Chapter 3 A Closer look
The Market for Sports Broadcast Rights

- The functions of ads and the market for sports broadcast rights.
- The complicated nature of the value of ads to advertisers.
- The “big picture” look at the value of sports programming to media providers.
- The size of media revenues and their variation in a given league and across leagues.
- The role of commercialization in pro sports.

Types of Goods

	Rival	Non rival
Exclusive	Private Goods	Club Good
Non exclusive	Common Property Resource	Public Good

Private Good—pop corn, ticket full stadium, hat
Club Good—Broadcast rights, ticket seats available, golf course
Common property resource – fish, water, team movement
Public Good—civic pride, advertising league level

Introduction

"The money is so big, given the current ratings, that the (proposed) increase is amazing. But there are always two decisions in something like this. One is purely economical. The other is strategic: What does the other guy lose if we take something away from them?"

- A Senior Vice President at Turner Sports on their next sports rights consideration.

Ads and Preference Formation

Two preference formation functions of ads:

Start up consumption (controversial)

Brand choice (well-established)

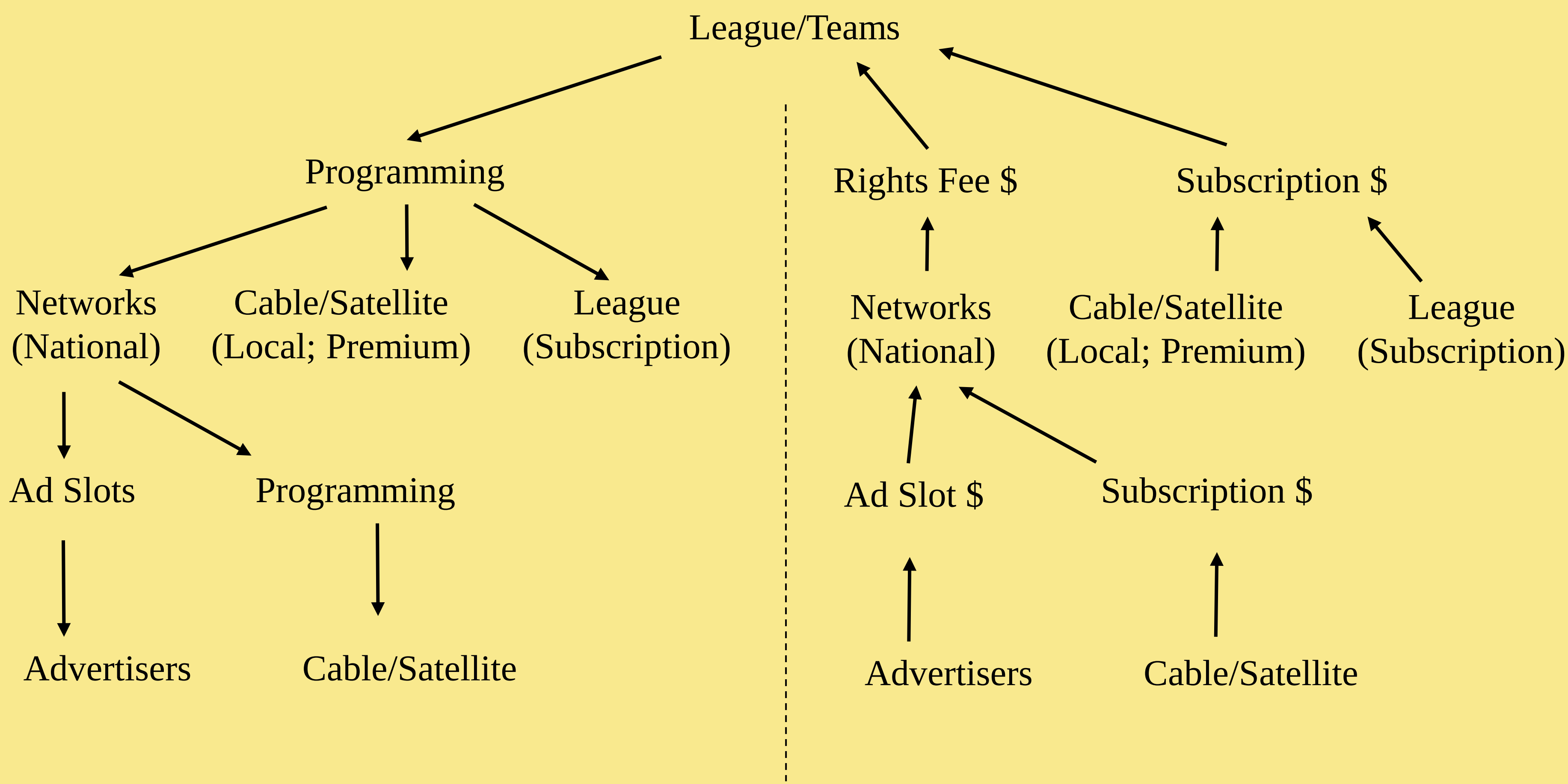
Ads and Preference Formation

<u>Brand choice</u>:

Identify target demographic and "reach" it efficiently.

Sports broadcasts provide a nearly certain target demographic very consistently.

Broadcast Rights Market (currently)



Sports Leagues & Contracts

All owners have exclusive rights to their home games. Retained = "Local" rights.

They agree to let leagues sell some or all of them. "National" rights.

*There are both national and local contracts in all leagues except the NFL.

Sports Leagues & Contracts

NFL:

All games are sold to media providers by the league itself. Retained = 0.

MLB, NBA, NHL:

A specific number of games are sold to media providers by the league.

Those not chosen for “national” broadcast can be sold by individual owners.

W oes the $ Go?

e and contrast:

od old days (three networks).

- The rise hrough the 1980s.
- The mo et for media providers.

The level ition is so keen in the media provider ma e main flow of value is to pro le

Big Rights $

Recent contracts (updates Table 3-19):

League	Duration	Buyer	Property Purchased	Amount ($)
NFL	2006-2014	ESPN	Monday Night Football	$8.8 billion
	2005-2011	FOX	NFC Sunday, Super Bowls	$4.3 billion
	2005-2011	CBS	AFC Sunday, Super Bowls	$3.7 billion
				Total: $16.8 billion ($18.3 billion)
NBA	2007-08 to 2015-16	TNT and ABC/ESPN		Total: $7.4 billion ($7.6 billion)
MLB	2007-2014	FOX	Postseason/All-Star Game; Saturdays	$2.1 billion
		ESPN	Regular Season	$2.5 billion
		TNT	Post-season selection	$900 million
				Total: $5.5 billion ($5.7 billion)
NHL	2008-2011	VERSUS	Regular season	$72.5 million ($71.8 million)
		NBC	No fee, revenue sharing	Unknown

The Economic Principles of Ads

- The demand for ads is a **Derived Demand**: demand for ads is based on its effect on the demand for the product the company makes. Of course a firm’s desire to maximize profits is the driving force in this model.

- Marginal Revenue Product: The change in total revenue resulting from a unit change in advertising
- MRP = Δ TR/ Δ Ads
- In a perfectly competitive market the price of ads will equal their MRP.

STRATEGY AND AD MRP

- ❖ Strategically, one firm's ads have an impact on the marginal revenue product of the other.
- ❖ It's possible for both firms to advertise more and get no additional demand for their products!
- ❖ To understand this analysis we need to introduce Game Theory!

Game Theory

- A method of analyzing strategic behavior- behavior that takes into account the expected behavior of others and the mutual recognition of interdependence. It is useful in analyzing Oligopolies.
- **Strategies**: all the possible actions of each player
- **Payoff Matrix**: a table that shows the payoffs for every possible action by each player for every possible action by each other player.

Game Theory Results

- Nash Equilibrium: the outcome of a game that occurs when a player takes the best possible action given the action of the opposing player.
- Dominant Strategy Equilibrium: a Nash equilibrium in which the best strategy of each player is to pursue their best strategy regardless of the strategy chosen by the opposing player.

Game Theory: Prisoner's Dilemma

Firm 2 strategies

Firm 1 strategies	Don't Advertise	Advertise
Don't Advertise	**$15 mil.** / **$15 mil.**	**$18 mil.** / **$10 mil.**
Advertise	**$10 mil.** / **$18 mil.**	**$12 mil.** / **$12 mil.**

Dominant Strategy?

- The dominant strategy in this ad game is to increase ad spending resulting in a Nash Equilibrium in which both firms end up making less money.
- Firms acting in their own best interest end up in the worst possible joint outcome.

A Troublesome Outcome

This depends on the net payoffs!

There are a few ways out:

- ❖ Tacit collusion.
- ❖ Appeal to government.

Other examples of the Prisoner's Dilemma

- Arms race is sports
- Doping in sports
- Flopping

- Other games? Stay tuned

Summary

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