CASE 3-2 Swifter, Higher, Stronger, Dearer

Television and sport are perfect partners. Each has made the other richer. But is the alliance really so good for sport?

Back in 1948, the BBC, Britain's public broadcasting corporation, took a fateful decision. It paid a princely £15,000 (£27,000 in today's money) for the right to telecast the Olympic Games to a domestic audience. It was the first time a television network had paid the International Olympic Committee (IOC, the body that runs the Games) for the privilege. But not the last. The rights to the 1996 Summer Olympics, which opened in Atlanta on July 19, 1996, raised $900 million from broadcasters round the world. And the American television rights to the Olympiads up to and including 2008 have been bought by America's NBC network for an amazing $3.6 billion (see Exhibit 1).

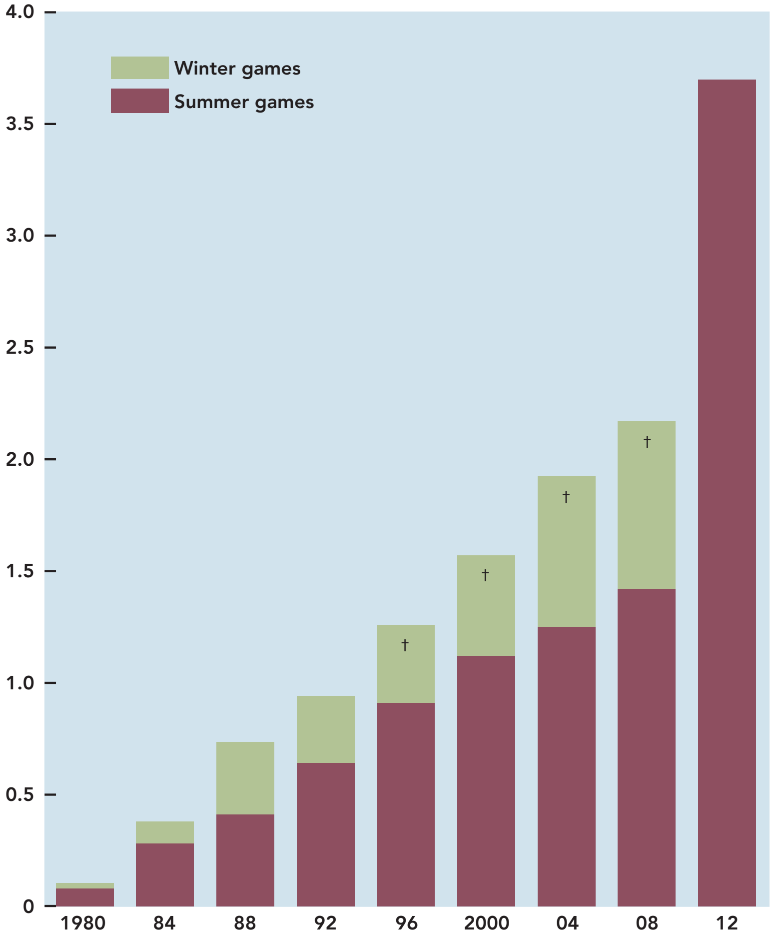
The Olympics are only one of the sporting properties that have become hugely valuable to broadcasters. Sport takes up a growing share of screen time (as those who are bored by it know all too well). When you consider the popularity of the world's great tournaments, that is hardly surprising. Sportsfests generate audiences beyond the wildest dreams of television companies for anything else. According to Nielsen Media Research, the number of Americans watching the Super Bowl, the main annual football championship, averaged 94 million. The top eight television programs in America are all sporting events. Some 3 billion people watched some part of the 2000 Olympiad—over half of mankind.

The reason television companies love sport is not merely that billions want to tele-gawk at ever-more-wonderful sporting feats. Sport also has a special quality that makes it unlike almost any other sort of television program: immediacy. Miss seeing a particular episode of, say, *The Office,* and you can always catch the repeat and enjoy it just as much. Miss seeing your team beat hell out of its biggest rival, and the replay will leave you cold. "A live sporting event loses almost all its value as the final whistle goes," says Steve Barnett, author of a British book on sport. The desire to watch sport when it is happening, not hours afterward, is universal: A study in South Korea by Spectrum, a British consultancy, found that live games get 30 percent of the audience while recordings get less than 5 percent.

Exhibit 1

Olympic Broadcast Rights Fees,* $bn (world totals)

Source: International Olympic Committee. Used by permission of the International Olympic Committee.



*Rights for 2000 to 2008 Games. Rights for 2010 and 2012 Games packaged.
†For winter games two years earlier.

This combination of popularity and immediacy has created a symbiotic relationship between sport and television in which each is changing the other. As Stephen Wenn, of Canada's Wilfrid Laurier University, puts it, television and the money it brings have had an enormous impact on the Olympic Games, including on the timing of events and their location. For instance, an Asian Olympics poses a problem for American networks: Viewers learn the results on the morning news.

The money that television has brought into professional basketball has put some of the top players among the world's highest-paid entertainers: Many are getting multiyear contracts worth over $100 million. Rugby has begun to be reorganized to make it more television friendly; other sports will follow. And, though soccer and American football draw the largest audiences, television has also promoted the popularity of sports that stir more local passions: rugby league in Australia, cricket in India, table tennis in China, snooker in Britain.

What is less often realized is that sport is also changing television. To assuage the hunger for sports, new channels are being launched at a tremendous pace. In America, ESPN, a cable network owned by Capital Cities/ABC, started a 24-hour sports news network in 1997; in Britain, BSkyB, a satellite broadcaster partly owned by Rupert Murdoch, has three sports channels. Because people seem more willing to pay to watch sport on television than to pay for any other kind of programming, sport has become an essential part of the business strategy of television empire-builders such as Murdoch. Nobody in the world understands the use of sports as a bait for viewers better than he.

In particular, sport suggests an answer to one of the big problems that will face television companies in the future: How can viewers, comfortable with their old analog sets, be persuaded to part with the hefty price of a new digital set and a subscription to an untried service? The answer is to create an exclusive chance to watch a desirable event, or to use the hundreds of channels that digital television provides to offer more variety of sports coverage than analog television can offer. This ploy is not new. "Radio broadcasts of boxing were once used to promote the sale of radios, and baseball to persuade people to buy television sets," points out Richard Burton, a sports marketing specialist at the Lundquist College of Business at Oregon University. In the next few years, the main new outlet for sports programs will be digital television.

GOING FOR GOLD

To understand how these multiple effects have come about, go back to those vast sums that television companies are willing to pay. In America, estimates of total spending on sports rights by television companies is about $20 billion a year. Easily the most valuable rights are for American football. One of the biggest sporting coups in the United States was the purchase by Fox, owned by Murdoch's News Corporation, of the rights to a year of National Football League games for about $4 billion. Rights for baseball, basketball, and ice hockey are also in the billion-dollar range.

Americans are rare in following four main sports rather than one. America is also uncommon in having no publicly owned networks. As a result, bidding wars in other countries, though just as fierce as in America, are different in two ways: They are often fought between public broadcasters and new upstarts, many of them pay channels, and they are usually about soccer.

Nothing better illustrates the change taking place in the market for soccer rights than the vast deal struck in 1997 by Kirch, a German group owned by a secretive Bavarian media mogul. The group spent $2.2 billion for the world's biggest soccer-broadcasting rights: to show the finals of the World Cup in 2002 and 2006 outside America. That is over six times more than the amount paid for the rights to the World Cups of 1990, 1994, and 1998.

Such vast bids gobble up a huge slice of a television company's budget. In America, reckons London Economics, a British consultancy, sport accounts for around 15 percent of all television-program spending. For some television companies, the share is much larger.

The problem is that the value of sport to viewers ("consumer surplus," as economists would put it) is much larger than the value of most other sorts of programming. Public broadcasters have no way to benefit from the extra value that a big sporting event offers viewers. But with subscription television and with pay TV, where viewers are charged for each event, the television company will directly collect the value viewers put on being able to watch.

Therefore, many people (especially in Europe) worry that popular sports will increasingly be available only on subscription television, which could, they fear, erode the popular support upon which public broadcasters depend. In practice, these worries seem excessive. Although far more sport will be shown on subscription television, especially outside America's vast advertising market, the most popular events are likely to remain freely available for many years to come, for two reasons.

First, those who own the rights to sporting events are rarely just profit maximizers: They also have an interest in keeping the appeal of their sport as broad as possible. They may therefore refuse to sell to the highest bidder. For example, the IOC turned down a $2 billion bid from Murdoch's News Corporation for the European broadcasting rights to the Olympic Games between 2000 and 2008 in favor of a lower bid from a group of public broadcasters. Sometimes, as with the sale of World Cup rights to Kirch, the sellers may stipulate that the games be aired on "free" television.

Second, the economics of televising sport means that the biggest revenues are not necessarily earned by tying up exclusive rights. Steven Bornstein, the boss of ESPN, argues that exclusive deals to big events are "not in our long-term commercial interest." Because showing sport on "free" television maximizes the audience, some advertisers will be willing to pay a huge premium for the big occasion. So will sponsors who want their names to be seen emblazoned on players' shirts or on billboards around the field.

It is not only a matter of audience size. Sport is also the most efficient way to reach one of the world's most desirable audiences from an advertiser's point of view: young men with cash to spend. Although the biggest audiences of young men are watching general television, sporting events draw the highest concentrations. Thus, advertisers of products such as beer, cars, and sports shoes can pay mainly for the people they most want to attract.

There are other ways in which sport can be indirectly useful to the networks. A slot in a summer game is a wonderful opportunity to promote a coming autumn show. A popular game wipes out the audience share of the competition. And owning the rights to an event allows a network plenty of scope to entertain corporate grandees who may then become advertisers.

For the moment, though, advertising revenue is the main recompense that television companies get for their huge investments in sport. Overall, according to *Broadcasting & Cable*, a trade magazine, sport generates 10 percent of total television advertising revenues in America. The biggest purchasers of sports rights by far in America are the national networks. NBC alone holds more big sports rights than any other body has held in the history of television. It can obviously recoup some of the bill by selling advertising: For a 30-second slot during the Super Bowl, by most estimates networks are now asking and getting around $3 million.

Such deals, however, usually benefit the networks indirectly rather than directly. The Super Bowl is a rarity: It has usually made a profit for the network that airs it. "Apart from the Super Bowl, the World Series and probably the current Olympics, the big sports don't usually make money for the networks," says Arthur Gruen of Wilkowsky Gruen, a media consultancy. "But they are a boon for their affiliate stations, which can sell their advertising slots for two or three times as much as other slots." Although Fox lost money on its NFL purchase, it won the loyalty of affiliate stations (especially important for a new network) and made a splash.

Almost everywhere else, the biggest growth in revenues from showing sports will increasingly come from subscriptions or pay-per-view arrangements. The versatility and huge capacity of digital broadcasting make it possible to give subscribers all sorts of new and lucrative services.

In America, DirectTV and Primestar, two digital satellite broadcasters, have been tempting subscribers with packages of sporting events from distant parts of the country. "They have been creating season tickets for all the main events, costing $100–150 per season per sport," says John Mansell, a senior analyst with Paul Kagan, a California consultancy. In Germany, DF1, a satellite company jointly owned by Kirch and BSkyB, has the rights to show Formula One motor racing. It allows viewers to choose to follow particular teams, so that Ferrari fanatics can follow their drivers, and to select different camera angles.

In Italy, Telepiu, which launched digital satellite television in 1997, offers viewers a package in September that allows them to buy a season ticket to live matches played by one or more teams in the top Italian soccer leagues. The system's "electronic turnstile" is so sophisticated that it can shut off reception for subscribers living in the catchment area for a home game, to assuage clubs' worries that they will lose revenue from supporters at the gate. In fact, top Italian clubs usually have to lock out their fanatical subscribers to avoid overcapacity.

Most skillful of all at using sports rights to generate subscription revenue is BSkyB. It signed an exclusive contract with the English Premier League that has been the foundation of its success. Some of those who know BSkyB well argue that £5 billion of the business's remarkable capital value of £8 billion is attributable to the profitability of its soccer rights.

WINNER TAKE ALL

Just as the purchase of sporting rights enriches television companies, so their sale has transformed the finances of the sports lucky enough to be popular with viewers. On the whole, the biggest beneficiaries have not been the clubs and bodies that run sports but the players. In the same way as rising revenues from films are promptly dissipated in vast salaries to stars in Hollywood, so in sport the money coming in from television soon flows out in heftier payments to players.

In America, the market for sportsmen is well developed and the cost of players tends to rise with the total revenues of the main sporting organizations. Elsewhere, the market is newer and so a bigger slice of the revenues tends to stick to the television companies. "The big difference between sports and movies is the operating margins," says Chris Akers, chairman of Caspian, a British media group, and an old hand at rights negotiations. "Hollywood majors have per-subscriber deals. No sports federation has yet done such a deal."

Guided by the likes of Akers, they soon will. Telepiu's latest three-year soccer contract gives the television firm enough revenue to cover its basic costs, guarantees the soccer league a minimum sum, and then splits the takings down the middle. In Britain, BSkyB is locked in dispute with the Premier League over the terms of the second half of its rights deal: Should the league then be able to opt for half the revenue from each subscriber on top of or instead of a fixed hunk of net profits?

The logical next step would be for some clubs or leagues to set up their own pay-television systems, distributing their games directly by satellite or cable. A few people in British soccer are starting to look with interest at America's local sports networks, such as the successful Madison Square Garden cable network, and to wonder whether Europe might move the same way.

If it does, not all teams will benefit equally. In America, football has an elaborate scheme to spread revenues from national television across teams. But in other sports, including baseball, the wealth and size of a team's local market mean large differences in rights from local television. The New York Yankees now make more than $50 million a year from local television rights. At the other end of the scale, the Milwaukee Brewers make $6 million to $7 million a year.

Not all players benefit equally, either. Television has brought to sport the "winner-take-all" phenomenon. It does not cost substantially more to stage a televised championship game than a run-of-the-week, untelevised match. But the size of the audience, and therefore the revenue generated, may be hugely different. As a result, players good enough to be in the top games will earn vastly more than those slightly less good, who play to smaller crowds.

THE REFEREE'S WHISTLE

The lure of money is already altering sport and will change it more. Increasingly, games will be reorganized to turn them into better television. British rugby-union officials are squabbling over the spoils from television rights. Rugby league, whose audiences had been dwindling, won a contract worth £87 million over five years from BSkyB in exchange for switching its games from winter to summer. Purists were aghast.

Other reorganizations for the benefit of television will surely come. Murdoch wants to build a rugby superleague, allowing the best teams around the world to play each other. A European superleague for soccer is possible. "At the moment, Manchester United plays AC Milan every 25 years: it's a joke," complains one enthusiast.

Sports traditionalists resist changing their ways for the likes of Murdoch. So far, the big sporting bodies have generally held out against selling exclusive pay-television rights to their crown jewels, and have sometimes deliberately favored public broadcasters. Regulators have helped them, intervening in some countries to limit exclusive deals with pay-television groups. Britain passed a law to stop subscription channels tying up exclusive rights to some big events, such as the Wimbledon tennis championship. In Australia, a court threw out News Corporation's attempt to build a rugby superleague as the lynchpin of its pay-television strategy.

The real monopolists are not the media companies, however, but the teams. Television companies can play off seven or eight Hollywood studios against each other. But most countries have only one national soccer league, and a public that loves soccer above all other sports. In the long run, the players and clubs hold most of the cards. The television companies are more likely to be their servants than their masters.

QUESTIONS

1. The following are the prices paid for the American television broadcasting rights of the summer Olympics since 1980: Moscow—NBC agreed to pay $85 million; 1984 in Los Angeles—ABC paid $225 million; 1988 in Seoul—NBC paid $300 million; 1992 in Barcelona—NBC paid $401 million; 1996 through 2008—NBC will pay $3.6 billion; 2010—NBC paid $820 million; 2012 in London—NBC will pay $1.18 billion for its American broadcast rights. Assume you have been charged with the responsibility of determining the IOC and local Olympic Committee's asking prices for the Rio de Janeiro 2016 television broadcast rights for five different markets: Japan, China, Australia, the European Union, and Brazil. Determine a price for each, and justify your decisions.
2. Your instructor may assign you to represent either the IOC or any one of the television networks in each of the five countries that have been asked to bid for the broadcast rights for the Rio de Janeiro 2016 Games. Prepare to negotiate prices and other organizational details.

Sources: Adapted from *The Economist,* July 20, 1996, pp. 17–19. Also see Mark Hyman, "The Jets: Worth a Gazillion?" *BusinessWeek,* December 6, 1999, pp. 99–100; Mark Hyman, "Putting the Squeeze on the Media," *BusinessWeek,* December 11, 2000, p. 75; Alan Abrahamson, "NBC Wins Rights to 2010, 2012 Olympics," *Los Angeles Times,* June 7, 2003, p. C1; Matthew Futterman and Shira Ovide, "Concern about Prices May Delay Bidding for Olympics," *The Wall Street Journal*, January 15, 2010, online.