market as a whole. Chuck Rozanski, owner of Mile High Comics in Denver, and columnist for the COMICS BUYER'S GUIDE, described the remarkable success of the Direct Market distribution channel by the percentage of Marvel Comics sold in comics' specialty shops. In 1979, only 6% of Marvel Comics sold in the Direct Market. That jumped to approximately 70% by 1987, and over 90% today. He added, "While this was a remarkable achievement in terms of an industry switching from one form of marketing (newsstand distribution) almost entirely to another (Direct Market comics shops), it also set the stage for the greatest collapse in sales in the entire history of the medium. The reality of the situation is that the overwhelming success of comics' shops during the 1980's is one of the main reasons why we're seeing such poor new comics' sales today."

I didn't pick up my first comic book at a comic shop or even bookstore when I was nine-years-old. I discovered them in the grocery store while shopping with my parents. NOW Comics' fans have told me over the years that they bought their first NOW Comic book from a gas station in Rhode Island, a drug store in Georgia and a newsstand in Arizona. They were a non-superhero NOW Comic, and they weren't in a comic shop, which only

Originally posted by *Silent Fox* on the Comic Book Industry Alliance Forum, (discussing this white paper):

This thread interested me since it was a Now Comics title that got me hooked on comics.

It was a Fright Night comic (issue #8) sitting on a 7-11 magazine rack that caught my eye. I loved the movie and so I found the comic interesting enough to buy. The rest was history. I was a comic fan and Neil Vokes was my first "favorite artist." It was seeking out the first 7 issues that I discovered such a thing as "comic shops" and the rest was history

Sadly, Fright Night didn't last very long (and was never the same when Vokes stopped doing the art). Nevertheless, I will probably always have a soft spot for Now Comics.

Silent Fox

averaged about 40% of NOW sales. That's why **the superhero is another head on the five-headed monster**. It's been limiting the audience for comic books for decades.

Licensing

In addition to the sales of the physical products, the sale of ancillary rights of the characters and stories generate many more millions. Examples I've learned over the years include that fact that the SUPERMAN peanut butter used to generate more revenue for DC Comics, than the sale of the SUPERMAN comic book (about 98,000 copies in the 1980s), and the first BATMAN movie generated more money for DC Comics than publishing BATMAN as a comic book for fifty years. Of course, thanks largely to the SPIDER-MAN and X-MEN movies, Marvel Entertainment Group, Inc., the same company once in Chapter 11 bankruptcy, is now cash rich, solidifying their comic books as a continued bestseller (see *By the Numbers*). Today's filmmaking technology transcends the stories once limited to the comic book artist's imagination, and the public loves it, so much so, that we even have CHARLE'S ANGELS and JAMES BOND doing outlandish "superhero" stunts and tricks. Comic books have evolved from exclusively print into a multidimensional form of entertainment. Comic book characters are now far more popular than comic books.

Unfortunately this is a problem for the comic book publishing industry. It was an acceptable state when DC Comics (typically number two) was an intellectual property springboard or incubator for new ideas for Warner Bros, because Marvel was the spearhead for the comic book publishing industry. While they struggled with lawsuits and non-imaginative Hollywood execs to get their vision to the mainstream (big screen) during the 1980s and 1990s, they considered themselves a publishing company, and drove the industry.

However, now they're a "multimedia company." Marvel generated only \$500,000 in licensing fees in 1992, but that turned to \$15 million just three years later. In 1991, publishing income accounted for 86% of Marvel's revenues, but in the last five years, that income has averaged only 21% of its total revenue, and less than 14% in 2004, yet, it still controls about 30% of the direct market. Marvel's new management views the organization as an "intellectual property licensing company," and not a comic book publishing company.

What happens when the horse breaks loose of the carriage? The carriage just sits there and rots. **Licensing is another head of the five-headed monster.** Hollywood extravaganzas only benefit the intellectual property itself, its creator, and its publisher, and not the comic book publishing industry as a whole (see *By the Numbers*).

However, the fact that the Direct Market is less than 10% importance to Marvel Comics, it leaves the door wide open for another publishing champion to dominate. This new champion of comic book publishing could be an existing publisher, gearing up for total domination [insert echo], or a new player with some funding, experience, perseverance and determination, with both short-term and long-term goals. I can guarantee that they will be welcomed with open arms by Diamond Comic Distributors.

Megalomania

Sigmund Freud believes that the super-ego is "the vehicle of the ego ideal by which the ego measures itself, and whose demand for ever greater perfection it strives to fulfill." It's link to childhood narcissism, or the belief in one's own perfection. As adults, we understand that we can't be perfect as human beings, but that doesn't stop us artists to strive for perfection in our work, or demand perfection from others. However, according to Freud, this behavior, *if left unchecked* can lead to narcissistic neuroses such as *megalomania*.

In an industry that attracts companies such as Walt Disney, who believe they know better, because, well "we're Disney." Power players such as Perelman and Icahn, who think they have the answer (exclusive distribution), and investors like my old partners, who believe it's easy because "if this kid can do it." Still desperate to keep creative talent from leaving to make more money elsewhere, thus elevating that talent based on their sales power and hordes of fans demanding autographs, megalomania at one point or another runs quite rampant.

Walt Disney's Cal Publishing purchased CrossGen, the Tampa, FL based comic book publisher out of bankruptcy in 2004. Did they spend \$1 million to continue publishing their comic books in the North America, or sell reprints overseas, where they sell comic books in the millions? Could it have been for Marc DeMatties and Mike Ploog's ABADAZAD intellectual property? Studios will spend \$1 million for a spec screenplay, but here you even have the storyboards. Disney attempted to return to publishing comic books in the late 1980s, with hiring consultant Randy Achee to explore the industry. I recall my few meetings with him while at NOW Comics in 1989, each of us having separate agendas; I wanted to publish MICKEY MOUSE, and he wanted to pick my brain.

In a recent interview with former Executive Editor of Marvel Comics Jim Shooter on ComicBookResources.com (<http://www.comicbookresources.com/features/shooter1/>), he

mentions that he also spoke with Achee during his due diligence trek and Disney considered Shooter as an editorial chief for their new venture. Their research discovered that there were people who “didn’t like Jim Shooter.” Michael Lyndon, who I also met in my attempt at licensing MICKEY MOUSE, headed the new publishing initiative. Even after gathering 100 positive references, Lyndon told Shooter, “Look, my impression of you is that you’re a brilliant creative person and you’re the easiest creative person I’ve ever worked with. I don’t know why they say these things about you. Maybe you’ve changed. Maybe you’ve reformed, but we can’t take a chance. We’re Disney, we can’t take a chance.” Shooter went out and started Valiant Comics, and a year later, Lyndon told him, “I was so wrong. I have found out who these people are now that I’ve found out about the comic book business. They’re idiots. They’re people who are like children, having their little snits. I bet that if I were standing there beside them, I would’ve done everything you did. I’m sorry it didn’t work out with us. If you ever start another venture, come to me.”

Lyndon did invest in another Shooter venture and served on his board, realizing that he had allowed the disparaging remarks to harm Shooter. Even with Len Wein as Editor in Chief and Disney’s enormous marketing power, the new Disney Comics failed to break the mold, finding that the comic book direct market is actually, a superhero market.

What if Disney decided to ignore the gripes from those select few and brought in Jim Shooter as publisher or editor-in-chief of Disney Comics? Would the outcome have been different? Yes. It would’ve been very different, and no, MICKEY MOUSE wouldn’t have been wearing a cape and mask. Shooter was at Marvel for many years and understands the comic book *publishing* industry. The people put in charge did not, nor did the people who personally attacked him.

Disney purchased a comic book company out of bankruptcy and is planning to continue publishing those titles, knowing many of those creators, artists and writers may cause a commotion from lack of compensation. Can Disney now take that chance, or will it again be too messy?

Shooter ran Marvel Comics with a “no-hack” mentality, wanting to change the “three fight-scenes per issue” editorial ideal when he first arrived. As a human being, he confesses to mistakes in his interview. I know I made mistakes, but the industry never forgives you for those, because they demand perfection. Shooter wasn’t afraid to say “no” to idiocy, or adhered to specific project requirements and scopes, but if you argue with creators, you’re evil. While NOW Comics could barely afford to pay writers and artists good rates, Shooter initiated an incentive sales plan to keep artists by paying royalties based on sales, and talents such as Todd McFarlane received a

million dollars the year his SPIDER-MAN #1 shipped, but like with any licensed property, it was “work-for-hire.” Todd wouldn’t see anything other than royalties from the sale of the actual comic book product and reprints. If the SPIDER-MAN film rights weren’t in lawsuit limbo for so long, you could say that McFarlane’s artistic influence on the SPIDER-MAN comic book (increased sales included) was a driving force for Hollywood. It’s similar to Frank Miller’s DARK KNIGHT for the BATMAN movie, and Chris Claremont and John Byrne’s X-MEN, to the X-MEN movies, and I’m sure Jim Lee’s SUPERMAN to the upcoming SUPERMAN movie.

Shooter mentions a couple examples of the disparaging remarks in his interview, such as not allowing superstar talent to hack, or for someone else to allow SPIDER-MAN an illegitimate child. I came across similar creative feuds. The cartoonist who wanted to draw THE TERMINATOR; the writer who wanted to introduce a Terminator landlord (sorry, Terminators don’t house humans, they kill them). There was the bright pink monster from hell; the obscenely huge female breasts; and an eight-issue long origin story, just to name a few. Most of my problems with creative people stemmed from cash flow problems, which was simple undercapitalization. The smaller budgets forced NOW to work with some unsavory, inexperienced and unprofessional types, but they are in every industry. Nevertheless, not every industry gives them the power and soapbox as “creators,” as they do in the comic book publishing industry.

When running a company, that company becomes its own entity. It is a child that requires nurturing and guidance. As the executive, you can make a self-indulgent choice, or choose to feed the need of another, but how will that effect the organization? What is more important, your fiduciary responsibility as an executive to the company, or to anyone else, including yourself? Sometimes, in an entrepreneurial environment that decision makes itself, because you’re sitting on a burning platform, and it becomes one crisis after another.

This is a very different position to be in and one that not very many people ever experience in their lives, except for most parents. My father-in-law tells me that your kids don’t have to like you and there will be times where they’ll say they hate you. It doesn’t matter because you’re a parent looking out for them, and you’re not a friend. Giving in to their demands will only deteriorate your authority and thus, the family itself. Guaranteed, as the boss, you will make decisions that are not going to be popular, but that only proves that you’re doing your job.

A comic book publishing company is a business, and not an entity created to pander to the wants of any individual involved, including the entrepreneur or senior executive. The creators who continue to promote bad experiences are hurting the industry as a whole, and not the individual target. It’s this kind of word of mouth that escalates and exaggerates problems and situations

inside such a small industry, keeping influential and promising outsiders from participating, and insiders from staying. During the 1990s, while helping IBM produce a certification exam, I uncovered a confidential study about word of mouth. IBM reportedly spent millions of dollars to uncover that a person will tell up to *three* other people about a *positive experience*, but up to *thirteen* people about a *negative experience*. This is why more people hear about negative experiences, because not only does it fuel an emotionally-charged, powerful word of mouth, but sales of the publications that sell it. The reason the NATIONAL ENQUIRER is one of the best selling periodicals in America.

Unfortunately, the press uncovered a way to feed on the industry by selling more newspapers and/or magazines with “dirt,” or disparaging, negative stories of the industry, individuals or companies. That’s fine if the gossip stays in the hands of the incestuous purveyors of the industry. However, Marvel Comics, through their hardship in the 1990s, became national news. The *Wall Street Journal*, *The New York Times*, *Hollywood Reporter*, and *The Financial Times* lambasted Marvel as dying in Chapter 11 bankruptcy, when it was the Wall Street tycoons, Ronald Perelman and Carl Icahn battling for control. The business details are boring journalism and the public prefers only symbiotic catastrophes in the form of a car wreck. **This is why megalomania is the last head on the five-headed monster.**

The bad press over the past decade of declining sales, the death of the Comics Magazine Association of America, and Marvel’s bankruptcy hasn’t hurt Marvel Comics today, with their publishing sales being less than 17% of their overall revenue, and millions in cash in the bank. It’s only hurt the comic book publishing industry, as we knew it, which is now under a major transformation much like the automobile industry in the 1970s. That’s the bad news. The good news is that there is room for a new champion, with adequate funding or infrastructure to invite one of the smaller players under their wing. This is a new era and new space, with opportunity to start from the ground up, attracting new readers, creating new characters and elevating the comic book publishing industry to new heights, before Marvel Entertainment Group decides that, like a Walt Disney Company, they don’t need to publish comic books any longer.

By the Numbers

The following figures are from a variety of sources including Nielson Bookscan, DIAMOND DIALOGUE, Diamond Comics Distributors, Capital City Distribution's INTERNAL CORRESPONDENCE, Cold Cut Distribution, and The Standard Catalog of Comic Books (SCCB) 3rd Edition. John Jackson Miller at the COMICS & GAMES RETAILER magazine also provided some insight, as did Milton Griep from <http://www.icv2.com>, various members of the Comic Book Industry Alliance Form (CBIA), and the International Federation of the Periodical Press (FIPP).

The average cover price for the Top 300 comic books in July 1987 was \$1.59 (\$10.59 for the Top 20 Graphic Novels and Trade Paperbacks). In February 2005, that reached \$3.13 (\$15.36 for the Top 100 Graphic Novels and Trade Paperbacks). The Direct Market's market share numbers are by dollars and not by copies sold, so the approximately \$240+ million worth of comic books in 2004 (Diamond Comic Distributors figures were \$325 million, including graphic novels and trade paperbacks), is actually about half the number of copies of the \$240+ million worth in 1987. This figure does not include the 5% to 10% Direct Market sales from distributors Cold Cut Distribution and FM International.

While the traditional comic book periodical's life cycle may be on its declining arc, waiting for innovation to spark a new flame, the emergence of graphic novels and trade paperbacks is ever growing, with sales hitting \$165 million in 2003 (a 50% growth from the previous year) to \$205-\$210 million in 2004. Bookstores and other specialty shops accounted for around \$140 million of that number, while the comic specialty shops accounted for only \$65 - \$70 million of those dollars. However, the comic specialty shops maintained over 90% of the sale of most of the \$200+ million in comic book periodicals that year.

In 1993, with the Top 300 comic books at an average cover price of about \$2.00, the industry reached a peak of approximately \$850 million. This boost in sales was the result of the fabulous 1992 public relations effort by DC Comics for their "Death of Superman" story line, said to have generated a \$30 million day in North American comics' shops, and the invention of Image Comics by a highly publicized exodus of talent from Marvel Comics. Although, seemingly unaccredited for it, I believe the Mr. T public relations effort for MR. T & THE T-FORCE, which included Mr. T appearing on ENTERTAINMENT TONIGHT, BLACK ENTERTAINMENT TELEVISION (BET) and loads of publicity in magazines and newspapers all over the country, holding a comic book also inspired the growth.

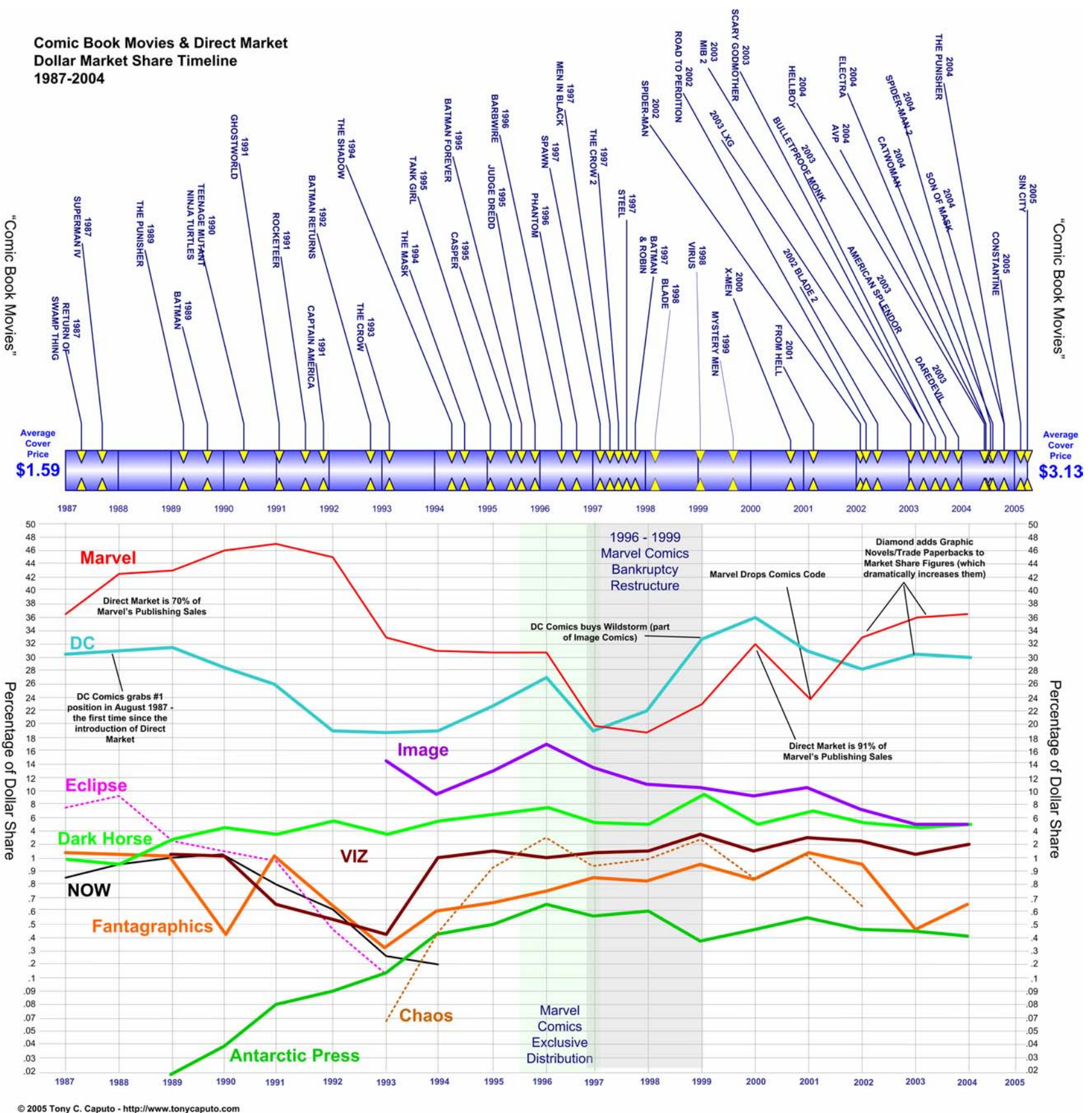


Figure 1: Timeline Chart

This flooded the market with new speculators looking for gold, creating another glut and bust. By 1997, Marvel Comics was in bankruptcy and industry sales dropped to approximately \$425 million with an average cover price of \$2.50. Sales continued to decline down throughout the late 1990s, to about \$275 million in 1999, about the same as in 1989. According to the COMICS & GAMES RETAILER magazine, the absolute low point was in January 1998, when comic periodicals, manga, graphic novels and trade paperback generated only \$17.4 million dollars in sales.



Figure 2: Mr. T reading a comic book on the People page of the NEW YORK DAILY NEWS, 1993

I've created a few charts and tables for this article, primarily to analyze the data, but also for you, the reader to explore. There's an enormous amount of information presented together here for the first time ever, and I found it very insightful.

Figure 1: Timeline Chart depicts the comic book movies from 1987 through 2004, along with a



Figure 3: Internal Correspondence, December 1987. Cover features more about the "Manga invasion" that began in the mid-1980s.

market share analysis of several publishers with some sustained history. I've created the chart on a more granular level for a better understanding and/or recognition of any anomalies. My next analytical project will be bookstore and newsstand where I believe the movie release make a real influence, as they attract more of the mainstream. Table 2: Market Share History and Figure 4: Market Share History Chart displays the direct market, dollar market share for 38 publishers, not the 38 top publishers, or the 38 best publishers, just 38 publishers where I could find some consistency and history to analyze. I wanted fifty publishers, but there wasn't enough data for fifty. Unfortunately, while Capital City Distribution's INTERNAL CORRESPONDENCE magazine (www.icv2.com) listed up to 150 publishers from 1987 through 1993, Diamond Comic Distributor's DIAMOND DIALOGUE (www.diamondcomics.com) typically only listed the top 20 or 30 suppliers. I wanted to see more of the publishers with less than 1% share because they are typically the independent publishers with room for growth.

As Figure 1: Timeline Chart indicates, even with the onslaught of comic book movies, the direct market hasn't seen an overall improvement of comic book sales. Anticipating a strong demand for BATMAN products during and after the 1989 release of the BATMAN movie, Marvel Comics flooded the direct market with products reaching about 45% and 47% market share in 1990 and 1991. That success walked out the door in 1992 when seven artists left Marvel Comics and started Image Comics, taking a chunk of that market share with them. The Figure 1: Timeline Chart also shows some growth from the other consistent publishers at the time. Dark Horse, Viz, Fantagraphics and Antarctic Press all showed growth in market share during that time. In fact, although Marvel Comics' attempt at total domination through exclusive distribution created disastrous upheaval (resulting in their bankruptcy restructuring in 1996), the significant negative effects were felt by the superhero publishers, Marvel, DC and Image. As the numbers indicate, each publisher lost market share during that period, while Dark Horse, Viz, Chaos, Fantagraphics and Antarctic Press either all held steady, or increased market share. The release of the X-MEN movie in 2000 improved Marvel's market share, although DC Comics was still #1. It wouldn't be until 2002 and the release of movie SPIDER-MAN that Marvel Comics finally regained the #1 position. However, the addition to dollar shares of graphic novels and trade paperbacks, and their higher price tag makes it difficult to really judge. It appears that these major motion picture events have little if not any influence on comic book sales in general, or specifically, at least in the direct market.

Table 2 Market Share Table 1987-2004

Direct Market Share	1987	1988	1989	1990	1991	1992	1993	1994	1995*	1996*	1997	1998	1999	2000	2001	2002	2003	2004	
Marvel	36.69	42.64	43.51	46.12	47.55	45.76	33.43	31.87	31.94	32.00	20.43	19.63	23.94	32.22	24.91	33.61	36.19	36.54	
DC	30.41	30.98	31.75	28.43	26.00	19.34	19.00	19.35	23.18	27.00	19.68	20.42	33.22	36.03	31.88	28.35	30.92	30.63	
Dark Horse	1.05	0.96	2.17	4.03	3.71	5.55	3.36	5.35	6.25	7.14	4.77	4.65	8.29	6.47	7.09	6.52	4.42	5.58	
Image							14.79	9.88	13.43	16.97	11.61	10.76	10.22	13.22	10.14	6.83	5.26	3.90	
Viz Comics			1.55	1.00	0.66	0.53	0.42	1.07	1.04	1.00	1.16	1.45	3.01	1.89	2.61	2.18	1.41	2.01	
Wizard Entertainment					0.20	1.51	1.76			2.79	2.55	2.84	3.52	2.40	2.77	2.48	2.15	2.11	
Fantagraphics/Eros	1.36	1.23	1.20	0.47	1.06	0.66	0.33	0.60	0.68	0.76	0.82	0.73	0.97	0.75	1.14	0.85	0.48	0.68	
Archie Comics Publications		1.13	1.33	0.72	0.61	0.30	0.19	0.31			0.45	0.47	0.55			0.50	0.66	0.39	
Caliber		0.50	0.36		0.40	0.22	0.21	0.20			0.50								
Antarctic Press				0.04	0.08	0.09	0.13	0.44	0.55	0.65	0.57	0.61	0.39	0.48	0.57	0.46	0.45	0.43	
Topps						0.22	1.25	1.73	1.87	2.00	3.12	1.25	1.09	0.89					
Bongo Comics							0.19	0.51									0.38	0.33	0.41
Harris						0.06	0.33	0.38	0.64	0.89	0.61	0.38				0.45			
Cartoon Books						0.01	0.04									0.20	0.27	0.34	
Avatar Press												0.42				0.49	0.50	0.50	
TokyoPop														0.71	1.01	0.80	2.06	3.00	
Gemstone									0.83	0.52							0.81	0.63	
Dreamwave																2.47	2.24	1.43	
IDW Publishing																0.10	0.79	1.19	
CrossGen														1.51	1.44	3.80	2.71	0.59	
Tohan Corporation											0.64	0.50	0.45	0.48					
Dynamic Forces							0.30	0.24				0.65	0.79	1.19	1.13	0.30		0.46	
Heroic						0.14	0.07												
Chaos Comics							0.07	0.45	0.91	1.37	0.83	1.05	1.63	1.37	1.17	0.66			
Valiant (Acclaim)					4.11	9.35	5.35	3.21	1.06		0.42	0.41							
Kitchen Sink	0.37	0.61	0.70	0.29	0.30	0.18	0.58	0.52			0.43	0.54							
Defiant							0.62	0.85											
Aardvark-Vanaheim	0.46	0.76	0.76	0.40	0.23	0.19	0.11	0.13											
Warp				0.14	0.13	0.16	0.18												
Eclipse	7.60	8.69	2.53	1.51	1.06	0.47	0.14	0.08											
Eternity/Malibu	1.86	2.00	2.41	2.59	1.66	8.55	3.52	4.44											
First Comics	6.13	3.47	2.66	2.69	0.59														
Gladstone	1.12	1.02	1.00	1.08	0.19	0.26	0.23	0.39											
Comico	1.50	1.88	2.15	0.37	0.34	0.50	0.31	0.09											
Mirage	1.49	0.25	0.25	0.90	0.32	0.24	0.22	0.13											
NOW Comics	0.86	0.97	1.05	1.08	0.59	0.65	0.25	0.16									0.00	0.00	
Blackthorne	1.60	0.93	0.65	0.00	0.00	0.00	0.30												
Walt Disney				1.32	1.15	0.39	0.06												

NOTES:

Blank fields between populated fields indicate a "below radar" percentage

These Market share figure are for the Direct Market only and not the mass market (newsstand) or bookstore market. These are estimated by numbers provided by Capital City Distribution's Internal Correspondence from 1987-1993 (www.icv2.com), and Diamond Dialogue's Market Share reports from 1996 - 2004.

* The Market Share numbers for 1995 and 1996 are estimates provided by Capital City, Diamond, and Heroes World Distribution, with help from John Jackson Miller at Comics & Games Retailer

In January 1995 Marvel buys Malibu Comics.

1997 market shares include estimated figures for Marvel first quarter (while not being distributed by Diamond), calculated by averaging the sales through Diamond from nine months of actual figures and applying that average to the first quarter
January 1999 Wildstorm moves from Image to DC Comics.

There is, however, an impact on the intellectual property's products outside the direct market. For example, Frank Miller's the first edition of SIN CITY: THE HARD GOODBYE (ISBN 1878574590) sold 2,975 copies in the bookstores in 2004, but has sold 1,870 in Q1 2005, along with an additional 13,250 units of the 2nd Edition (ISBN 1593072937). The March 2005 direct market orders of the 2nd Edition were 7,750.

The Pulitzer Prize winner MAUS A SURVIVORS TALE, by Art Spiegelman (ISBN 0394747232) is an anthropomorphic story of the holocaust. First published in 1986, this masterpiece sold 17,580 through bookstores in 2004, and difficult to find on the shelves of a direct market shop.

In 1987, the top three selling comic books in the Direct Market were X-MEN, X-CALIBUR and X-FACTOR, with Marvel's market share being about 36%. They may not be the top three comic books today, but they are in the top five. DC Comics held the next three spots with WEIRD, GREEN ARROW and BLACKHAWK, and a market share of about 26%.

In 2002, with the release of the first SPIDER-MAN movie, Marvel Comics claimed a staggering 81 of the Top 100 comic books, and 30 spots in the Top 100 graphic novels, thus regaining the #1 position in market share for the first time since 1997. Fortunately, Marvel Comics had the driving force of a mega blockbuster movie to help them out of aftermath of bankruptcy, usually for any smaller company a hole too deep to climb out, unbeknownst to the investors that typically initiate such a strategy, usually to get out of a contract or two and avoid paying large debts. This is something clearly depicted within Figure 1: Timeline Chart, and Table 2: Market Share History.

NOW Comics in 1987 through 1990 on a steady growth arc, but a clear decline from over 1% share to .20% in 1994, after a bankruptcy restructuring, even with new investors, \$2 million in goodwill and capital, and the record-breaking MR. T & THE T-FORCE released in 1993. The Marvel Comics bankruptcy crushed Marvel's longtime hold on market share, but only the millions invested, and the blockbuster movie SPIDER-MAN was able to regain its original crown. As I mention in HOW TO SELF-PUBLISH YOUR OWN COMIC BOOK, restructuring through bankruptcy will be more expensive in the end, than investing in the company as a whole. It doesn't work. Comico is another example on the Table 2: Market Share History, where we see Comico grow from 1.5% market share to 2.15% from 1987 to 1989, and then drop to 0.37% in 1990, and ultimately to 0.09% in 1994. What do these numbers mean? They mean that fewer stores are ordering the products, for whatever reason, including the fact that less people are buying the products because they've since moved to something else. In a sense, you're starting over again, but now with added baggage.

In Marvel Entertainment's 2004 Q2 report to shareholders, they've indicated that their publishing group is expanding advertising and promotions with an "increased emphasis on custom comics and in-school marketing." They will also continue "its long-term focus on expanding distribution to new channels, like the mass market, and expanding its product line to target new demographics." If they plan to reach out to new demographics, let's hope it's not while wearing spandex, because it's obvious the mainstream market is not looking for just superheroes. Manga, graphic novel and trade paperback market continues to grow, showing real opportunities.

Maybe book publishers will finally get the picture.

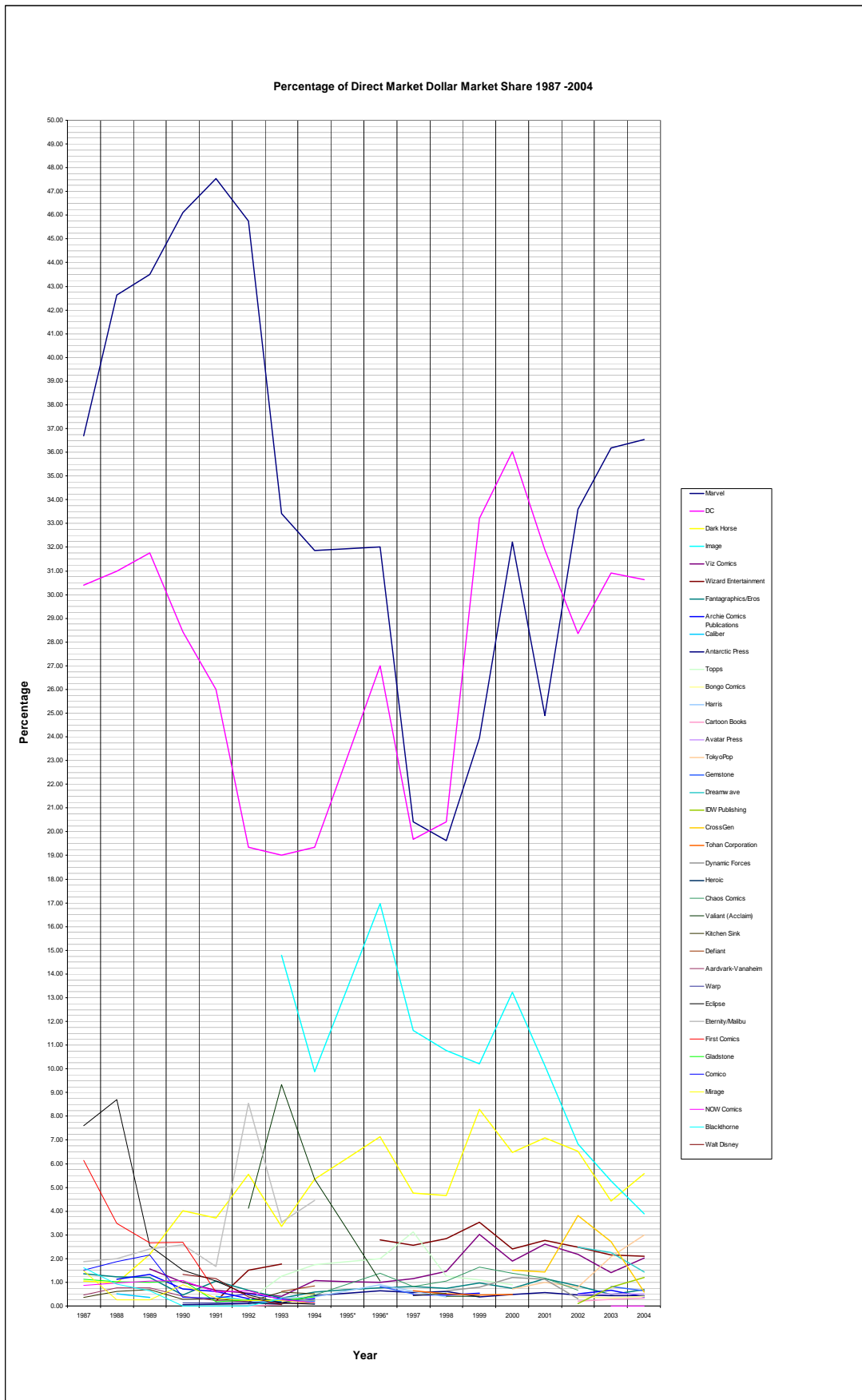


Figure 4: Market Share History Chart

WHAT IF...?

DARK HORSE published X-MEN
McFarlane published SPIDER-MAN
HARPERCOLLINS published SPIDER-GIRL?

In this comic book white paper, I mentioned about Marvel Comics' shift from a predominately publishing-focused company in 1993, with 86% of revenues coming from publishing, to a licensing company today, with publishing revenues being in the teens. A couple industry people regarded this ominous message with a grain of salt, because who am I to know? Marvel loves the direct market. It generates over 90% of its comic book sales from the direct market. They wouldn't hurt the one they love. They've loved the publishing business model for over 50 years. Why would they change it to a licensing model? Well, besides the fact that they are already thriving as a licensing business, the answer is simple: public company.

I'm going to show you the actual numbers that my theory is based on, which show why I believe Marvel will stop publishing comic books, graphic novels and trade paperbacks and throw them into their mix of other licenses, too. Don't worry; I'm not giving the corporate board of directors any new ideas. I'm sure they have a similar analysis on their desks, already.

Marvel survived through and an IPO, inflated valuations, hostile takeover, a bankruptcy restructuring, a lawsuit with Stan Lee, and is now making movies. I've had too much experience with financial investors and venture capitalists (mostly after my adventure with the previous iterations of NOW), and even more with licensors to last me a lifetime. Please bear with me, as I attempt to explain some sophisticated financial information in layman's terms.

Table 1 is an excerpt of the Notes to Consolidated Financial Statements, dated December 2004 from the Marvel Enterprises, Inc. Annual Report (we'll talk about the missing Toy Biz portion later). A publicly-traded company makes this freely available to anyone, to promote interest in buying shares. You can download your own version from Hoovers.com.

Table 1 contains:

- Row 1 is the obvious description of the origin of the numbers listed.
- Rows 3, 10, and 17 provide the year labels: 2002, 2003 and 2004.
- Rows 4, 11, and 18 are the "Net Sales," defined as the amount of revenue generated minus and commissions, returns, damages and retail display allowances, or "gross sales minus returns, discounts, and allowances." In other words, how much is deposited in the bank.
- Rows 5, 12, and 19 are the "Gross Profits," which are Net Sales minus cost of sales. This'll include production, printing, and shipping, and does not include overhead expenses. You may want to take a quick look at Rows 26 & 27, which lists the "Gross Margins" for Publishing and Licensing. Notice that there is no cost of sales in Licensing, but Publishing cost \$36,984,000 in printing, shipping and freelancers.
- Rows 6, 13, and 20 are your Operating "P&L" or Profit and/or Loss figures. Row 24 shows an estimated annual growth rate for Publishing, at about 10%, and Licensing at about 55%. This should make the shareholders very happy. You have incredible growth of 55% annually in the Licensing segment that requires no cost of goods and 100% Gross Margins, but alas, Publishing on the other hand, has grown only 10% annually, with an average of 55% Gross Margin, which, by the way, in publishing is very impressive.
- Rows 8, 15, and 22 present the "identifiable assets" of each segment – these are accounts receivables – money that is expected to come.

Table 1: Excerpt from Marvel Enterprises, Inc Annual Report

	Publishing	Licensing	Total
		(in thousands)	
1			
2			
3			
4	2002		
5	Net sales	\$64,501	\$57,754
6	Gross profit	33,060	53,287
7	Operating income (loss)	19,587	47,575
8	Total identifiable assets	75,637	397,735
9			
10	2003		
11	Net sales	\$73,255	\$124,449
12	Gross profit	38,953	124,449
13	Operating income (loss)	25,442	83,227
14			
15	Total identifiable assets	69,910	371,812
16			
17	2004		
18	Net sales	\$85,943	\$214,734
19	Gross profit	48,959	214,734
20	Operating income (loss)	37,272	152,726
21			
22	Total identifiable assets	64,810	493,511
23			
24	Annual Growth (Estimate)	10% growth	55% growth
25			
26	Gross Margin 2003	0.53	1.00
27	Gross Margin 2004	0.57	1.00
28			
29	Percentage of Sales	\$0.43	\$0.71

I learned as a liaison between an entrepreneurial visionary and the publicly-held corporation that purchased his company, and another who decided to go the venture capital route that it's all about what's best for the investors. I also came to understand this when NOW Entertainment Corporation's investors, with an underwriter, attempted an IPO in 1994. The fiduciary responsibility of the senior executives and board of directors of any publicly-held company is to maximize shareholder profits. That is the primary objective of a public company. Maximize shareholder profits. This is why you read about thousands of people losing their jobs just before the Holidays, as every dollar saved adds profit to the bottom-line. Fantagraphic Books' Kim Thompson believes that "if a corporation were

a human being, it would be a narcissistic sociopath with an eating disorder." It doesn't matter how shareholders (the corporation) get fat, just as long as they stay nice and fat, and get fatter. It's not really greed. This is corporate capitalism.

This is where Table 3 fits into the picture. Section 9 of the Marvel Enterprises, Inc. Notes to Consolidated Financial Statements describes Marvel's licensor relationship with its subsidiary Toy Biz Worldwide, LLC (TBW) in Hong Kong. Marvel Enterprises entered into a license agreement with an unrelated Hong Kong company (now calling themselves TBW), where TBW handled the manufacturing and sale of all Marvel toy figures, other than those produced by licensee Sony Pictures. TBW uses the Toy Biz name for marketing purposes, but Marvel doesn't own TBW, who paid a royalty advance of \$20 million for a term of 5 1/2 years, plus payment for additional marketing, and service administrative fees. Marvel received royalty payments for toy sales from TBW equal to \$10.5 million in 2002, \$29.6 million in 2003, and \$9.3 million in 2004. Although the licensing agreement was for 5 1/2 years, with a \$20 million advance on royalties, that advance was satisfied within two years, which brings me to my next point.

The most wonderful thing about licensing intellectual property (IP) instead of producing, is that you're doing a mere fraction of the work, spending near-zero operating dollars (legal fees, professional fees, reviewers, etc), and can still generate substantial revenues. As long as there are publishers out there willing to license a character, foregoing any rights in the artwork, stories, and characters forever, you can make the magic happen.

I've developed a worksheet with some conservative estimates. You can view it as a table online [HERE \(Details\)](#). There is no \$20 million advance for 5 1/2 years, just an accrual spreadsheet of three classes of Marvel Comics. Class "A" is the bestsellers (see Table 2), typically shipping out an average of 100,000 copies per month, with reprints sold to 60 countries. You may see some titles listed within the select categories that you feel do not belong, but I also considered international appeal through motion picture and television productions over the property's history as a variable. Class "B" titles sell about 75,000 copies per month, and reprints sold to 20 countries. Class "C" titles sell 20,000 copies per month with reprints sold at a discount to ten countries. I've also added two classes of trade paperbacks and graphic novels, with the licensee (someone like Scholastics, Warner Books, or Simon & Schuster), releasing only one a month from each class. That's all, just one book per month with limited foreign reprint interest.

The entire publishing division of Marvel Comics would be gone, leaving a specialty team costing \$2 million annually, for facilitating, reviewing and determining the best licensees per IP. Marvel Enterprises, Inc would absorb this handful of individuals into their corporate overhead. If they haven't considered a specialty team option, they need to rethink just throwing the responsibility to the existing Licensing staff (corporations love consolidating workloads), to continue to establish a level of quality expected for the books. Once all 4000 of Marvel's characters are up for grabs for comic book publishing, there would be a swarm of interested parties from all over the world, and not necessarily the best choice for the IP. You'll have wealthy father who'll pay for their son (thirteen years old), to draw a MAN-THING comic book, because he saw the movie on the Science-Fiction Channel. A typical corporation wouldn't care who or what, if he walked in the door with a \$250,000 advance on royalties check. Okay, so that's an extreme, but you get the idea.

Table 2: Title Classes to Determine Sales Value

Class	Titles
	(all properties of Marvel Enterprises, Inc.)
"A" BOOKS	The Amazing Spider-Man, Peter Parker- The Spectacular Spider-Man, The Uncanny X-Men, Wolverine, The Incredible Hulk, The Fantastic Four
"B" BOOKS	Daredevil, Electra, Captain America, Ghost Rider, Iron Man, The Punisher
"C" BOOKS	Doctor Strange, Silver Surfer, Iron Fist, Nick Fury & Shield, Man-Thing, Mighty Thor

Table 3, lists the status quo, showing the number from the Marvel Enterprises Annual Report for 2004 under "Publishing Model." The "Licensing Model" shows a completely different world. I've separated the revenues I've calculated under separate headings as a differentiator. The Licensing Model includes Marvel Enterprises licensing 70 titles, which is about what they publish (appearing in Diamond's Top 300 Comics), out of their thousands of characters, for comic books, graphic novels, and trade paperbacks. The royalty percentages ranging from 5% to 15% of receipts (depending on the class), then licensing revenue would equal about \$32 million annually, using the formula I mentioned earlier, multiplied by 3.88889 to reach 70 titles. Realistically, they could and already require hefty advances for any licensing agreement, with Toy Biz Worldwide, Ltd being one example. This could be one large sum from a single larger publishing company, or multiple agreements with a dozen comic book companies, which would create more competition, and revenue. *This is all hypothetical.* My scenario here estimates about \$32 million annually, which is not quite up to what Marvel Publishing generated in 2004, however, *without the overhead.*

Table 3: With or Without Marvel Comics Publishing

2004 Comic books, Trade Paperbacks, Graphic Novels			
		Publishing Model	Licensing Model *
1			
2	About 70 comic book titles		
3			
4	Net sales	\$85,943,000	\$34,035,000
5	Gross profit	\$48,959,000	\$34,035,000
6	Operating income (loss)	\$37,272,000	\$32,035,000
7			
8	Overhead Cost Reduction:		\$ 11,687,000
9	Cost of Sales Reduction:		\$ 36,984,000
10	Total Cost Reduction Savings:		\$ 48,671,000

All cost savings (Rows 8 & 9) add to the bottom line as profits. Although the Licensing Model, in this scenario would generate less than the operating income of publishing the titles, you also have a savings of about \$48 million by not dealing with printing, shipping and production, and dropping the overhead from \$11 million down to \$2 million, by transferring all production responsibility to the licensee. If you add those savings to the bottom line, the Licensing Model, at least for the first year (unless some financial wizards decide to defer the savings over the course of a few years), would equal about \$80 million.

What if...?

- 1) What if ...Frank Miller licensed ELECTRA?
- 2) What if ...Jim Steranko licensed NICK FURY: AGENT OF SHIELD?
- 3) What if ...Todd McFarlane licensed SPIDER-MAN?
- 4) What if... IDW licensed MAN-THING?
- 5) What if...Dark Horse licensed X-MEN, HULK, CAPTAIN AMERICA, etc?
- 6) What if...Alex Ross licensed SILVER SURFER?
- 7) What if...Eddie Murphy licensed LUKE CAGE?
- 8) What if...Simon & Schuster licensed SPIDER-GIRL?
- 9) What if ...Warner Bros offered \$50 million dollars for everything, so no one else could publish any Marvel IP and create a more balanced market share?
- 10) What if...TokyoPop licensed and changed the Marvel Universe to Manga style?
- 11) What if...Fantagraphics Books licensed the NEW UNIVERSE?

Could this really happen? Why not? When could this happen? I'm willing to bet that at the first sign of financial hardship (maybe when a couple of their own movies tank), like any board of directors on any public company looking out for the shareholders (which usually includes themselves), they will pull out the analysis as an option to explore ways of cutting costs to increase profits and dividends.

One thing is for sure... it would be a completely new ballgame.

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