
Market for Sports Broadcasting

Module 2, Chapter 7

Lesson: Market for Sports Broadcasting

Objectives:

- ❑ Identify revenue sources for players, leagues, and teams
 - ❑ Model the flow of the market for sports broadcasting
 - ❑ Calculate optimal input usage for teams and leagues
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Lesson Direction

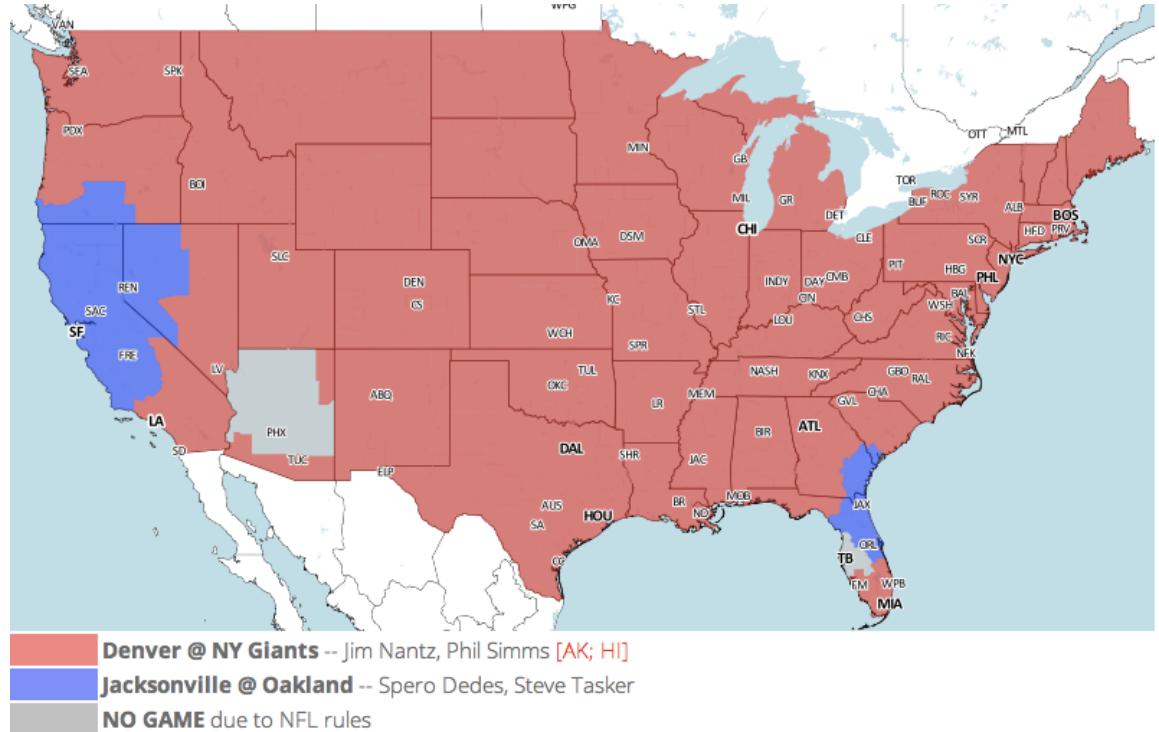
Scarcity



Rationing



Competition



Story: FOX in 1993 and 1994

Fox REALLY wanted to broadcast the NFL, so they bought the expensive rights from the NFL to broadcast games.

They spend so much that their sports division suffered \$350 MILLION in losses on the 1994 contract.

Story: FOX in 1993 and 1994

Why, Fox, why?

The network as a whole showed an increase in profits from \$511M in the last 6 months of 1993 to \$610M for the last 6 months of 1994.

Losing \$350M on sports, Fox increased profits by 16%!

Do firms really care about divisions losing money? (Hint: Profit maximizing FIRMS.)

More Media on Broadcasting Rights

<http://money.cnn.com/video/news/2015/01/12/espn-7-3-billion-bet-pays-off.cnnmoney/index.html>

<http://money.cnn.com/2015/01/21/media/super-bowl-nbc-stream/>

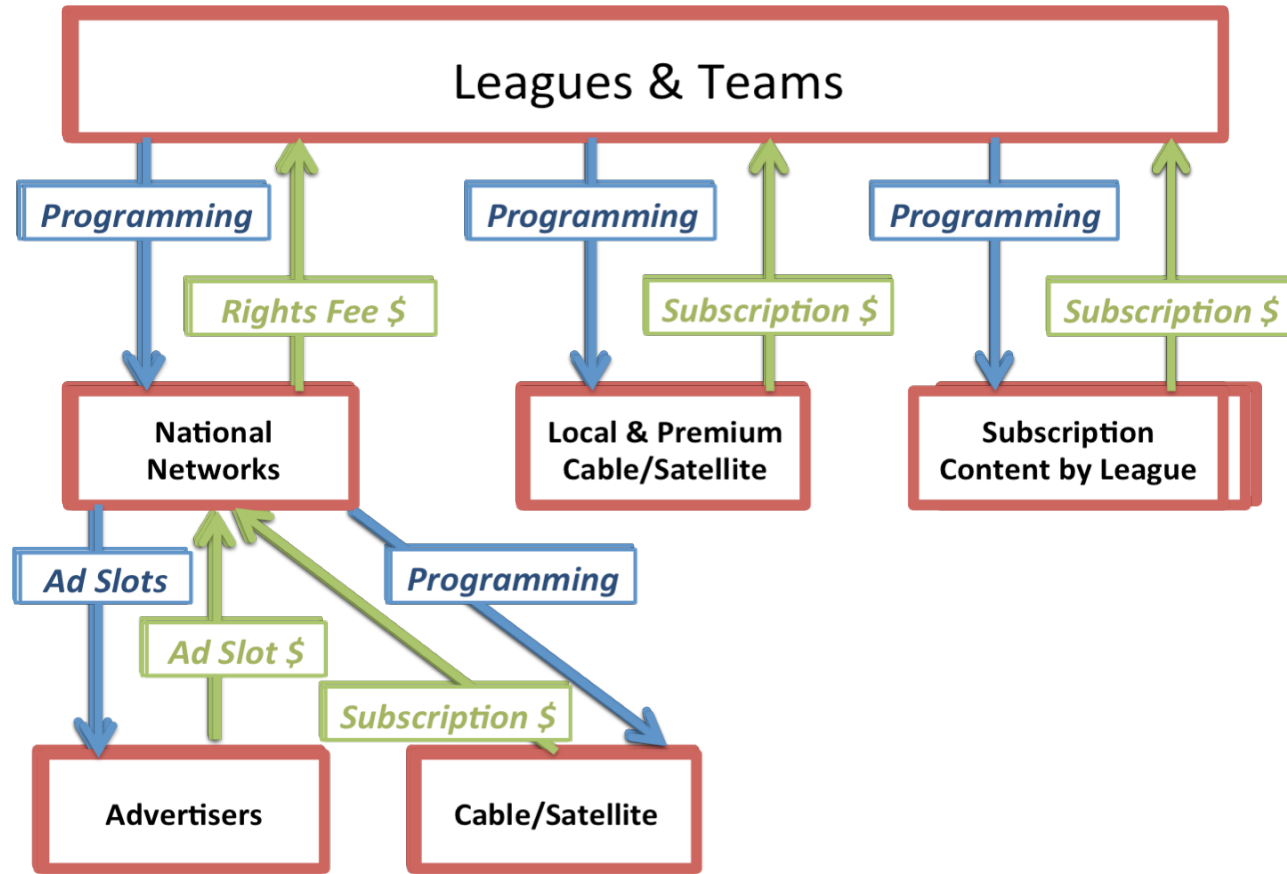
Table 1: Top 10 Sports Advertisers by Sports Ad Spending in 2009

Rank	Company	Sports Spending (\$)	Total Spending (\$)	Sports Pct of Total (%)
1	Anheuser-Busch	309,178,656	408,024,258	75.8
2	Verizon	228,150,391	1,131,202,308	20.2
3	Sprint	204,961,328	569,360,813	36.0
4	Ford	197,345,266	599,444,324	32.9
5	AT&T Wireless	180,919,156	757,939,851	23.9
6	Geico Direct	171,272,922	431,404,936	39.7
7	Toyota	166,766,578	509,332,621	32.7
8	DirecTV	166,741,438	382,974,240	43.5
9	Chevrolet	160,307,422	450,917,384	35.6
10	McDonalds	155,405,203	724,494,765	21.5

Top 10 Sports Advertisers by Sports Ad Spending in 2009

Market Structure

- Example: NFL
 - Each professional football club owns broadcast rights for its home games
 - It can sell broadcast rights to any network broadcaster / cable operator Broadcasters are interested because they provide sports programming as a part of the package
 - Ad slots are sold by broadcasters to advertisers. Advertisers are interested in the target audience due to its demographic characteristics.
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National Network



Media Providers



The Sports Broadcast Market Structure

Market Structure

- Do NFL teams compete with one another to sell their broadcast rights?
 - No: NFL teams pool their broadcast rights together, and sell them in a single package. They agree not to compete with one another in that market.
 - Once a broadcaster purchased exclusive rights to broadcast NFL games on a certain night (e.g. Monday), it has a monopoly on corresponding ad slots
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Market Structure: the Sherman Act

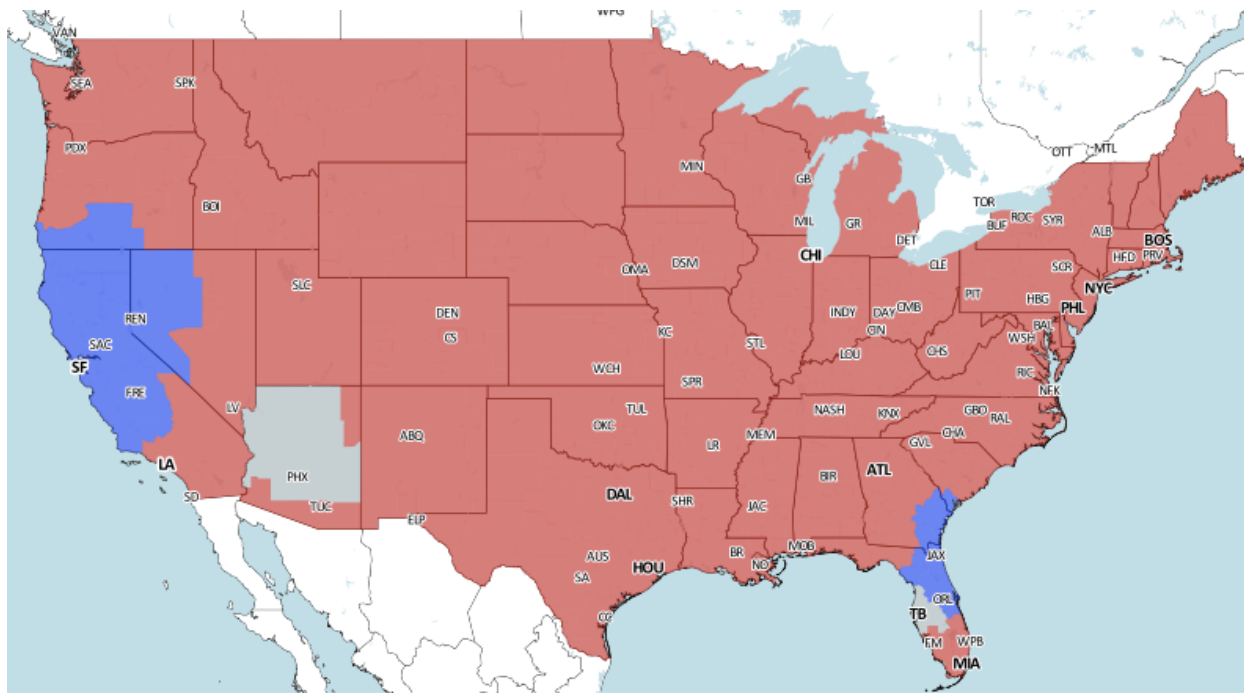
- Sherman Act
 - Passed in 1890
 - Condemns restraints on competition that result in higher prices and lower output.
 - Violations – felonies and carry heavy penalties

Market Structure

- Does this “agreement” between teams violate antitrust laws?
 - Sherman Act, Section 1: “Every contract, combination... or conspiracy in restraint of trade or commerce ... is hereby declared to be illegal”
 - Supreme Court: “only “unreasonable” restraints are illegal” – those which lead to higher prices, lower quantity or reduced quality.
 - NFL’s plan to pool its broadcast rights was designed to eliminate competition, raise the prices.
 - 1961: NFL asked federal court for a judgment that pooling the broadcast rights was permissible. Court ruled that this was a violation of the Sherman Act and was impermissible
 - NFL turned to Congress for relief.
 - Result - Sports Broadcasting Act of 1961.
 - SBA allowed professional sports leagues in football, baseball, basketball and hockey to pool their broadcast rights for sale to a network.
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Market Structure: SBA

- Sports Broadcasting Act of 1961.
 - SBA allowed professional sports leagues in football, baseball, basketball and hockey to pool their broadcast rights for sale to a network.
- Limitations to Sports Broadcasting Act
 - Broadcast agreements would not impose territorial limitations on the purchasers of broadcast rights
 - Exception: blackouts to protect a team that did not sell out a home game
Example: If the Detroit Lions home game was not sold out, the TV broadcast of that game would could be blacked out in the Detroit area
 - No exemption on days traditionally reserved for high school and college football games (Friday nights and Saturdays)
 - No exemption for other agreements on any other aspects of sports business



Denver @ NY Giants -- Jim Nantz, Phil Simms [AK; HI]
Jacksonville @ Oakland -- Spero Dedes, Steve Tasker
NO GAME due to NFL rules

2013 NFL Broadcast
 Maps
 ([506 Sports](#))

NBC Sports Map of
 Regional Channels &
 Team Affiliates
 ([NBCSports.com](#))

Fox Sports & Root
 Regional Channels
 ([ATVScene.com](#))

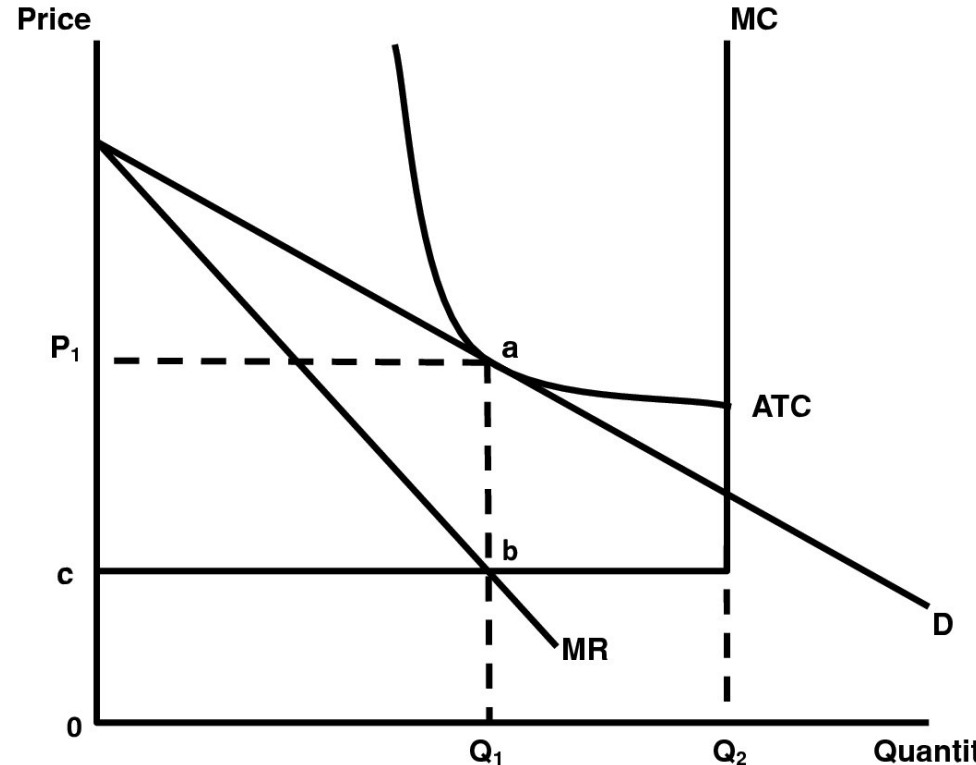
National vs. Regional Broadcast

Bidding for Broadcast Rights

- Highest bidder wins
 - ESPN won the rights for Monday Night Football (used to be on ABC in 1970 – 2005)
 - NBC – Sunday Night Football (used to be on ESPN in 1987 – 2005)
 - They bought the whole season for one lump sum.
 - What determines the lump sum size?
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Broadcast Rights: Example

- Suppose NBC wants to buy rights for Sunday Night Football.
- $MC=c$ until the max number of slots Q_2
- $\text{Max Profit} = (P_1 - c)Q_1 = P_1abc$
- Before earning max profit, NBC must purchase the broadcast rights. NBC is willing to bid up to $(P_1 - c)Q_1$, so are other networks.
- At the limit, NBC pays $(P_1 - c)Q_1$ – then the NFL will have extracted all of the monopoly profit.
- Effect – NBC's ATC curve tangent to the demand at Q_1 .



Broadcast Rights: Numerical Example

- Suppose the demand for ad slots on a sports program is:

$$P = 1,010 - 2Q$$

- Then Marginal Revenue

$$MR = 1,010 - 4Q$$

- Suppose Marginal Cost of producing broadcast rights by the NFL clubs is zero. For the broadcaster, Marginal Cost of the ad slots is 10.

- What is the broadcaster's profit function?

- Broadcaster's profit function: $\pi_B = (1,010 - 2Q)Q - 10Q$

- Profit max condition: $MR = MC$

$$1,010 - 4Q = 10$$

$$Q^* = 250, P^* = 510$$

$$\text{Max Profit} = \$125,000$$

Broadcast Rights: Numerical Example

- Thus the broadcaster's operating profit is:
Max Profit = \$125,000
 - The bidding will continue until the bid is \$125,000.
 - As a result, the NFL will get all profit inherent in the broadcast rights
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The Winner's Curse

- Suppose ABC, CBS, Fox, NBC and ESPN are bidding for the same package of broadcast rights
 - As the offers increase, some drop out of the bidding
 - One bidder wins and has to pay the price
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 - Example: Monday Night Football (2006)
 - ESPN paid the \$1.1 bln rights fee (83% more than ESPN paid for Sunday Night broadcasts in 2005)
 - Did ESPN pay too much?
 - ESPN is different from major networks: it also sells ad space, but also collects subscriber fees from the cable operators. NFL was aware of this value to ESPN
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The Winner's Curse

- - So why bid for broadcast rights?
 - Profit?
 - Other benefits:
 - Promoting other programming
 - the *most popular classic comedy episode* of all time was "The One After the *Superbowl*," bringing in 52.925 million viewers!
 - Improving credibility
 - The NFL made Fox and ESPN more influential than before
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League	Team	Owner	Years Owned
MLB	New York Yankees	CBS	1964-1973
MLB	NY Mets	Doubleday Publishers	1980-1986
MLB	Chicago Cubs	Tribune Company	1981-2009
MLB	LA Angels	Walt Disney Co.	1993-2000
MLB	Atlanta Braves	Time Warner	1996-2007
MLB	LA Dodgers	News Corp	1998-2005
MLB	Toronto Blue Jays	Rogers Communication	2000-Present
MLB	Boston Red Sox	NY Times (partial)	2002-Present
MLB	Atlanta Braves	Liberty Media	2007-Present
NBA	Atlanta Hawks	Time-Warner	1996-2004
NBA	Philadelphia 76ers	Comcast	1996-Present
NBA	Denver Nuggets	Liberty Media	1997-2000
NHL	Boston Bruins	Storer Broadcasting	1973-1975
NHL	Anaheim Ducks	Walt Disney Co.	1993-2005
NHL	Philadelphia Flyers	Comcast	1996-Present

Selected Media Ownership of Professional Sports Teams

What about Sports Networks?

- Leagues and conferences can create their own networks.
 - The league / conference does not just sell broadcast rights. It puts together a network and sells distribution rights to cable operators and networks
 - Examples: the Big Ten Network, the NFL Network, the MLB Channel, the Comcast SportsNet.
 - Most conferences have their own networks, but the majority owner and operator is ESPN Regional Television.
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