

Is it possible that the future economics of the NFL could be influenced by the FCC ? Absolutely. Does the NFL and all professional sports leagues have something in common with the Sub Prime mortgage mess and the collapse of home prices. Absolutely. Could both of these, along with the recession impact whether or not you will be able to watch your favorite professional sport in 2011 ? Absolutely.

Sports fans probably are not paying attention to what is happening with broadcast television. The over the air broadcast networks, all of which are the biggest customers of the NFL (CBS, NBC, Fox and ABC/ESPN) are now pushing TV Providers (cable, telco and satellite), to pay retransmission fees. In other words, the broadcast networks want to be paid for every TV Provider subscriber, just like cable networks get paid. It's a reasonable request in many ways. But there is a flip-side.

The ability to send their network signal over the air to TVs (to be received without paying a TV Provider) is a right that is regulated by the [FCC](#). The [FCC is also in charge of the Broadband Initiative](#) in the US. Whats the connection ? The same spectrum that the broadcast networks use to send their digital tv signal over the air to TVs could be re-allocated to the broadband initiative. Which is more important to US Citizens, over the air TV stations or more wireless broadband bandwidth ? Its a simple question with no simple answer. What is absolutely certain is that a very convincing argument could be made that wireless bandwidth is more important than over the air TV.

If this argument wins, the amount of spectrum to TV stations could be minimally cut, impacting the picture quality of their signal. It could be reduced substantially, severely impacting the quality, leaving just enough for a basic Standard Definition quality signal, or it could be cut 100pct with a subsidy being provided so that that the formerly over the air signals could be received over the broadband bandwidth or from an existing TV Provider. In any of these scenarios. it could be a big problem for the NFL. All NFL regular and post season games are currently broadcast on over the air stations. If the business and delivery of those over the air stations changes substantially, the economics of the NFL could change substantially.

Do you think the NFL and the NFL Players Association are building this scenario into their models as they negotiate their new CBA (collective bargaining agreement) ? They should, it has a far better than zero chance of occurring in the next 5 years.

Which leads us to the most prolific problem that all professional sports leagues currently have, they are HORRIBLE when it comes to managing risk.

Lets continue with the NFL. The hardest job in professional sports is the assessment of player skill. The second hardest job is determining how to allocate salary to players in a manner that builds a championship team. The difficulty of talent assessment and salary is amplified for rookies. No professional sports league has been smart enough to negotiate the ability to work out and play potential rookies against existing league players. Why not ?

In the case of the NFL rookie draft pick salaries and bonuses are basically a function of what was paid for the same draft position in previous years. Thats stupid. Rookie signings are 100pct risk, yet their guaranteed salaries are often higher than established all stars at the same position. Even worse, much of that amount is paid up front in the form of a bonus. Again, poor risk management by the league when they negotiated their Collective Bargaining Agreement.

[I have written in the past about the significant problems inherent with the CAP based system that the pro sports leagues use](#). Its a killer for small and medium sized markets. Combine the problems of a CAP system with the significant risk of rookie and overall player evaluation and salaries and pro sports leagues actually face a better than zero chance of having teams go out of business. We have seen bankruptcies in the NHL. If pro sports leagues don't do a better job of risk management, it could get worse.

What about the players side ? They have kicked ownership's ass in every league. Contrary to what some [agents have said](#), professional athletes have taken advantage of leagues inability to manage risk and their desire to win. Agents like to argue that pro sports should be an open market like the film industry. Well guess what, it is. Im sure players would love it if all the agents in pro sports pooled the money they made from the players and started their own pro leagues. If the economics were great and players were underpriced, in any league, how fast would savvy businesspeople rush out to start new leagues and pay the star attractions of every league more ?

Instead, when leagues like the UFL start, they work to complement the NFL by taking players that are no longer in the league or trying to get there. Basketball and hockey leagues arent formed in the US to compete, they survive overseas where a significant source of revenue and profits is in selling players to pro sports leagues here in the US. Again, another example of the inefficiency of how players are paid and how risk is assigned in professional sports in the US.

The same could be said about buying a team. You dont see agents buying teams in cap driven leagues.

If you want to understand more about value and athletes, look no further than Mixed Martial Arts. I met with a lot of people who repeatedly told me that the UFC underpaid their athletes. That by paying the best fighters more, you could draw the same size crowds to arenas and buyers to PPV. It was an expensive lesson to learn how wrong they were. Pro sports are just one of an unlimited number of entertainment options. To get MMA fans to pay to watch a fight or to get them to the arena is not just about having the best fighters, its about great marketing. Its about making a very significant investment in brand building and showmanship. Its about understanding how to connect to fans. Its a lesson in recognizing that while the leagues or in this case the UFC enable their best to become big stars, they recognize that the business behind the stars must be vibrant and profitable before anyone can be successful. The same can be applied to the big 4 professional sports. Unfortunately it doesn't appear that many in the big 4 sports leagues, whether agent, player, management or owner have come to recognize this fact.

A word of caution to NFL players and their agents as they negotiate a new CBA. As [I wrote about 5 years ago](#), up till the current recession, the only time I had seen a group self inflict a loss of more than 1 Billion Dollars was when NHL players locked out of an entire season and lost more than that in salaries and benefits. Money they will never , ever get back. The amounts of money at risk for players this time around will be far greater. Ownership may lose some money in a lockout. Players lose all their earnings. As owners in the NFL and NHL recognize that they have taken on too much risk in the past, the likelihood of a lockout increases. Players and their agents should be very careful how they balance the risks and rewards they ask for in a new deal.

Which makes all of this analogous to the Sub Prime Mortgage mess that helped put us in this Great Recession.

There was so much money being made in banking and syndicating loans that everyone who had money at stake ignored the risk involved. They modeled their finances thinking that there was no way housing prices could drop 30pct. They modeled their businesses thinking there was no way 10pct or more of the loans they bought could default. They bought bonds in companies they thought could never go out of business.

All of these things that never happened until they did, in hindsight, were not complete surprises. The surprise was that the ratings agencies, the bankers, the brokers, the mortgage syndicators, every one involved with the buying and selling of money ignored things they never should have ignored.

That is what the NFL and other pro leagues need to remember. You cant ignore risk. Nor can you assume 100pct of the risk and hope the real bad stuff never happens. The NFL and its owners, since we are using them in our example, are assuming 100pct of the risk of the economy falling again. They are assuming 100pct risk of their biggest TV customers having their primary delivery systems eliminated. They are assuming 100pct of the risk of trying to convey money from big markets to small markets to try to compensate for an irrational cap system. They are assuming 100pct risk on the capital invested in their franchises, PLUS capital they may have to add to cover any losses.

The players side ? While individual NFL players take on significant risk, the players as a whole take on ZERO risk. If their membership just shows up for games, 53 guys on each team are getting paid. They never have to give the money back or contribute capital to make up losses.

The solution ? Its a system where risks and rewards are allocated properly. Owners should take on more risk than players because they have more upside from franchise appreciation. They shouldnt take on all the risk. Nor should players be excluded from sharing in the upside of equity appreciation. Im not saying that for example players earn a share of the sale price when an NFL franchise is sold. There are a variety of ways to track or index appreciation of franchises that rewards players that can work better and more efficiently. When the index appreciates the economics available to players appreciate. When the index depreciates, the amount available to players should be reduced as well.

The bottom line of the bottom line is that its time for a new model for professional sports. Merely changing the values of the current model is a recipe for potential disaster. Black Swan events happen in professional sports and always will.