

STARLET



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Many thanks to:
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Presentation

- What triggered *Starlet*.
- General background.
- Learning objectives.
- Introducing and running the simulation.
- Presenting the outcomes.
- Debriefing: Process and content.
- Closure: What did we learn from *Starlet*?

Comparing Proposals

How do you compare between proposals that are comprised of fixed, contingent, and variable items (fixed salary, contingent bonus, and variable revenues from merchandising sales)?

Deal Elements	Proposal one	Proposal two	Proposal three	Proposal four
Salary (fixed item)	\$5.8m	\$4.96m	\$5.42m	\$3.21m
Bonus (contingent item)	\$4.19m	\$5.32m	\$.670m	\$11.17m
Percentage of Merchandising Sales (variable item)	10%	5%	15%	15%

Contingent Contracts and the Agency Problem

- There is relatively insufficient emphasis, in academic and non-academic teaching/training settings, on contingent contracts and the agency problem.
- I wanted to experiment with writing a simulation.

Background: The Parties

Principals and Agents

- *Talia Montgomery*, a talented Hollywood actress.
- *Agent for Talia Montgomery* (from J.R. Talent Agency).
- *Trafalgar Studio*, an independent film production firm.
- *Representative of Trafalgar Studio*.

Background: Talia Montgomery

- Talia recently won two prestigious acting awards and currently has an offer of \$4 million (fixed salary only) from Global Studio.
- Talia also received an expression of interest from Charles Chancellor, an Oscar-winning film director, to take the lead role in *The Space Between*, to be produced by Trafalgar Studio.
- Talia prefers a deal with Trafalgar Studio.
- Talia has an exclusive five-year representation contract with J.R. Talent Agency. The Agency's fee is 15% of Talia's fixed salary only. Talia's agent gets 1/3 of the agency's fee (5%).

Background: Trafalgar Studio

- *Trafalgar Studio* was established in 1984 by a group of independent film directors and producers.
- The *Studio* just concluded a deal with Charles Chancellor to produce *The Space Between*.
- Charles Chancellor would very much like to have Talia take the lead role.
- The *Studio* assigned a representative to negotiate with Talia's agent and offer Talia no more than \$4.5 million in expected value.

Background: Deal Structure

- Talia's agent suggested to Talia (and later to the Studio) a deal comprised of three items:
- **A fixed salary.**
- **A bonus, if she wins an acting award for her role in the film.**
- **A percentage of the film's revenues from merchandising sales.**
- Talia agreed, specified her expected reservation value (\$4.0 million) and indicated that she would accept any offer that would meet or exceed her expected reservation value.
- Trafalgar's representative is also willing to consider the proposed deal structure.

Proposals Developed by Talia and Her Agent

Deal Issues	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Fixed Salary (FS) in millions	\$5.80	\$4.96	\$5.42	\$3.21
Percentage of Merchandising Sales (PMS)	10%	5%	15%	15%
Bonus (B) in millions	\$4.19	\$5.32	\$0.67	\$11.17

Proposals Developed by Trafalgar Studio

Deal Issues	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Fixed Salary (FS) in millions	\$1.74	\$1.97	\$2.16	\$2.41
Percentage of Merchandising Sales (PMS)	20%	25%	15%	5%
Bonus (B) in millions	\$1.43	\$2.08	\$9.01	\$6.54

Learning Objectives

- Learn how to calculate the expected value.
- Formulate, compare, and negotiate different proposals.
- Understand the value/challenges of contingent contracts.
- Experience and explore the agency problem (dilemma).
- Examine how the parties' interests shape a deal's structure.
- Discuss how negotiators produce superior agreements.

Introducing Starlet



Starlet is a one-on-one, quantified entertainment contract negotiation between the agent for Talia Montgomery, a successful film star, and the representative of Trafalgar Studio, a film production company.

Negotiation Issues

1. A fixed salary to be paid to Talia Montgomery.
2. A bonus to be paid to Talia Montgomery, if she wins an acting award.
3. A percentage of the film's revenues from merchandising sales.



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The negotiators have already prepared several proposals which appear in the confidential roles. But they have not yet exchanged these proposals, except the one that the agent for Talia Montgomery E-mailed to the representative of Trafalgar Studio.

The negotiators are not limited to negotiating these proposals only. They may create new proposals and raise new issues, provided that they also negotiate the three original issues – a fixed salary; a bonus; and a percentage of the film's revenues from merchandising sales.



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The negotiators will:

1. Prepare for 45 minutes (individually and in teams).
2. Negotiate for 60 minutes.
3. At the end of the negotiation, the negotiators will: (a) complete together the term sheets and keep them; (b) complete together the confidential contract; (c) give the original contract to the instructor; and (d) keep a copy of the contract.

End of Simulation: Presentation of the Outcomes

- Each team (Talía's side and Trafalgar's side) has to select one representative. Their task is to:
- **(1) Write** the outcomes of the negotiation on the whiteboard.
- **(2) Briefly** explain the outcomes.

STARLET: OUTCOMES REPORT

[illegible]

STARLET: OUTCOMES REPORT															
Group	Agents for Talia Montgomery (Names)	Representatives of Trafalgar Studio (Names)	Fixed Salary	Percentage of Merchandising Sales (in %)	Bonus (in \$)	Talia Montgomery			Trafalgar Studio			15% Agency Fee (in \$)	1/3 Agent's Fee (in \$)	10% Net Agency Fee (in \$)	Contingency / Other Issues
						Expected Value (EV) (in \$)	EV less RV (in \$)	EV less RV (in %)	Expected Value (EV) (in \$)	RV less EV (in \$)	RV less EV (in %)				
1			\$4m	10%	\$3.25m	\$5.0m	1.0m + 2.5% on DVD and SAT)	25% +2.5% DVD and SAT)	4.179m	\$0.32	6.20%	\$600 K	\$200 K	\$400 K	2.5% on DVD and SAT sales
2			\$3.80	22.50%	\$5.0m	\$5.61m	\$1.61 m	40%	\$4.18m	\$0.32m	8.20%	\$570K	\$190K	\$380K	NIL
3			\$3.85	25%	\$5m	5.75m	1.75m	43%	4.325m	\$0.265m	4.00%	\$577K	\$192K	\$385K	
4	NO DEAL: WRITE LAST OFFER														
	NO DEAL: WRITE LAST OFFER														

Talia Montgomery’s Expected Reservation Value (RV) (minimum accepted): \$4,000,000

Trafalgar Studio’s Expected Reservation Value (RV) (maximum paid): \$4,500,000

End of Simulation: Negotiation Process

- (3) Trafalgar's representative has to describe the negotiation process from the Studio's perspective – what happened and why (open-ended).
- (4) Talia's agent has to describe the negotiation process from the Agents' perspective – what happened and why (open-ended).

DEBRIFING *STARLET*

- Agency problem
- Contingent contracts
- No deals
- Deals

DEBRIFING

Agency Problem

- What were the major tensions? (High salary and low bonus vs. low salary and high bonus).
- Did you experience the agency dilemma?
- To what extent your self-interest influenced the negotiation's dynamic and the structure of the deal?
- What could Talia have done to better align her interests with the interests of her agent?
- Do you have examples of the agency problem in your organization?
- How does your organization monitor its agents?

DEBRIFING

Contingent Contracts

- Mixed-motive dynamic:
 - Cooperate: Agree to include contingent items (a bonus).
 - Compete: How much risk to share? (level of bonus -- very high or very low).
- Risk: Assessing the probability of a future event.
- How did Talia and her agent, on one hand, and Trafalgar Studio, on the other hand, assessed uncertainty?

Probabilities of Winning an Acting Award and Percentages of the Revenues from Merchandising Sales

Parties	Probability of winning an award	Probability of not winning an award	Winning an award: The merchandising sales will be:	Not winning an award: The merchandising sales will be:
Talia Montgomery	20%	80%	\$14,000,000	\$1,000,000
Trafalgar Studio	2%	98%	\$8,000,000	\$1,000,000

- Intuition.
- Overconfidence.
- Research: Reliable data.

DEBRIFING

No Deal

- If the ZOPA is positive, why there are no deals?
- What was the last rejected offer? (EV was $4.17 > 4.0$ Talia's ERV).
- Why the above offer was rejected?
- What were the factors that contributed to no deals?

DEBRIFING

Deals

- Are the deals good deals?
- How did you create the deal?
- What are the factors that contributed to creating superior deals?

Post debrief

Agent for Talia Montgomery

Revenue from Merchandising Sales (in dollars)

Winning an award	14,000,000	Expected Merchandising Sales 3,600,000		
Not winning an award	1,000,000			
The probability of winning an acting award	20.00%			
Deal Elements	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Fixed Salary (FS)	5,800,000	4,960,000	5,420,000	3,210,000
Percentage of Merchandising Sales (PMS)	10.00%	5.00%	15.00%	15.00%
Bonus (B)	4,190,000	5,320,000	670,000	11,170,000
Expected value of Talia Montgomery	6,998,000	6,204,000	6,094,000	5,984,000
Expected value of Trafalgar Studio	5,997,800	5,123,400	5,604,400	3,604,400

Reservation value of
Talia Montgomery

\$4,000,000

Reservation value of
Trafalgar Studio

\$4,500,000

Representative of Trafalgar Studio

Revenue from Merchandising Sales (in dollars)

Winning an award	8,000,000	Expected Merchandising Sales		
Not winning an award	1,000,000			
The probability of winning an acting award	2.00%			
		1,140,000		
Deal Elements	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Fixed Salary (FS)	1,740,000	1,970,000	2,160,000	2,410,000
Percentage of Merchandising Sales (PMS)	20.00%	25.00%	15.00%	5.00%
Bonus (B)	1,430,000	2,080,000	9,010,000	6,540,000
Expected value of Trafalgar Studio	1,996,600	2,296,600	2,511,200	2,597,800
Expected value of Talia Montgomery	2,746,000	3,286,000	4,502,000	3,898,000

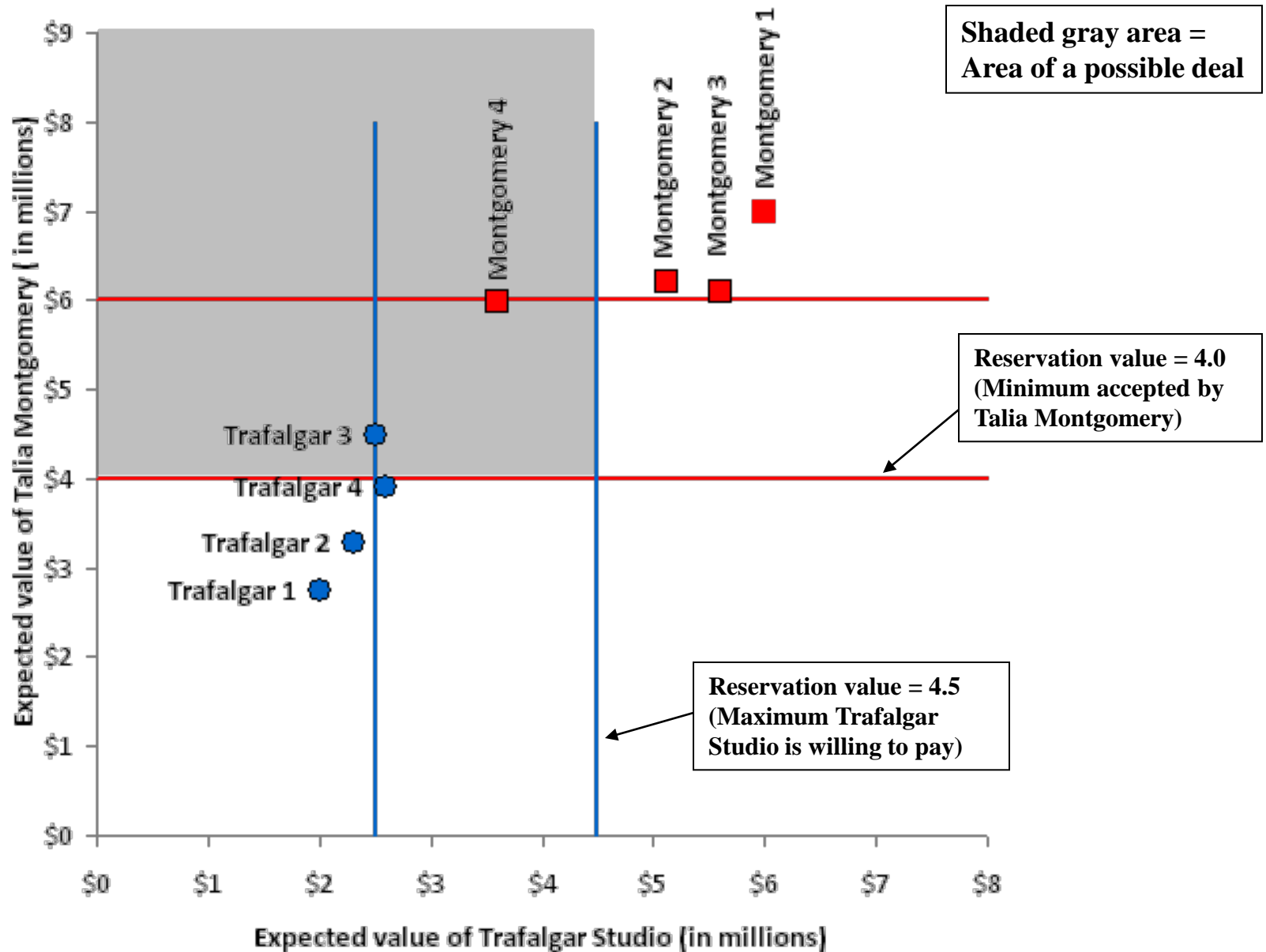
Reservation value of
Talia Montgomery

\$4,000,000

Reservation value of
Trafalgar Studio

\$4,500,000

Plot of the Expected Values of the Parties' Proposals



Closure: Constructive Feedback and Take-away

- The participants, in an intra-team and inter-team settings, exchange personal feedback (semi-structured).
- Focus on Self and Others. What were some of the specific constructive and not so constructive behaviors? (encourage feedback and not an analysis of the simulation).
- Back to the large group setting
 - What did you learn from *Starlet*?
 - What are your two major take-away?
 - How would you apply them in the future?

END

THANK YOU