

## 8 | TV Power Games: *Friends and Law & Order*

There is no such thing as a one-man show — at least not in television: one feature that all TV shows have in common is the combination of a large number of diverse contributors: producers, scriptwriters, actors, and so on. This is illustrated in Exhibit 8.1, which depicts the links between key contributors to the making and selling of a TV show. Solid lines represent some form of contractual relationship, whereas dashed lines represent non-contractual relationships of relevance for value creation and value distribution.

As is the case with movies, pharmaceutical drugs, and other products, the distribution of TV show values is very skewed: many TV shows are worth relatively little, whereas a few shows generate a very high value: For example, at its peak Emmy Award-winning drama *ER* fetched \$13 million per episode.<sup>1</sup>

How does the value created by successful shows get divided among its various contributors, in particular actors, producers and networks? Who gets the biggest slice of the big pie? In this chapter, I address this question by looking at two opposite extreme cases in terms of relative negotiation power: *Law & Order* and *Friends*.

### **Law & Order — and profits**

The legal drama series *Law & Order* was first broadcast on NBC on September 13, 1990. (The pilot episode, produced in 1988, was intended for CBS, but the network rejected it, just as Fox did later, in both cases because the show did not feature any “breakout” characters.) By the time the last show aired on May 24, 2010, it was the longest-running crime drama on American prime time TV. The success of the series led to the creation of additional shows within the *Law & Order* franchise.

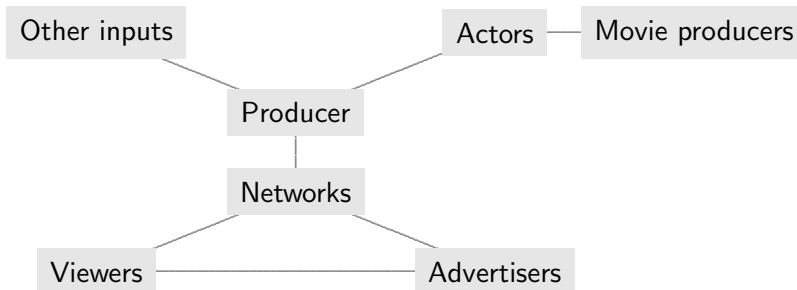
The show is set in New York City and follows the professional lives of several police officers and prosecutors who represent the public interest in the criminal justice system. Each episode covers a crime story — frequently a lightly disguised analogue of a real-life

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Forthcoming in *The Economics of Entertainment and Sports: Concepts and Cases*. This draft: April 2010 (minor modifications August 2014). © Luís Cabral.

**Figure 8.1**

A simplified description of a TV show value chain



case.<sup>2</sup>

In order to understand the success of *Law & Order*, one needs to become acquainted with its creator, Dick Wolf. Most television creative talent think of themselves as artists. Wolf, in turn, thinks of himself primarily as a businessman. He even dresses like a network executive in well tailored suits rather than the more common blue jeans and black T-shirt that one associates with creative talent. “We’re in show business. No show, no business — but it is a business,” he is wont to say.<sup>3</sup>

One of the distinctive features of *Law & Order*’s business model is that the show is centered on the plot, rather than on the actors. The secret of the show’s success, according to Wolf: “It’s the writing, stupid.” He explains:

The show is strong enough in its construct that the play is the thing. It’s like, wait a second. This should be possible. You know, how many people have played Hamlet?<sup>2</sup>

What is the “play” in *Law & Order*? Basically, cops track someone down and arrest him or her in the first half-hour; and then prosecutors do their job in the second. The show has a documentary feel to it: there are a lot of hand-held camera shots and virtually no action scenes.

There are no shots of the cops getting out of the car and going into a building. We cut from meat to meat. The ideal ‘Law and Order’ cut is somebody saying, ‘I don’t know what happened that night. Louie left at 10 o’clock.’ Cut to Louie with the two cops: ‘So, Louie, where’d you go at 10:05?’<sup>4</sup>

More important, virtually nothing is known about the six main characters. The show is about police investigation and public prosecution, not character development. One downside of this approach is that, between cops and lawyers and suspect criminals, “we have 30 or 40 speaking parts per episode, three to five times what most shows have.” This is one of the advantages of filming in New York (“there are more really good actors you’ve never heard of than you’ll find anywhere”), although it comes at a cost: an extra \$75,000 to \$80,000 per episode, mostly due to labor costs.<sup>4</sup>

Since the show is not centered on the characters, cast changes are easy to implement — and indeed take place quite frequently: since 1992, every one of the main characters has been replaced at least once, sometimes three or four times.<sup>3</sup> For example, in 2004 Annie



Annie Parisse played Alexandra Borgia on 33 episodes of *Law & Order* starting in 2005. She made her final appearance in the May 17, 2006, season finale, in which her character is killed.

Parisse, one of the leading actresses, announced she wanted to pursue a movie career. Wolf's reaction was typical: "It was: Oh, thank you for coming in early. You don't mind if we kill you, do you?" In fact, in the season's last episode Ms. Parisse's character ends up "dead in the trunk of a car, a casualty of a drug-and-murder investigation left unresolved in anticipation of next season."<sup>5</sup> Appropriately, Ms. Parisse was replaced by Alana De La Garza, whose character on *CSI: Miami* had been killed the previous season.

Wolf and Universal Studios (the show's producing studio) have a strong negotiation power with respect to both actors and the networks. In June 2003, Universal proposed a three-year package deal to NBC reported to be worth \$550 million a year (for the three *Law & Order* franchise series). While the exact value was not revealed, \$550 is "the low end of the ballpark," according to Wolf. "Even at the low end, this was the most expensive negotiation in the history of television."<sup>3</sup>

In 2006, as the show started to show signs of wearing out after almost 400 episodes, NBC considered discontinuing either or both *Law & Order* and *Criminal Intent*. For Wolf, cancellation of the original show would mean the end of a dream he'd pursued for several years: that his series would top *Gunsmoke* as the longest-running entertainment series in prime-time history."<sup>6</sup> At stake was also a long-term relationship between Wolf and NBC executives Marc Graboff and Jeff Zucker. According to Wolf,

Jeff and I speak all the time. Marc and I speak all the time. It's a long-term Catholic marriage. There's some stuff being thrown around in the kitchen, but everybody's being rational.

Eventually, NBC decided to maintain all three shows.<sup>6</sup>

## Hold-up: Friends indeed

The American situation comedy *Friends*, created by David Crane and Marta Kauffman, premiered on NBC on September 22, 1994. The series, which revolves around a group of friends living in Manhattan, was executive produced by Kevin Bright, Marta Kauffman,



Promotional cast photo for the first season of *Friends*. From left to right, Matt LeBlanc as Joey Tribbiani, Lisa Kudrow as Phoebe Buffay, Courteney Cox Arquette as Monica Geller, Jennifer Aniston as Rachel Green, David Schwimmer as Ross Geller and Matthew Perry as Chandler Bing

David Crane and Greg Malins in association with Warner Brothers Television (WBTV). The cast of *Friends* consisted of six main actors: Courteney Cox, Jennifer Aniston, David Schwimmer, Matthew Perry, Matt LeBlanc and Lisa Kudrow.

Filming for the series took place at WB Studios in Burbank, California in front of a live audience. Although initially scheduled for up to five seasons, the show ended up running for ten seasons on NBC. The series finale was aired on May 6, 2004 and watched by 52.5 million American viewers. It was the fourth most-watched series finale in TV history, only behind *MASH*, *Cheers* and *Seinfeld*.<sup>7</sup>

Initially, NBC agreed to pay WBTV \$1 million per episode of *Friends*. WBTV, in turn, agreed to pay each actor \$22,500 per episode as part of a five-year deal (“the equivalent of minimum wage for relative unknowns in a new show”). Before the start of the second season, the salary per episode was increased to \$40,000.<sup>8</sup>

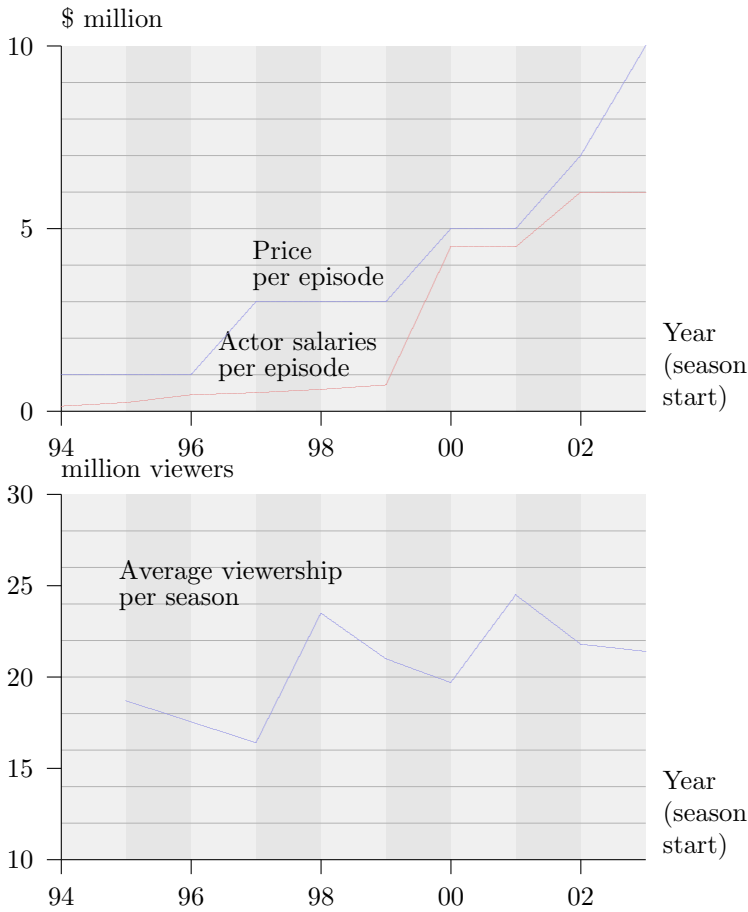
By the end of the second season, it was clear that *Friends* was a great success. NBC was selling a 30-second spot on the show for a half-million dollars. Not surprisingly, the actors thought they could get a bigger slice of the pie: in June 1996, the cast banded together and demanded an increase to \$100,000 per actor per episode plus a percentage of the series’ profits from syndication.<sup>9</sup> There is nothing unusual about actors asking for contract renegotiation. What was peculiar about *Friends* was a group of actors banding together at the negotiations table; and the fact the whole process was given so much publicity (normally, this type of negotiations are done behind closed doors). Ironically, Warner Brothers consciously built the group as an ensemble, originally allowing only full group interviews and pictures.<sup>9</sup>

WB made an initial counter-offer of \$75,000.<sup>10</sup> Meanwhile, the actors’ position was somewhat weakened by internal divisions: David Schwimmer, who played Ross on the show, was against signing for a sixth season.<sup>11</sup> Eventually, an agreement was reached whereby the cast agreed on extending the run to a sixth year in exchange for an increasing salary scale during seasons three to six: \$75,000, \$85,000, \$100,000, and \$120,000.<sup>12</sup> At the end of the third season, in August 1997, WB and NBC renegotiated the first-run fee to \$3 million per episode, a three-fold increase.<sup>13</sup>

By its sixth season, *Friends* was the No. 1 comedy in primetime television, averaging a 10.3 Nielsen rating among adults 18 to 49 and 20.4 million viewers.<sup>14</sup> (See Exhibit 8.2 for the evolution of the show’s viewership.) As the season was coming to an end, in May

**Figure 8.2**

The evolution of *Friends*: 1994–2002. Source: see Endnotes 7 and 8.



2000, WBTV, NBC and the cast began negotiations over a two-year, 48 episode extension. WB’s initial offer to the actors was \$700,000. The cast, in turn, was asking for \$1 million per actor per episode. WB drew the line at \$750,000. Meanwhile, NBC made it clear that it was ready to lose the show, cutting promotional spots announcing the series finale which were set to air during NBC’s Sunday coverage of the NBA playoffs. NBC execs set noon PST of Sunday, May 14, as a deadline to settle. At midnight on Saturday, just 12 hours before the deadline, an agreement was reached (and so the “finale” spots were obviously not shown). Warner Bros. agreed to pay each actor \$750,000 per episode. NBC’s price tag, in turn, increased to \$5 million per episode (conditional on the entire cast staying with the show).<sup>14</sup>

In December 2002, NBC, WB and the cast agreed on a further extension of the sitcom. This time each actor was to receive \$1 million per episode, a long way from the initial \$22,500. In addition, they were to continue receiving some portion of the show’s syndication profits, a benefit they gained in 2000 (and is usually only given out to stars who have ownership rights in a show, like Jerry Seinfeld and Bill Cosby).<sup>9</sup> The price per episode, in turn, increased to a whopping \$10 million, the highest price paid per 30-minute episode in television history. Analysts doubted that NBC could make money paying such a high

**Figure 8.3**  
Top TV actor deals.<sup>17</sup>

Actor	Show	Comments
Jerry Seinfeld	<i>Seinfeld</i> NBC, 1990–1998	Doubled per-show rate of \$500,000 to \$1 million for the ninth (and last) season in 1997. Reportedly turned down a \$5 million per-episode offer to continue the show for a 10th year.
Tim Allen	<i>Home Improvement</i> ABC, 1991–1999	Threatened to leave seventh season if he didn't get the same seven-figure salary in 1997 as Seinfeld. Ended up besting Seinfeld by sealing a \$1.25 million per-show deal — a \$900,000 increase from his previous \$350,000 per-episode rate.
Paul Reiser, Helen Hunt	<i>Mad About You</i> NBC, 1992–1999	Hinted that they might not return for a seventh season. NBC forked out a \$1 million per-episode contract for each to stay — and they did.
Anthony Edwards, Noah Wyle, Eriq LaSalle	<i>ER</i> NBC, 1994–2009	After the announced departure of fellow actor George Clooney and the inking of a \$13 million-per-show relicensing deal between Warner Bros. and NBC in early 1998, Edwards, Wyle and LaSalle all renegotiated their pay — and got \$350,000 to \$400,000 each per episode.

price tag; they rather saw the deal as a loss leader for the network (“the alternative — no ‘Friends’ on the NBC schedule for the first time since 1994 — would have been too painful to fathom at the network”).<sup>1</sup> As for WBTV, while at times the price per episode barely covered salaries paid to actors, one must remember that there is more to life than first-runs. By the late 1990s, WB was already pocketing about \$4 million per episode in reruns only.<sup>8</sup> However, the salary figures reported above (and shown in Exhibit 8.2) do not include extra revenue from syndication, which the actors began receiving in 2000.<sup>9</sup>

In July 2004, NBC, announced that Matt LeBlanc, one of *Friends* cast members, would continue playing his Joey Tribbiani character in the spinoff comedy *Joey*.<sup>15</sup> The series premiered on September 9, 2004, in the former time slot of its parent series. Due to low ratings, the show was canceled mid-season in May 2006.<sup>16</sup>

## What does game theory have to say about this?

The cast of *Friends* is by no means a unique example of a small number of players capturing a substantial portion of the value at stake. Exhibit 8.3 provides a few additional examples. The contrast between these examples and the case of shows like *Law & Order* suggests the question: when and why do some key players grab a big chunk of the pie?

Ronald Reagan is quoted as saying that “an economist is someone who sees something that works in practice and wonders if it would work in theory.” What does an economist — or better still, a game theorist — have to say about the creation and distribution of value in television? The answer is that there are two important, related principles which apply

in general and in the particular cases described above: (a) outside options and (b) added value. I next take each of these in turn.

□ **Outside option.** An important determinant of an actor's outside option is mobility from television to motion pictures. For example, actors such as Tom Hanks, Eddie Murphy, John Travolta, Michael Douglas, Bruce Willis and Jim Carrey were well known TV actors before they became movie stars. Not all actors translate easily to movies, *NYPD Blues'* David Caruso being one example. But the Hollywood outside option frequently increases an actor's bargaining power.<sup>18</sup> For example, in 1996, as George Clooney considered a switch from his star role in *ER* to a star role in the large screen (in *Batman and Robin*), an analyst commented:

Confirmation that bedside-manner specialist George Clooney will become the next Dark Knight is merely the latest in a wave of movie roles that have gone to primetime series stars — a trend that provides a bit of good news but potentially a whole lot more bad news for television executives and producers. The scant good news stems from a continued blurring of the lines between movies and TV and the understanding that a TV star who's watched by 30 million people each week can open a movie in a big way if even a small percentage of those viewers turn out the first weekend. That, in turn, may make movie stars more amenable to doing television, especially for pet projects, "message" movies or promotable celebrity guest shots. But if TV folk aren't careful, they may find themselves increasingly vulnerable to performers becoming antsy by virtue of their newfound stardom.<sup>18</sup>

□ **Added value.** The idea of added value is the answer to questions like: Would life go on without me? Or, more specifically: What is the drop in value if a given player walks out of a deal? The idea is that, the greater the added value of a given player, the greater a slice he or she is able to get of the pie.

Many TV shows seem remarkably resilient to cast changes, which implies that actors have a relatively low added value and capture a relatively low share. In addition to *Law & Order*, examples include *Cheers* and *MASH*, two shows that maintained a high level of success despite several changes in the line-up.

Television shows are remarkably resilient, demonstrated by how "Cheers" and "MASH" flourished despite cast changes ... Not all series can recover from such losses, however: Witness "Archie Bunker's Place," which never achieved the same appeal as "All in the Family"; "L.A. Law," which gradually slumped as its cast shifted; or "Wiseguy," which tried unsuccessfully to continue without star Ken Wahl.<sup>18</sup>

Game theory — and particularly combinatorial game theory — provides a formal framework with which to analyze these issues, that is, how a player's outside option and/or added value influences his or her payoff. The technical note *Combinatorial-Form Games* delves into these issues in greater detail, using as a motivation precisely the negotiations between actors, producer and network in the context of a TV show.

## Endnotes

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3. Charles McGrath, "Law & Order & Law & Order & Law & Order & Law & Order..." *The New York Times*, September 21, 2003.
4. Bruce Weber, "Dick Wolf Breaks and Enters With 'Law and Order' on NBC," *The New York Times*, March 1, 1992.
5. Jacques Steinberg, "*Law & Order* Meets the Law of Supply and Demand," *The New York Times*, July 16, 2006.
6. Bill Carter, "Crime Shows' Last Verdict? These Are Their Stories," *The New York Times*, April 19, 2007.
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8. Joe Flint, "WB's 100-Grand Stand: Can We Stay 'Friends'?" *Daily Variety*, July 16, 1996.
9. Bill Carter, "Friends' Cast Bands Together To Demand a Salary Increase," *The New York Times*, July 16, 1996.
10. Joe Flint, "'Friends' Cast Back to Work," *Daily Variety*, August 13, 1996.
11. Joe Flint, "'Friends' Divided Over Time," *Daily Variety*, September 5, 1996.
12. Joe Flint, "'Friends' Cast Inks New Pact With WB," *Daily Variety*, December 23, 1996.
13. Jenny Hontz, "'Friends' For 2 More Years," *Daily Variety*, August 1, 1997.
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15. Bill Carter, "NBC Plans a Spinoff From 'Friends' for 2004," *The New York Times*, July 25, 2003.
16. [http://en.wikipedia.org/wiki/Joey\\_\(TV\\_series\)](http://en.wikipedia.org/wiki/Joey_(TV_series))
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