



In the Sports Business, the Biggest Battles Are Fought Off the Field

Published : July 14, 2004 in [Knowledge@Wharton](#)

Televising professional and college sports games is no longer a profitable slam-dunk as the value of broadcast rights have soared and the sports media field has become crowded with new channels and networks, such as Yes and College Sports Television. Professional sports leagues themselves, such as Major League Baseball, want to generate new revenues for team owners through web sites, 24-hour cable channels and marketing deals that could dilute sports franchises for broadcasters.



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The heyday of easy money and fast growth is over, according to a recent discussion among three sports-business professionals at Wharton moderated by Robert DiGisi, who lectures at Wharton on “Marketing in the Entertainment and Sports Industry,” and who owns Iron Horse Marketing. “The growth rate is certainly going to slow,” DiGisi says in an interview, noting that some of the fundamentals that led to an economic boom for the sports business in the 1990s have probably changed for good. For example, the Fox Network spent billions of dollars to secure rights to professional football in the early 1990s as it was establishing itself as the fourth broadcast network. “You could argue that sports built the Fox network,” DiGisi suggests. But now that Fox is firmly established with CBS, NBC and ABC, it may no longer feel the same pressure. NBC, for its part, has signaled its unwillingness to pay the high price of broadcast rights for professional games and has focused its efforts on the Olympics.

Indeed, some new opportunities exist. The popularity of Smarty Jones, a Philadelphia horse that received a barrage of media attention last month when it was favored to win the Triple Crown (it didn’t), shows that the public has an appetite for sports drama and a good story. Luck and a strong competitor can pull a sport such as thoroughbred racing, which has been in decline for 10 to 15 years, back into the public consciousness. “I can’t pinpoint any particular marketing effort that would have propelled Smarty. If anything, it was the romance established by the movie *Seabiscuit*,” DiGisi says. But it’s unclear whether the industry can maintain the momentum.

Cracks developing in the once-cozy field of sports media companies and team ownership were discussed by panelists Robert A. Bowman, president of the company that operates official Internet sites for professional baseball, and ESPN executive J. P. “Tim” Dolman. Promoting the excitement of sports is a mutual goal for both ESPN and the league, but broadcasters and owners are jockeying for control of sports content, advertisers and new technology. Some concerns are also emerging that the field is becoming saturated as both groups attempt to sell more services and products to the same customer – fanatical fans.

“It’s not to say there is doom and gloom but I do believe that there has to be a reordering of this,” notes Dolman, vice president and director of ESPN ABC Sports Customer Marketing & Sales. “The leagues are going after some of the same advertising dollars [as we are] and are signing up sponsors. They are becoming competitors, and it is something we will have to deal with in negotiations so we can both make money.”

The National Basketball Association (NBA) and the National Football League have started 24-hour television channels that are available on the digital tier of cable service. The National Hockey League (NHL) and professional baseball are expected to have channels within a year, Dolman says. The presence of these channels, and their cost of operation, will put pressure on leagues to convince official sponsors to increase spending directly on their media vehicles. Each league has 15 to 25 official sponsors, which include beer, sneaker and auto companies. “They are eating into the revenue sources,” Dolman says in an interview. “We believe a certain amount of sports dollars is out there, so the more networks there are, the more you have to split up the pie.”

This will have a chilling effect on how much ESPN and other broadcasters pay for major league sports rights. The current NFL contract, paid by broadcasters, is worth about \$2.2 billion a year, according to industry sources. The previous contract was worth \$1.1 billion. Industry officials say the next NFL contract will probably only increase 5% to 10%. Some professional sports contracts may even decline in value. “The bottom line is that ... they are making it difficult for us to make our money back,” Dolman says. ESPN already has dropped NASCAR racing.

To fill the 24 hours of air time without expensive professional sports, ESPN has developed proprietary sports programming with the X-Games and the Great Outdoors Games. It has also developed news and entertainment programs, such as “Cold Pizza” and original movies. But even sports news shows are becoming more expensive, Dolman notes. That’s because leagues are charging ESPN when it wants to do a feature that uses images outside the “48-hour news window,” according to Dolman.

ESPN is the largest player in the sports-broadcasting business with its cable channels as well as a magazine, radio network, web site and affiliated programs on ABC. Its lucrative sports franchise was one of the primary reasons that Comcast, a major cable services provider, made an unsolicited bid to buy the Walt Disney Co., which owns ESPN, earlier this year. (Comcast later dropped the bid.) ESPN is seeking to expand in other ways, too. It has signed a cross-marketing deal for an “ESPN flavor” Gatorade, which is actually a red berry flavor, that will come in at least one billion bottles. The deal is an “off-channel” promotion and is connected to ESPN’s 25th anniversary later this year. “All this is part of change, and at ESPN we’re a company that reacts to change all the time,” Dolman says.

Bowman, president and CEO of Major League Baseball Advanced Media, which has about 220 employees running about three dozen web sites for pro baseball, says his company will not compete aggressively with ESPN and other broadcasters for big advertisers. But baseball’s team owners want to generate more revenue for themselves. Bowman’s company sells web site subscriptions, recently signed a deal to broadcast baseball games on cellular phones for a fee, and maintains a video library of the 150 best games in baseball history. They can be downloaded for \$2.99 a game. “Digital media has allowed the league to reach people like they never could before,” Bowman notes.

Bowman acknowledges financial stresses in the sports-media business. “Prime time has stayed flat, but everybody else has made more money. While we’re all nervous about the future ... we’ll all get our fair share. If we’re pigs, we won’t.” As for the deal to listen to baseball games on your cellular phone, “It will not make us better citizens but it is a slick way to listen to baseball games, especially if you do not want to be talking to someone,” Bowman jokes. He warns that professional baseball will “get more protective of its rights” as the owners realize how valuable they are. Even with such a clampdown, though, he believes the sports-business pie “will just get bigger.” In part to help make that happen, Bowman says baseball has embarked on a marketing effort to keep the 150-year-old game of baseball young. “We need to get a little

hip,” he says.

Jon Gurevitch, vice president of CN8 Sports, a regional network that is part of Comcast, and a former play-by-play announcer for the 76ers, offers a different perspective. Competition to broadcast college games for schools that don't have a wide national fan base, such as those at the University of Pennsylvania and other Ivy League institutions, is heating up and becoming more expensive, he notes. The Yes Network has experimented with broadcasting a limited number of Ivy League football and basketball games. “As we see more and more niche television networks, we see more competition for certain niche sports,” he says, adding, “Some events that used to be for the taking are not there anymore.” To adjust, CN8 is negotiating deals with the major colleges within the Comcast service territory and focusing coverage on sports that have been neglected by the major broadcasters. These include amateur elite gymnastics and figure skating and boxing. Gurevitch says the production costs for those sports are lower than college football, and the audience is larger.

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