

Economics of Sports

Revenue

- Most important source of revenue – disseminating sporting events.
- Fees – leagues & teams bring in billions of dollars from media rights each year

Broadcasting basics

- Sports broadcast = a form of property
- Fans recording events and charging fees would violate the right of the property owner to control the dissemination of his property.
- Licensing = permission to use, not a right to own a broadcast.
- Broadcast delivery tools = radio, TV, cable Internet.

Sports programming

- Not just game broadcasts
- Also includes news programs, features and sports talk shows.
- Trend = leagues and owners creating their own broadcast entity like NFL network, YES or NESN.

Commercial dimension of sports media nexus

- Nexus – means of connecting, a link or tie
- Sports and media interact in at least 5 ways

Traditional licensing method

- League sells broadcast rights to a network, which then sells advertising to generate revenue (and, hopefully) some profit. Might also use to promote its other shows.

Alternative licensing method

- **Revenue sharing model** – league sells broadcast rights to network without a rights fees. Instead, they share the revenue from the broadcasts (after network pays associated costs.)
- NHL and Arena League Football
- No risk for network and chance for struggling or new league to gain exposure

Alternative licensing method

- Buying air time
- LPGA – has fewer corporate sponsors
- Rights holder keeps ad revenue generated from event after paying network for time and production costs.
- Buys to keep prestige of league and to lure additional sponsors and generate additional fans

Source: "Traditional and New Media in Sports"

Broadcast Revenue

- Advertising key revenue for networks
- Cable also gets revenue from subscriber fees
- Sports Broadcast Act of 1961 – created antitrust exemption for pro sports leagues. (Allowed smaller market team equal share of revenue.)

Sports media nexus

- No. 1** – media organizations pay rights to broadcast an event
- Sports organization provides content for a rights fee
 - TV biggest player, followed by radio and Internet
 - Promotional, unlike print which reports in a more competitive environment so not charged to cover.

Sports media nexus

- No. 2** – media organizations that purchase rights seek to secure return on investment, usually ads for free TV airtime.
- Revenue also generated through PPV
 - Return can also mean increasing broadcaster's brand awareness (this might, in turn, cause viewers to watch non-sports events on this network. This loyalty is more likely if network holds rights for extended period.)

Sports media nexus

No. 3 – Media organizations (mags, newspapers) will seek to attract advertising through coverage of a sport by investing in coverage of this sport. In doing this, will seek to attract readers so companies will advertise. Demographics will determine advertisers.

Sports media nexus

No. 4 – Sports organizations seek to attract sponsorship based upon the sport's popularity (which really means based upon media's coverage of the sport.) Symbiotic.

- Sports organizations may secure additional revenue from both broadcaster and from other media outlets.
- Sponsor – receives exposure to consumers
- Sport pg – receives direct financial benefit
- Sports orgs must maximize all media coverage to increase **exposure, awareness, interest and audience share.**

Sports media nexus

- No. 5** – Sports organizations provide mediated sports content directly to consumers.
- If free like a website, sponsorships and advertisements help generate revenue. Provides consumers. Demographics play a part in whether advertisers will pay.

NFL demographics/'07 Harris Poll

- The percentage of those who say they follow NFL remains stable at about half of all adults (49%)
- Men (63%) watch, compared to 37% women
- Top age-group & education viewership:

Baby Boomers (42-61)	55%
Gen Xers, (31-42)	49%
Matures (62-plus)	49%
Echo Boomers (18-30)	42%
Post-grad degrees	60%
High school degree	45%

NASCAR demographics/'05

- Men 60%; women 40%
- Aged 45-plus 43%
- 35-44 26%
- \$75,000-plus 20%
- Some college education 60%
- Regional – South (38%), West (19%) & North (20%)

CURRENT LEVEL OF INTEREST IN MLB

DEMOGRAPHIC		AVID FAN	LOYAL FAN	FAN
AGE				
18-24	% of U.S. residents surveyed	12%	29%	47%
	% of MLB fans	11%	11%	12%
	Index	81	87	92
25-34	% of U.S. residents surveyed	14%	31%	50%
	% of MLB fans	16%	17%	17%
	Index	93	93	98
35-44	% of U.S. residents surveyed	15%	34%	54%
	% of MLB fans	20%	20%	20%
	Index	102	103	104
45-54	% of U.S. residents surveyed	16%	36%	55%
	% of MLB fans	21%	21%	20%
	Index	109	107	107
55-64	% of U.S. residents surveyed	15%	35%	53%
	% of MLB fans	14%	15%	15%
	Index	101	105	103

DEMOGRAPHIC		AVID FAN	LOYAL FAN	FAN
GENDER				
Men	% of U.S. residents surveyed	20%	42%	61%
	% of MLB fans	65%	61%	57%
	Index	134	125	118
Women	% of U.S. residents surveyed	10%	25%	43%
	% of MLB fans	35%	39%	43%
	Index	68	76	83
RACE/ETHNICITY				
White	% of U.S. residents surveyed	16%	34%	52%
	% of MLB fans	86%	85%	85%
	Index	103	103	102
African-American	% of U.S. residents surveyed	12%	27%	45%
	% of MLB fans	9%	10%	10%
	Index	80	82	87
Spanish/Hispanic	% of U.S. residents surveyed	13%	28%	42%
	% of MLB fans	11%	11%	11%
	Index	85	85	82

TV demographics

- Minorities increasingly in fan base for all sports so marketers are eager to reach them (p. 279)
- Hispanic viewership increased 12.2% from '96-'99
- African-American viewership increased 6% from '96-'99

Sports media nexus

- Sports & media generate revenue by attracting greatest number of viewers, listeners, readers, and users.
- Media like sports because many people drawn to them.
- Sports like media because it can generate more interest in their league.
- Which needs the other more? Was that always the case?
- Source: *Sport and Media: managing the nexus*

Rights fees basics

www.thesportslawprofessor.blogspot.com

- 1. Start from the premise that **clubs own the right to broadcast their games**. By this I mean individual clubs, and not the collection of clubs gathered together to form a league, own their games. So the legal right to televise Thursday night's game is owned by the Cowboys and the Packers, the teams that will engage in the contest. This legal right is an **intellectual property right**, an intangible asset, and is based on a very questionable reading of the law. Federal copyright law precludes the "re-broadcast" of the particular versions of games broadcast over the air. But as to the initial broadcast of the games themselves, under federal law when Tom Brady completes a pass to Randy Moss for a touchdown, it's just news. Anyone who's aware of the news can broadcast the news, even simultaneously with another "permitted" broadcast, without violating copyright law.

Rights fee basics

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- 2. Competing broadcasts of live NFL games are not allowed. In 1938 a local radio station decided to broadcast Pirates' games from vantage points outside the fences at Forbes Field. The Pirates had sold radio broadcast rights to NBC. When the Pirates sued to enjoin the local competitor, a lone federal judge stated that "it is perfectly clear" that broadcast rights belong to the Pirates. **No citation to legal authority was provided to support this wild claim.** The judge just said it was perfectly clear and that's that: the Pirates, and every team in history thereafter, **has enjoyed a "property right" to broadcast its games.** The court grounded this property right in a theory of unfair competition: that if other broadcasters could compete with NBC, then the Pirates would not be able to profit from their investments in the team and the event. Now it may be true (although very contestable) that the Pirates "need" to have this property right in order to field a competitive team, but, generally speaking, the legal protections for intellectual property are devised by statute and are pretty carefully circumscribed. Why? There is a large public interest in having ideas and information disseminated.

Rights fees basics

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- Teams have property right, but they have chosen, under league agreements with the NFL, to allow these rights to be sold as a group by the league: hence the mega-monstrous national television packages the NFL enjoys. But, here's the rub: there is a strong case to be made that this arrangement wherein the teams pool their rights for collective sale to the networks (and thereby to the public) is a violation of federal law, not copyright law, but antitrust law.

Monday Night Football

- Switched to cable (ESPN) from broadcast (ABC) in 2006. Cost ESPN \$1.1 billion but yielded:
 - ~ 40% increase over Sunday NFL package
 - ~ 14 games were cable's top 14 audiences for any shows in 2006. (ABC's audiences decreased.)
- “Securing *Monday Night Football* established ESPN as the **dominant sports carrier** and justifies the current rate it secures from cable-system operators,” says sports consultant and former CBS Sports President Neal Pilson. “At nearly \$3 a sub per month, they have to have premier sports product. So it protects that structure.”
- Source: No Longer A Sports Also-Ran: Cable makes deeper strides in broadcast (Broadcasting & Cable, 12/11/2006)

Olympics

- Most lucrative single-event
- In 2004, about 3.9 billion watched
- Olympics fees have grown from \$400,000 in 1960 to \$456 million in '98 to \$700 million in 2000 and \$894 million for '08. Summer 2012 will go for \$1.18 billion to NBC.
- Serves to hype fall programming

NCAA

- CBS paid \$6.2 billion for men's basketball tournament from 2002-14 that includes Final Four, regular and postseason games and 83 championships. Also includes all licensing, publishing, sponsorship and marketing rights for the sport.
- ESPN paid \$200 million for 11 years through '13 that includes 21 women's championship games, for the men/women CWS and indoor track & field.

NCAA rights fees

- In accordance with the NCAA's agreement with CBS, Westwood One owns the exclusive national radio rights to all 88 NCAA championships. If Westwood One exercises its right to nationally broadcast an NCAA championship event via radio, then each official university or college radio station will be the only stations granted the right to broadcast a separate signal. These stations must contact Host Communications, Inc.

<http://web1.ncaa.org/radioRights/policy.html>

NCAA rights fees

- Here are a few rules for broadcasting NCAA championship events
- 1. A rights fee will be charged for commercial broadcasts and rebroadcasts of any NCAA championship round/game(s). The rights fee will be waived for non-commercial, university funded, student-run radio stations.
- 2. No exclusive rights shall be granted, except in those instances when a competing institution shall request such rights for a station or network that contracted for exclusive coverage of the institution's regular-season games. Such exclusive rights then shall be restricted to the markets where exclusivity existed during the regular season games. In the instance that two universities or colleges have radio stations in the same market, then exclusive rights shall not be granted in that market.

New technologies

- Satellite – leagues are negotiating contracts with XM and Sirius. (But some fans have to buy new equipment which limits access)
- Wireless – streaming radio broadcasts for MLB games, NASCAR events, and other pro sports. NFL offers video highlights to Sprint for a hefty \$600 million for five years through '09
- Internet – games are streamed for radio and broadcast for a fee