The motion picture studio

History & Economics

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A brief description of the process- unchanged for about a century

- 3 stages in production
  - Production
    - Getting from initial idea to the master print
  - Distribution
    - Getting copies of the master print out to the theaters
    - Promotion and advertising
  - Exhibition
    - The theater itself

In the beginning

- 1896 - 1908
  - Chaos
  - Movies are two reelers presented as novelties
  - Era of nickelodeon
  - Lower class audience

Early consolidation 1908-17?

- "Trust"
  - Edison interests combine with others to control all essential patents
  - no interest in product innovation
  - movies still low class
- Independents are a response to this
  - Who are we talking about
    - Zukor, Warners, Fox, Laemmle, Mayer
      - Studios from independents
  - Most have a retail background (most in clothing)
  - Shut out by Edison interests
  - Start in exhibition
  - Innovation: feature length film, star system (McDonald)

The Studio Era 1920?-1950

- Big studios are fully integrated in movies
  - production
  - exhibition
  - distribution
- Innovations
  - contract player system
  - sound solidifies integration into theatre ownership
    - note that sound is actually introduced by weak studio (Warners) over opposition from stronger studios
- Bi-Coastal Management
  - money in NY, movies in LA

Studios in studio era

- Big five fully integrated
  - MGM, RKO, Paramount, Warner's, 20th Century-Fox
- Columbia and Universal produce and distribute, but own no theatres
- United Artists functions only as distributor, but will finance if it has to
  - UA theatre chain is a separate company
- Now add Disney, RKO gone
- Specialization

Studios and stars during studio era

- Most stars under long term contract
- Rare for star to have own production company
  - Contrast with pre-studio era
  - Example of Mary Pickford
- Some sharing contracts

Studios and exhibitors during studio era

- Studios had theatre chains
  - No studio produced enough movies to meet all of the needs of their chain
  - Geographic concentration of chains
    - Studios did not limit pictures to owned chains
- Non-studio exhibitors
  - Block booking
  - Clearance system

Post-Studio Era

- "Paramount" decrees force studios to split off exhibition, but are allowed to keep production and distribution
  - MGM is last to settle (1956)
- This timing coincides with 2 major trends
  - rise of television
  - move to suburbs and associated decline in central business districts
- Studios now look like old UA, they finance and distribute

Early Post-Paramount

- Television as competition
  - reduced film output (see slides to follow)
  - no need for contract players though vestiges of contract system last to mid 1960's
- Stars manage own careers
- Increase in contingent compensation
- Change from "assembly line"
  - Increase of multi-function talent
  - Movies take longer to make
  - What used to be "B" movies is now television

Studio Vs. Independent in Early Post Paramount Era

- What can we say about the switch from studio to "independent" production?
  - Look at Robins' findings:
    - studio productions were cheaper (surprise) but
    - less profitable
    - studio prods exhibit less cross-section variation in revenues
      - same old same old
    - but indies exhibit less variation in cash flow

Changed Production Methods

- Produces fundamental change in labor relations
- Changes in what skills earn high payoffs
  - Look at Miller & Shamsie
    - It looks like during studio era there is a bigger payoff to property based assets
      - stars under contract
      - theatres
    - After 1950's returns look like they are tied to skills in movie making
      - Oscars
      - Cost controls
  - But be careful here, I view this as a very exploratory study

Late post paramount

- Move to more integration
  - Studios get in business of producing TV shows
  - Studios own networks
- Less dependent on box office
  - The movie business changes so that box office is a smaller fraction of total revenue
    - But note that box office still drives total revenue as everything feeds off of it
  - Move into television
  - Move into sports
    - But note that Warner's filmed USC-Notre dame games in the 1920's

Anti-Trust in the Industry?

- Motion Picture Patents Company
  - Controls all major patents for film stock, cameras, projectors
- General Films Co.
  - Controls virtually all film exchanges in every major city
    - Sole exception is William Fox in New York
    - Fox also has role in introduction of sound
- Question: if monopolize production, what is gain to monopoly in distribution?

Example of market power

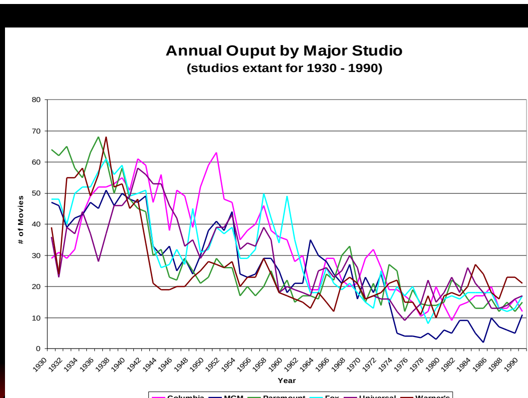
- Paramount
  - Formed in 1914
  - Controls virtually all major stars
  - "Bloc booking"

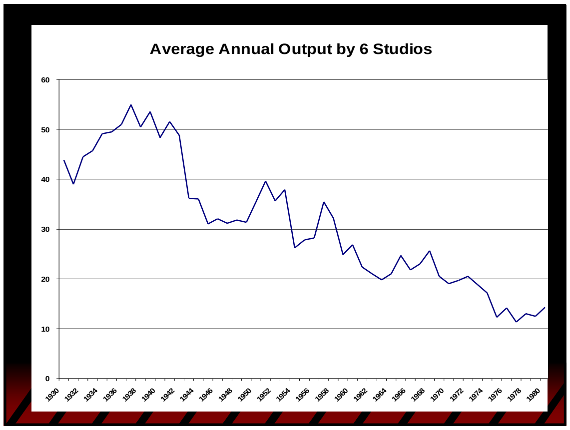
Evidence of market power during studio era

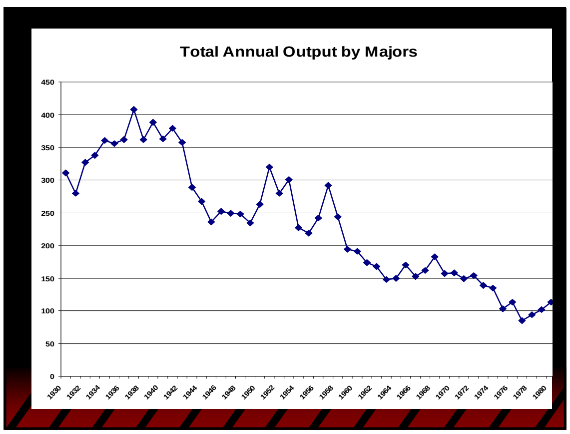
- Suppression of sound
- Possible collusion in labor contracting
  - Big stars rarely change studios (Cagney)
- Power of studios w.r.t. Exhibitors
  - Block booking
  - Clearances
- Decrees separate exhibition from production/distribution
  - This may reduce efficiency if control of exhibition makes distribution more efficient, say by information generation

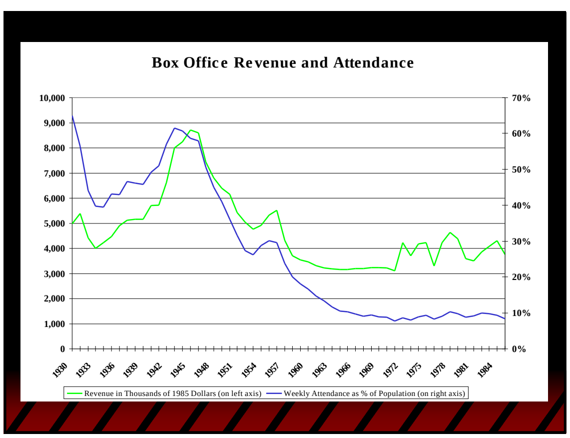
Some stylized facts

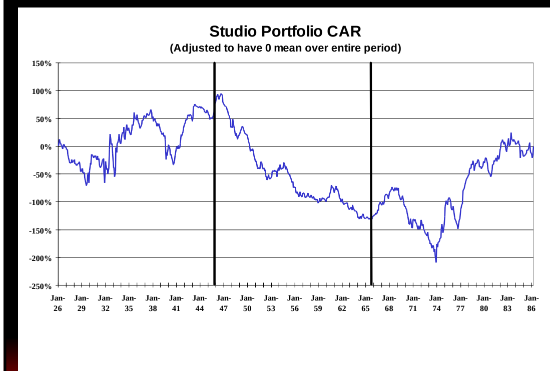
- Evidence on studio output
- Evidence on share performance
- Evidence on star output

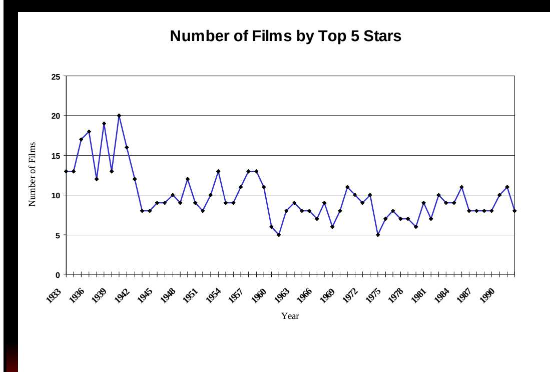



Average Annual Output by 6 Studios
60
50
40
30
20
10
0


Total Annual Output by Majors
450
400
350
300
250
200
150
100
50
0


Box Office Revenue and Attendance
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
70%
60%
50%
40%
30%
20%
10%
0%
Revenue in Thousands of 1985 Dollars (on left axis)
Weekly Attendance as % of Population (on right axis)





How did boundaries of firms change?

- System starts with vertical integration of production and distribution
  - This is important when stars develop
  - Eventually stars become employees
  - Specialization of movie type
  - Role of central producer

Sound comes in

- Integration of exhibition
  - Massive capex required
    - By early 1930's real estate is major studio asset
  - Use of exhibition to generate information for future distribution
    - This is facilitated by joint ownership of theatres and studios

Stars as employees during studio era

- Studio invests in star careers
  - Think of minor league baseball
  - Some stars free-lance
  - Studio has interest in proper career development
- Now stars manage own careers