

Introduction to Game Theory:

Marginal Contribution – A Case Study

Version 10/29/17

A Brief History of the Movie Business: The Stars are Born*

In the early days of cinema, leading actors and actresses were known by the name of the company they worked for:

Florence Lawrence and Mary Pickford were the “Biograph Girls”

In 1909, Carl Laemmle** launched his own production company (later Universal)

To compete with the established companies (which operated as a cartel), Laemmle hired Lawrence and Pickford away and promoted them as “stars”

By 1913 introductory credits routinely appeared on the screen



Picture: Wikimedia Commons

*This and following five slides draw heavily from *Movies and Money*, by David Puttnam, (Vintage Books, 2000), which is highly recommended reading

**His son, Carl Laemmle Jr., produced *Dracula* (1931) and *Frankenstein* (1931)

Can You Take the Star Out of the Picture?

With the arrival of talkies, Paramount opened a studio in Paris to make local-language versions of its films

By the early 1930s, it was producing a film in up to twelve languages

But audiences didn't like films that featured unknown actors and actresses rather than their favorite stars

(The answer was dubbing and subtitling)



Picture: Wikipedia

The Studio System

With the growth of the business, the studios were able to take back control

They realized that stars were created not born

They had thousands of aspiring actors and actresses to choose from, and put those they chose under multi-year contracts

This was the heyday of the studio system --- in the 1930s and early 1940s --- when directors and writers were also put under contract



The End

But the established stars realized they had enormous power

They negotiated new contracts or renegotiated existing ones:

In 1950, the agent Lew Wasserman (MCA) helped Jimmy Stewart negotiate a percentage deal (and no salary) on a western called *Winchester 73*

Stewart became the highest-paid star, and similar deals for other stars followed

Marilyn Monroe was signed to Twentieth Century-Fox indefinitely for \$50,000 a picture

In 1954, she went on strike and was suspended for contract violation *

The studio caved and gave her a better deal



Picture: Wikimedia Commons

Television: Jekyll or Hyde?

The studios saw the rise of TV in the 1950s as a serious competitive threat

Jack Warner decreed that no TV set be shown in any of his movies

MGM banned the use of the word “television” in their scripts

They responded by introducing Cinerama and CinemaScope

Wasserman realized that TV was a fresh venue for his clients and also saw that it was a potential partner --- in fact, customer --- for the studios

While the studios hesitated to supply the TV networks, he started buying up film libraries

Finally, in 1962, MCA bought Universal



Picture: Wikimedia Commons

The Show Goes On --- Or Not?

For *Mission: Impossible III*, Tom Cruise asked for more than his usual 20% of the “first-dollar gross” (gross box-office revenue from the first day of release)

Paramount responded that just to break even, it would need the movie to bring in \$500 million, and put the movie on hold

Cruise and the studio came to a compromise

In 2006, Paramount ended its 14-year relationship with Cruise

Picture: Promotional materials are owned by their respective trademark holders



References: “Sweetheart Star Deals Go Sour,” by Kate Kelly and Merissa Marr, wsj.com, 01/13/06; and “Fired or Quit, Tom Cruise Parts Ways With Studio,” by David Halbfinger and Geraldine Fabrikant, *The New York Times*, 08/23/06

You *Can* Take the Star Out of the Picture

“It’s the writing, stupid”

--Dick Wolf, creator and exec. producer of *Law & Order**

“Dick Wolf never comments about casting changes during the season”

--Neil Schubert, spokesman for Universal Studios**

The Marginal Contribution of Steve Jobs

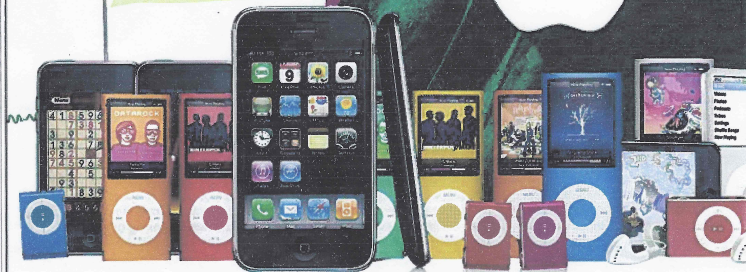
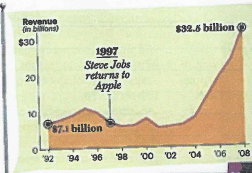
How to Value It

The Steve Jobs Economy

A back-of-the-envelope assessment of how much the ailing CEO has been worth to Apple and to the tech industry overall

by Duff McDonald and Julia Dennis

WHEN APPLE CEO Steve Jobs announced that he would be taking a six-month leave of absence for health reasons, the ensuing hand-wringing and hagiography all centered around one basic question: What is the value of Jobs to Apple Inc.? Jobs' condition has everyone from stockholders to consumers wondering whether the company can continue to bring out revolutionary products like the iMac, iPod, and iPhone without his creativity, vision, and leadership. We can't look into the future, but we can try to assign a number to the value that has already been produced by the company's co-founder. Not only has he been worth a great deal to Apple since he returned from exile in 1997, he has meant a lot to other companies as well, including Apple's direct competitors. It's enough to make you wish that he had been running the whole darn show these past 12 years, because in the Steve Jobs economy, there is no such thing as a recession.



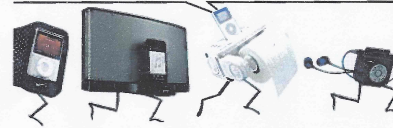
30 Condé Nast Portfolio, April 09

PHOTOILLUSTRATION by WES DUVAL

2 The Expanding Ecosystem MORE THAN 4,000 accessories

ries for iPods and iPhones are now on the market, everything from case speakers to toilet-paper holders doubling as iPod stands. Accessory sales have reached \$2 billion a year, though Apple is said to demand up to 10 percent of most items' retail price in fees and royalties. Annual sales of iPhone applications (for which Apple's cut is closer to 30 percent) are at \$1.75 billion, making the total value for non-Apple companies \$1.9 billion. Throw in the roughly \$5 billion a year AT&T earns from its deal as the exclusive iPhone carrier (we're rediting Apple for only new AT&T customers), and the total is \$6.9 billion. Then give Jobs his 50 percent cut.

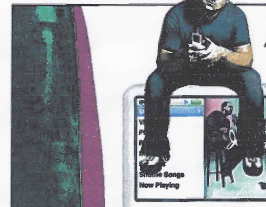
JOBS' BITE OF THE APPLE
\$3.5 billion



The Big Apple Itself

NO COMPANY has relied on a personality cult as much as Apple has with Steve Jobs. "Apple might well have been out of business by mid-1998 if he hadn't come back," says Jason Snell, editorial director of *Macworld*, an independent trade magazine. "So he justly could take credit for every single dollar." Perhaps eyeing the future, Apple has begun to spread the love—to chief operating officer Tim Cook, industrial-design chief Jonathan Ive (below), and head of worldwide product marketing Phil Schiller. Our industry authorities suggest we give Jobs 50 percent of the credit. In the past 12 months, sales were \$33 billion.

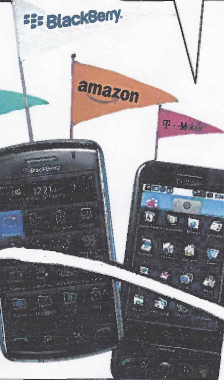
JOBS' BITE OF THE APPLE
\$16.5 billion



3 The Competitors

ONE PRINCIPAL BENEFIT of Apple's innovations is that they spur the competition to play catch-up. (Microsoft? Zune, anyone?) Jobs took MP3 technology mainstream, so he deserves credit for a slice of the \$44 billion his competitors bring in annually. Last year, Amazon reportedly made \$39 million from MP3 downloads alone. Would anyone have bothered downloading a single cut without iTunes or the iPod? The same goes for the \$64 billion smartphone market. Without the iPhone, there would be no BlackBerry Storm phone or Google Android software. We'll give Jobs 10 percent of the credit for the \$108 billion in revenue generated by competitors.

JOBS' BITE OF THE APPLE
\$10.8 billion



Bottom Line

The most recent estimate of Jobs' personal net worth was \$5.7 billion. But he means much more than that to Apple, its partners, and its competition. On an annual basis, Jobs is the \$30.8 billion man.

STEVE JOBS' TOTAL ANNUAL VALUE
\$30.8 billion

April 09, Condé Nast Portfolio 31

The Marginal Contribution of Jean Seberg

When an off-screen Preminger asked, “Do you want to be an actress?” Jean [Seberg], with an affecting clarity and directness, answered: “Very badly.” “Why haven’t you worn a cross?” Preminger inquired. “My family is too poor to afford one,” Jean replied, bowing her head. But after Preminger responded with a doubtful “Really?” she giggled. “Because I knew the other girls would be wearing them,” she admitted. *

