

## Porn is a \$12 billion industry, but profits leave the Valley.

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The San Fernando Valley's adult-entertainment industry - long considered the epicenter of the business - rakes in about \$1 billion annually, with more than 200 local companies jump-starting a national market worth about \$12 billion a year.

In the past 15 years, the industry's local growth has nearly quadrupled, with annual revenues now equal to the Valley's restaurant, fast-food and bar businesses combined.

But while local pornography firms employ about 6,000 people, only a fraction of the industry's massive profits actually trickle back to the Valley. And loopholes in city business taxes minimize the amount firms have to pay into Los Angeles' coffers, raising questions about the industry's contributions - economic and otherwise - to the region.

"Don't turn up your nose," said Jack Kyser, chief economist of the Los Angeles Economic Development Corp.

"This is creating jobs for people, a revenue stream, and though you may not personally approve, there's a huge market out there."

Housed in an inscrutable constellation of warehouses in Chatsworth and Van Nuys, most adult-entertainment studios, distributors and manufacturing companies operate out of the sight and consciousness of Valley residents.

The industry is dominated by small studios, each with several dozen employees, that crank out scores of movies and videos a year. And in contrast to the multimillion-dollar budgets needed for Hollywood blockbusters, most of the X-rated movies cost just \$20,000 or less to make.

"Very few people make over \$150,000 in this industry," said David James, one of three partners at Vivid Entertainment Group, the Valley's largest pornography studio, with about \$100 million in sales in 2005.

In fact, the average production worker in the porn industry makes about \$61,000 a year, state records show. Top female stars can earn upward of \$200,000 annually for their performances, appearances and endorsements.

### Porn capital

The lore of the Valley's porn industry has long commanded national attention. Media outlets from CBS News to Forbes have put the nation's porn capital in the Valley.

Last year, "The Colbert Report" even did a spoofing interview with Rep. Brad Sherman, D-Sherman Oaks, about the Valley's lurid reputation.

But a review of industry and state financial records show Valley porn production companies brought in just \$750 million last year. While that's more than the \$600 million total generated by the industry's biggest players - Playboy, Hustler, Frontier and Private - it's far less than most people have believed.

That's because local firms realized just 40 percent of the nation's \$2.4 billion in annual X-rated video sales and rentals.

In addition, Valley manufacturers of sex novelties and toys - also an export business - earned about \$250 million last year.

But while research group TopTenREVIEWS puts U.S. revenues from Internet porn at \$2.84 billion last year, little of that is earned by Valley companies.

The pay-per-view and subscription porn business last year brought in \$1.7 billion - but most of that was realized by cable and satellite companies, adult channels and hotels.

The Valley also gets just a small slice of the \$2 billion adult nightclub business, with about 42 of the nation's estimated 3,000 clubs in the city of Los Angeles.

And while Chatsworth-based industry trade publication AVN estimates it had \$17 million in revenues, most of the \$1 billion retail adult-magazine business also is outside the Valley.

Ultimately, the Valley's biggest financial porn winners appear to be a handful of owners, including James, who also owns Peach DVD. He said he personally made about \$4.5 million last year.

David Feldman, owner of Pipedream Products, employs 110 workers in a 125,000-square-foot warehouse in Chatsworth. The company has annual sales of \$25 million to \$50 million, but Feldman said more than 90 percent of his 4,000-item product line is shipped outside California and most of the manufacturing is done in Asia.

Still, Feldman - who has been in the porn business since 1989 - has seen his company repeatedly named by the Los Angeles Business Journal as one of L.A.'s fastest-growing private businesses. And it's also one that has survived periodic economic downturns, unlike the aerospace and housing industries.

"Sex has been around from Day One," he said. "Airplanes haven't been."

## Sales, rentals down

Much of the Valley's adult-entertainment industry is part of an assembly line-like operation that released 7,000 X-rated movies and videos last year, up from about 1,200 in the early '90s.

And it is that workman-like aspect of the industry that has some concerned about its future.

Sales and rentals of X-rated DVDs dipped about 15 percent last year, and the Internet also is chipping away at the market.

"The industry is in transition," said Steven Hirsch, a co-chairman of Vivid, which is shifting its focus to higher-budget films and platforms like the Web and adult channels.

Joone, founder and director of Digital Playground in Van Nuys, compared the industry's growing pains to those of Hollywood in the 1950s as TV's popularity cut into theater revenues.

"The Internet, like TV, is free, and in order for you to create something to get customers to buy your product you have to have really good product, coupled with marketing," Joone said.

To compete, Digital Playground released big-budget "Pirates" on DVD in 2005. The company said the DVD cost more than \$1 million to make and in addition to sex scenes includes computer-generated graphics and special effects.

Digital Playground said it has sold more than 500,000 copies for a minimum \$25 wholesale.

Hirsch said the growing market pressure is making it harder for small production companies to compete.

"You take all of those things into account and that's why you see these little guys getting squeezed," he said. "And it's going to get worse. ... I think there's a real struggle going on out there (in the Valley). There's less pieces being sold at a lower price, and I think you're going to see that continue."

Scrambling to reinvent itself, the industry is exploring various platforms to try to tap new markets: from cable and pay-per-view in hotels to high-definition and the overseas cell-phone market.

"As the DVD business goes down, it's going to evolve into the VOD (video on demand) business," Hirsch said.

Joone said investors are taking note, and that for the first time during the recent Las Vegas adult-entertainment show he was approached by financiers quietly talking lucrative deals.

"I look at the porn business where Vegas and gambling was in the '70s," Joone said. "Vegas was still mob-owned and they were making the transition between these small groups of people to being corporate-owned. I feel the same exact thing is going to happen with adult."

Paul Fishbein, AVN's president, said the trends illustrate the transformation of adult entertainment.

"Porno was a destination. ... Now with DVDs, cable, satellite, it's at your fingertips," he said. "You don't have to go to a sleazy (adult) bookstore."

Fishbein said the changes also are affecting the tone of the Valley's industry.

"Competitors were friendlier in 1991," he said. "All the owners could attend a meeting and agree to try to agree. (Today) there's trepidation."

Daniel Blake, director of the San Fernando Valley Economic Research Center, said the biggest vulnerability with porn is that - like the Valley's aerospace and auto manufacturing industries - it's fundamentally an export business that's taken root - for now - in the Valley.

"Is it a solid industry? Well, aerospace turned out not to be a solid industry," Blake said. "Porn is largely export. If some other countries start to specialize in it, it's possible they could leave the area. The anchor is the entertainment industry."

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