SPORTS BROADCASTING

A Thesis Presented

by

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CHAPTER 1

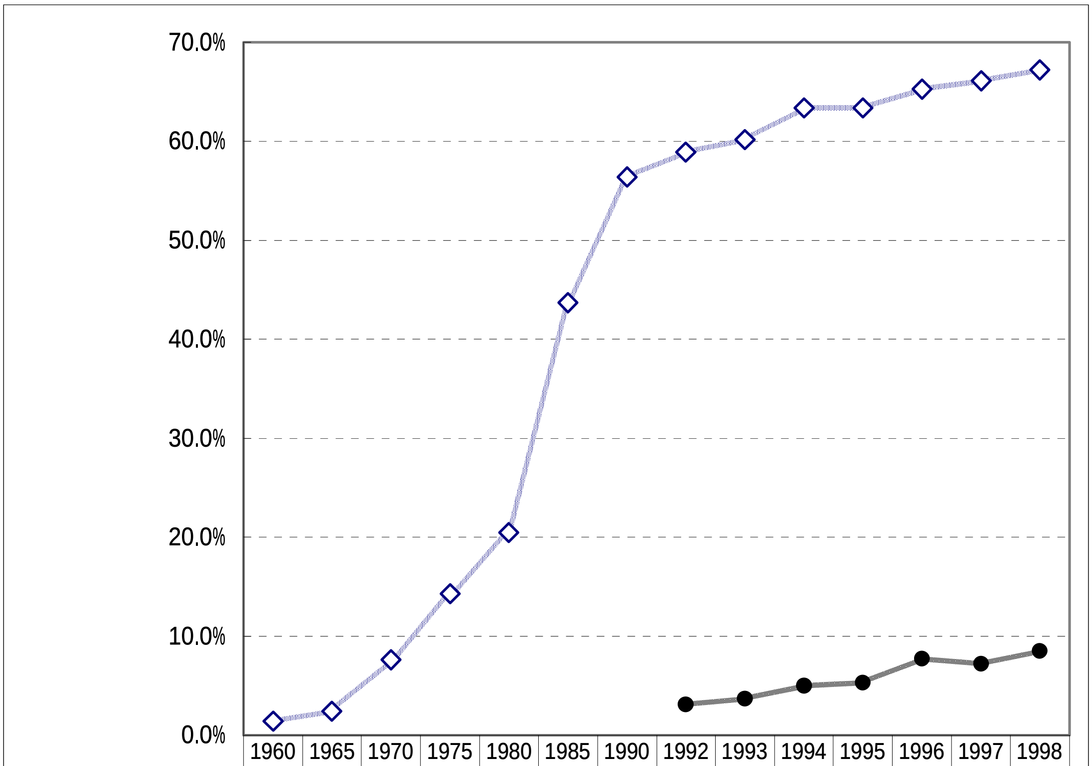
INTRODUCTION

Although television is a relatively mature industry in the United States, it is in the midst of a boom period throughout the rest of the world. Graph 1.1 compares the diffusion of cable television in the United States to Japan. Since 1960, the diffusion of cable in the U.S. has increased from 1.4% to 67.2%. In contrast, Japan's level of cable diffusion is still less than 10%. People living in Tokyo, capital of Japan, while not paying subscription fees have to be satisfied with only two public television and five major network channels.

In the United States, television became a primary source of revenue for professional sports leagues in the 1980s and early 1990s. (Quirk & Fort, 1992) In 1960, National Football League (NFL) media income was $3 million and its competitor, the American Football League (AFL) earned $1.6 million. In 1980, a decade after the merger of the AFL and NFL, the combined league earned $167 million from its broadcast contract. By 1990, media revenues had grown to $948 million. While there is a symbiotic relationship between broadcasting and professional sport leagues in the United States, the situation is very different in Japan.

Relationships with the television industry are underdeveloped for the Japanese semi-professional sports leagues of American football, basketball, and ice hockey. The top American football league in Japan (X-league), for example, sometimes financially compensates major networks to broadcast the championship game. Even though a small sports cable TV station broadcasts the leagues regular season games of the league, the rights fee is so small ($5,000) that it does not even cover the operating costs of the league. Therefore, each team in the league is required to pay ¥8000,000 ($80,000) annually to sustain league operations.

Graph 1.1
Diffusion of the Cable Television in the United States and Japan



	1960	1965	1970	1975	1980	1985	1990	1992	1993	1994	1995	1996	1997	1998
United States	1.4%	2.4%	7.6%	14.3%	20.5%	43.7%	56.4%	58.9%	60.2%	63.4%	63.4%	65.3%	66.1%	67.2%
Japan								3.1%	3.7%	5.0%	5.3%	7.7%	7.2%	8.5%

Source
Diffusion of CATV in Japan Copyright(C) 1998 Video Research Ltd.
Diffusion of CATV in US 1960 to 1985: 17th Edition Of TV DIMENSIONS '99
1990 to 1998: INTERNATIONAL TELEVISION & VIDEO ALMANAC 44TH EDITION

Of the three major Japanese professional sports (Baseball, Soccer, Sumo Wrestling), professional baseball and sumo wrestling have fared the best with the television industry. In 1993, the average rating of sumo wrestling ranked No.1 with 15.6% and professional baseball ranked No. 2, with 15.3% (Takita, Isono & Namura, 1993). Sumo wrestling, broadcast only by public stations, has long been the king of entertainment for adult males. The annual broadcasting rights fee is estimated to be around $20 million (Takita, Isono & Namura, 1993).

In baseball broadcasting, since there are no blackout rules, all games of the most popular team, Yomiuri Giants, are broadcast in every city in Japan even if a local franchise is playing a game on the same day. However, baseball broadcasts, especially games of the Yomiuri Giants, have long been a very popular television program in the country.

Table 1.1 depicts the number and average television rating of Yomiuri Giants games broadcasted each year from 1990 to 1999. As the table shows, television ratings of Yomiuri Giants games have hovered around 20% for the past 10 years.

Table 1.1
Annual Yomiuri Games Televised and Average Ratings
(1990 to 1999)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Games	122	118	125	125	129	129	136	135	142	135
Rating	20.7	17.2	19.3	21.5	23.1	19.9	21.4	20.8	19.7	20.3
Wining percentage	.677	.508	.515	.492	.538	.554	.592	.467	.541	.556
Ranking	1^{st}	4^{th}	2^{nd}	3^{rd}	1^{st}	3^{rd}	1^{st}	4^{th}	3^{rd}	2^{nd}

Source: Video Research Ltd.

Table 1.2 displays the television ratings of major prime time programs in the United States from the 1992-93 season to the 1997-98 season. Contrasting ratings for the Yomiuri Giants with major primetime programs in the U.S., only ER and Seinfeld have a comparable audience draw.

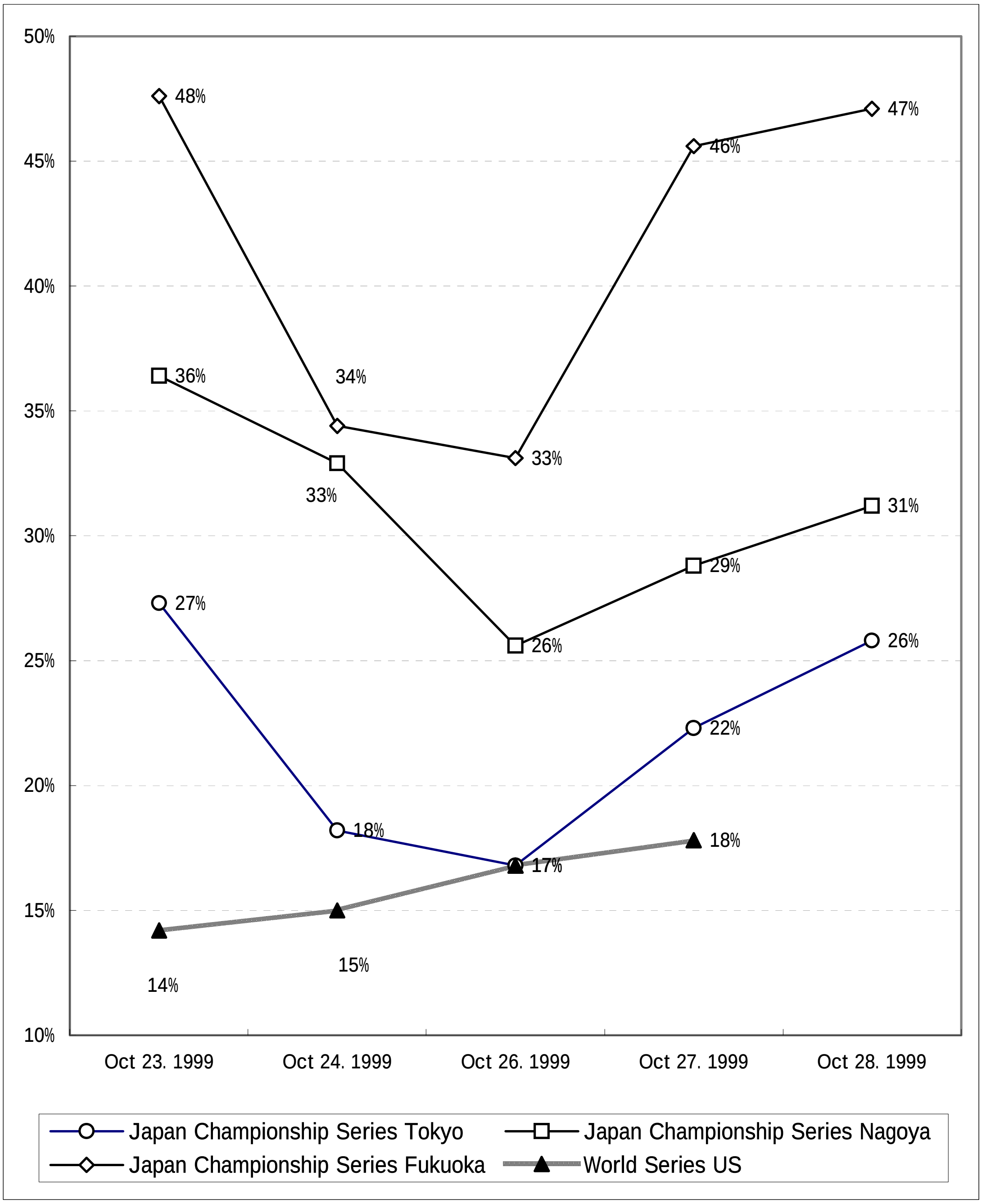
Table 1.2
Major U.S. Primetime Program Ratings
(1992-93 to 1997-98)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
ER			20	22	21	20
Seinfeld		19	21	21	21	22
Friends			16	19	17	16
Home Improvement	19	22	20	17	14	12
NFL Monday Night Football	17	17	18	17	16	15

Source: 17th Edition Of TV DIMENSIONS '99

Graph 1.2 depicts comparative ratings for the 1999 U.S. World Series (New York Yankees vs. Atlanta Braves) and Japanese Championship Series (Fukuoka Daiei Hawks vs. Chunich Dragons, based on Nagoya). Ratings are provided for the Japanese Championship Series for the competing team's metropolitan areas, as well as the Tokyo market. As the graph shows, ratings of the championship games in Japan far exceed those of the U.S., which coincidently were played on the same days. This data is even more surprising given that the Yomiuri Giants did not play in the Japanese series, while the New York Yankees appeared to the World Series that year (graph 1.2).

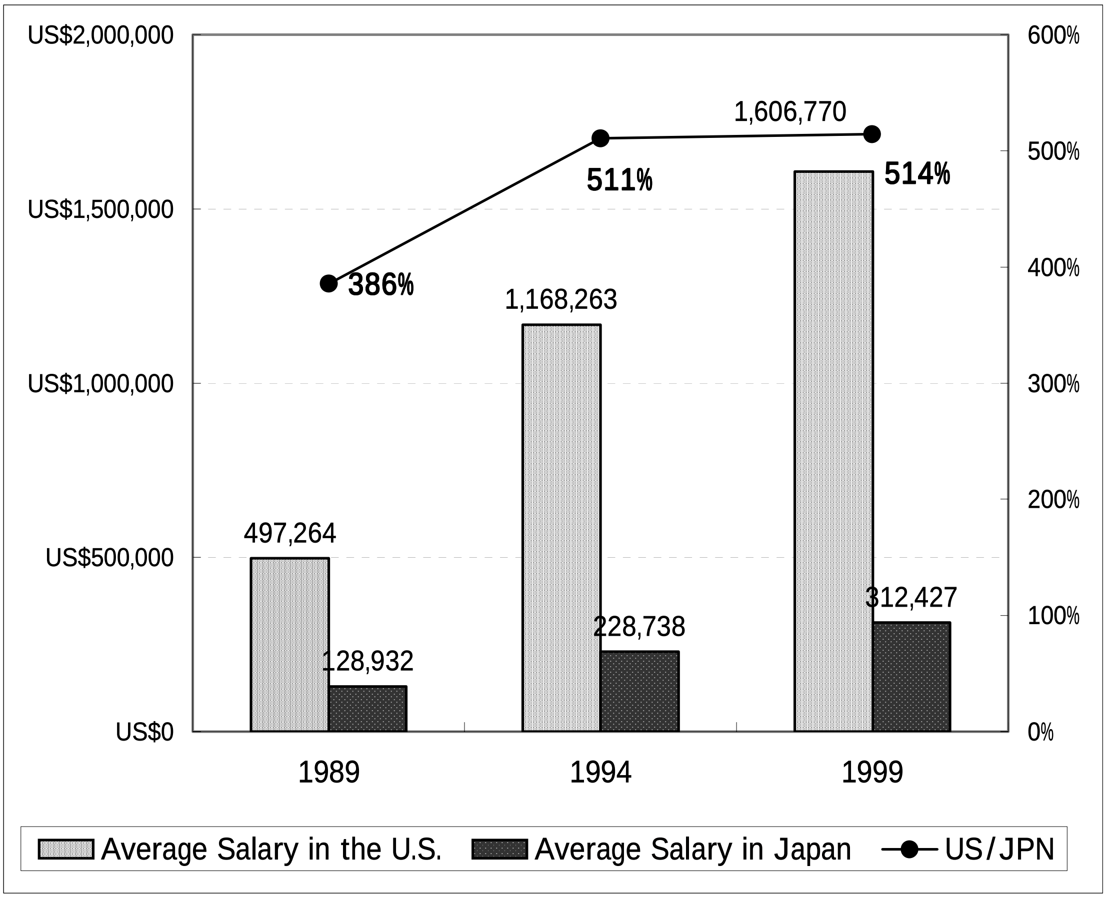
Graph 1.2
1999 Television Ratings of Professional Baseball Championship Games in the United States and Japan



Source:
JAPAN: Video Research Ltd,
US: Sports Business Journal Nov. 8-14 & 15-2

Although professional baseball has scored high broadcast ratings in Japan, there is a great difference in players' average salaries in professional baseball league between Japan and the United States. Graph 1.3 compares average salaries in Major League Baseball (MLB) with Japan Professional Baseball in 1989, 1994, and 1999. As the graph shows, the gap in average salaries has been increasing during the past decade.

Graph 1.3
Average Salary (MLB and Japanese Professional Baseball)
(1989 – 1999)



Source:

JAPAN: Japan Professional Baseball Players' Association

US: Major League Baseball Players' Association

In U.S. baseball history, two factors – introduction of free agency and increasing media income - caused salaries to escalate. Thanks to the introduction of free agency in the mid 1970s, the average baseball salary jumped from around $40,000 to $115,000 during the decade. During the 1980s, baseball salaries increased by almost 650 percent, closely matching the increasing rate of league total media income during the same period (Quirk & Fort, 1992).

Free agency was introduced in professional baseball in Japan in 1993, resulting in increased salaries. After the 1999 season, Nobuyuki Hoshino, a left-handed pitcher for the Orix Bluewave, whose salary in 1999 was $1 million, signed a $5 million three-year contract with the Hanshin Tigers. Another left handed pitcher for the Daiei Hawks, Kimiyasu Kudo, whose salary in 1999 was $1.5 million was reportedly offered a $20 million four-year contract with the Yomiuri Giants. However, as Graph 1.3 indicates, there is still a great difference in baseball players' average salaries between Japan and the United States.

This discrepancy warrants further analysis of broadcasting contracts for professional baseball in Japan. Unfortunately, most Japanese baseball franchises and television networks are unwilling to reveal details of broadcasting contracts (Harada, 1999). To further pursue this line of inquiry, however, would lead into an explanation of the complex Japanese business culture that is beyond the scope of this thesis. From the Japanese point of view, it is more interesting to examine why U.S. professional sports leagues are able to sign large broadcasting contracts, therefore sustaining high athlete salaries.

This thesis will examine this and a number of other related issues. In Chapter 2, we examine the relationship between professional sports leagues and sport broadcasting in the United States, not only analyzing the impact of media income on professional sports, but also at how sports have affected the broadcasting business. Chapters 3 through 5 review the history of sports broadcasting. In chapter 3, the early history of television and sports broadcasting in the United States and the process of how league commissioners obtained negotiation power with television networks are explored. Chapter 4 examines the changing situation of the broadcasting industry in the 1980s. In this decade, cable companies, such as ESPN and TBS became key players both in the sports and broadcasting industry. This chapter also explores the relationship between ESPN and TBS, and the major professional leagues in the United States.

In 1990s, the advancement of Fox and vertical integration between entertainment producers and distributors resulted in an increasingly complex and competitive industry. Chapter 5 examines the increased intensity of competition in the broadcasting industry and its influence on the professional sports leagues in the 1990s.

CHAPTER 2

TELEVISION AND PROFESSIONAL SPORTS

Babe Ruth vs. Shawn Green

On November 9, 1999, the Los Angeles Dodgers signed a six-year contract averaging $14 million a year with outfielder Shawn Green. In 1999, the Dodgers made Kevin Brown the highest-paid player in baseball history with a seven-year contract averaging $15 million a season.

What is the rationale for these escalating salaries? Given current conditions, what would be the value of superstars of MLB history in today's dollars? In the April 5-11 1999 issue, Sports Business Journal analyzed the records of 290 of baseball's all-time greats, estimating what their peak performances would have been worth in the 1999 players' salary market. Table 2.1 compares the performance and annual salaries of the Dodgers' Kevin Brown in 1998 to Christy Mathewson, pitching ace of the New York Yankees in 1908, and the Dodgers' Shawn Green in 1999 (at the Montreal Expos) to Babe Ruth in 1929.

According to the Sports Business Journal, in 1908, Christy Mathewson led the National League in wins, earned run average, complete games, innings pitched, strike outs, shutouts, and saves. The Giants rewarded him with a $10,000 1909 contract, which would be equivalent to $200,000 today. Based on a detailed study of the contracts signed by 56 free-agent hitters and 27 free-agent pitchers after the 1998 season, the study concludes that he would have commanded $24.8 million per season in today's market.

Table 2.1

Performance and Salary Comparisons:
Historical Superstars and Current Los Angeles Dodgers Players

Year	Player	SO	W	L	ERA	Salary	Present Value	Estimated Salary
1998	Kevin Brown	257	18	7	2.38	$15 million		
1908	Christy Mathewson	259	37	11	1.43	$10,000	$200,000	$24.8 million

Year	Player	Ave	R	HR	RBI	Salary	Present Value	Estimated Salary
1999	Shawn Green	0.321	106	35	100	$14 million		
1923	Babe Ruth	0.393	151	41	131	$52,000	$492,000	$18.8 million

Source: Sports Business Journal April 5-11

Babe Ruth, who in 1923 had a .393 batting average, 151 runs, 41 homeruns, 131 runs batted in, would have commanded $18.8 million today. His actual pay for 1924 was $52,000, equivalent to $492,000 in today's dollars. In 1931, Ruth signed his most famous contract for $80,000, exceeding President Herbert Hoover's annual salary of $75,000. When Ruth was asked if he deserved to make more than the president, he is said to have replied, "Why not? I had a better year than he did." (Staudohar, 1996, p.1) However, due to soaring players' salaries, the 1999 annual salary of the president of the United States ($200,000) is lower than median salary ($232,500) of MLB pitchers under 25 years old (Seligman, 1999).

Total media income and players' average salary

Since the reserve clause in baseball was a disincentive for owners to pay high salaries to players (Staudohar, 1996), it can be easily concluded that this clause was one of the reasons of the underpayment of Mathewson and Ruth. However, The Sports Business Journal lists 64 players whose present-day worth would have topped Brown's salary of $15 million. This list includes 6 players active after 1976, when free agency was introduced and the reserve clause was overturned in MLB. Table 2.2 depicts the estimated salary in today's market and performance of these six players. Clearly, the market price for the players has continued to increase, even though free agency was a reality when these athletes were active.

Table 2.2
Players exceeding Kevin Brown's salary
(post free agency introduction)

Year	Player	Estimated Salary	SO	W	L	ERA
1988	Orel Hershier	$16.6 million	178	24	7	2.26
1988	Frank Viola	$16.6 million	193	24	7	2.62
1986	Mike Scott	$16.2 million	306	18	10	2.22
1979	Mike Flanagan	$16.0 million	190	23	9	3.08
1978	Ron Guidry	$16.0 million	248	25	3	1.74
1983	LaMarr Hoyt	$15.8 million	148	24	10	3.66

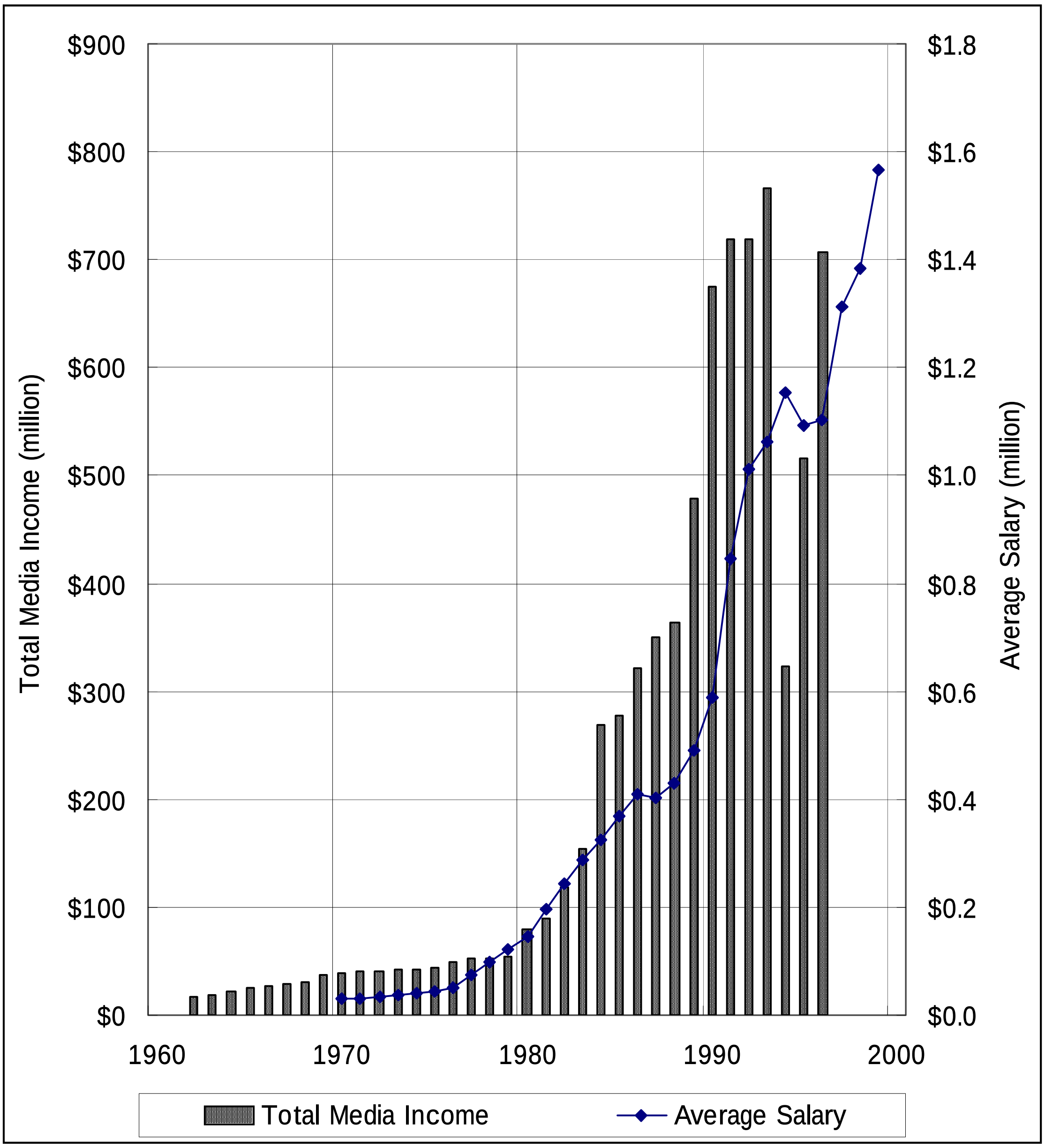
Source: Sports Business Journal April 5-11

The most significant factor influencing the players' market value is the revenue of each franchise, which is primarily comprised of media income, ticket sales, luxury box rentals, personal seat license fees, stadium income and memorabilia sales. Of those revenue sources, media income became the prominent source of revenue for pro sports leagues in the 1980s and early 1990s (Quirk & Fort, 1992). Financial World magazine research estimated that 1996 media income accounted for 38.2 percent of MLB revenue, 55.3 percent of NFL revenue, and 36.9 percent of NBA revenue (Badenhausen & Nikolov, 1997).

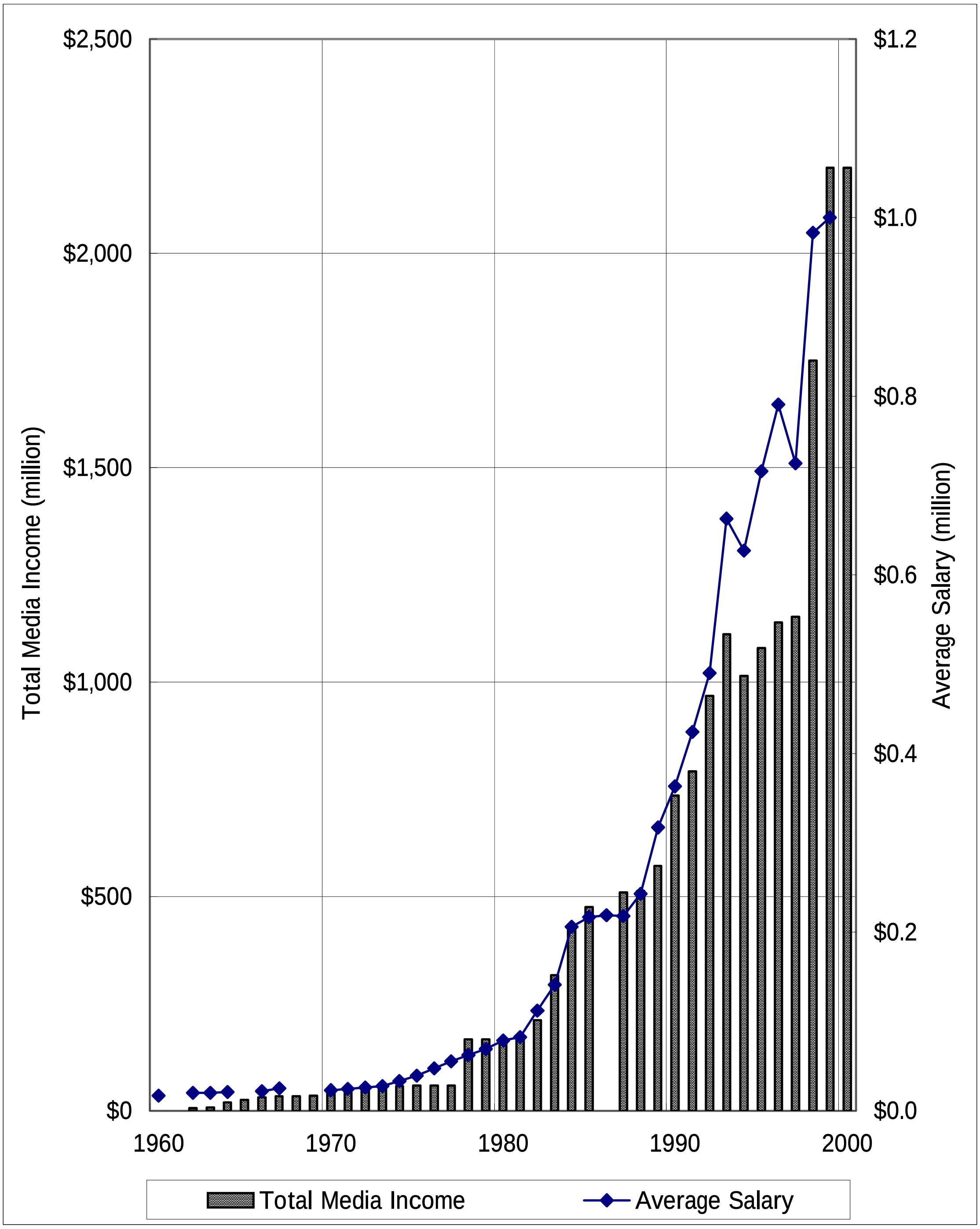
Graphs 2.1 through 2.3 show the growth in total media revenue and average salary in the MLB, NFL, and NBA from the early 1960s to the late 1990s. Competition in the U.S. broadcasting industry among the three major networks (ABC, CBS, and NBC) and cable systems began in the early 1980s and intensified in the 1990s because the emergence of a fourth network, FOX. With professional sports broadcasting increasing in value, player salaries have also escalated.

Since 1996, broadcasting contracts for major professional leagues in the United States continued to grow. In late 1999, MLB agreed to a six-year $851 million contract (including a $125 million signing bonus and $36 million for radio) with ESPN, while still in the midst of a five-year $1.7 billion contract with FOX, FOX SportsNet, and NBC. For the NBA, after a four-year $1.15 billion ($287.5 million/year) national broadcasting contract expired at the end of 1998 season, the league agreed to a new four year $2.64 billion ($660 million/year) national contract with NBC and TNT. In 1998, the NFL, which had a four-year $4.388 billion ($1.097 billion/year) national contract with FOX, NBC, ABC, ESPN and TNT, renewed its national broadcasting contract for eight years and $17.6 billion ($2.2 billion/year) with ABC, FOX, CBS and ESPN.

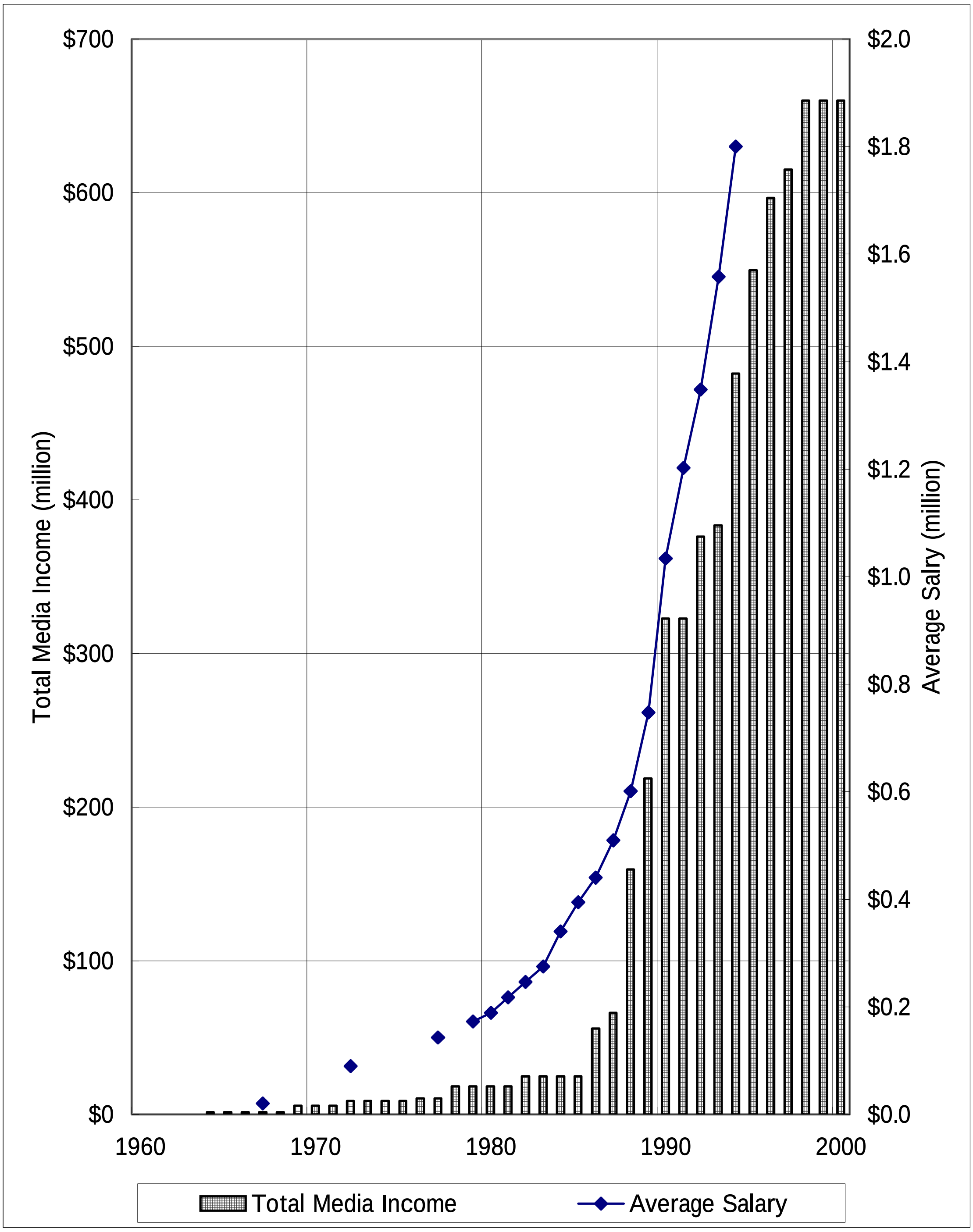
Graph 2.1
Total Media Income and Average Salary
Major League Baseball



Graph 2.2
Total Media Income and Average Salary
National Football League



Graph 2.3
Total Media Income and Average Salary
National Basketball Association



The newest eight year $17.6 billion NFL television contract almost doubled the amount of television money an NFL team received each year, with the figure going from just under $40 million to $73 million per year per team through 2005. NFL teams were told to expect a salary cap of around $51.5 million for the 1998 season. That figure is $10 million higher than the 1997 figure an NFL team could spend on player payroll. This broadcast deal sent several players back to the bargaining table. On September 1998, for example, the San Francisco 49ers tore up wide receiver Jerry Rice's existing contract, which had five years remaining on it, and signed him to a new six-year deal, $36 million with a $4 million signing bonus.

Reviewing the data, it is crystal clear that increasing television revenues is one of the most significant factors impacting the market for players' salaries.

Distribution of national media income among franchises.

All major professional leagues in the United States share national television income equally among league members (except for temporary arrangements discriminating against new expansion teams) to promote the survival of small-market teams. The revenue sharing system originates in the early 1960s. Prior to 1962, in the NFL, individual teams signed their own contracts with local stations or networks. The big-market teams such as the New York Giants generated more television income than small-market teams such as the Green Bay Packers (Klatell & Marcus, 1996). In 1962, when Congress was considering a bill exempting league-wide television contracts from antitrust prosecution, Pete Rozelle, commissioner of the NFL, argued that only a league-wide contract would allow the NFL to share television revenues equally among teams, permitting small-market teams such as Green Bay to survive (Klatell & Marcus, 1996).

Congress agreed with this position and exempted league-wide television contracts from antitrust prosecution. This allowed the NFL to sign its first league-wide contract with CBS. The NFL then adopted the rule of equal sharing of all national television revenues among league teams. This system of revenue sharing became the model for the other leagues as well (Quirk & Fort, 1999).

Impact of local media income

In contrast, local television revenue is exclusively the property of the home team in all leagues. This has created additional problems for small-market teams beyond those caused by a difference in gate revenues among franchises. Since the revenues provided from local television agreements depend on the size of the market, market size creates large disparities in potential revenue to franchises.

Tables 2.3 through 2.5 depict media income of each franchise in the NFL, MLB, and the NBA from 1990 to 1996. Since the NFL generates local media income only from radio and preseason telecasts, the league has a narrow range of team media income. For example, in 1996, the difference between the team with the highest media income (Dallas - $47.0 million) and the lowest (Indianapolis - $42.8 million) was only $4.2 million.

Table 2.3
NFL Media Income (1990-1996)

Team	1990	1991	1992	1993	1994	1995	1996	Average
Atlanta	28.2	32.0	26.0	40.7	38.1	41.5	44.7	35.9
Baltimore						40.7	43.9	42.3
Buffalo	27.5	31.6	35.8	40.9	38.0	40.7	44.1	36.9
Carolina						18.3	20.0	19.2
Chicago	28.5	33.6	38.1	43.6	41.3	44.6	48.0	39.7
Cincinnati	27.5	31.2	35.4	40.4	37.4	39.8	43.0	36.4
Cleveland	27.5	31.6	35.8	41.1	38.2			34.8
Dallas	30.0	34.2	38.2	42.8	40.9	43.6	47.0	39.5
Denver	28.5	32.6	36.4	41.4	39.5	43.4	46.7	38.4
Detroit	27.5	31.8	35.8	40.8	37.5	40.0	43.2	36.7
Green Bay	27.0	30.9	34.8	40.5	38.0	39.1	43.2	36.2
Houston	28.0	33.8	36.1	41.1	38.5	41.1	44.4	37.6
Indianapolis	27.0	31.0	35.0	40.0	37.2	39.6	42.8	36.1
Jacksonville						18.8	20.0	19.4
Kansas City	27.0	31.2	35.2	40.4	38.4	40.8	44.1	36.7
Raiders	28.5	32.7	36.8	42.0	39.2			35.8
Rams	28.8	32.7	36.8	41.5	39.1			35.8
Miami	28.5	32.0	36.0	41.3	38.6	41.0	44.4	37.4
Minneapolis	27.5	32.2	36.1	40.9	37.8	40.2	43.5	36.9
New England	26.5	31.0	35.5	40.6	38.0	43.2	46.4	37.3
New Orleans	27.5	31.3	35.3	40.2	37.8	49.6	42.9	37.8
NY Giants	29.5	34.0	37.3	42.8	39.7	42.6	45.8	38.8
NY Jets	28.5	32.4	35.9	41.0	38.0	42.0	45.2	37.6
Oakland						41.6	44.8	43.2
Philadelphia	28.0	31.9	35.8	41.4	39.3	41.7	44.9	37.6
Phoenix	27.0	30.9	35.0	40.5	38.0	40.5	43.9	36.5
Pittsburgh	27.5	32.1	35.9	40.9	37.9	40.3	43.6	36.9
St. Louis						41.5	44.7	43.1
San Diego	27.0	31.8	35.8	40.8	37.9	40.2	43.4	36.7
San Francisco	29.0	33.0	37.0	43.5	40.8	43.1	46.7	39.0
Seattle	27.3	31.8	35.8	41.8	38.9	41.7	45.0	37.5
Tampa Bay	27.0	31.2	35.2	40.2	37.5	40.4	43.6	36.4
Washington	29.2	33.2	38.3	43.0	40.1	42.4	45.7	38.8
Average/team	27.9	32.1	35.8	41.3	38.6	40.1	43.0	37.0

Source: Quirk & Fort, (1999)

Table 2.4
MLB Media Income (1990-1996)

Team	1990	1991	1992	1993	1994	1995	1996	Average
Atlanta	20.0	18.9	17.3	35.0	16.6	22.1	30.3	22.9
Baltimore	22.5	24.4	25.0	27.4	11.4	18.9	30.6	22.9
Boston	34.1	40.5	40.1	38.0	18.0	24.2	30.9	32.3
California	24.0	27.9	28.2	26.7	8.7	12.8	18.3	20.9
Chicago Cubs	24.2	27.5	28.0	36.0	17.0	21.1	29.3	26.2
Chicago Sox	24.2	25.7	26.2	26.2	7.2	16.4	24.3	21.5
Cincinnati	21.8	24.4	24.4	25.0	8.4	13.6	21.5	19.9
Cleveland	20.0	23.7	23.0	23.7	5.4	15.7	21.6	19.0
Colorado				5.0	6.2	14.9	22.8	12.2
Detroit	22.3	28.8	28.8	30.3	12.5	18.1	24.7	23.6
Florida				5.0	12.7	19.0	23.9	15.2
Houston	24.2	25.2	24.1	25.2	8.0	15.3	22.3	20.6
Kansas City	19.0	20.5	21.0	21.0	5.4	10.9	16.5	16.3
LA	29.7	32.5	33.0	34.0	15.3	24.4	31.8	28.7
Milwaukee	19.0	19.4	19.8	21.5	6.3	9.6	15.1	15.8
Minnesota	20.8	20.5	20.0	22.3	5.4	14.3	20.4	17.7
Montreal	20.0	26.5	24.0	24.0	7.8	12.1	19.4	18.7
NY Mets	38.3	50.0	50.0	46.1	22.2	33.6	30.9	38.7
NY Yankees	69.4	61.0	61.0	63.0	36.4	54.3	69.8	59.3
Oakland	21.2	27.0	25.0	27.4	13.2	17.0	25.2	22.3
Philadelphia	35.0	23.2	23.7	21.0	10.3	15.9	21.4	21.5
Pittsburgh	20.0	21.9	23.3	23.5	8.6	12.2	17.7	18.2
St. Louis	27.4	25.0	25.5	27.0	10.7	19.8	25.7	23.0
San Diego	25.1	23.1	25.5	25.0	9.0	11.1	16.5	19.3
San Francisco	23.3	26.2	24.5	27.5	10.7	19.8	25.5	22.5
Seattle	17.0	22.0	22.0	21.0	6.3	11.6	17.2	16.7
Texas	24.6	25.5	26.8	27.5	10.0	16.9	24.3	22.2
Toronto	28.0	30.0	28.0	31.6	12.9	20.7	28.4	25.7
Average/team	26.0	27.6	27.6	27.4	11.5	18.4	25.2	23.4

Source: Quirk & Fort, (1999)

Table 2.5
NBA Media Income (1990-1996)

	1990	1991	1992	1993	1994	1995	1996	Average
Atlanta	6.7	12.5	13.1	13.4	17.4	17.0	17.7	14.0
Boston	11.4	18.0	19.6	21.4	26.0	29.3	22.6	21.2
Charlotte	4.7	9.6	12.2	15.8	19.5	19.2	19.8	14.4
Chicago	5.6	14.2	17.5	18.3	23.3	24.1	27.3	18.6
Cleveland	6.5	13.9	13.5	13.9	18.3	18.6	19.5	14.9
Dallas	11.1	14.0	13.6	13.9	17.9	17.1	17.7	15.0
Denver	8.1	11.5	11.4	12.2	15.2	16.9	18.6	13.4
Detroit	11.9	15.5	18.9	19.9	21.7	21.3	22.1	18.8
Golden State	6.5	14.1	13.7	14.0	18.6	20.3	20.9	15.4
Houston	8.3	13.8	14.9	14.4	18.6	21.5	25.0	16.6
Indiana	4.9	11.0	11.6	10.6	13.2	17.0	16.8	12.2
LA Clippers	5.2	15.6	18.2	16.5	20.5	18.7	19.1	16.3
LA Lakers	19.3	25.1	25.4	27.7	22.0	34.0	36.5	27.1
Miami	5.0	9.7	12.2	12.6	16.6	17.8	18.8	13.2
Milwaukee	5.0	12.2	12.2	12.6	16.6	17.8	18.8	13.6
Minnesota	5.2	18.5	20.0	14.0	17.0	22.0	19.9	16.7
New Jersey	7.0	13.7	14.1	13.7	19.2	27.3	24.7	17.1
New York	6.8	13.1	12.7	16.3	20.5	25.5	30.0	17.8
Orlando	6.0	12.9	13.2	14.5	19.5	25.4	25.1	16.7
Philadelphia	9.0	14.3	14.5	12.3	16.3	19.8	24.5	15.8
Phoenix	10.1	16.2	16.5	16.8	25.9	35.3	32.5	21.9
Sacramento	4.7	9.4	9.1	9.4	13.6	14.2	15.8	10.9
San Antonio	6.2	12.8	9.4	10.8	13.3	18.6	20.2	13.0
Seattle	4.1	9.7	16.5	15.8	20.2	19.1	19.5	15.0
Toronto							17.0	17.0
Utah	4.6	11.9	12.0	12.3	16.7	16.2	15.6	12.8
Vancouver							14.5	14.5
Washington	4.5	10.6	10.2	10.4	14.5	15.4	16.2	11.7
Average/team	7.2	13.6	14.5	14.8	18.5	21.1	21.3	

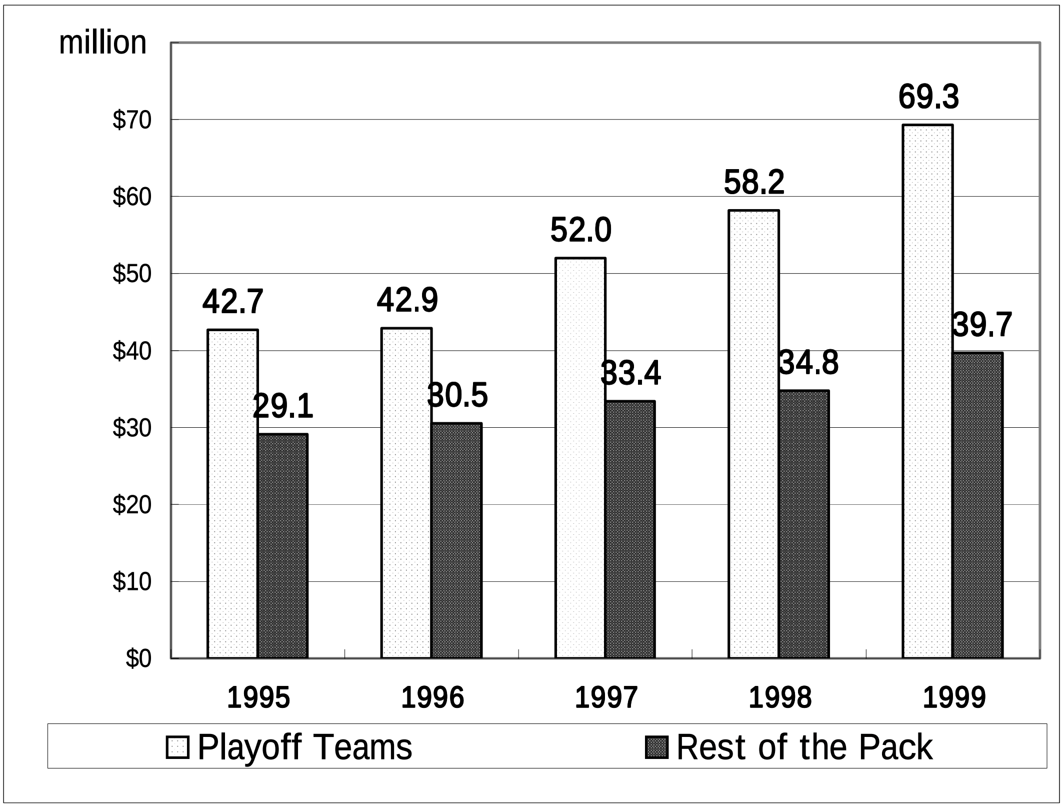
Source: Quirk & Fort, (1999)

In contrast, the disparity created by local media income in MLB is a big issue. In 1996, the team with the highest media income (New York Yankees - $69.8 million) generated over four times as much income as the lowest (Milwaukee - $15.1 million). Additionally, in the NBA in 1996, high media income teams were mainly from larger cities (Chicago - $27.3 million, LA Lakers - $36.5 million, and New York - $ 30.0 million) while the lowest media income teams were primarily from small market teams. (Indiana - $16.8 million, Sacrament - $15.8 million, Utah – 15.6 million, and Vancouver – 14.5 million)

Traditionally, before television entered the scene, revenues from local radio were assigned to the home team. In the early 1950s, baseball owners made the decision to treat television revenues from local telecasts in the same way they treated radio revenues (Quirk & Fort, 1999). Bill Veeck, owner of the St. Louis Browns at the time fought this decision vigorously. In retaliation, the New York Yankees punished Veeck by scheduling all home games with the Browns as afternoon rather than night games to reduce the gate and Veeck's visiting-team share. The 100-0 split rule on the sharing of local television revenues has continued up to the present day (Quirk & Fort, 1999).

In 1989, the Madison Square Garden Network agreed to a 12 year $500 million deal with the New York Yankees for exclusive local cable rights. Thanks to this deal, estimated annual revenue from local television in the 1999 season was $43.2 million for the Yankees, compared to the $1.5 million that the San Diego Padres annually receive for their local contracts (1999 Inside the OWNERSHIP of Professional Sports Teams, 1999). Clearly, franchises in large media markets such as New York and Los Angeles are able to generate far greater amounts than franchises in small media markets, such as Minnesota, Montreal, Kansas City and Pittsburgh. As a result, teams with extensive market areas are able to attract higher quality players with bigger salaries and carry larger payrolls. In fact, the $29 million combined contracts of just two players, Kevin Brown and Shawn Green of the Los Angeles Dodgers, exceeds the entire 1998 payrolls of Cincinnati, Detroit, Florida, Minnesota, Montreal, Oakland, Pittsburgh and Tampa Bay (1999 Inside the Ownership of Professional Sports Teams, 1999).

Graph 2.4
Payroll Comparison for Playoff and Non-playoff Teams:
Major League Baseball



Source: Sports Business Journal October 11-17, 1999

This disparity affects the on-field performance of each franchise in MLB. (Zimbalist, 1999) Graph 2.4 compares the average payroll of teams that competed in the 1999 MLB playoffs to teams that did not make the playoffs. As the graph indicates, the payroll gap between playoff teams and the rest of the field continued to widen in the 1999 season. In that year, playoff-bound teams paid an average of $69.3 million per club and the 22 teams that did not reach the playoffs paid $39.7 million per club. That $30 million gap is the widest yet in a five-year span that has witnessed payrolls go from a contributing to a determining factor in the pennant races.

During the 1999 season, seven of the nine highest-paying clubs made the playoffs: the New York Yankees (first, $85 million), Atlanta Braves (fourth, $76 million), Texas Rangers (fifth, $75 million), New York Mets (sixth, $74 million), Cleveland Indians (seventh, $69 million), Arizona Diamondbacks (eighth, $66 million), and Boston Red Sox (ninth, $61 million). The lowest-paying team to make the playoffs was the Houston Astros, ranked 12th at $53 million.

However, as of 2000, none of the major sports leagues has adopted local television revenue sharing between home and visiting teams. In Professional Basketball: Economic and Business Perspectives, Roger Noll, a Stanford University economist, explains, "The audience for national telecasts is larger if successful teams are in big-market areas. Although some parity among teams in a league is desirable because it creates uncertain outcomes that keep all fans interested, overall league financial strength is greater if big-market teams win championships." Table 2.6 compares World Series television ratings in 1998 to 1999. Interestingly, although the New York Yankees competed in both years, television ratings for the 1998 World Series when competing with a small market team, San Diego Padres, were lower than the 1999 Series against a larger market team, the Atlanta Braves, which is also benefited by national following developed via TBS.

Table 2.6
Comparison of World Series Ratings

Year	Teams (Television Market Ranking by TV Households)			Rating	Share
1999	Braves (Atlanta: 10th)	vs.	Yankees (New York: 1st)	16.0%	26%
1998	Padres (San Diego: 26th)	vs.	Yankees (New York: 1st)	14.1%	24%

Source
1999: Sports Industry Update, November 1. 1999
(http://www.library.umass.edu/research/html/sbrn.html)
1998: TV Sports File, October 27. 1998
(http://www.library.umass.edu/research/html/sbrn.html)
Television Market Ranking by TV Households: Broadcasting & Cable Yearbook 1999

According to NBC, which broadcasted the 1997 Series, ratings were much lower than NBC was getting with its regular programming. Table 2.7 depicts television ratings during the week of October 13-19, 1997. According to the table, four prime time programs of NBC (ER, Seinfeld, Veronica's Closet, and Friends) had higher ratings than World Series Game 2. In addition, another of the network's prime time programs (Union Square) had higher ratings than Game 1 of the World Series. One NBC executive stated publicly that he hoped the Series would end with only four games, so that NBC could telecast its regular programming as early as possible. (Quirk & Fort, 1999)

Table 2.7
Television Rating Week of October 13-19, 1997

	Viewers (million)	Program	Network
1	32.8	ER	NBC
2	31.6	Seinfeld	NBC
3	26.2	Veronica’s Closet	NBC
4	24.8	Home Improvement	ABC
5	24.3	Friends	NBC
6	22.5	World Series Game 2 (Cleveland vs. Florida)	NBC
7	21.1	Touched by An Angel	CBS
8	20.7	Union Square	NBC
9	19.6	NFL Dalas VS Washington	ABC
10	19.4	60 minutes	CBS
11	18.3	NYPD Blue	ABC
12	17.8	NL Championship Series (Florida vs. Atlanta)	NBC
13	17.7	Soul Man	ABC
14	17.2	The Drew Carey Show	ABC
15	16.8	World Series Game 1(Cleveland vs. Florida)	NBC

SOURCE: NIELSEN MEDIA RESEARCH

Based on this analysis, it is clear that competitive balance is not necessarily always in the best interests of the business of MLB. The next section of this chapter examines the influence of sport on broadcasting.

Changing rules of having sports broadcasting rights

In this section, the emphasis shifts away from the impact of media income on professional sports to how sports have affected the broadcast business. In the early 1990s, the upward spiral of rights fees was widely thought to be slowing. It was during the fall of 1990, when the NFL began hearing complaints from the sports divisions at ABC, CBS, and NBC that they were losing millions of dollars a year on their coverage of the NFL. At that time, the league was in the first year of four-year $3.65 billion contracts with three networks (ABC, CBS, and NBC) and two cable networks (ESPN and TNT). It was predicted that the three networks would lose about $260 million on their contracts with the NFL (Lieber, 1993). The NFL owners actually considered giving broadcasters a rebate. Reflecting the pessimistic atmosphere in those days, Sports Illustrated predicted that NFL broadcasting rights would drop from $912 million a year in 1993 to $560 a year in 1994.

However, in late 1993, this projection turned out to be completely inaccurate. News Corp's Fox out bid CBS for the NFL broadcasting rights, agreeing to pay $1.6 billion over four years. Within a year, Fox wrote off $350 million in losses under its NFL contract. However, Fox upgraded and increased its number of affiliate stations from 134 to 199. Also, the affiliate stations that switched from independent status or CBS-affiliates to Fox expanded total coverage of Fox Broadcasting Company from 93 to 98 percent of the U.S. (Klatell & Marcus, 1996). This expanding market coverage contributed to increased viewership for non-sports programming on Fox. Indeed, Fox's fall prime time programming ratings have risen from 7.2 to 7.7 in the three years since the change, while CBS's prime time programming have fallen from 11.8 to 9.6 (Badenhausen & Nikolov, 1997).

In addition, the eight stations owned by Fox at the time have jumped in value by an estimated $500 million, far exceeding one year's right fee—thanks to the potential for greater local ad revenue. Although Fox wrote off $350 million in losses in 1994 on its NFL contract, the network as a whole increased its profits (after the $350 million write-off) from $511 million for the last six month of 1993 to $610 million for the last six month of 1994. (Quirk & Fort, 1999)

After the emergence of Fox, the networks more than ever-viewed sport broadcasting contracts well beyond the issue of profit and loss. Major networks expected losses from sports rights fees to be offset by the immeasurable value to the entire network in terms of affiliate relations, lead-in to entertainment programs and owned and operated station revenues, as well as promotional airtime. According to Sean McManus, president of CBS Sports, “You don’t buy major sports packages now to make money on the deal. You buy them to build the value of your TV network. The idea of making any kind of a reasonable profit on NFL Football or Major League Baseball or probably the NBA based on their upcoming negotiation probably is not a very realistic goal anymore.” (Badenhausen & Nikolov, 1997, Financial World, June 17. p.52)

Influence of sports broadcasting rights for the local affiliate stations.

With $17.6 billion, eight-year contracts covering the 1998 through 2005 seasons, CBS spent $4 billion to outbid NBC for the AFC contract, including two Super Bowl games. Sean McManus was quoted as saying, “We didn’t lose money this year on the deal and we don’t plan to lose money during the next seven years.” (Brockinton, 1999, Sports Business Journal Apr. 19-25, p.19) Christopher Dixon, media analyst at Paine

Webber Inc., noted, “From a strategic point of view, the network needed the NFL.” (Brockinton, 1999, Sports Business Journal Apr. 19-25, p.19) Neal Pilson, a former president of CBS Sports and the president and founder of Pilson Communications Inc., a sports industry consulting firm said, “I think CBS is a bigger, better, more powerful company with the NFL. Without it, with respect to the stock market, they’d probably be in a less-favored position than they are today.” (Brockinton, 1999, Sports Business Journal Apr. 19-25, p.19)

Pittsburgh Business Times, Oct. 30. 1998 supports those comments from an affiliates’ point of view. The article, “Steelers super for KDKA-TV: games, programming should produce revenue bonanza for local CBS affiliate,” reports that the local CBS station in Pittsburgh significantly increased revenue from the CBS-NFL contract.

Until 1994, when Fox outbid CBS for the rights to National Football Conference telecasts, the local CBS affiliated station, KDKA, carried NFC contests in Pittsburgh. However, according to the article, there is nothing bigger than the Steelers in Pittsburgh where 63 percent of viewers are tuned to the Steelers on the autumn Sunday afternoon, and it was the local NBC affiliated station, WPXI-TV, which carried American Football Conference, where the Pittsburgh Steelers reside. Since CBS outbid NBC for the rights to AFC telecast, this 63 percent of local viewers in Pittsburgh moved from the NBC affiliated station, WPXI-TV, to the CBS affiliated station, KDKA.

The article estimates that the revenue from Sunday afternoon infomercials or movies in the Pittsburgh market might be several hundred thousand dollars while a 30-second commercial during an Steelers’s game sells for $22,000 to $25,000, making the entire broadcast worth millions. Also, the CBS-NFL contract opens numerous opportunities for KDKA for ancillary programs, such as a pregame show, a postgame show and a Saturday sports show hosted by Steelers' running back Jerome Bettis. An Important aspect of this situation is that CBS's affiliated station KDKA's gain is, NBC's affiliated station WPXI-TV's loss. The competition over sport broadcasting rights is not only competition among the network but also competition among the local affiliated TV stations.

As mentioned previously, as a result of the increasing revenue from media income, the players' salary market has risen continuously. In return for paying higher rights fee for sports broadcasting, the networks have been using sports as a trump card in their competition not only nationally, but also locally. One thing is certain, television and sport are perfect partners in which each is changing the other: each has made the other richer.

Why sports?

What special quality do sports have that differs from other types of television programming? There are a number of perspectives on this issue. First, one must consider immediacy. Miss seeing a particular episode of "ER" and you can always catch the repeat, and enjoy it just as much. However, miss seeing your team convincingly its biggest rival, and the replay will leave you cold. The desire to watch live sports events is universal: a study of Korea by Spectrum, a British consulting firm, finds that live games attract 30% of the audience while recordings get less than 5% (The Economist, Jul 20, 1996).

From an advertiser's point of view, the audience is the product of commercial broadcasters, not programming (Owen and Wildman, 1992). Sports programs have the unique ability to deliver male viewers. Young males, ages 18 to 34 are notoriously difficult to reach through most forms of mass media. Typically, prime-time television programs attract a 60% female audience. In contrast, with the exception of Figure Skating and the WNBA, the audience for sports broadcasts is about 60 or 70% male (Ashwell, 1998). Since the NFL attracts large numbers of males in every age and economic group, it is considered as an ideal sport for television. The NBA delivers mainly urban, and somewhat younger fans than football. MLB delivers generally older males, while golf and tennis reach specific upscale target group (Blumenthal & Goodenough, 1998).

Only for major networks is there a contrary opinion. As viewership continues to fragment, due to niche cable stations for example, the major network's rationale for continued existence is as the place where the highest amalgamation of viewers gathers. In this situation, major sports events—such as the Super Bowl, the NBA finals and the World Series—will still be able to attract a sizable audience. As a result, big-time sports properties will become even more valuable to major networks. Dennis Lewin, the NFL's vice president of broadcasting, notes that because of their ability to draw viewership, "as the television audience becomes more fractionalized, properties like the NFL will become more important" (Brockinton, 1998, Sports Business Journal, Dec 21-27, p.29).

Rick Burton points out that radio broadcasts of boxing were used to promote the sale of radios, and baseball to persuade people to buy television sets (The Economist Jul. 20. 1996). In the late 1990s, sports still remains one of the motivating factors driving purchase decisions such as the outlay of $200 or more for a home satellite dish. Colleen Galloway, director of pay-per-view at U.S. Satellite Broadcasting, explains that content is the reason people purchase one platform over another and sports are the No.1 reason for people to buy a new platform (Lefton, 1998).

Another unique aspect of sports programming is longevity of brand equity. From 1950 to 1998, 165 series programs placed in the top ten in primetime for one or more full season. On average, these programs lasted 5.9 years, staying in the top 10 for only 2.6 years (17^{th} Edition Of TV DIMENSIONS '99). In other words, not all shows were instant winners; some, like Seinfeld, M*A*S*H and Cheers took time to develop their audiences while others, such as The Fugitive and The Untouchables failed to hold onto their viewers after briefly attaining hit status. Additionally, developing a new program carries a high cost for networks. Each network spends about $100 million annually in purchases of undeveloped concepts, unscripted ideas, unproduced scripts, and rejected pilots (Walker & Ferguson, 1998).

In contrast, primetime aired NFL Monday Night Football stayed in the top ten ranking for eight years. Table 2.7 shows Nielsen television index overall top 25 programs. Twelve Super Bowl games are listed in the top 25 (Four games in 1970s, and eight games in 1980s). The second most listed show is the Roots series with three programs. It should be noted, however, that all these programs were broadcast only in

January 1977. The Super Bowl brand continues to thrive despite retirements of super stars such as Joe Namath, Rodger Staubach, Terry Bradshaw and Joe Montana.

Table 2.8
Nielsen Television Index Top 25 Programs

Rank	Program	Telecast Date	Network	Average
1	M*A*S*H Special	Feb. 28, 1983	CBS	60.2%
2	Dallas	Nov. 21, 1980	CBS	53.3%
3	Roots Pt. VIII	Jan. 30, 1977	ABC	51.1%
4	Super Bowl XVI	Jan. 24, 1982	CBS	49.1%
5	Super Bowl XVII	Jan. 30, 1983	NBC	48.6%
5	Super Bowl XX	Jan. 26, 1986	NBC	48.3%
7	Gone With The Wind--Pt.1	Nov. 7, 1976	NBC	47.7%
8	Gone With The Wind--Pt.2	Nov. 8. 1976	NBC	47.4%
9	Super Bowl XII	Jan. 15, 1978	CBS	47.2%
10	Super Bowl XIII	Jan. 21, 1979	NBC	47.1%
11	Bob Hope Christmas Show	Jan. 15, 1970	NBC	46.6%
12	Super Bowl XVIII	Jan. 22, 1984	CBS	46.4%
12	Super Bowl XIX	Jan. 20, 1985	ABC	46.4%
14	Super Bowl XIV	Jan. 20, 1980	CBS	46.3%
15	ABC Theater (The Day After)	Nov. 20, 1983	ABC	46.0%
16	Roots Pt. VI	Jan. 28, 1977	ABC	45.9%
16	The Fugitive	Aug. 29, 1967	ABC	45.9%
18	Super Bowl XXI	Jan. 25, 1987	CBS	45.8%
19	Roots Pt. VI	Jan. 27, 1977	ABC	45.7%
20	Ed Sullivan	Feb. 9, 1984	CBS	45.3%
21	Bob Hope Christmas Show	Jan. 14, 1971	NBC	45.0%
22	Roots Pt. III	Jan. 25, 1977	ABC	44.8%
23	Super Bowl XI	Jan. 9, 1977	NBC	44.4%
23	Super Bowl XV	Jan. 25, 1981	NBC	44.4%
25	Super Bowl VI	Jan. 16, 1972	CBS	44.2%

Source: 1989 Nielsen Media Research

CHAPTER 3

1920s-1970s
TRADITIONAL U.S. NETWORK-AFFILIATE MODEL AND PROFESSIONAL SPORTS

Supplier-Manufacturer-Distributor

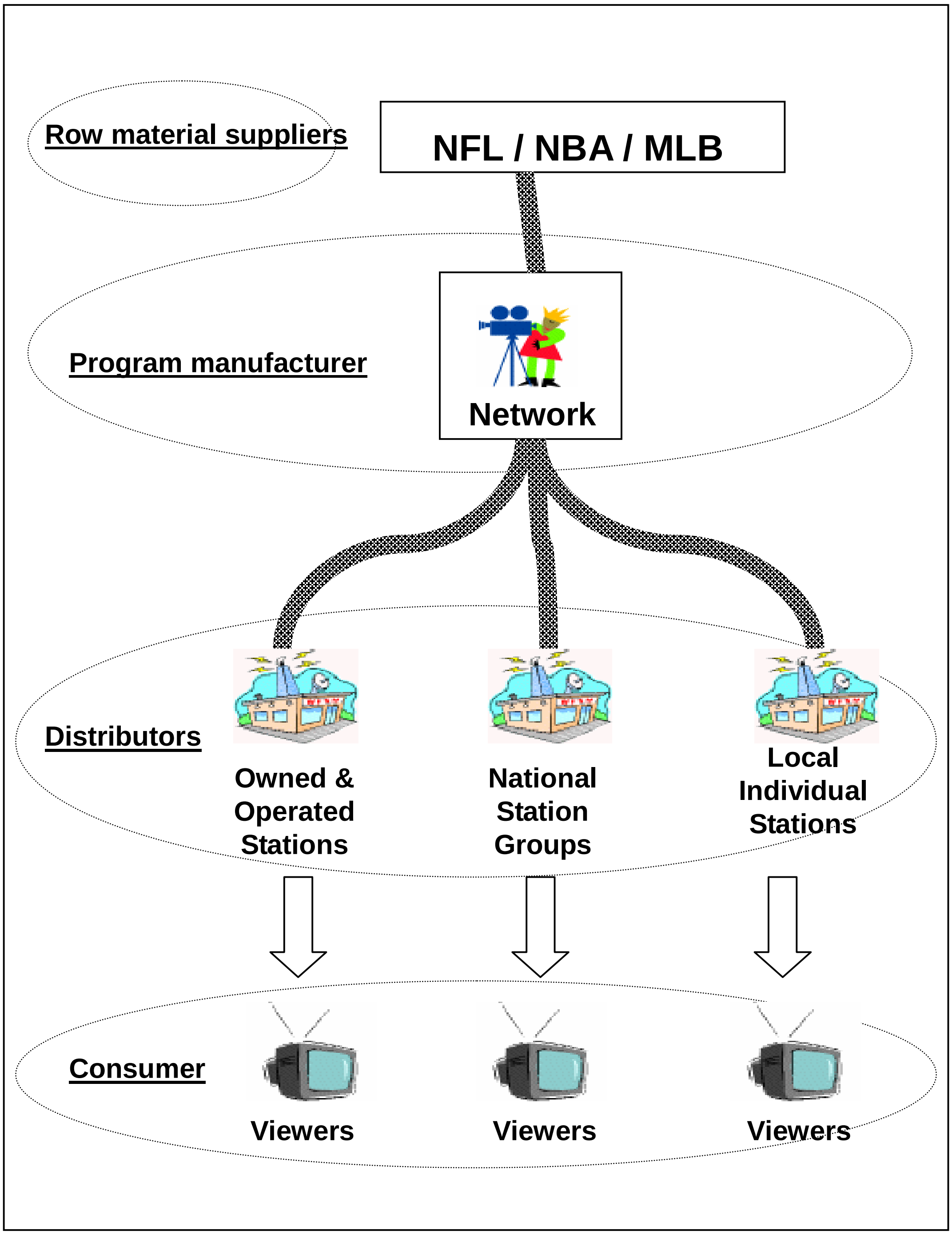
The traditional U.S. television network-affiliate model is similar to the business model of the automobile industry in Japan. Supplied by raw material suppliers, automobile manufactures produce their products, automobiles. In the traditional U.S. television network-affiliate model as with sports broadcasting, professional leagues such as the NFL, NBA, and MLB are raw material suppliers. Networks are supplied content (sports games) by professional leagues and produce their products, sports broadcasting.

Both automobile manufacturers and U.S. networks deliver their products through a distribution channel. Typically, major Japanese automobile manufacturers have three types of distribution channels. In a large market like Tokyo, an automobile manufacturer such as Toyota owns and operates its own affiliated dealers: Tokyo TOYOPET. Toyota also sells its automobiles through regional dealers, which are owned by a regional company that runs several dealers in their region. Also, Toyota sells automobiles through small independent dealers that operate a single shop. To expand sales revenue, providing popular products and maintaining good relationships with these dealers is imperative for automobile manufacturers.

In the traditional U.S. network-affiliate model, distributors are local television stations. Similar to Japanese automobile manufacturers, major networks in the U.S. also have three types of distribution channels. Figure 3.1 depicts the three distribution channels of the traditional U.S. network-affiliate model. First, there are owned and operated stations. NBC, for example, owns and operates 11 local stations in large media market such as New York (WNBC), Los Angeles (KNBC) Chicago (WMAQ), Philadelphia (WCAU) and Washington DC (WRC). Secondly, there are national television groups. In Cincinnati, WLWT Cincinnati distributes the programs of NBC. This local television station belongs to Hearst-Argyle Television Inc., which has 16 local stations. Lastly, small local individual, or “mom-and-pop” stations distribute the programs of networks. These three types of distribution channels, roughly 200 local stations affiliated with ABC, CBS and NBC respectively, deliver the major network products to the end-consumers, viewers.

The difference between the automobile distribution model in Japan and television program distribution model in the United States is, while automobile dealers in Japan never manufacture automobiles themselves nor stock automobiles other than its affiliated manufacturer, local television stations in the United States produce their own programs (i.e. local news, and local sports) and stock from other program suppliers. For example, King World supplies the game shows, Wheel of Fortune and Jeopardy, and talk show, The Oprah Winfrey Show.

Figure 3.1
Traditional U.S. Network-Affiliate Model:
Three Distribution Channels



Revenue sources of local affiliate stations.

There is one other major difference between the two models. While in the business model of automobiles, distributors buy automobiles from manufacturers; in the network-affiliate model, it is network that pays compensation to distribute its products. Actually, networks provide local affiliate stations with two rewards for clearing time for their national programs - compensation and advertising time.

Depending on the network, the popularity of the program, and market size of local affiliate stations, network compensation to its affiliates ranges from several hundred to several thousand dollars per hour in prime-time (Walker & Ferguson, 1998). The second network revenue stream for the local affiliated stations comes in the form of advertising time in network programs that the local affiliate station can sell and generate revenue. Networks often compensate national advertisers when a program does not achieve its audience goals. In each network program, the local station sells 90 to 120 seconds of advertising time mainly to local sponsors. The local station may also sell its local spots to a national advertiser who might want to target a specific market. With the income generated through the sale of commercials in prime time, coupled with the network compensation, the local stations can generate revenue without any direct costs for the program's production (Walker & Ferguson, 1998). In other words, local stations gather viewers from each region and sell to the Networks. Networks gather those viewers from local stations and sell to the advertisers. Television companies are in the business of producing viewers through their programs and selling this audience to advertisers.

Changing distribution system in 2000

For a while, Toyota and Nissan dominated the automobile market in Japan. However, in the late 1980s, the diversified taste and life style of Japanese customers and strong yen changed the realm of those big players. Imported car manufacturers such as Mercedes and BMW entered the market and constructed new distribution channels to expand their market share. In response, Toyota started to operate a new distribution channel to sell imported automobiles, such as Audi and Volkswagen. And now, in late 1999, the launch of autobytel.com Japan provides significant potential to change the distribution system of the entire automobile industry in Japan.

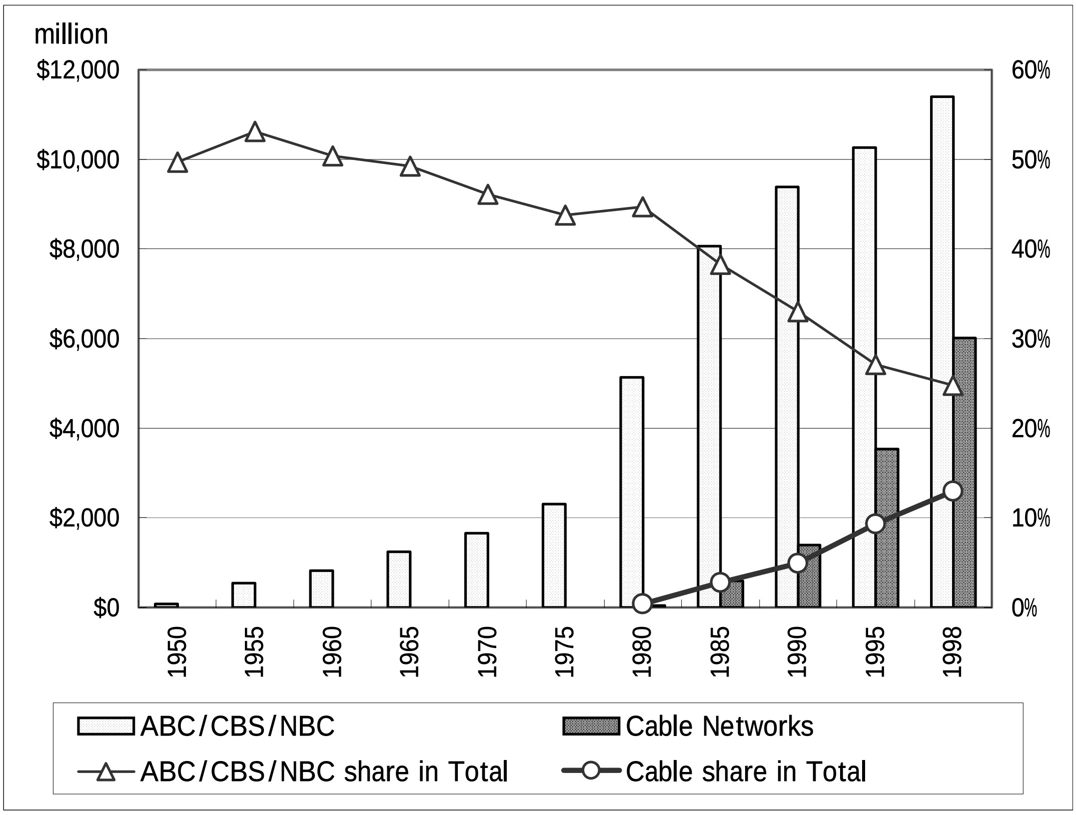
In 2000, U.S. television networks are trying to figure out how to deal with declining market share. Cable is stronger than ever and the networks also have to contend with the Internet. Vertical integration by major players such as Disney, News Corp., and Time-Warner has been changing the entire distribution system of sports broadcasting.

Before examining the competitive situation of the U.S. broadcasting industry in the 1980s and 1990s, let us begin by examining the history of the traditional U.S. television network-affiliate model and the relationship between the network's strategy and sports broadcasting. This chapter will explore the origin of television networks, history of local television stations, the growth of network-affiliate model and the influence of network competition on professional sports league in the United States.

Three Networks' Domination until the late 1970s.

From the late 1940s until the late 1970s, ABC, CBS, and NBC were essentially "the only game in town" (Blumenthal & Goodenough, 1998). Graph 3.1 compares ABC/CBS/NBC and cable in advertising dollars and share of total advertising market from 1950 to 1998. As the graph displays, until the mid-1980s, the three major networks earned about 45% of television advertising dollars.

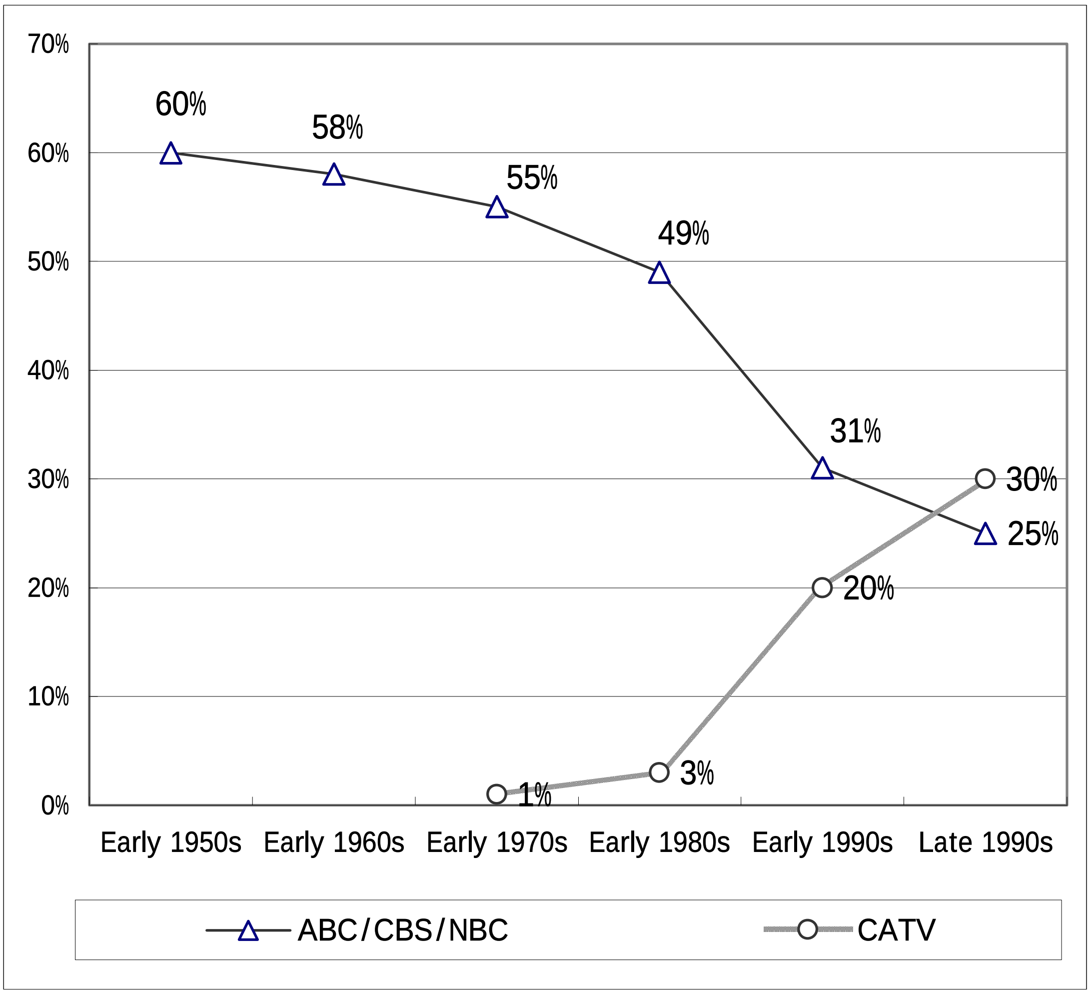
Graph 3.1
Television Advertising Dollars: ABC/CBS/NBC and Cable Shares (1950-1998)



Source: TV DIMENSIONS '99

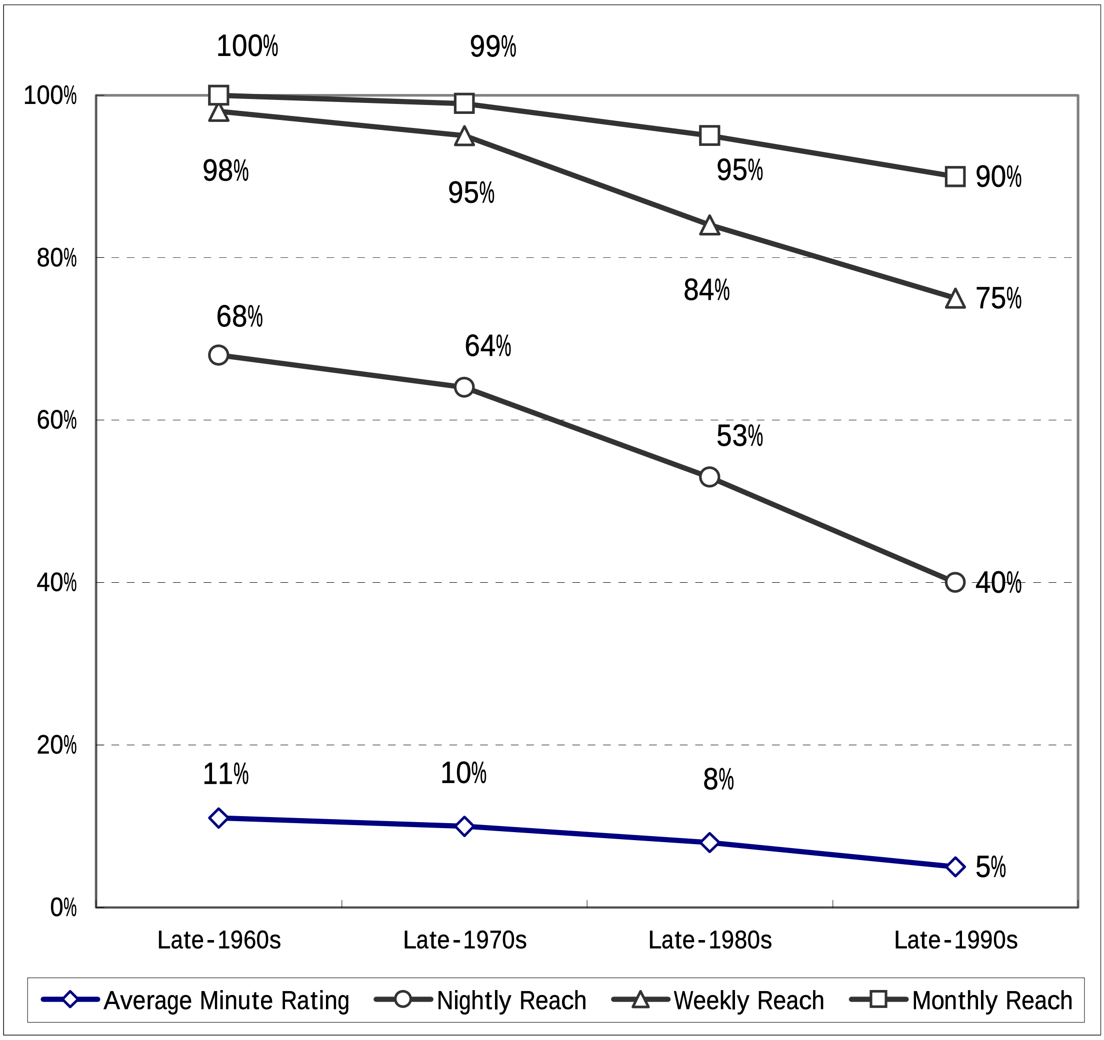
Until the early 1980s, the combined share of the three major networks in the U.S. television home set usage by program source exceeded 50% (Graph 3.2). In the late 1960s and through most of the 1970s, combined nightly reach of the big three was about two-thirds of all 25-54s (Graph 3.3). The three networks carried most available television programming before cable started its own networks in the early 1980s.

Graph 3.2
Estimated Share of U.S. TV Home Set Usage by Program Source
(Early 1950s to Late 1990s)



Source: 17th Edition Of TV DIMENSIONS '99

Graph 3.3
Combined ABC/CBS/NBC Primetime Reach: Adults 25-54
(Late 1960s to Late 1990s)



Source TV DIMENSIONS '99

Early History of Major Networks

All of the three networks, ABC, CBS, and NBC, originated from radio networks in the mid 1920's. In 1926, a subsidiary of the Radio Corporation of America, the National

Broadcasting Co., started the first regular radio network with 24 stations. For its first coast-to-coast hookup, the radio network broadcast a football game in 1927 (Broadcasting & Cable Yearbook 1999). In the same year, CBS went on the air as a radio network with 16 stations.

Unfortunately, the combination of lack of government regulation and the ease of erecting a transmitter and broadcasting on any desired frequency lead to conflicting signals in the airwaves. In 1934, the Federal Communications Act was passed by congress, entrusting the Federal Communications Commission (FCC) with responsibility for managing the public airwaves and leasing them with a renewable license to broadcasters (Klatell & Marcus, 1996).

NBC received permission to run an experimental television station, W2XBA, in 1928. Shortly thereafter, CBS began utilizing experimental station WXAB for regularly scheduled programming (Broadcasting & Cable, 1999). In May 17, 1939, NBC broadcast the first sports contest, a baseball game between Princeton and Columbia (Catsis, 1996). Because NBC owned only one camera at the time, one camera handled the entire game. At the time, there were only around four hundred television sets in New York (Catsis, 1996).

In 1940, NBC became a television network when it provided the first network programming to two stations in New York. In 1941, the FCC granted NBC the first commercial TV license and the network signed up with Procter & Gamble, Lever Brothers, Sun Oil and Bulova (Broadcasting & Cable Yearbook 1999). In the same year, CBS began weekly broadcast in New York. By 1943, NBC occasionally broadcasted boxing matches (Blumenthal & Goodenough, 1998). Because one or two cameras could handle the matches easily, boxing was ideal in the early years of sports television (Catsis, 1996). By 1944, Gillette had signed to sponsor three nights a week of NBC boxing and wrestling telecast (Blumenthal & Goodenough, 1998).

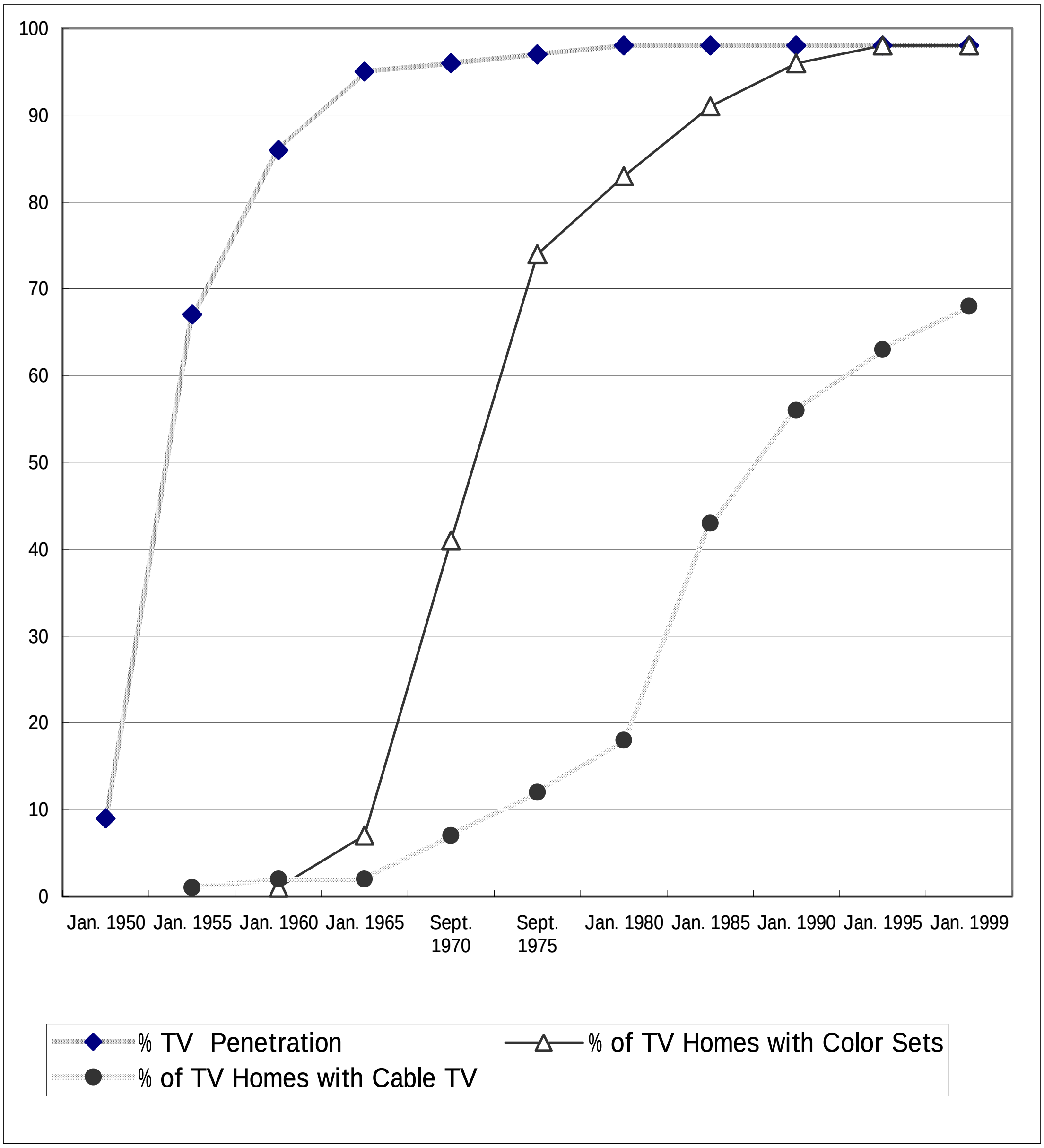
For some years NBC operated two radio networks, the Red and the Blue. However, after the Federal Communication Congress adopted chain-broadcasting rules in the early 1940s, prohibiting one organization from operating two networks serving the same area at the same time. In 1943, RCA sold the NBC Blue to Edward J. Noble (Broadcasting & Cable Yearbook 1999). It ultimately became the American Broadcasting Co. (ABC). Television arrived for ABC in 1948 when ABC carried its first TV program: "On the corner."

In 1947, the World Series was broadcasted by NBC for the first time. Television sets were so expensive that the majority (3.5 million) watched the series from bars and taverns. To survive at that time, taverns had to own a television set and advertise the fact. During the 1948-49 season, 30 percent of prime time programming was sports (Catsis, 1996).

Networks in the 1950s—Coast-to-coast, Color and Hollywood.

The decade of the 1950's brought many important advances to the Television industry. Mass production of television set began in 1950 (17^{th} Edition Of TV DIMENSIONS '99). Graph 3.4 indicates the penetration of television sets, color television sets, and cable television into the U.S. households from 1950 to 1999. Households with a television set had increased from 9% in 1950 to 86% in 1960.

Graph 3.4
Growth of Television Penetration
(1950 – 1999)



Source: TV DIMENSIONS '99

In the early 1950's, each network started to compete in areas such as coast-to-coast broadcasting, color broadcasting, and content variety. In 1951, CBS broadcast the first live coast-to-coast television program between New York and San Francisco (Broadcasting & Cable Yearbook 1999). ABC was the first network to look to Hollywood, mostly for programming produced on film. At the time, this was a radical idea. Although Hollywood studios viewed the networks as a threat, ABC successfully convinced the studios to produce "little motion pictures" for the network. Those little motion pictures would soon become known as series (Aulettta, 1991). CBS and NBC soon jumped on the bandwagon. In 1952, CBS opened the industry's first self-contained TV production facility, Television City in Hollywood (Television & Cable Yearbook 1999). During the 1954-55 season, the program "Disneyland" on Wednesday nights became a smash hit for ABC (17^{th} Edition Of TV DIMENSIONS '99). The following year ABC signed exclusive rights with Warner Brothers for TV programming (Television & Cable Yearbook 1999). Employing westerns and private eye shows from Warner Brothers, ABC started to compete in the prime-time hours against CBS and NBC. In the late 1950s, ABC promptly added affiliated local television stations as new stations appeared in many markets (17^{th} Edition Of TV DIMENSIONS '99).

In the mid 1950s, NBC started to offer a growing number of programs in color. In 1954, NBC launched the first regularly scheduled network color series; "The Marriage." In the same year, the network achieved the first west-to-east television transmission with the televising of the Tournament of Roses Parade in color (INTERNATIONAL TELEVISION & VIDEO ALMANAC 44^{th} EDITION). In 1955, NBC first broadcasted color coverage of the World Series. Of three major networks, only NBC had an intimate relationship with the company that made TV sets, RCA. With the desire for increased color television set sales, NBC parent RCA decided to promote a growing number of sports and entertainment shows in color (Catsis, 1996). In 1959, NBC broadcasted 700 hours in color, while CBS and ABC broadcasted almost no color programming (Walker & Ferguson, 1998).

During the late 1950s, broadcasting equipment had come to be smaller. In 1959, CBS broadcasted first live shot from installed camera in the Goodyear Blimp over Miami's Orange Bowl (Catsis, 1996). By January 1960, television penetration in the U.S. rose to 86%. Viewers in major cities enjoyed two or three channels and many small markets benefited from their first stations (17th Edition Of TV DIMENSIONS '99).

The traditional network-and-affiliate model.

The traditional system for the three networks to distribute television programming to U.S. households is via local television stations. Referred to as affiliates, local television stations are the most important element of the television industry. Licensed by the FCC to serve the community, local television stations are in the front line of contact with the audience. It is fair to say that the most valuable asset of a local television station is its operating license.

On average, ABC, CBS, and NBC supply 20-25 half hours per day of programming to their affiliated local television stations. This includes morning shows, daytime talk, soaps, and game shows, evening news, prime time, late night, plus some overnight news programming. On weekends, the distribution from the networks differs; usually with some news and public affairs, children's programming, and sports (Blumenthal & Goodenough, 1998). However, program directors of affiliated local television stations ultimately decide to carry a program that they think is in its community's best interest. Producing local news is a large part of local stations' operation.

The ownership of airtime drives the economics of the network-affiliate relationship. A network compensates an affiliated local station, which elects to carry a network program in which the network has sold commercial time. On the other hand, if the program is produced and aired by the affiliated station, it keeps all revenue from commercials (Klatell & Marcus, 1996).

The networks generate revenue by delivering the largest possible viewers to advertisers. The greater the number of viewers, the higher the advertising rate inevitably climbs. Hence, a system was created by 1950 that did not change for the following three decades. Programs that would draw the largest possible audience were developed by the networks working hand-in-hand with advertisers and advertising agencies (Blumenthal & Goodenough, 1998). To supply the largest number of viewers to the advertisers who provide the networks with revenues, in addition to providing popular programs, networks have elected to work closely with local affiliates.

History of local television stations

Many local television stations originated from local radio stations, completing local media empires—for example, the Chicago Tribune that started WGN radio and later WGN television. Other local television stations were intended, from the beginning, as building blocks for national networks—for example, since the start of its television network, NBC has owned and operated WNBC in New York, WRC in Washington DC, WMAQ in Chicago, WKYC in Cleveland, and KNBC in Los Angeles (Blumenthal & Goodenough, 1998).

Table 3.1 displays the United State's top 10 television groups in 1999. Television groups now own the majority of local television stations. Local ownership of the television stations has clearly diminished greatly (Blumenthal & Goodenough, 1998).

Table 3.1
Top 10 Television Groups (1999)

Rank	Television Groups	Number of stations	U.S. household coverage
1	Fox Television Stations Inc.	23 stations	34.5%
2	CBS Television Station Group	15 stations	32.8%
3	Paxson Communications Corp.	49 stations	29.0%
4	Tribune Broadcasting Co.	20 stations	27.0%
5	NBC Inc.	13 stations	26.6%
6	ABC Inc.	10 stations	24.0%
7	United Television Inc./Chris-Craft Industries Inc.	10 stations	18.8%
8	Gannett Broadcasting	21 stations	17.2%
9	Hearst-Argyle Television Inc.	32 stations	16.1%
10	USA Broadcasting Inc.	13 stations	15.5%

Source: Broadcasting & Cable

Establishment of network-affiliate model

Unlike AM networking over ordinary telephone wires, television networking requires special relay adjuncts. The development of coaxial cable and microwave relay facilities in large measure made network television possible. As early as 1937, motion pictures were televised and sent over the coaxial cable link between New York and Philadelphia. WNBT New York City, WRGB Schenectady, and WPTZ Philadelphia began network operation in 1944 (Television & Cable Yearbook 1999).

In 1946, regular coaxial-cable relay service started between Washington and New York. In 1947, microwave relay service was extended to Boston. In 1948, a midwestern relay system opened and was joined with the Eastern System in 1949. In 1950, the first link in the transcontinental relay system was opened between New York and Chicago, extending to San Francisco the following year. Today, most networks use satellites to distribute their programming to local affiliate stations (Television & Cable Yearbook 1999).

Thanks to this coaxial-cable relay service, most network television affiliations were established in the 1950s and early 1960s (Blumenthal & Goodenough, 1998). However, the process of establishing the network-affiliate model - interconnecting networks and local affiliated stations - in many markets with expensive systems of thousands of miles of coaxial cables, needed plenty of financial support (Walker & Ferguson, 1998). Since NBC and CBS grew out of established radio giants, they were in a better financial position to use radio profits to finance television. NBC and CBS also could use an established program pool. Between 1948 and 1952, hit radio programs were gradually shifted to television (Walker & Ferguson, 1998). Using their strong financial position and superior programming, CBS and NBC signed up with the strongest local stations. By 1954, NBC and CBS had 78% of all affiliated local stations (Walker & Ferguson, 1998).

ABC suffered from a common problem in affiliate station line-up. In 1947, ABC started to offer network television programming, but not nationwide because of the lack of affiliated local stations. In 1951, ABC covered about 35% of the nation with 5 owned and eighteen affiliated stations. CBS tried to merge with ABC mainly for ABC's stations, but upon failing at this endeavor planned to disband the network. However, as part of a plan to lure movies to the television screen, United Paramount Pictures bought the station for $25 million (Auletta, 1991). DuMont's withdrawal from network operation in 1955 was ABC's salvation, freeing stations in important markets to affiliate with ABC. It took about two decades for ABC to reach affiliate parity with CBS and NBC (Walker & Ferguson, 1998). Figures 3.2 through 3.4 show each three networks' affiliate networks in 1969, when U.S. television penetration reached 95%.

Limited channel capacity: Broadcasting industry entry barrier

The television business was closed and of limited interest to outside entrepreneurs from the early 1950s until the mid-1970s. Since the demise of DuMont in 1956, many companies tried to establish a fourth network, but nearly every plan faltered because of the limited channel capacity (Blumenthal & Goodenough, 1998). From networks to local affiliate stations, television programing had been sent through coaxial cable. However, local affiliated stations use electromagnetic radiation as its means of transmission. To distribute broadcasting programs in their area, local television stations need 6,000 kilohertz of electromagnetic spectrum space. Because television stations transmit two carrier waves, one for video and one for audio information, television is spectrum-hungry (Walker & Ferguson, 1998). This is the reason for the limited number of possible channels for commercial broadcasting (Walker & Ferguson, 1998).

There are two means of transmission: VHF (very-high-frequency) and UHF (ultra-high-frequency) television. In the United States, for use by television stations, the FCC has allocated twelve channels in the VHF and 56 channels in the UHF (Walker & Ferguson, 1998). Stations must boost VHF signals to reach beyond about 100 miles. UHF signals can reach less distance than VHF signals, requiring greater electric power for transmission (Vogel, 1998).

Since television stations access the public's airwaves, the FCC limits the number of possible stations in a particular market to reduce interference among the signals of each television station. According to a plan devised by the FCC in 1952, only the very largest markets are allowed to have five or six VHF stations. These stations on the VHF band were almost always affiliated with ABC, CBS, and NBC, or public television. Because many television sets could not receive the UHF signals at the time, to build a successful new network, most of the stations would have to be on the VHF band. This situation resulted in an advertiser preference for VHF stations, limiting UHF revenues.

Additionally, there simply weren't enough unaffiliated major-market VHF stations to support a fourth commercial network. Limited channel capacity was, therefore, the greatest obstacle to further growth of the television industry (Blumenthal & Goodenough, 1998).

This limited competition influenced ABC, CBS and NBC programmers to concentrate on offering the least objectionable programming (Walker & Ferguson, 1998). In the 1960s and 1970s, the number of program types decreased (Walker & Ferguson, 1998). However, the television pie was large enough to make all three networks profitable. It had been said that the television station license is not a license to serve the public interest but a license to print money (Walker & Ferguson, 1998).

Relationship between professional sports and network competition.

In 1921, baseball assigned the local radio rights to the World Series for the total sum of $3,000. This revenue was split between the competing teams (Klatell & Marcus, 1996). RCA, the electronics manufacturer and owner of the radio station NBC, wanted to expand their new service, radio. In return, baseball teams could gain additional revenue from this broadcasting. In the beginning, the purpose of baseball broadcasts was to provide entertainment that would sell radios.

From the 1950s to early 1970s, CBS and NBC competed fiercely with each other. ABC had struggled to catch up with those two giants. In those three decades, the NFL tremendously expanded its revenue from television broadcasting. In 1951, the NFL made only $50,000 from television. By the end of the 1970s, it generated $166.6 million annually from broadcasting rights. The next five sections of this chapter will carefully evaluate how strategies of the three networks and the NFL influenced each other.

1950s—Beginning of NFL broadcast

Until the mid 1950s, professional football's popularity was ranked fourth behind baseball, college football and boxing. CBS and NBC chose not to broadcast NFL games (Klatell & Marcus, 1996). DuMont had broadcast professional football from 1951 to 1954. By 1954, with growing popularity, televised games averaged nearly a 37 percent audience and CBS and NBC started paying attention.

In 1955, CBS bought a regular season schedule for $1 million, and NBC purchased rights to the championship game. All of these contracts were negotiated directly with the participating teams, and there was no league-wide revenue sharing. In 1958, the sudden-death championship game between the Baltimore Colts and the New York Giants garnered 30 million viewers. Clearly, NBC delighted not only its advertisers and viewers, but also affiliated local stations. This game also dispelled the skepticism of the New York advertising community about the value of the game (Klatell & Marcus, 1996).

Early 1960s-AFL and revenue sharing

In 1960, the American Football League (AFL) was born. Attendance was low; the quality of the play mediocre and the AFL lost more than $3 million in its first year. Since both CBS and NBC were well entrenched in the NFL, the networks did not rush after the AFL broadcasting rights. The only option left was ABC which had fewer affiliates than CBS or NBC, reaching a smaller audience, and receiving a smaller share of advertising revenues. This difficult condition forced ABC to be the most innovative network. ABC bought the broadcasting rights of the AFL for roughly $2 million annually over five years (Quirk & Fort, 1992). ABC got the inexpensive programming it was seeking and the AFL got a fragile lifeline.

The NFL was not impressed by the size of the contract. However, a remarkable aspect of this unified, league-wide contract was that the owners of the AFL agreed to equalize the distribution of network revenues. According to the contract with ABC, each team in the AFL was provided $250,000 per year for the first five years of league play (Quirk & Fort, 1992). The goal of the revenue sharing plan was to help franchises in small markets compete on an even footing with the rich and powerful teams. The concept of "revenue sharing" was born from this new, small and weak professional football league.

**NFL policy mandates blacking out not only the home team's game in its home market (except when sold out 72 hours in advance), but also banning the importation of an out-of-town games into the market of a team playing at home while the home game is in progress.*

The commissioner of the NFL, Pete Rozelle, instantly recognized the significance of revenue sharing. At this time, in the NFL, each team controlled its own broadcasting rights and many had built sizable regional networks. As a national network, CBS had broadcasting rights only with 4 teams at a combined cost of $1.5 million. In 1960, income derived from television contracts ranged from $105,000 for Green Bay to $340,000 for New York (Quirk & Fort, 1992). In Chicago—the nation's second largest market – which still had two teams, the broadcasting of the NFL was blacked out a lot of the time since most Sundays either the Bears or Cardinals were playing at home. To sign a unified national broadcasting contract with CBS, Rozelle obtained the NFL owners' agreement for pooling their broadcasting rights. Rozelle and owners transferred the Cardinals to St. Louis, and he contracted with major CBS affiliated stations, encouraging them to clear a proposed network schedule of games, thus making it easier for CBS and advertisers to realize the profits they required to undertake such a venture.

Rozelle also successfully lobbied Congress to pass the Sports Broadcasting Act in 1961. According to the act, sports leagues are given the right to act as a cartel (free of any antitrust sanction) in bargaining with television networks (Vogel, 1998). In return, the NFL, NBA, NHL and MLB agreed not to schedule their games directly opposite Friday night high school football or Saturday afternoon college games.

This converted what was essentially a competitive television rights market into a monopolized one. Before the exemption was passed, fourteen NFL teams competed with one another to obtain television contracts. The competition among teams reduced the value of television rights for each team, since there were more games on the air involving other NFL teams to compete with any given NFL game, and because teams were competing with one another to obtain television contracts. After the exemption, there was one rights contract to market, controlled by the NFL. The monopoly power of the league more or less ensures that it is the league and its member owners, rather than the television networks, which capture the profits from broadcasting contracts. CBS signed a unified national contract with the NFL for $4.5 million for 1962 season and $4.8 million for 1963 season. Under this contract, each NFL team received $337,000 for 1962 (Quirk & Fort, 1992).

Mid 1960s: NFL-CBS vs. AFL-NBC ends with merger

Television ratings for the NFL rose approximately 50% between 1961 and 1963, and all three networks decided to bid on the NFL rights for the 1964-1965 season. CBS bid $14.1 million a year for two years, out dueling both ABC and NBC. Shortly after this contract, the Green Bay Packers, in a very small market, began their long domination of the league partially due to equally shared rights fee.

In response to the CBS-NFL's 1964-1965 contract, NBC agreed to a 1965-1969, 5-year $42 million contract with the AFL. This long-term contract gave the AFL national exposure and an influx of cash, resulting in the signing of star quarterback Joe Namath to a record contract by one of the AFL teams, the New York Jets. In 1966, the AFL and NFL agreed to have an interleague championship game beginning after the 1966 season and to merge in 1970 after the existing league television contracts had expired (Quirk &

Fort, 1992). With this new expanded NFL, former NFL teams formed the National Football Conference (NFC) with CBS broadcasting and the former AFL formed the American Football Conference (AFC), televised via NBC.

Through the merger with the NFL, all teams in the former AFL became involved in the equal sharing of television revenues (Quirk & Fort, 1992). However, AFC-NBC had smaller television markets than NFC-CBS. NBC had not profited from the AFL contract and had lost more than a million dollars in 1968, event though it had developed additional revenue-producing commercials by inventing the two-minute warning. Rozelle and owners transferred three major market NFC franchises—Baltimore, Pittsburgh and Cleveland—to the AFC to more evenly balance the relative value of the two networks' investments. In exchange, teams would enjoy an additional $1.5 million in television revenues from the newly strengthened NBC. The new NFL signed a four-year contract with each network. CBS broadcast the NFC for $21 million per year and NBC broadcasted the AFC for $16 million per year. Broadcasting rights for the NFC-AFC championship game was $1.5 million. NBC broadcasted the 1970 and 1972 championship games and CBS broadcasted the 1971 and 1973 championship games.

NFL in prime-time

In addition to these record contracts, Rozelle created another revenue source; Monday Night Football. Rozelle had begun experimenting with prime-time games in 1966 as an additional revenue source. These experimental prime-time games had averaged a strong audience share. Following the merger, Rozelle first took the idea of a Monday prime time game to NBC. However, since NBC had a strong Monday night entertainment lineup, including the “Tonight Show” hosted by Johnny Carson, the network was not interested in the idea. CBS, also having a strong Monday prime-time, including “I love Lucy” was also not interested in the idea. The next target was ABC, with the weakest prime-time ratings (Klatell & Marcus, 1996).

Rozelle persuaded the neophyte small network, Hughes Sports Network, to join the bidding for the Monday prime-time football game. Some of ABC’s major affiliate stations indicated that they were prepared to jump ship and carry the game if Hughes got the rights. Thus, ABC contracted to carry 13 games on Monday prime time for $8 million. ABC “Monday Night Football” made its debut Sept. 21, 1970, with “Broadway Joe” Namath and the New York Jets as star attractions (Klatell & Marcus, 1996). Monday Night Football by ABC introduced three “firsts” in Football broadcasting. It introduced the first regular three-person announcing team, musical opening to the show, and the reverse angle camera, which was placed on the side of the field opposite from the others. The program became such a runaway success that New York City police reported crimes had dropped 16 percent on Monday nights during the NFL season (Catsis, 1996).

<u>Late 1970s: WFL lead to franchise expansion and extended season.</u>

After negotiating the 1974-1977 season’s four-year $269 million contract with ABC, CBS and NBC, the NFL was challenged by another rival league, the World Football

League (WFL) in 1974. The WFL played a 20-game per team schedule and started its season in late July to get a head start on the NFL. By 1974, the only cities from the top 30 list that had no NFL franchise were Seattle (16), Indianapolis (25), Tampa (27), Portland (28), Phoenix (29), and Columbus (30) (Quirk & Fort, 1992). To preempt any WFL franchise from locating in those prime markets, NFL owners voted to expand the NFL to Tampa and Seattle.

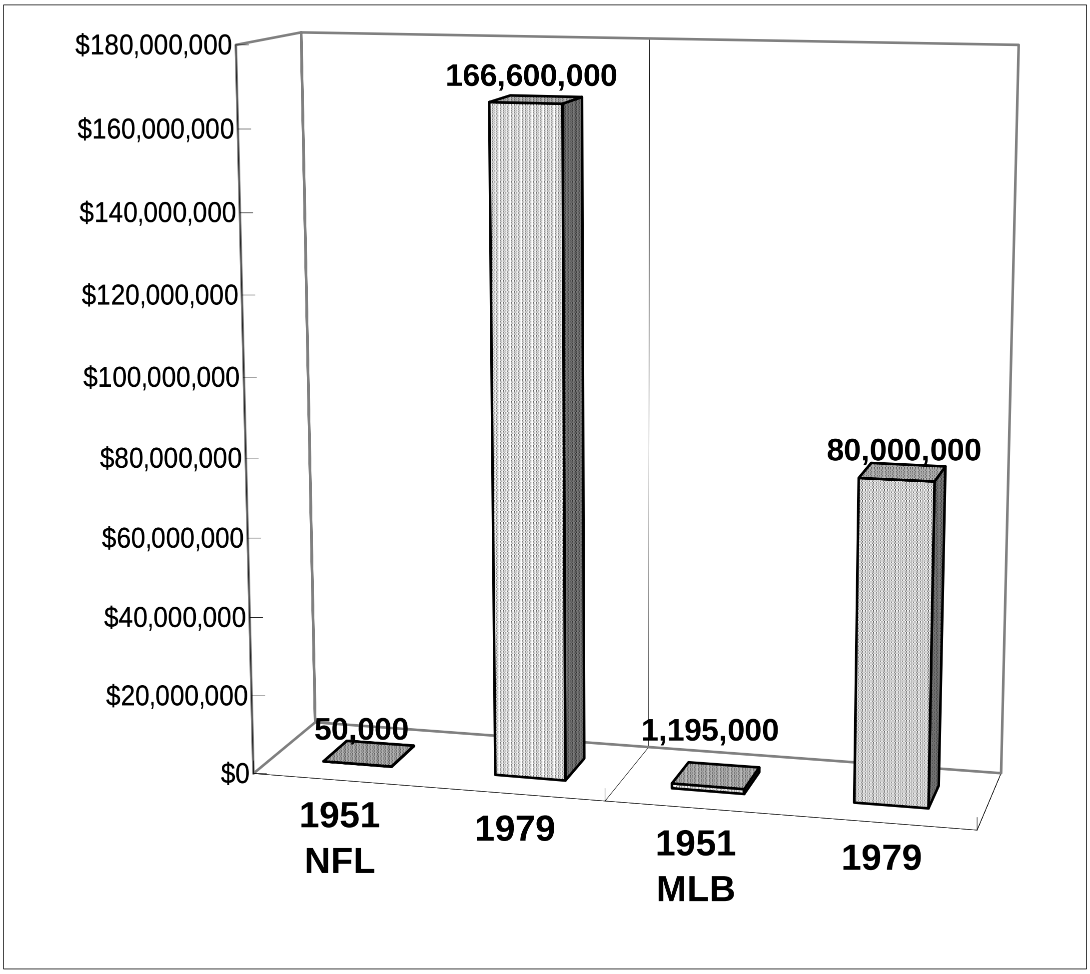
The WFL failed after three years of head-to-head competition with the NFL. After the WFL's demise, the NFL signed the 1978-1981 season's four-year contract with three networks for $646 million. The league also expanded the season from 13-games to 16-games, added a wild card playoff system, and approved four non-Monday prime time games. This contract provided each franchise up to $5.5 million a year, resulting in broadcast revenues exceeding gate receipts for the first time.

Major League Baseball: 1950s to 1970s

Graph 3.5 compares media income growth of the NFL and the MLB from 1951 to 1979. While annual media income of the NFL increased from $50,000 in 1951 to $166.6 million in 1979, annual media income of the MLB increased from $1.195 to $80 million during the same time period.

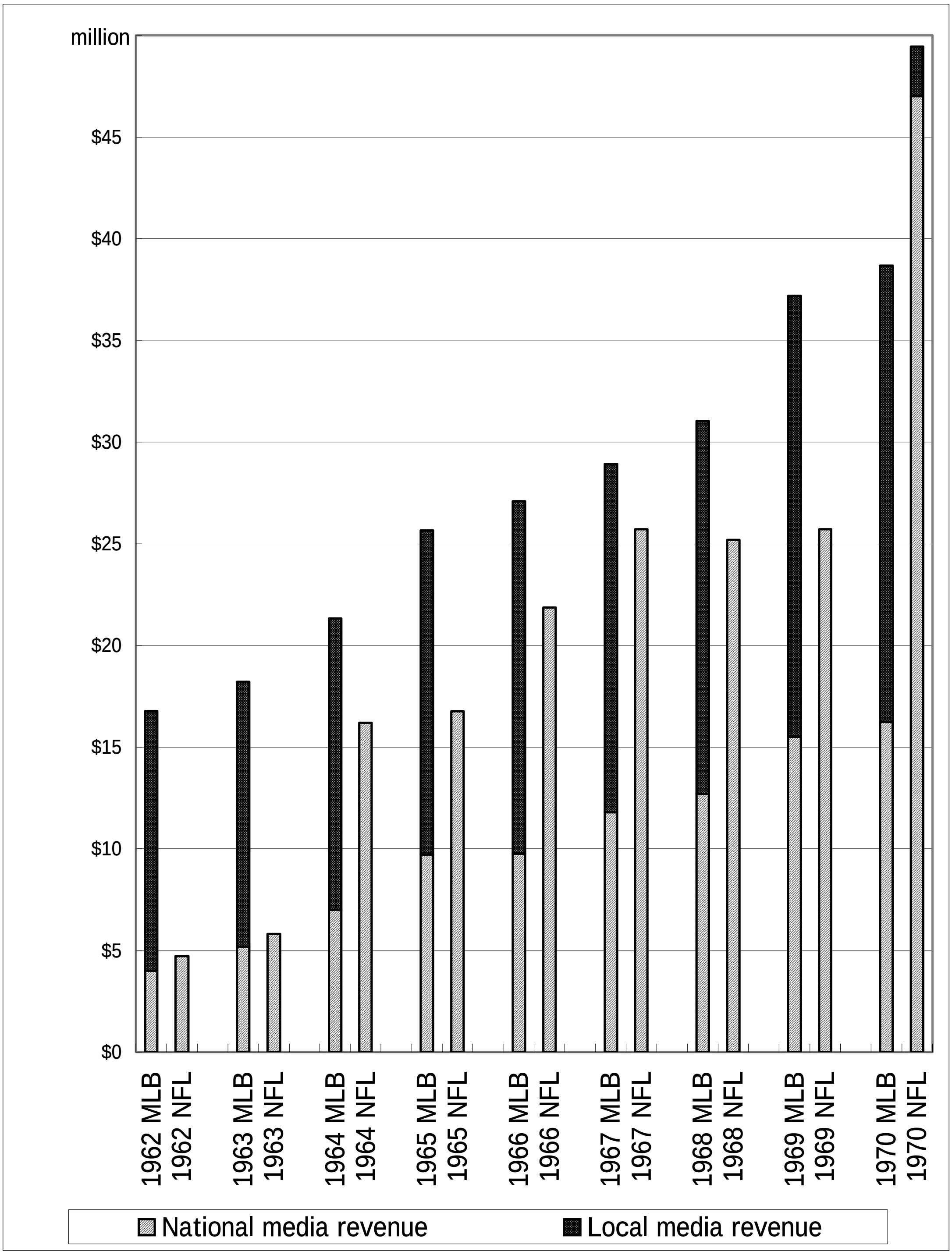
Although no match for the tremendous growth rate of the NFL, broadcasting revenue for MLB also significantly increased between 1950s and 1970s with the rapid growth of television. Graph 3.6 depicts national media income and local media income of the NFL and the MLB from 1962 to 1970. In contrast with the NFL which increased its league wide national broadcasting contract with major networks after the Sports Broadcasting Act in 1961, the MLB increased local media revenue, negotiated between franchise owners and local television stations during 1960s.

Graph 3.5
Media Income Comparison: NFL and MLB
(1951 & 1979)



Source
NFL in 1951: Klatell & Marcus, 1996. NFL in 1979:Quirk & Fort, 1992
MLB in 1951: Zimbalist, 1992. MLB in 1979:Quirk & Fort, 1992

Graph 3.6
Local and National Media Revenue: NFL and MLB
(1962 – 1970)



Source: Quirk & Fort, 1992

By 1953, fifteen of the sixteen MLB teams had local television contracts (Zimbalist, 1992). On the other hand, major national networks had broadcasted mainly the World Series. In 1953, Falstaff Breweries agreed to sponsor the “Game of the Week” on ABC (Klatell & Marcus, 1996). This was the first program format to nationally broadcast MLB regular season games on Saturday afternoons (Klatell & Marcus, 1996). Only three teams agreed with this plan and the rest of the teams blacked out the “Game of the Week” in all MLB cities (Klatell & Marcus, 1996). In spite of the black out, the “Game of the week” interested the viewers in watching the games that did not involve their local or favorite team and, in 1953, attracted 51 percent of the audience on Saturday afternoon (Klatell & Marcus, 1996). By 1954, spurred by the rating, the Dodgers and Giants allowed ABC to broadcast their games in the “Game of the Week” and the remainder of the teams got on the bandwagon (Klatell & Marcus, 1996).

At this time, MLB had not introduced revenue sharing to the “Game of the Week”. The underlying reason was individual interests in expanding local media income for each franchise owner (Klatell & Marcus, 1996). The premise was that baseball fans living in franchise cities were intensely loyal to individual teams. Since they believed that to protect and profit from that loyalty was their absolute right, most owners were opposed to a league pooled broadcasting contract and revenue-sharing system. Broadcasting rights to the “Game of the Week” were paid to teams on a per-appearance basis, and in 1964 the Yankees earned $550,000 from the program, compared to $100,000 for the runner-up Cardinals and Phillies (Helyar, 1994). In 1965, MLB finally packaged their games and sold the rights in aggregate. The “Game of the Week” broadcasted by ABC provided the league $5.7 million. John Fetzer, the Detroit Tigers' owner took leadership in this deal, introducing revenue sharing to MLB for the first time, and allowed MLB to broadcast the "Game of the Week" in all MLB cities (Helyar, 1994). From 1966 to 1968, NBC purchased the rights to the "Game of the Week", the World Series, and the All-Star Game for $11.8 million per year (Helyar, 1994).

In the 1960's, baseball faced increasing competition from football, basketball, and hockey, all enjoying healthy growth (Kuhn, 1987). For Bowie Kuhn, commissioner of MLB, strengthening the relationship with the television networks was one of his most important roles.

When Bowie Kuhn assumed the MLB office of commissioner in 1969, it was the first year of a three-year $49.5 million broadcast contract with NBC. Bowie Kuhn established the office of Director of Radio and Television at MLB headquarters and designated Tom Dawson, former head of CBS Television, as the director. Kuhn looks back in his biography: "In 1971, in our first negotiation with the networks after I became commissioner, Dawson found no interest outside of NBC, which told us something about the state of baseball's popularity at that time, particularly as compared to football's…I was convinced we had to use national television as a means of rejuvenating baseball's popularity. The question was how." (Kuhn, 1987, p.282)

Bowie Kuhn and NBC experimented by moving one World Series to prime time in 1971. This prime time World Series was such a success that NBC agreed to move three games of the 1972 World Series to prime time and paid $49.5 million for 1972-1975 (Kuhn, 1987). A record 76-million viewers tuned in to the 1975 World Series game seven broadcast by NBC (Helyar, 1994). In the next negotiation, for the 1976-79 broadcast contracts, MLB divided the package between ABC and NBC and received $92.8 million for four years (Helyar, 1994). For MLB, having two major networks aligned with the league had significant promotional, marketing, financial, and prestige advantages (Kuhn, 1987).

The next deal, from 1980-1983, doubled the old contract. ABC and NBC paid MLB $190 million for four years. In 1980, network revenue ($41 million) exceeded local television rights ($39 million) for the first time (Quirk & Fort, 1992).

Conclusion

From 1920 to 1970, the distribution system for motion pictures, the network-affiliate system, was established. Pete Rozelle, the NFL commissioner, and the owners took advantage of this model through the introduction of "league-wide" thinking, expanding the national television contract with major networks, and sharing the revenues among the franchises. In contrast to the NFL, MLB broadcasting contracts grew between each franchise and the local television stations. Bowie Kuhn assumed the position on commissioner of MLB in the late 1960s, and played a leadership role in making a league-wide contract. This resulted in expanded national television revenue, shared equally among the franchises.

CHAPTER 4

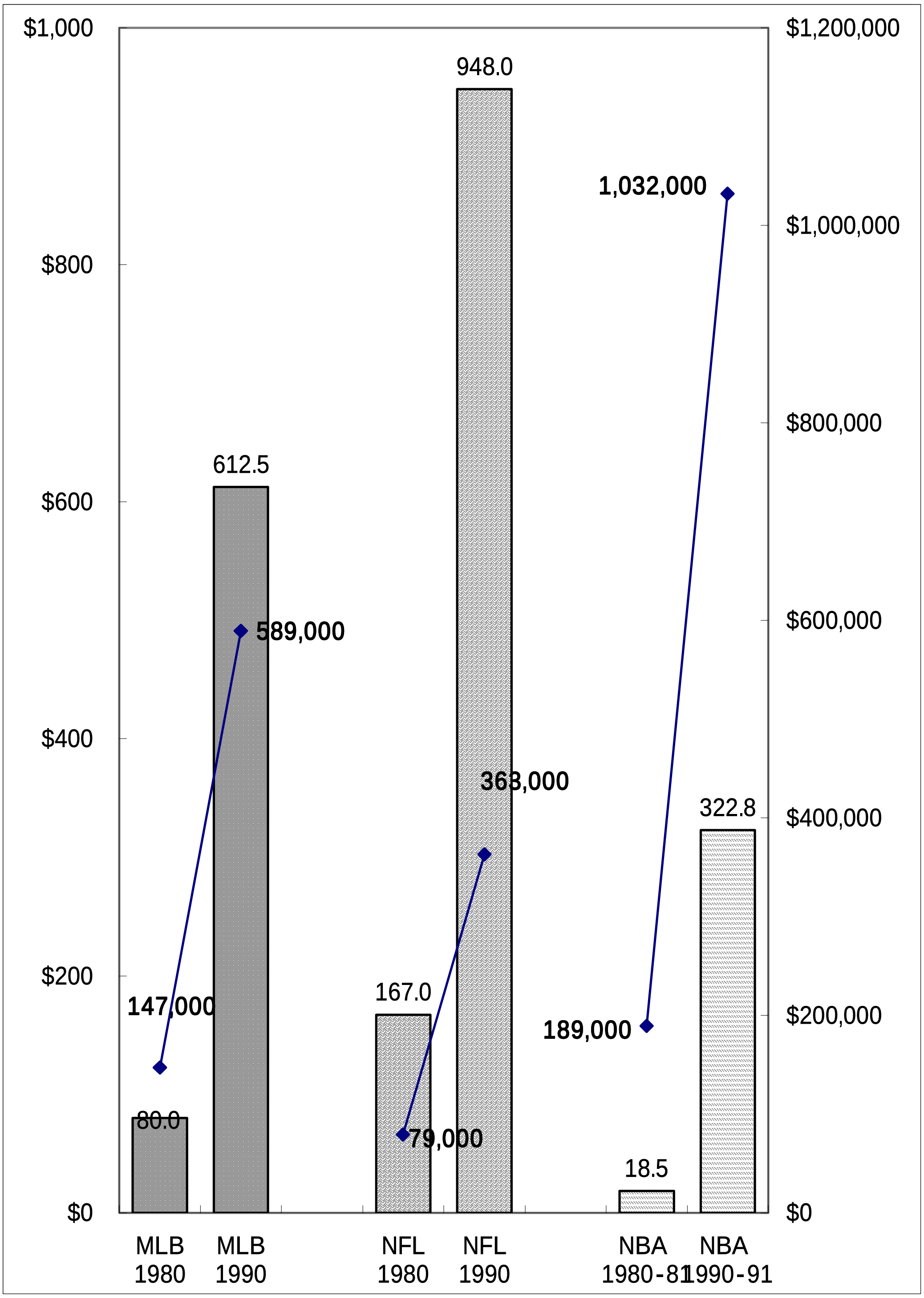
THE 1980s
CABLE NETWORK AND ITS INFLUENCE
ON THE BROADCAST INDUSTRY AND PROFESSIONAL SPORTS

1980s: Escalating broadcast rights and player salaries.

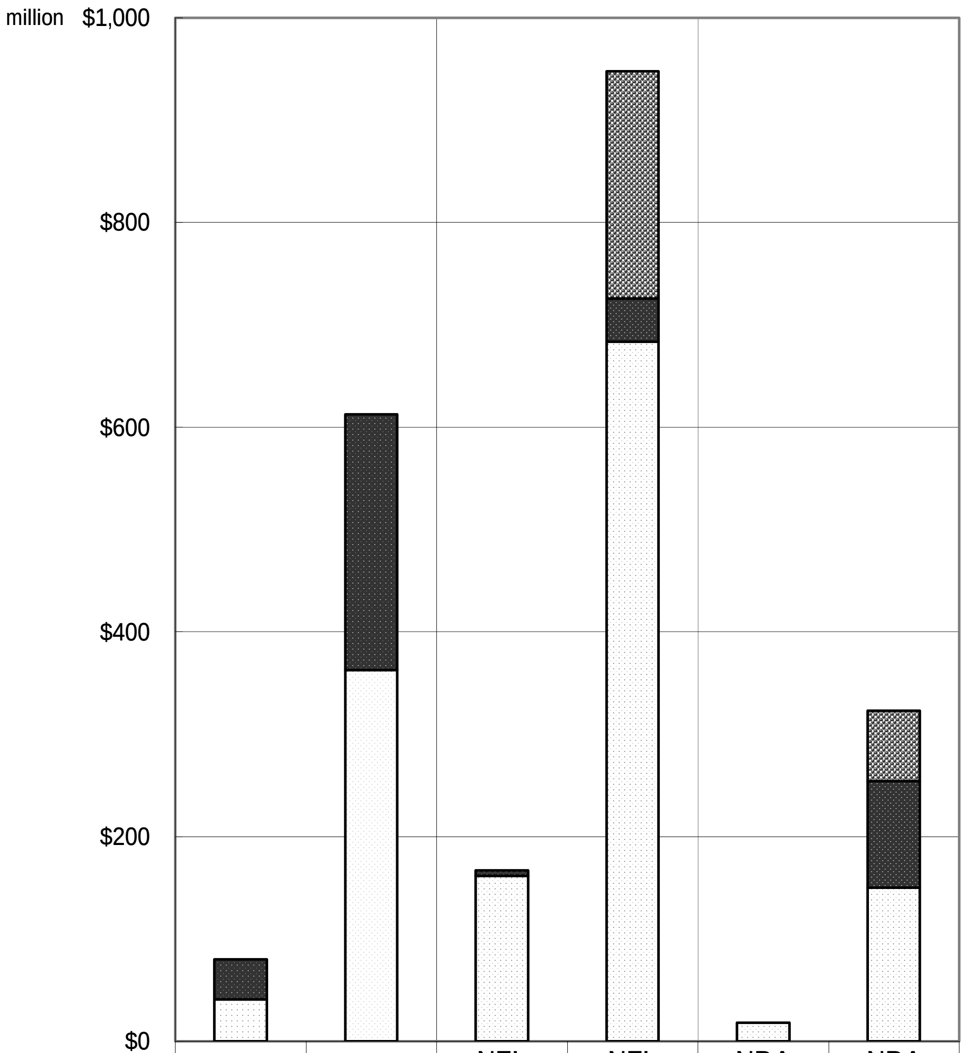
Graph 4.1 compares total media income and average salary in the MLB, NFL, and NBA from 1980 to 1990 (For the NBA, from 1980-81 season to 1990-91 season). During the 1980s, both total media income and player salaries increased significantly in the MLB, NFL, and NBA. Graph 4.2 compares television income by program source in the MLB, NFL, and NBA for the years 1980 and 1990. As the graph indicates, cable television came into its own as a revenue source for the NFL and NBA in the 1980s. During this decade, television became the principal revenue source for major sports leagues in the U.S. (Quirk & Fort, 1992). By 1991, total media income accounted for 30 percent of NBA revenues, almost 50 percent of MLB revenues and 60 percent of NFL revenues (Quirk & Fort, 1992).

The purpose of this chapter is to explore the causes of the cable television explosion in the1980s, the basic business system of cable television, rapid growth of cable sports networks, and cable networks' influence on the major three networks and professional sports leagues.

Graph 4.1
Total Media Income and Average Salary:
MLB, NFL, and NBA
(1980 to 1990)



Graph 4.2
Television income by program source in the MLB, NFL, and NBA 1980 to 1990



	MLB 1980	MLB 1990	NFL 1980	NFL 1990	NBA 1980-81	NBA 1990-91
cable	0.0	0.0	0.0	222.4	0.0	68.8
local	39.0	250.0	5.3	42.0	0.0	104.0
Network	41.0	362.5	161.7	683.6	18.5	150.0

Source: Quirk & Fort, 1992

Early 1980s: The Three Major Networks are Kings.

The three networks, ABC, CBS, and NBC carried most of the available television programming until cable started to grow in the early 1980s. Until then, the three networks only competed against each other. In 1972, CBS scored a smash hit with “All in the family”. In 1976, NBC’s telecast of “Gone with the Wind” drew the largest audience for an entertainment program up to that date. In 1977, the mini-series “Roots” appeared on ABC and became the all-time highest-rated program. In 1978, NBC’s mini-series “Holocaust” attracted 107 million viewers and won 21 major awards (International Television & Video Almanac 44th Edition). In the late 1970s, ABC/CBS/NBC prime time programs combined reached 95 percent of adults 25-54 weekly (17th Edition of TV DIMENSIONS ‘99). The revenues of the three major networks continued double-digit annual increases, for a cumulative 324 percent growth between 1976 and 1984 (Auletta, 1991).

In 1975, Time Inc., the big magazine publishing company with interests in electronic communications started a pay-television channel, Home Box Office (HBO). When HBO requested permission to distribute television programming coast-to-coast via satellite, the big three did not care. NBC’s parent company, RCA, even leased the Satcom I satellite to the infant subscription service (Auletta, 1991).

In 1979, when ESPN (Entertainment and Sports Programming Network) began its operation with its early programming including slow pitch softball, wrestling, hurling and minor college sports, very few advertising agencies or sponsors were interested in the 24-hour all-sports network (Klatell & Marcus, 1996). In 1980, only 20.5% of television households had cable television (Graph 1.1). In the same year, cable networks generated $45 million from advertising sales, only 0.4 % of total television advertising market for the year (Graph 3.1). For advertisers desiring to reach the mass audience throughout the United States, ABC, CBS, and NBC were the only media available. Cost was not an issue for the networks. The networks inflated the price of their advertisements to pass the costs on to advertisers (Auletta, 1991). The three major networks generated $5.13 billion in 1980, 44.7% of total television advertising market (Graph 3.1). Clearly, the three major networks were still the kings.

Two key developments help reinvent the television industry

In the 1970s and 1980s, many mature industries in the U.S. faced new competition. Deregulation reshuffled the airline industry. The big three automobile manufacturers, GM, Ford and Chrysler, lost huge market share in the U.S. to Japanese and Korean competitors (Auletta, 1991). Similarly, technical and legal developments helped create a competitive situation in the television industry.

First, technical development of communications satellites made national signal transmission much less expensive. In the late 1940s, cable television began as community antenna television (CATV). With the intention to boost television receiver sales, one Pennsylvania appliance dealer set a large antenna on a mountaintop, connecting it to homes in the area which previously had limited reception because of mountains and other obstructions that blocked incoming television broadcast signals. Although CATV sprouted in local areas, laying coaxial cable in major urban areas was so expensive that demand for cable did not increase (Broadcasting & Cable Yearbook 1999). However, RCA's Satcom I satellite, launched in 1975, greatly reduced the cost for cable networks to distribute signals throughout the United States. Meanwhile ABC, CBS and NBC were still using expensive AT&T land-based networking (Walker & Ferguson, 1998). Additionally, the satellite provided an abundance of channel capacity to allow large companies and intrepid smaller companies to begin cable television services (Blumenthal & Goodenough, 1998).

Secondly, legal developments impacted the industry when the FCC lifted several restrictions, which had limited the growth of cable television. Until the early 1970s, to protect broadcast interest, the FCC limited the ability of cable operators. For instance, the FCC issued the "anti-siphoning" rule in 1970 restricting cable networks to showing movies and sports events. HBO challenged FCC's cable rule in court. In 1977, a federal court overturned the most restrictive of the rules, including anti-siphoning rules (Blumenthal & Goodenough, 1998).

After these technical and legal developments in the mid-1970s, HBO was soon distributing its signal to cable systems throughout the United States (Walker & Ferguson, 1998). An entrepreneur in Georgia, Ted Turner immediately followed HBO. In 1976, he rented satellite space and started WTBS (later renamed TBS) (Walker & Ferguson, 1998). In 1978, media analyst David J. Londoner predicted that new methods of television program distribution would significantly erode network audiences (Auletta, 1991). In response, an internal ABC retort to Londoner stated that, even under the worst circumstances, in the long run, the maximum negative effect on network audiences would be 6 percent or less (Auletta, 1991).

Competition starts.

ABC's perspective turned out to have been much too optimistic. With a less expensive distribution system using satellite, corporations that were interested in the television and/or entertainment industries created cable television networks. Between 1976 and 1980, most of the major cable networks (ESPN, CNN, Nickelodeon, WTBS etc) launched their operations. These cable networks gave television viewers a reason to buy cable television. By 1982, cable television penetration rose to 37% (17th Edition of TV DIMENSIONS '99). In 1990, this figure had soared to 56.4% (Graph 1.1). In the late 1990s, an estimated 30% share for cable television in U.S. television home set usage exceeded the combined 25% share of ABC, CBS and NBC (Graph 3.2).

Each cable network was capable of capturing a particular segment of the audience (Blumenthal & Goodenough, 1998). ESPN, the world's first all-sports channel is a prime example. ESPN had the programming time to cover long sport events, from the America's Cup yacht races to the ten-hour telecast of NFL player draft. While this programming may not attract a wide audience, it aptly serves an intensely loyal audience (Ashwell, 1998). Just as ESPN tries to reach sports audiences 24 hours a day, CNN pursues news addicts and Nickelodeon focuses on children markets. This focus on niche markets by cable networks has been very successful at drawing audiences away from ABC, CBS, and NBC. Audience fragmentation provided by cable television radically changed the economics of the television industry and forced the three major networks to be networks appealing to all of the people only some of the time (Ashwell, 1998).

Cable networks and cable systems

To grasp the cable television industry, it is important to understand the difference between cable networks and cable systems. Figure 4.1 helps to define cable networks and cable systems. Cable networks stock program materials (for example, ESPN buys sports broadcasting rights and Cinemax buys rights to play movies) to produce television programs. Also, they rent satellite capacity to beam those programs to cable systems that are equipped with receiving dishes. From these dishes, cable systems bundle together television programs beamed by each cable network. Table 4.1 shows the top 15 cable networks in the United States in 1997.

Figure 4.1
Cable Network and Cable System

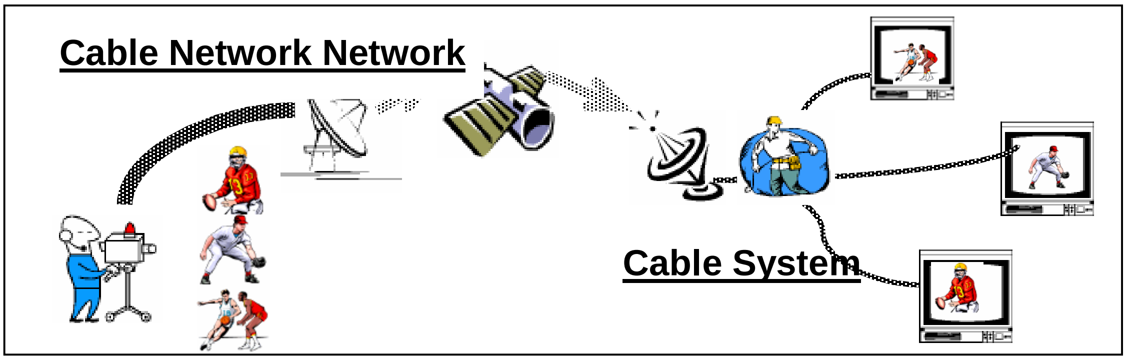


Table 4.1
Top 15 Cable Networks (1997)

Rank	Cable Networks	Start-up date	Subscribers
1	ESPN	Sep-79	71.0 million
2	Discovery Channel	Jun-85	69.4 million
3	Nashville Network	Mar-83	69.0 million
4	USA Network	Apr-80	68.2 million
5	Nickelodeon	Apr-79	66.8 million
6	Cable News Network	Jun-80	65.8 million
7	TBS Superstation	Dec-76	65.7 million
8	TNT	Oct-88	65.5 million
9	Arts & Entertainment	Feb-84	64.6 million
10	MTV	Aug-81	64.2 million
11	Lifetime	Feb-84	62.7 million
12	C-Span	Mar-79	62.4 million
13	Weather Channel	May-82	61.6 million
14	QVC Network	Sep-86	61.2 million
15	The Family Channel	Apr-77	59.0 million

Source: Vogel, 1998

Cable systems pay each cable network a monthly fee of at least 5 or 10 cents, and sometimes 25 cents per subscriber per month (Vogel, 1998). However, newer cable networks must start by providing television programs for free or for a few cents per subscriber (Vogel, 1998). When Discovery Communications launch a new cable network, Animal Planet, it was reported that the cable network paid TCI, the top multiple system operator in the United States, $50 million to distribute its television programs. In return for this compensation, Animal Planet was able to jump-start its operation with 10 million subscribers connected with TCI (Blumenthal & Goodenough, 1998).

Table 4.2
Top 15 Multiple System Operators
(1998)

	Multiple System Operator	Subscriptions
1	Tele-Communications Inc.	14,438,000
2	Time Warner Cable	12,600,000
3	Media One	5,207,848
4	Comcast	4,300,000
5	Cablevision Systems	3,352,000
6	Cox Communication	3,245,771
7	Adelpha Communications	1,932,425
8	Century Communications	1,471,397
9	Jones Intercable	1,460,000
10	Marcus Cable	1,228,787
11	Charter Communications	1,205,724
12	Lenfest Group	1,174,644
13	Falcon Cable	1,167,850
14	InterMedia Partners	901,721
15	Prime Cable	881,747

Source: Hoover's handbook of American Business 1999

Cable systems deliver television programs into each subscriber's television set through coaxial and/or fiber optic cable. Cable systems charge about $20-25 for "basic cable", with about a 50% profit margin (Blumenthal & Goodenough, 1998). Companies that operate more than one cable system are called multiple system operators (MSOs). Table 4.2 shows the top 15 multiple system operators in the United States as of 1998. Some cable systems are still locally owned and operated, but most are owned by large MSOs that control cable systems numbering in the hundreds (Blumenthal & Goodenough, 1998). Because capital costs for system expansions and upgrades have been so large, major publicly owned companies control the largest subscriber groups.

Cable system franchises

The municipal government controls and regulates local cable systems to provide their residents the best possible cable service. Cable systems apply for the right to provide service to each community, explaining their technical capabilities, the channels they will offer and the construction schedule (Blumenthal & Goodenough, 1998). A franchise is awarded to a cable system, typically for 15 years, following a period of lobbying and evaluation (Blumenthal & Goodenough, 1998). In return for granting a local monopoly to a cable system, municipalities usually receive 3% (and up to 5%) of system revenues plus other special benefits as negotiated (Vogel, 1998).

Table 4.3 shows cable system franchises in Massachusetts and major areas on the west coast.

Table 4.3

**Cable System Franchises:
Massachusetts and West Coast Major Areas**

Cable system franchises in MA	
Allston	Cablevision Systems Corp.
Beverly	MediaOne Inc.
Brockton	MediaOne Inc.
Cambridge	MediaOne Inc.
Chelmsford	MediaOne Inc.
Chicopee	Greater Media Inc.
Foxboro	Time Warner Cable
Hudson	Cablevision Systems Corp.
Maiden	Time Warner Cable
Marlborough	MediaOne Inc.
Needham	MediaOne Inc.
New Bedford	MediaOne Inc.
Norwell	MediaOne Inc.
Pittsfield	Time Warner Cable
Plymouth	Adelpha Communication
Quincy	MediaOne Inc.
South Yarmouth	MediaOne Inc.
Westfield	MediaOne Inc.
Westford	Cablevision Systems Corp.
Wilmington	MediaOne Inc.
Worcester	Greater Media Inc.

Cable system franchises on the west coast	
Anaheim	Century Communications Corp.
Beaverton	Tele-Communications Inc.
Fresno	MediaOne Inc.
Long Beach	Charter Communications
Los Angeles	Century Communications
	MediaOne Inc.
Oakland	Tele-Communications Inc.
Palm Springs	Time Warner Cable
Phoenix	Cox Communications Inc.
Portland	Time Warner Cable
	Tele-Communications Inc.
Sacramento	Comcast Communications
San Diego	Cox Communications Inc.
	Time Warner Cable
San Francisco	Tele-Communications Inc.
San Jose	Tele-Communications Inc.
Santa Monica	Century Communications
Seattle	Tele-Communications Inc.
Tacoma	Tele-Communications Inc.
Tucson	Cox Communications Inc.
	Jones Intercable Inc.

Source: Broadcasting and Cable Yearbook 1999

Basic Cable Networks

Cable networks are divided into basic and pay. Basic cable networks usually include commercials and are provided to subscribers as part of a low priced monthly package. Pay cable networks, in contrast, generally do not include commercials and are made available on premium-priced tiers or sold a la carte. An exception to this rule are the pay sports networks which show commercials and are also premium services (Blumenthal & Goodenough, 1998). Since the NFL, NBA and MLB are not yet on the pay cable service, this chapter concentrates only on basic cable networks.

While most cable networks provide specialized programming, other basic cable networks offer more general interest programming, with portions appealing to sports fans, children, and so forth. TBS, USA Network, TNT, Lifetime, A&E are examples of general interest programming. These networks reach over 66 million households (Blumenthal & Goodenough, 1998). The more targeted basic cable networks provide only news, sports, weather, or children's programs. These special interest networks attract a particular demographic segment. Nickelodeon's programming, for example, attracts a large number of children. ESPN reaches a large number of 18-49 year old males (Blumenthal & Goodenough, 1998). For advertisers, these basic cable networks are an excellent way to reach these consumer segments. Large media/entertainment conglomerates own most cable networks. Table 4.4 provides some examples of the ownership of the major cable networks.

Table 4.4
Major Cable Network Ownership (1998)

	Viacom Inc.	Time Warner Inc.	The Walt Disney Co.
General-Interest Cable Programming		TNT TBS	A&H (about a third)
Cable Sports	Home Team Sports Midwest Sports Channel	CNN/SI	ESPN ESPN2 ESPN Classic ESPNews
Cable Children's	Nickelodeon	Cartoon Network	The Disney Channel Toon Disney
Cable Movie	Showtime The Movie Channel	Cinemax HBO Turner Classic Movies	
Cable News		CNN CNN Headline News CNN fn (financial news) CNNI (International)	
Cable Music	MTV		
Cable History			The History Channel
Other Business	Blockbuster Video (Video Retailer) Simo & Schulster (Educational book publisher) Paramount Pictures (Theoretical motion picture)	Time Warner Cable (Multiple System Operator) Warner Communications Inc. (Entertainment/ Communications) Time Inc. (Business Magazine) Atlanta Braves (Professional Baseball) Atlanta Hawks, Inc. (Professional Basketball)	ABC (Television Network) Disneyland (Amusement Park) The Mighty Ducks of Anaheim (Professional Hockey Team) Buena Vista Home Video (Video Manufacturer) Miramax Films, Inc. (Movie Studio)
Total Revenue '98	$12,096 million	$14,582 million	$22,976 million

ESPN

The world's first all-sports channel, ESPN began with an idea of an employee of the Hartford Whalers hockey team in the mid-1970s. William Rasmussen came up with the idea of renting transponder time on a satellite to extend the television coverage of University of Connecticut basketball games. Rasmussen soon realized that if satellite time was available, at no greater cost to deliver programs nationally than locally, there was no need to limit programming to just University of Connecticut games (Klatell & Marcus, 1996).

ESPN debuted on September 7, 1979 as a total sports cable network. At its' inception, the biggest concern was lack of operating capital. ESPN lost more than $100 million in its first six years of operation. Since ESPN was merely a greenhorn in the business, it had to pay inducement fees to cable systems to deliver its television programs. Moreover, advertising agencies and sponsors were less interested in ESPN's small audience. In 1979, before ESPN started its program distribution, Getty Oil gained 85 percent control of ESPN for $10 million. In 1994, Getty Oil sold ESPN outright to ABC television for $202 million. As of late 1998, ESPN, part of the Walt Disney Co. empire, is estimated to be worth $5 billion (Sports Business Journal, Dec 21-27 1998).

After starting its operation, ESPN achieved a lot of firsts in the sports broadcasting industry. In 1979, ESPN started the first national sports news program, Sportscenter. It telecasted the NFL Draft and the Baseball Hall of Fame induction ceremonies for the first time in 1980. In 1982, it covered all four rounds of a PGA golf event for the first time.

In 1984, it provided live coverage of the Boston Marathon nationally for the first time. Also, ESPN became the first cable network to reach 50 percent of all American television households in 1987 (Catsis, 1996).

In addition to reaching 50% of U.S. television households, ESPN pulled off two more great coups in 1987. ESPN invested about $2 million into the 1987 America's Cup challenge race held in Australia (Klatell & Marcus, 1996). Sponsors, such as Cadillac, Crum & Forster personal insurance, Atlantic Financial's money market fund, and Schieffelin's Domaine Chandon champagne spent a total of more than $4 million to sponsor the yacht race (Klatell & Marcus, 1996). These sponsors, who were seldom seen on the expensive programs of the ABC, CBS, and NBC, sponsored the America's Cup to reach the upscale yachting crowd. Attracting an unprecedented crowd to the America's Cup, ESPN displayed its ability to service not only a new audience, but also new sponsors. Since advertisers at that time were disenchanted with the high advertising costs of the three major networks, this ESPN achievement helped advertising agencies seeking cheaper programs to reach more targeted audiences (Klatell & Marcus, 1996).

Another coup in 1987 for ESPN was its' first cable telecast of an NFL game. ESPN signed a three-year $153 million contract for telecasting the 1987-1989 NFL season. Ratings for the ESPN Sunday night NFL averaged 12.5 percent, well above the 9 percent that the network had predicted to cable systems and advertisers. By the start of the 1990s, ESPN had become a major player in sports broadcasting (Klatell & Marcus, 1996).

Ted Turner and the beginning of the superstations.

It was in 1970 that Ted Turner bought an UHF television station in Atlanta. The station, Channel 17, ranked fifth out of the city's five local television stations. After he made the purchase, he named the call letters of the station, WTCG: Watch This Channel Grow. In 1973, WTCG signed a $600,000/year five-year contract to broadcast the Atlanta Braves (Helyar, 1994). Around the same time, Turner bought a Hollywood film library including Andy Griffith, Gomer Pyle, Leave it to Beaver, and The Beverly Hillbillies. In 1975, rumors spread that the Braves were to move to Toronto (Helyar, 1994). Turner bought the baseball team for $12 million the next year (1999 Inside the Ownership of Professional Sports Teams).

At this moment in the television industry, the key role of local television stations was to be supplied national programs by the major networks through coaxial cable and deliver them to their market through VHF or UHF radio wave. However, the development of satellite allowed Ted Turner to conceive of reversing this situation. Turner realized that if he had television programs to send, by using satellite he could transmit WTCG's signal throughout the United States. Given the limited number of local television stations in the United States at the time, few stations would carry the television programs of WTCG. However, the development of satellite also gave Turner other opportunities to distribute his programs - cable systems.

In the early days of cable, there were many cable systems that were seeking television programs to fill their channels (Blumenthal & Goodenough, 1998); and WTCG had programming, Braves and the Hollywood film library. In 1976, one year after HBO started its telecast, and three years before ESPN started its telecast, Turner rented satellite space to deliver television programs from Atlanta to all over the United States. This was the start of the superstation format.

Superstation and Major League Baseball

Ted Turner launched the first superstation in early 1977. Within a month, 200,000 cable subscribers across the rural areas with no local television stations or home baseball teams were added (Helyar, 1994). WTBS, as it was now called, filled those areas with Braves' baseball games and Beverly Hillbillies reruns. By the early 80's, WTBS had 20 million subscribers, drawing viewers from as far as Alaska. In Valdez, Alaska, a local bar was renamed "The Braves Lounge," and in Storm Lake, Iowa, a billboard read: THE ATLANTA BRAVES: IOWA'S TEAM (Helyar, 1994). In 1982, the Braves opened the season with a thirteen-game winning streak and finally won the National League West division title. As a consequence, WTBS received higher ratings and many new cable subscribers (Helyar, 1994).

Due to the growth of cable systems' capacity, between 1983 and 1988, the number of channels available in the average American home rose from 14.6 to 27.7 (Helyar, 1994). The cable systems still needed more television programs. New superstations followed WTBS's business model. In 1981, The Tribune Company, a Chicago based media conglomerate bought the Chicago Cubs baseball team and

Wrigley stadium from chewing-gum maker Wm. Wrigley for $20.5 million (Hoover's handbook of American Business 1999). The number of subscribers of WGN, superstation of The Tribune Company, was 8 million in the early 1980s. Thanks to the Cubs 1984 divisional title, WGN had increased its subscribers to 22 million by 1987 (Helyar, 1994).

Deregulation of the television industry

Sparked by the deregulatory spirit, which climaxed during the Reagan presidency, deregulation of television industry started in the mid 1980s (Walker & Ferguson, 1998). Prior to 1985, one corporation had been permitted to own a maximum of seven television stations (Vogel, 1998). In 1985, the FCC decided to increase television station ownership limits from seven to twelve, and any one owner's stations could cover up to 25 percent of U.S. households. This relaxation of the FCC rule, coupled with the easy availability of mergers-and-acquisitions financing in the 1980s, resulted in changed ownership for all three major networks within two years (Walker & Ferguson, 1998).

On March 18, 1985, Capital Cities Communications purchased ABC for $3.5 billion. The new Capital City/ABC reached about 24 percent of the U.S. television households with its eight owned and operated local television stations. Capital City decided to release a total of 1,600 ABC employees to save $100 million. On December 12, 1985, GE purchased RCA and its subsidiary NBC for $6.28 billion. GE was as interested in RCA's defense contracts as it was in NBC (Auletta, 1991). NBC was also downsized and received a strong financial base from GE. Both ABC and NBC chose to diversify their distribution systems by investing in cable television networks. In 1984, ABC bought controlling interest in the 24 hours cable sports network, ESPN, and offered expanded coverage of its' own sports events on ESPN. NBC also created a business and news network, CNBC.

Broadcasting contract of the NFL in 1980s.

When the four-year $646 million contract with the three networks expired in 1981, new competitors, the cable networks were beginning show interest in the NFL broadcasting contract. To keep cable networks from getting a foothold, ABC, CBS, and NBC agreed to pay the NFL $2.15 billion in a five-year deal for the 1982-86 seasons (Auletta, 1991).

Soon after this deal, ratings for NFL televised games started to decline. This is partly as a result of over saturation from United States Football League (USFL). The USFL began playing a spring schedule in 1983. Of the three networks, only the ABC expressed interest in the USFL. Because, for spring sports, CBS already had NBA and NBC had MLB. ABC agreed to a $22 million contract with the USFL for the 1983-84 seasons. ESPN, which had no national professional league programming at a time, agreed to pay a total of $11 million to the USFL for the 1983-1984 seasons. Unfortunately, the league lost approximately $80 million in 1984, and folded in 1986 (Staudohar, 1996).

In addition to the impact of the USFL, the overall decline in network share started to influence the NFL programs on the three networks. In the early 1980s, more and more viewers were watching cable and using VCRs and regular season NFL game ratings declined by an average of 5 percent (Klatell & Marcus, 1996). The decline of ratings continued through the next season. During the last two years of the contract, as advertisers were less willing to pay large advertising fees on the televised NFL games, the networks lost money on the deal (Quirk & Fort, 1992). It was rumored that ABC, CBS, and NBC were prepared to hold the line against any increase during the next broadcast negotiation (Klatell & Marcus, 1996).

However, the NFL was becoming more dependent on television income. In 1986, two-thirds of the average NFL franchise's income came from television revenue (Auletta, 1991). Therefore, the NFL could not easily reduce its broadcasting rights. NFL television negotiations can be characterized by one strategy: Always maintain leverage over the networks. To create additional broadcast options for the league and stimulate competition, the NFL allowed several cable companies, including ESPN, to bid for a portion of the package. In the new three-year contract for the 1987-89 seasons, for the first time for a cable network, ESPN obtained the right to televise eight regular-season Sunday night games, four exhibition games, and the Pro Bowl for $153 million for three years (Klatell & Marcus, 1996). NBC and CBS shared Sunday afternoon broadcasts and ABC retained its Monday Night Football. The total amount of this three-year contract was $1.43 billion. Since 1987, ratings for NFL games on ESPN averaged 12.5%, well above the anticipated 9 percent. Capital Cities/ABC decided to allow its owned and operated stations to preempt the ABC network for ESPN games on Sunday night (Auletta, 1991). ESPN earned $70 million in 1987, about equal to the $74 million profit of Capital Cities/ABC.

Table 4.5 shows the top cable television shows from September 1, 1980 through August 31, 1991. NFL games, telecasted by ESPN were the top four programs. Coupled with the America's Cup in 1987, NFL games hooked viewers on the cable habit and become a great advertisement for cable.

Table 4.5
Top Cable Television Shows
(September 1, 1980 to August 31, 1991)

	Event	Date	Network	Rating
1	NFL Chicago at Minnesota	12/6/87	ESPN	17.6
2	NFL Chicago at Minnesota	12/3/89	ESPN	14.7
3	NFL Cleveland at San Francisco	11/29/87	ESPN	14.2
4	NFL Pittsburgh at Houston	12/30/90	ESPN	13.8

Source: Catsis, 1996

Broadcasting contract of the MLB in the early 1980s.

The first broadcasting contract for the MLB in the 1980s, a four-year $190 million deal with ABC and NBC, almost doubled the old contract, the 1976-79 $92.8 million deal with ABC and NBC. One of the underlying reasons that the networks bid up the broadcast value of baseball at around the end of the 1970s and into the early 1980s was the changing situation of U.S. industry. (Helyar, 1994)

In the automobile industry, new models were introduced each fall with the NFL directly benefiting from all the automobile advertisements. However, at this time, with the fierce import competition with automobile manufacturers in Japan and Korea, new U.S. car models began to come out constantly. As depicted by Graph 3.3, in the late 1970s, combined ABC/CBS/NBC prime time programs reached 95 percent of adults (25-54 years old) in a week. For the U.S. automobile manufacturers, MLB games on the national networks were an ideal vehicle to reach a national audience. With the newly deregulated U.S. market, airline companies also experienced fierce competition. U.S. airline companies started to advertise for the peak summer travel season on the MLB national broadcast (Helyar, 1994).

Competition between Miller Brewing and Anheuser Busch also fueled MLB on the national networks. Because of the introduction of Miller Lite in 1975, Miller Brewing grew from seventh to a strong second in the industry. Miller became the exclusive beer sponsor for Monday Night Football, the Indy 500, and the World Series. By 1986, Anheuser-Busch's market share had decreased from 23.7 percent to 19.4 percent (Helyar, 1994). Thus, Anheuser-Busch started to pour 70 percent of its $400 million broadcast advertising budget into sports to push Miller off the shelves. Both Miller Brewing and Anheuser-Busch endeavored to be an exclusive beer sponsor of the MLB games nationally televised on NBC and ABC (Helyar, 1994).

Broadcasting contract of the MLB in the mid and late1980s.

In his biography, Bowie Kuhn, a former commissioner of the MLB, explains the broadcasting negotiation as follows: “As the final year of our 1980-to-1983 contracts with the networks approached, it became increasingly clear that the next negotiations would be the most important in our history” (Kuhn, 1987, p.285). Kuhn established a three-man television negotiating committee in the MLB with White Sox president Eddie Einhorn, and the Phillies’ Bill Giles. The Committee was called “KEG” (Kuhn-Einhorn-Giles) (Helyar, 1994). To spread out the financial risks, and ensure greater promotion for the MLB, KEG wanted to continue with at least two networks on the next contract (Helyar, 1994).

CBS reportedly wanted to be part of the MLB broadcasting network. Also, Ted Turner and his WTBS superstation could now realistically compete for major sports properties. On the other hand, NBC, which had enjoyed exclusivity in the MLB broadcasting from 1966 to 1975, and televised every World Series from 1947 to 1975, attempted to be the exclusive network of the MLB in 1983.

In the 1980-1983 contract, there was a clause indicating that if either ABC or NBC made an offer on a new deal, the other one could get half the package by matching it (Helyar, 1994). NBC offered $475 million for half the package for five years, and also offered $425 million for the other half if ABC didn’t take it. Since this five-year deal indicated that NBC would take three World Series and leave only two for ABC, ABC refused this offer. KEG offered the half to CBS, but CBS also declined.

KEG came up with new idea that MLB would extend the contract to six years and balance out the World Series to three for both ABC and NBC. Additionally, MLB gave exclusivity to ABC and NBC for the "Game of the Week." According to the exclusive contract, during ABC and NBC's "Game of the Week", local broadcasts of the MLB games would be forbidden. Finally, both ABC and NBC signed on for $1.125 billion for a six-year contract through 1984-1989 (Helyar, 1994).

However, this was Bowie Kuhn's last significant act as a commissioner. In 1984, Kuhn recommended that each franchise owner reduce the number of games that any franchise could locally telecast (Kuhn, 1987), and begun discussing a system of modified revenue sharing. Franchise owners with big media markets had trouble agreeing to this concept. Nelson Doubleday, the owner of the New York Mets, who was regarded as the standard-bearer of the Anti-Kuhn party, was not pleased. From the Kuhn biography: "Since Doubleday had bought the Mets for what he considered a big price, he did not see why he should share the benefits of New York with others. Doubleday faulted Kuhn for his support of revenue sharing, particularly with regard to broadcasting." (Kuhn, 1987, p.375) Bowie Kuhn retired from the commissioner of MLB in September 1994.

Superstation tax

According to the 1976 Copyright Act, cable televisions were granted a "compulsory license" to carry over-the-air telecasts of sports events. This means that once sports games were telecast locally, cable systems had the right to carry those games by paying a nominal copyright royalty (Helyar, 1994).

After WTBS, owned by Ted Turner, became a superstation and started to distribute baseball games of Atlanta Braves, also owned by Ted Turner, throughout the United States, MLB Commissioner Bowie Kuhn retained experts to study the effect of the superstation. According to the research, if televised Braves games began going into other professional baseball markets in large numbers, clubs were going to lose fans at the gate and local broadcasting revenues (Kuhn, 1987). In 1982, the Copyright Royalty Tribunal decided to increase key royalty payments by as much as 1,500 percent. Kuhn explains “It was far from fair market value, but it was notable progress.” (Kuhn, 1987, p.292)

By 1984, WTBS had expanded its number of subscribing homes to 31 million. Furthermore, WGN in Chicago that carried Cubs games, WOR in New York that carried Mets games, and WPIX in New York that carried Yankees games also became superstations (Kuhn, 1987). Unfortunately for other franchise owners, all the superstation teams were attractive and very competitive (Kuhn, 1987). In cities with weak franchises, superstation teams could overshadow the hometown team.

In 1985, Kuhn’s successor, Peter Ueberroth imposed a “superstation tax” on Turner and the Tribune Company, owner of WGN and Chicago Cubs (Helyar, 1994). Turner paid MLB $7.5 million in 1989, $9 million in 1990, and $10 million in 1991 (Zimbalist, 1992). These rights fees were then distributed equally to the other teams (Helyar, 1994).

Conclusion

Technical developments involving communication satellites and deregulation by the FCC in the mid-1970s helped cable television to grow. With cable television, viewers had more options leading to audience fragmentation and opportunities for new cable networks such as ESPN and TBS. As competition between conventional television networks and new cable networks intensified, the value of broadcasting rights for major league professional sports grew. Conventional networks used sport content to maintain national interest and cable networks used sports to reach more viewers than ever before.

CHAPTER 5

SPORTS BROADCASTING IN THE 1990s:
IMPACT OF FOX AND VERTICAL INTEGRATION

Broadcasting contracts in the 1990s

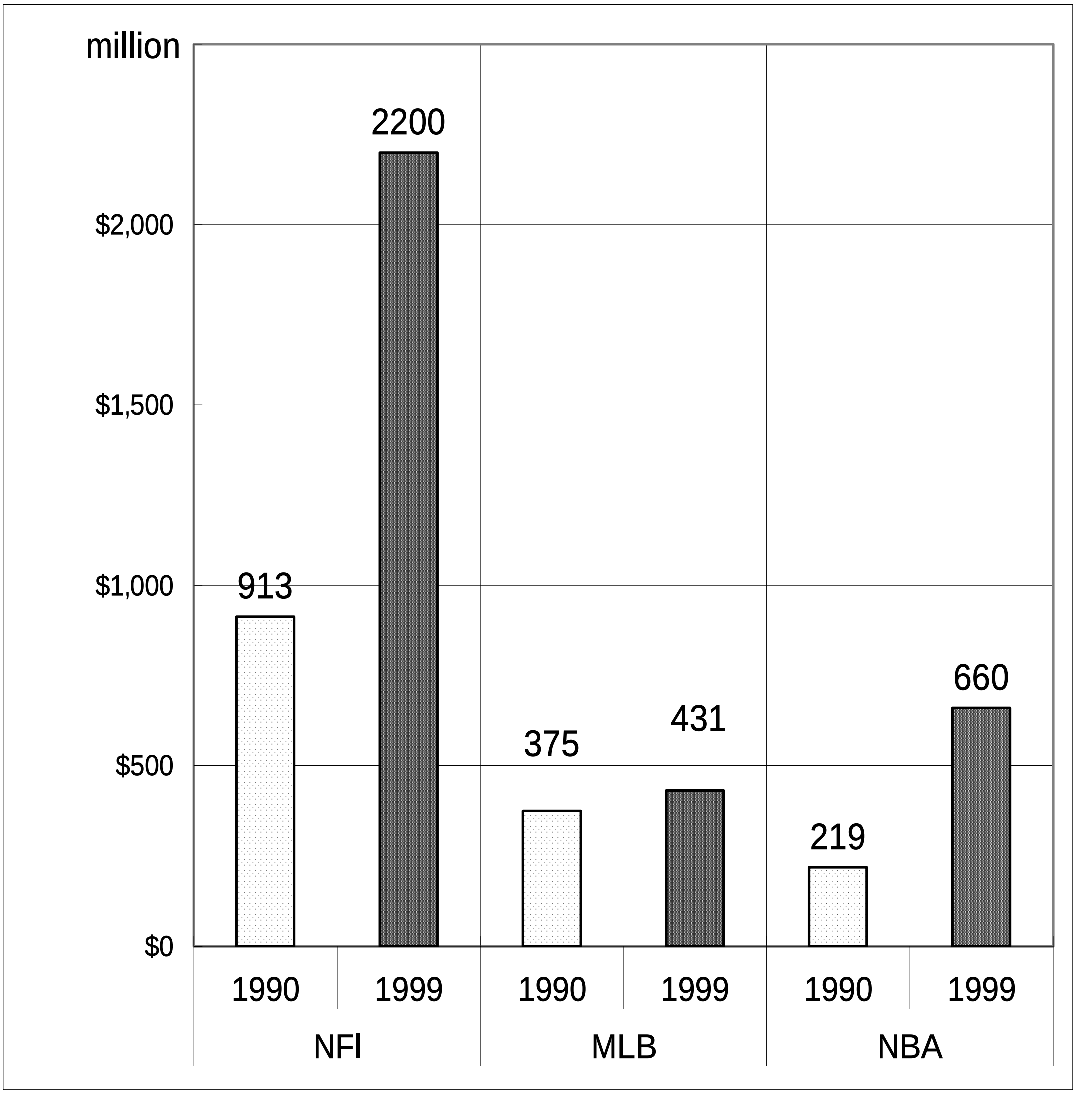
In reviewing early 1990s broadcasting contracts, the NFL had a four-year $3.65 billion contract with ABC, CBS, NBC, ESPN, and TNT for 1990-1993 seasons. The MLB had four-year $1.5 billion deals with CBS and ESPN for 1990-1993. The NBA had an $876 million four-year deal through 1994 with NBC and TNT.

The upward spiral of rights fees were thought to be slowing in the early 1990s. The NFL's television committee projected that the three networks would lose $260 million on the NFL telecasts over the course of their contracts (Lieber, 1993). As for the MLB contract, CBS lost about $500 million and ESPN lost about $150 million (Staudohar, 1996). This was the first time the networks lost such large amounts on sports broadcasting (Staudohar, 1996).

Reviewing the most recent contracts, in January of 1998, the NFL signed eight-year $17.6 billion contracts with FOX, CBS, ABC, and ESPN for the 1999-2006 seasons. MLB has a five-year $1.7 billion contract with FOX and NBC for the 1996-2000 seasons. ESPN also pays MLB $455 million for the 1996-2000 seasons. The NBA has a $2.64 billion four-year deal with NBC, TNT, and TBS, beginning with the 1999 season.

Graph 5.1 compares the average annual national television income of the NFL, MLB and NBA in 1990 and 1999. As the graph shows, regardless of pessimistic predictions, broadcasting contracts for the NFL, MLB and NBA continued to soar in the 1990s.

Graph 5.1
NFL, MLB, and NBA: Annual Television Revenue
(1990 and 1999)



This chapter explores the rapid growth of the Fox Broadcasting Company and its strategy, the changing situation of the television industry mainly driven by vertical integration, and its relationship with the professional leagues in the United States during the 1990s.

Fox Broadcasting Company and News Corporation

In 1985, Rupert Murdoch, chairman and CEO of News Corporation (News Corp), went to Hollywood and purchased Twentieth Century Fox film and television studio for $575 million from oil man Marvin Davis. News Corp is one of the world's great media empires thoroughly dominated by one man, its founder Rupert Murdoch. The company began with a provincial Australian newspaper, the Adelaide News, which Rupert Murdoch inherited from his father when he was 22 years old (Gunther, 1998).

In 1986, Murdoch bought six big-city television stations for $1.9 billion and started the FOX network (Gunther, 1998). FOX went on the air October 9, 1986 (Blumenthal & Goodenough, 1998). This television network deserves more than a passing mention to fully grasp the relationship between the U.S. television industry and professional sports leagues in 1990s.

The Fox Broadcasting Company (FOX) is a part of Fox Entertainment Group Inc, which is a division of international media conglomerate, News Corp. Fox Entertainment Group Inc., includes: the Fox Broadcasting Company, 22 Fox television stations, the Twentieth Century Fox movie and television studios, interests in nearly 30 national and regional cable networks, the Los Angeles Dodgers, and minority stakes in the New York Knicks, New York Rangers, Los Angeles Lakers, and Los Angeles Kings (Gunther, 1998).

Financial Interest and Syndication Rules

Strictly speaking, Fox Broadcasting Company is not a network. Fox's daytime programming is too limited to be subject to FCC rules regarding networks (Walker & Ferguson, 1998). This strategy, limited programming, has allowed Fox not to be influenced by FCC rules, such as Financial Interest and Syndication rules, that had regulated the big three networks for over twenty years.

Before 1970, ABC, CBS, and NBC produced many of their own programs and sold the reruns. To compete with this program producing monopoly by the major networks, Hollywood studios lobbied to enact the Financial Interest and Syndication rules. The FCC adopted the rules in 1970 (Auletta, 1991). These rules forbade networks from producing and profiting from entertainment series they ran or later syndicated to domestic or overseas outlets. Thus, networks had to rely on studio production of shows (Auletta, 1991).

Networks paid studios a weekly license fee that covered about 80 to 90 percent of the cost to produce shows. By way of compensation, networks could air each episode twice with the four-year contract. Although networks conceived, financed, and promoted the shows, they could not sell those shows to local stations, which was a two-billion-dollar market (Auletta, 1991). The studio, however, could stock enough episodes and sell those reruns to local stations when the four-year contract expired. The rules helped Hollywood studios and syndication companies, such as King World Productions, which produces “Wheel of Fortune,” “Oprah Winfrey,” and “Jeopardy!” in the production of network programming.

The indirect impact of the Financial Interest and Syndication rules was that networks were unable to control their cost. For example, even though Cap Cities could cut ABC’s wasteful expenses, networks could not control their principal cost, programming, which extracted about $1 billion annually from each network in the early 1980s (Aulotta, 1991). To renew the top rated prime-time program, “ER”, for example, NBC had to agree to pay $13 million per episode to the producer of the program, Warner Brothers (Gunther, 1998). Unfortunately, Warner Brothers belongs to one of NBC’s competitors, Time Warner Inc.

However, Fox, by not being classified as a network under the FCC definition, was free to own syndication interests in its self-developed shows. As a result, Fox produced and owned most of its hit shows in its group companies. This allows Fox to capture profit at each step on the television value chain. For instance, to broadcast the hit show “The X-Files”, producer company Twentieth Century Fox TV charges $2 million per episode to Fox Broadcasting Company. Total advertising profit to Fox Broadcasting Company from first runs of “The X-Files” was estimated between $900 million and $1 billion for 1999-2000 season. Twentieth Century Fox TV also receives $600,000 per episode from Fox’s FX cable network for reruns of “The X-Files”. It also garners about $60 million advertising revenues from Fox’s 22 owned and operated television stations and independent affiliates by syndication of “The X-Files” reruns. Additionally, it also generates $325 million from such Murdoch holdings as British Sky Broadcasting, and other foreign television networks.

In addition to the television, “The X-Files” has been distributed as books published by News Corp’s Harper-Collins Publishers and Twentieth Century Fox Film Corp featured “The X-Files, Fight the Future” and generated $185 million from the worldwide box office. After close investigation, well-known Hollywood accounting sleuth Philip Hacker concluded that Fox’s distribution arms were paying below market value license fees for “The X-Files” (Lubove, 1999).

In 1993, Twentieth Century Fox TV studio was ranked fifth among the five major studios (Franco, 1998). Fox executives offered top comedy writers double or triple their salaries. Writers got $10 to $15 million contracts for ideas for new shows (Gunther, 1998). In 1998, Twentieth Century Fox TV studio challenge Warner Bros. as the top television production studio with hits like The X-Files, King of the Hill, Ally McBeal, Buffy the Vampire Slayer and Dharma & Greg.

Rapid growth of Fox Broadcasting Company

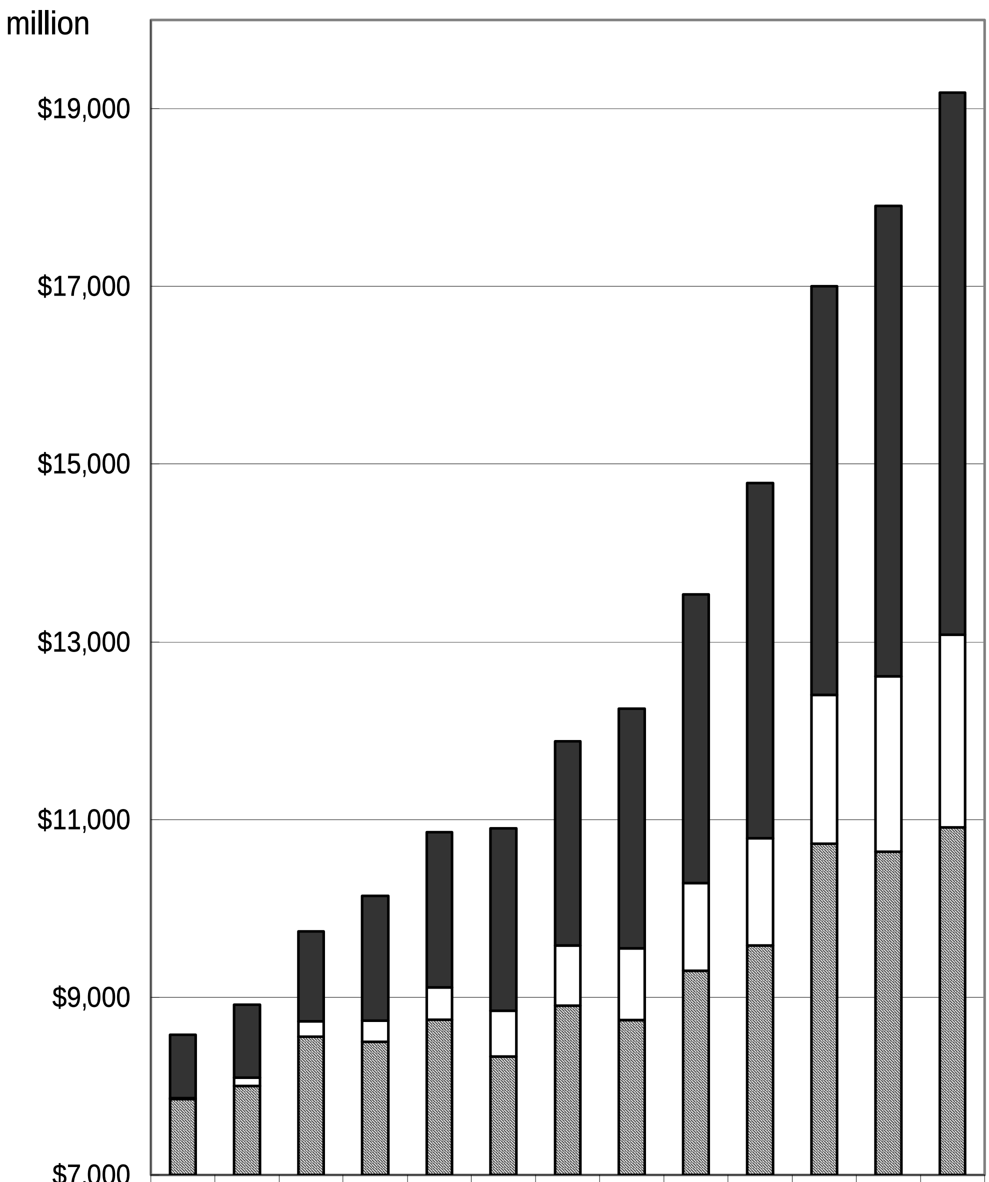
Fox struggled to gain a foothold with viewers for most of the 1980s (Catsis, 1996). As the International Television & Video Almanac (1989 Edition) explains: “Fox Broadcasting Company, Inc., would probably lose $80 million for the year (1988), and its future outlook was shaky (p. 20A)”. Fox exceeded the 10 percent rating mark in 1989 by targeting young-adult viewers with shows such as “Married…With Children,” a cynical family sitcom, and “America’s Most Wanted,” a reality show that encouraged viewers to help catch criminals (17th Edition 0f TV DIMENSIONS ‘99). Fox’s first signature series, “The Simpsons” built on its’ success with younger viewers. “The Simpsons” scored an 14.5 percent rating during the 1989-1990 season and ranked 27th in the Nielsen Top Program ranking for the season (International Television & Video Almanac 1990). 49 percent of the Fox viewers were age 12-34, while 37 percent of ABC viewers, 31 percent of NBC viewers, and 25 percent of CBS viewers were in this age group (Showcross, 1997). In 1989, Fox turned a profit, earning $33 million (Auletta, 1991).

As a result, the International Television & Video Almanac (1991 Edition) noted that “The Big Three…now have been steadily losing their audiences to Fox, cable, and independent stations – not to mention the competition from home video (p. 17A)”. However, the Big Three was deprived of not only their audience, but also their share in the advertising market. Graph 5.2 shows the trends in ABC/CBS/NBC, Fox, and cable advertising revenue from 1986 to 1998. Clearly, from the late 1980s onwards, Fox and cable networks steadily grew their advertising revenues at the expense of ABC/CBS/NBC.

Furthermore, in late 1993, Fox finally answered all questions as to whether it could compete against the major three. Fox out bid CBS for the NFL broadcasting rights, agreeing to a four-year $1.6 billion deal for the 1994-1997 seasons, the most money ever paid for NFL programming. Two weeks after the deal, Fox stole two leading football

Graph 5.2

ABC/CBS/NBC, Fox, and Cable Advertising Revenue
(1986-1998)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
CABLE	715	825	1,010	1,400	1,750	2,050	2,300	2,700	3,250	4,000	4,600	5,300	6,100
FOX	8	90	175	240	360	515	675	805	985	1,205	1,675	1,975	2,170
ABC/CBS/NBC	7,855	8,001	8,557	8,498	8,750	8,332	8,908	8,742	9,300	9,583	10,72	10,63	10,91

Source: 17th Edition of TV DIMENSIONS '99

commentators, John Madden and Pat Summerall from CBS. Fox offered a four-year

$30 million contract to Madden, who became the highest paid sportscaster of all time (Catsis, 1996). Fox increased the excitement of viewing football games by introducing the electronic scoreboard, the constant clock-and-score graphic and putting a microphone on the NFL umpire to pick up sounds such as the crunch of the line play.

As previously mentioned in Chapter 2, the risk proved worthwhile. Fox increased its number of affiliates from 134 stations to 199, expanding total coverage from 93 percent of the U.S. to 98 percent. The eight stations owned by Fox at the time have jumped in value by an estimated $500 million, exceeding one year's rights fee. Fox increased profits from $511 million for the last six months of 1993 to $610 million for the last six months of 1994 (Quirk & Fort, 1999). According to the 1999 Fox Entertainment Group Annual Report, Fox finished the 1998-99 television season a close second to NBC for adults aged 18 to 49. Furthermore, Fox was number one in 1998-99 among teenagers, adults aged 18 to 34 and men aged 18 to 49. Now, Fox stands firmly as one of the major networks in the United States.

Fox Sports Net and ESPN

Since 1993, Fox has expanded aggressively into cable network as well. Fox has built or bought cable channels in every major content area: FX in entertainment, Fox Sports Net in sports, Fox Family Channel in children's and family shows, and Fox News Channel in news. In the 1999 Annual report, Fox Entertainment Group explains "The company's quality sports, news and entertainment programming now boasts a combined

200 million subscribers in the U.S. Sports content is a key part of Fox Entertainment Group's cable programming." This next part of chapter will explore the difference between two giant sports cable networks, ESPN and one of Fox's cable networks, Fox Sports Networks.

ESPN is a cable network that delivers sport programs nationally. This system, however, does not always satisfy the needs of regional sports fans. For example, a nationally televised New York Yankees vs. Boston Red Sox game by ESPN's Sunday Night Baseball in 1998 season was reported to reach 10 percent of Boston and 3 percent of New York homes (Gunther, 1998). Unfortunately, the national rating of the game was only 1.6 percent because most of the fans outside those areas were watching their hometown teams (Gunther, 1998).

Fox Sports Net is an aggregate of 25 regional sports networks that reaches more than 65 million subscribers in the U.S. These 25 networks have telecast rights to more than 3,500 live sporting events involving 73 of the 76 professional U.S. sports teams in the NBA, MLB, and NHL (Annual report 1999, Fox Entertainment Group). Fox Sports Net telecasts local games to local viewers. For example, Fox Sports Southwest covers Houston Astros' and Texas Rangers' baseball games; Houston Rockets', Dallas Mavericks', and San Antonio Spurs' basketball games; and Dallas Stars' hockey games. Additionally, it telecasts the weekly conference of the Dallas Cowboys' coach through the local sports news. The nightly program is filled with a national sports news program, Fox Sports News Prime Time.

Because local viewers want games from their hometowns, local teams usually attract higher cable ratings for their games than nationally distributed cable programs. In baseball, for example, on a Sunday summer evening, ESPN usually telecasts two MLB games. These games may be attractive programs for only the four areas that are hometowns of the competing baseball teams. However, sports fans in other areas of the United States are much less likely to watch the ESPN program. The next day, in contrast, Fox Sports Net will televise perhaps 10 games through its 25 regional sports networks. These games will attract sports fans in 20 areas respectively. Research shows that in 1998, Fox Sports Net's coverage of the MLB through May 11th reached 2.3 million viewers per game, versus 1.1 million for ESPN's baseball coverage (Gunther, 1998).

In competition for acquisition of sports content, ESPN won the rights to televise a complete schedule of eighteen Sunday night NFL games until 2006 at a price of $4.8 billion. ESPN also has a six-year $851 million deal with the MLB for up to 108 regular season games annually through 2005. ESPN has been virtually guaranteed that another national cable network could not steal its programming.

On the other hand, Rupert Murdoch paid $311 million for the Los Angeles Dodgers, all but essential for Fox's Southern California sport networks. Additionally, Fox has minority interest options in Los Angeles Lakers and Los Angeles Kings, as well as 40 percent of the Staples Center Sports and Entertainment Complex, home of the Lakers and Kings. In New York, Fox owns 40 percent of New York Knicks and New York Rangers. In addition to the Dodgers, Fox has a lock on the premier basketball and hockey teams in the two biggest media markets in the United States. As long as Fox has controlling interests, these teams will not show up on a competitor's program.

Vertical Integration

As mentioned earlier in this chapter, to protect the program-producing monopoly by ABC, CBS, and NBC, the FCC prohibited the three networks from owning and syndicating programs via the Financial Interest and Syndication rules. The rules assisted Hollywood studios and syndication companies in the production of network programming. Fox, not regarded as a network by the FCC, could integrate vertically to control the entire process of the television product. However, Fox was not the only player that followed this business strategy. To spread the high fixed costs of production and distribution, and to reduce the high risk of consumer rejection, media mergers were not an uncommon occurrence at the time. The Hollywood studios, helped by the FCC regulation, began to play key role in these vertically integrated enterprises.

MCA/Universal, for example, not only produced television shows and movies, it also distributed movies through its own theater chains, production of home video, and partially owned USA cable network. Paramount distributed its movies via screenings at its own 470 movie theaters, syndicating to independent television stations, and telecasting on partially owned cable's USA Network. Disney not only produced movie and television programs, but also molded a dominant position in the cable industry through the Disney pay-cable channel. The studios clearly had become less reliant on the networks as program distributors (Auletta, 1991). In light of these developments, the FCC became convinced that competing interests were no longer necessary to protect from the once dominant ABC, CBS, and NBC networks.

Deregulation of FCC rules and network mergers

In 1992, Financial Interest and Syndication rules were modified and networks were allowed to distribute, or to have an interest in the proceeds from distributing their own products. By 1995, all restrictions expired. On July 31, 1995, Capital Cities/ABC announced its merger with the most prestigious and successful name in family entertainment, Walt Disney Company for $19 billion. The new production division of the company is comprised of Walt Disney Pictures, Touchstone Pictures, and ABC Productions. As distribution outlets, Disney/ABC has eleven owned-and-operated television stations and 228 affiliates (Walker & Ferguson, 1998).

On the day following the ABC/Disney merger, CBS merged with Westinghouse Electric Corporation for $5.4 billion (Walker & Ferguson, 1998) and expanded to fifteen owned-and-operated stations, reaching 33 percent of all homes in the United States (Walker & Ferguson, 1998). Westinghouse sold its furniture maker, its defense electronics unit, and its residential burglar alarm operations in 1996. During the course of the next year, Westinghouse acquired The Nashville Network and County Music Television for $1.55 billion and launched a news and entertainment cable network called Eye on People. Later in 1997, Westinghouse sold its Thermo King unit for $2.6 billion. To reflect its move away from the power business, the company changed its name to

CBS Corporation and moved its headquarters from Pittsburgh to New York in 1997. To complete this transition, CBS sold its Westinghouse Process Control division and its nuclear power business in 1998.

On September 7, 1999, Viacom Inc. and CBS Corporation announced the planned merger of the two companies in the largest media transaction ever. The new company, called Viacom, was the world's leading company in the production, promotion and distribution of entertainment, news, sports and music with unmatched content. Extraordinary assets in broadcast and cable television, a pre-eminent motion picture studio, the leading radio and outdoor media company and a growing portfolio of Internet ventures created the largest seller of advertising across the media landscape.

Subject to actions taken to obtain regulatory clearances, the merged company will include:

- Industry-leading cable networks, each uniquely powerful in its own target demographic, including MTV, Nickelodeon, VH1, TNN, CMT, MTV2, TV Land, Home Team Sports and Midwest Sports Channel; pay channels Showtime, The Movie Channel and FLIX, and interests in Comedy Central, and Noggin and Sundance Channel.
- The largest television group in the nation, including the CBS Television Network, and stations in all top ten markets and 18 of the top 20 markets in the nation.
- Paramount Pictures, with more than 2,500 titles in its library, including such Oscar winners as *Forrest Gump, Braveheart* and *Titanic*
- Preeminent production and syndication operations, with CBS Productions, Paramount Television, Eyemark Entertainment, Viacom Productions, Spelling Television, and subject to the completion of CBS's pending acquisition, King

World Productions, Inc.

- Simon & Schuster, a leading consumer book publisher.
- Blockbuster Video, the world's leading retailer of rental home videocassettes, DVDs and video games.
- Five theme parks, which entertain more than 13 million visitors annually, and create another distribution channel for the company's entertainment content.

The merger of Time Warner and Turner Communications in 1996 resulted in the world's largest media empire before the merger of Viacom and CBS (Walker & Ferguson, 1998). The new company, Time Warner Inc's, entertainment operations include movies and television programming (Warner Bros.), recorded music (Warner Music Group), a television network (WB), retail stores, publishing (Time Inc.), Multi System cable Operator (Time Warner Cable), a number of cable networks (CNN, TBS, TNT), and sports franchises (Atlanta Braves, Atlanta Hawks, and Atlanta Thrashers). Time Warner has operations in more than 100 countries (Hoover's handbook of American Business 1999).

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<u>Team ownership by media conglomerates</u>

Continuing the vertical integration trend, the number of professional teams that are involved in these media conglomerates has increased. Tribune Company of Chicago, which owns the Chicago Tribune, also owns the Chicago Cubs and superstation WGN. Disney owns the Anaheim Mighty Ducks. Red McComb, the owner of Clear Channel Communications purchased the Minnesota Vikings in 1998

(1999 Inside the Ownership of Professional Sports Teams). Philadelphia based Comcast Corporation has regional 24-hour cable sports network, Comcast Sports Net and owns and operates the Philadelphia 76ers and Philadelphia Flyers. Cablevision Systems Corporation, one of the nation's leading telecommunications and entertainment companies has a controlling interest in Madison Square Garden which includes the arena complex, the New York Knicks, the New York Rangers and MSG cable network.

Professional team's role in the media conglomerates

In 1916, David Sarnoff of Radio Corp of America (RCA) invested $2,000 to build "radio music boxes". In 1921, RCA broadcasted a heavyweight title between Jack Dempsey and Georges Carpentirer to 200,000-300,000 listeners. When Dempsey knocked out his challenger, the entire United States went crazy for radio. By 1930, RCA assets generated more than $176 million in annual revenues and Sarnoff was appointed as a president of the RCA (Robinson, 1999). In the early days of radio, the relationship between sport and media was clear-cut. In the mid 1990s, media and sports intertwined in a complicated web of media conglomerates, and the advantage of having sports broadcasting rights is no longer simple or clear.

As mentioned in this chapter, by controlling professional teams in the two biggest media markets in the United States, Fox is able to lock broadcasting rights of these teams from its competitors. This is just one link of Fox Sports Net's strategy to compete with national cable sports network ESPN. Quirk and Fort (1999) point out that vertical integrations provide team owners opportunities to benefit from complex financial interrelationships. For example, in New York, one owner controls the arena (Madison Square Garden), professional teams (New York Knicks and New York Rangers) and cable network (MSG cable network). In this case, the owner can allocate the revenue where they desire, allotting arena rental charges between teams and arena, and the television contract between cable network and teams. This allows owners to control taxes and the salary cap.

In their book Co-opetition, to explain game theory and strategic thinking, Naleguff and Brandenburger cite some negotiation cases in the cable industry. Negotiations between Fox and Turner at the end of 1996 should be cited in their next book. In 1996, Fox decided to launch a cable news channel, Fox News, competition for Time Warner's CNN cable news channel. Time Warner owned cable systems in the New York City and refused to include the Fox News channel as a part of its basic cable service. At the end of the same year, Fox network happened to expire with other Time Warner cable systems, in the areas such as Green Bay, Wisconsin, and Austin, Dallas. Fox network held the broadcasting rights for the Super Bowl in January 1997, and the Green Bay Packers and Dallas Cowboys were strong prospects for the Super Bowl.

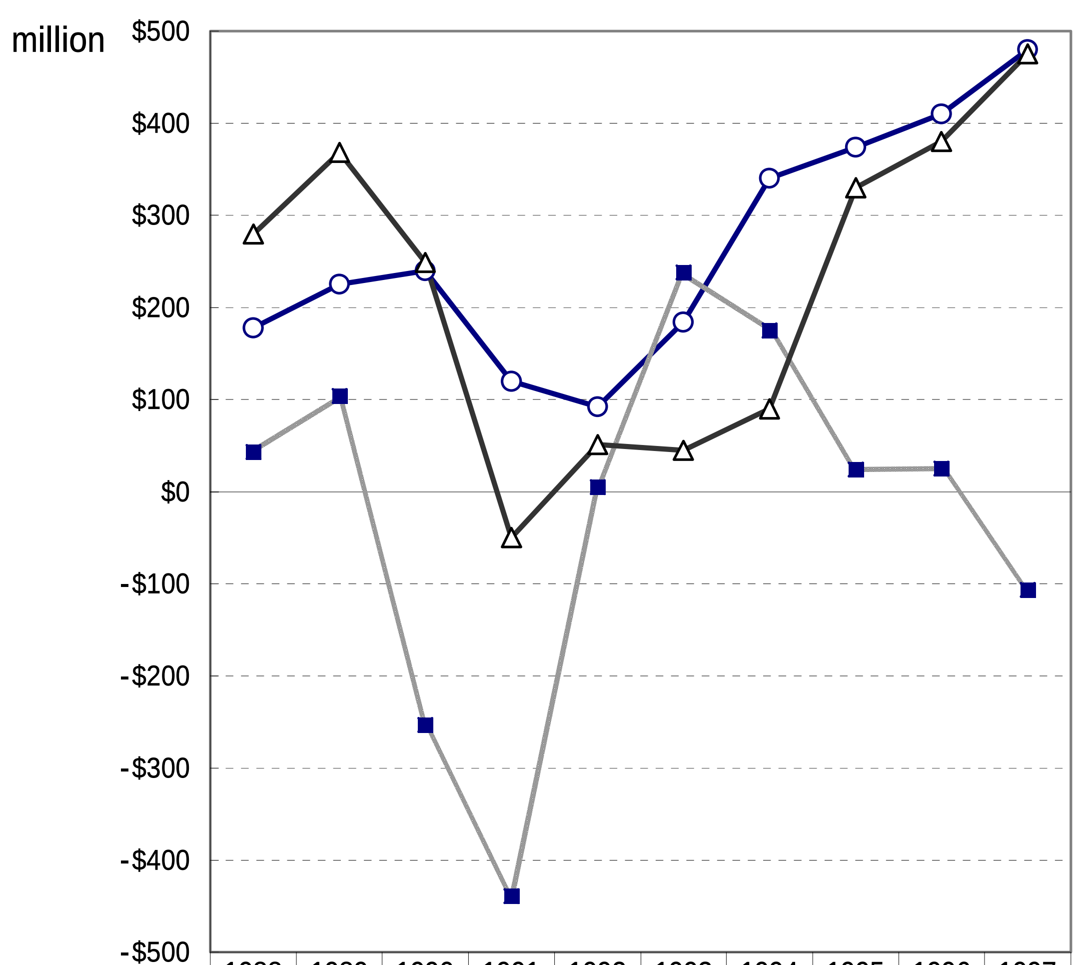
After the Time Warner's New York cable system refused to include Fox News channel in its basic service, Fox network began running an advertisement geared to Time Warner cable's subscribers in Green Bay and Austin. The advertisement said that since Fox would not be renewing its contracts with Time Warner cable for 1997, Time Warner's subscribers in those areas should buy a television antenna to watch Super Bowl. As a result of this pressure and prior to Super Bowl Sunday, the Fox News channel was included in the basic service of the Time Warner's cable system in New York City (Quirk & Forts, 1999).

MLB broadcasting rights in the 1990s

MLB started the 1990s with four-year $1.5 billion deals with CBS and ESPN for the 1990-1993 seasons. Following the NFL's 1987-1989 deal, MLB reached its first national cable contract with the ESPN. ESPN paid $400 million to telecast 175 games per season for four years. The CBS-MLB contract, four-years for $1.1 billion was a controversial one. Although in the prior six-year $1.125 billion contract, NBC carried thirty-two games per a season and ABC carried eight, CBS carried only twelve regular season games (Staudohar, 1996). While CBS increased regular season games to sixteen, low ratings caused CBS to lose approximately $500 million and ESPN about $150 million (Staudohar, 1996). Graph 5.3 depicts estimated pre-tax profits of ABC, CBS, and NBC from 1988 to 1997. As the graph indicates, the deficit hurt CBS financially.

For the next national television rights contract, ESPN agreed to $255 million over six years. This contract was less than half of the rights fees under the old agreement. On the network side, MLB announced the formation of The Baseball Network (TBN), a joint venture with ABC and NBC. During the first year of the six-year contract, the three partners would split revenues; MLB was to receive about 88 percent and each network 6 percent. Upon the forming of TBN, the leagues were also divided into three divisions, creating an additional round of playoffs and a wild card entry.

Graph 5.3
ABC, CBS, and NBC: Estimated Pre-Tax Profits
(1988 to 1997)



	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
ABC	178	225	240	120	92	184	340	374	410	480
CBS	43	104	-253	-439	5	238	175	24	25	-107
NBC	280	368	249	-50	51	45	90	330	380	475

Source: 17th Edition Of TV DIMENSIONS '99

This contract included the clause that if TBN did not produce a minimum of $330 million in revenue over the first two years, any party could void the agreement. Unfortunately, the league's new experimental trial was interrupted by the players' strike which caused the cancellation of the games from August 1994 through beginning of 1995 season, including the playoffs and the World Series. The players strike resulted in a $500 million loss for ABC and NBC. The networks terminated the agreement in June 1995.

Ironically, the indirect reason for the strike was the former television contract of the MLB with CBS and ESPN. At the owners meeting on December 1992, baseball owners already knew that CBS and ESPN had lost a bundle of money and predicted a shortfall in the next national television revenues. If the national television revenue, shared equally among all teams, were to decline, small-market teams would be in trouble because they had relatively smaller local television revenues and relied more on the league-shared revenue from national broadcasting rights. Early in 1994, the owners agreed to revenue sharing from big market teams to small market teams. This system, however, included the players' acceptance of a salary cap triggering the strike.

Following the 1995 season was a good opportunity for Fox to get involved with the national pastime. The new five-year $1.7 billion deal included NBC, ESPN, Fox, and Fox's cable partner, Liberty Media. Paying $575 million, Fox got a weekly regular season game, three World Series, two All-Star games, and half of the League Championship Series (LSC) games annually. NBC paid $475 million to carry two World Series, three All-Star games, and half of the LCS.

<u>NFL broadcasting rights in the early and mid 1990s.</u>

The first broadcasting contract of the NFL in the 1990s was a four-year $3.65 billion deal for the 1990-93 seasons with NBC, CBS, ABC, ESPN and TNT. To lure this contract, the NFL increased the number of playoff teams from ten to twelve to create two more playoff games (Staudohar, 1996).

The next contract, which was explained earlier, Fox outbid CBS and the NFL agreed four-year $4.4 billion deal for 1994-97 seasons with ABC, NBC, ESPN, TNT and Fox. While Fox wrote off $395 million in its first year of the NFL deal, Fox has used the NFL to become a major league network in the United States. After this deal, the networks more than ever-viewed sports broadcasting contracts beyond the issue of profit and loss (Financial World, June. 17, 1997). Sean McManus, president of CBS Sports says, “You don’t buy major sports packages now to make money. You buy them to build the value of your TV network.” (Badenhausen & Nikolov, 1997, p. 52)

CBS without the NFL

Starting in 1991-92, CBS was the number one network for three years in a row based on the success of “60 minutes,” ”Murphy Brown,” “Murder She Wrote,” and “Northern Exposure.” (International Television & Video Almanac 43rd Edition)

However, with the lost of the NFL broadcasting rights in 1994, some affiliates switched from CBS to Fox. This resulted in decreased CBS fall prime-time ratings from 11.8 to 9.6 in the three years since the change, while Fox’s fall prime-time ratings rose from 7.2 to 7.7 (Badenhausen & Nikolov, 1997).

In the 1994-95 season, overall ratings of CBS plunged from number one to number three (International Television & Video Almanac 43rd Edition). In the 1995-96 season, NBC coverage of the 1996 Summer Olympics in Atlanta swamped other networks in the ratings. NBC earned the number one rating, while CBS remained number three (International Television & Video Almanac 43rd Edition).

CBS Sports in late 1996 was suffering from sagging morale, a shortage of properties and a deficit of respectability in the sports market place (Brockinton, 1999). Losing the NFL to Fox was not the only the concern. ABC created a big college football event, the Bowl Championship Series, and in the process CBS lost rights to major college bowl games. NBC acquired the Olympic games through 2008 and as a result, CBS, which had aired the Winter Olympics since 1990, was locked out (Brockinton, 1999). Since 1989, when NBC replaced CBS as the NBA's primary network, NBC had enjoyed its exclusivity with this sport. Lastly, CBS had also been shut out from the MLB after it had lost about $500 million from the four-year $1.1 billion deal for the 1990-1993 season (Staudohar, 1996).

In December 1996, Sean McManus was named president of CBS Sports after his nearly ten years at Trans World International, IMG's television rights division. For him, reacquiring TV rights to the NFL was, he says, "a singular goal, a singular obsession." (Brockinton, 1999, p.19)

NFL blockbuster deal in the late 1990s.

In January 1998, the NFL signed an eight-year, $17.6 billion broadcasting deal for the 1998-2005 seasons with ABC, ESPN, CBS, and Fox. As part of this contract, ABC will continue to televise Monday Night Football for $4.4 billion over eight years. ESPN got the rights to televise a complete schedule of 18 Sunday night games for the first time, paying $4.8 billion. Fox retained the rights to televise the National Football Conference schedule of Sunday afternoon games for $4.4 billion. And CBS came back to the NFL, paying $4 billion for the rights to the American Football Conference games, which had been televised by NBC. CBS also purchased the rights to air two Super Bowls.

Soon after the deal, NFL players and owners agreed to extend their labor agreement through 2003; even though this agreement, initially signed in 1993, was to expire after the 1999 season (Sports Business Journal, Sept. 6-12, 1999). Because this contract almost doubled the media income distributed to each team, the salary cap jumped from $52.38 million a team in 1998 to $57.29 in 1999 (Sports Business Journal, Sept. 6-12, 1999).

<u>Is NFL broadcasting worth $17.6 billion?</u>

When the NFL contract was announced in January 1998, NBC Sports President Dick Ebersol predicted that each of the networks would lose between $150 million and $200 million a year on their football package (Sports Business Update, Jan. 19, 1998).

However, executives of all three NFL networks say that is not the case. The remainder of this chapter will examine the result of the first NFL season of this eight-year deal with CBS.

It is reported that production costs and rights fees for the 1998 NFL games totaled $300 million for CBS. Table 5.1 shows CBS rights fees for the subsequent seasons from 1999 to 2005. As for advertising sales, even though CBS declined to disclose its advertising revenue for the 1998 NFL season, according to several industry sources, the network generated between $350 million and $360 million in gross sales this season. Minus advertising agency's commissions, that total figure becomes slightly more than $300 million for CBS. CBS's owned and operated stations delivered an additional $70 million in advertising revenue. For the 1999 season, as the economy remains strong, spending is up in several advertising categories, such as financial services, Internet (particularly online trading companies), computers, pharmaceuticals and telecommunications (Lombardo, 1999).

Table 5.1
NFL rights fees from CBS
(1999-2005)

1999	2000	2001	2002	2003	2004	2005
$350	$500	$400	$550	$690	$714	$728

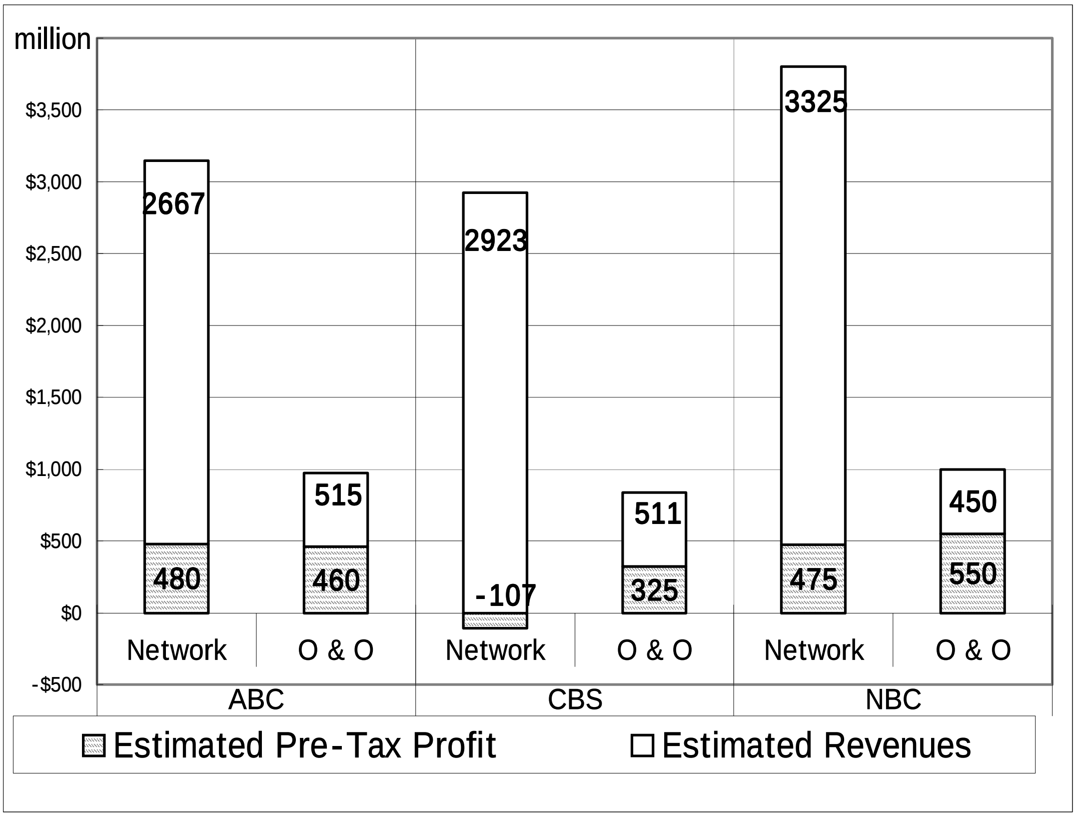
Source: Sports Business Journal, Sept 6-12 1999 p27

Furthermore, like affiliates of Fox, the CBS's affiliates also agreed to give

CBS—via cash payment and commercial inventory exchanges—the equivalent of about $40 million a year to help defray costs of right deals (Brokinton, 1999). Given the profitability of the affiliates, this is a quite natural move for affiliate stations.

Graph 5.4 depicts estimated revenues and pre-tax profit for ABC/CBS/NBC and their owned and operated stations in 1997. In 1997, each network's owned and operated stations generated almost the same profit as the networks.

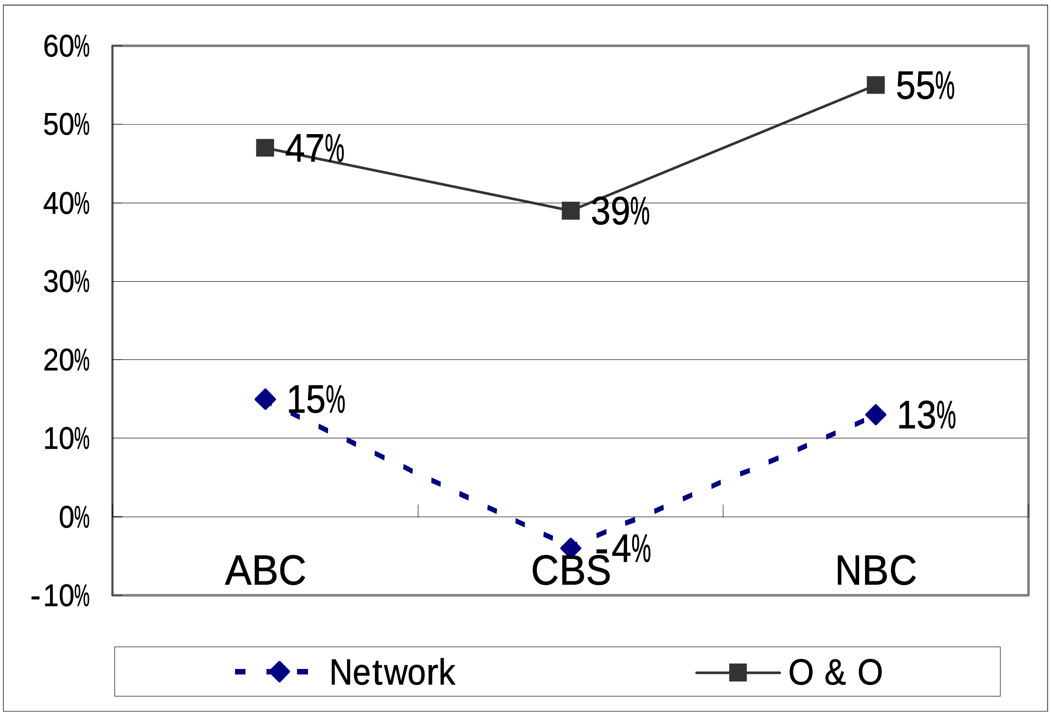
Graph 5.4
ABC/CBS/NBC and their Owned and Operated Stations: Estimated Revenues and Pre-Tax Profits (1997)



Source: 17th Edition of TV DIMENTIONS '99

Graph 5.5 depicts estimated pre-tax profit margins for ABC/CBS/NBC and their owned and operated stations in 1997. As the graph indicates, in 1997, the profit margin of the networks’ owned and operated stations far exceed that of networks.

Graph 5.5
ABC/CBS/NBC and their Owned and Operated Stations:
Estimated Pre-Tax Profit Margins
(1997)



Source: 17^{th} Edition of TV DIMENSIONS ‘99

By having the NFL as a promotional platform for its prime time programming, the network also saved millions in promotional outlays. As a result, CBS has led prime-time rating averages for the first 10 week of the 1998 fall season for the first time since CBS televised the NFL in 1993 (Brockinton, 1998).

CHAPTER 6

NEW TECHNOLOGIES AND SPORTS BROADCASTING

New Technologies

Throughout the 1990s, technology has changed the television industry (Blumenthal & Goodenough, 1998). As of 1998, 66.1 percent of U.S. television households subscribed to cable television and 84.6 percent owned at least one VCR (International Television & Video Almanac 44th Edition). Additionally, 7.6 percent of U.S. television households subscribe to Direct-To-Home digital service (International Television & Video Almanac 44th Edition) and approximately 10 percent enjoy motion pictures in home theaters with screens exceeding 40 inches (Blumenthal & Goodenough, 1998). It is predicted that World Wide Web (WWW) users in the United States will increase from approximately 51 million at the end of 1998 to more than 100 million by the end of 2003 (Sofley, 1999). An estimated 22.4 million adult sports fans go online mainly to check scores and standings (Klapiosch, 1999). Soon, the day will come that we are at a loss as to whether to watch television through our computer, or access our computer through our television. While it is impossible to predict the future, especially in the realm of technology, this chapter will review some key trends in sports broadcasting from late 1999 into early 2000.

Direct-To-Home Digital Service

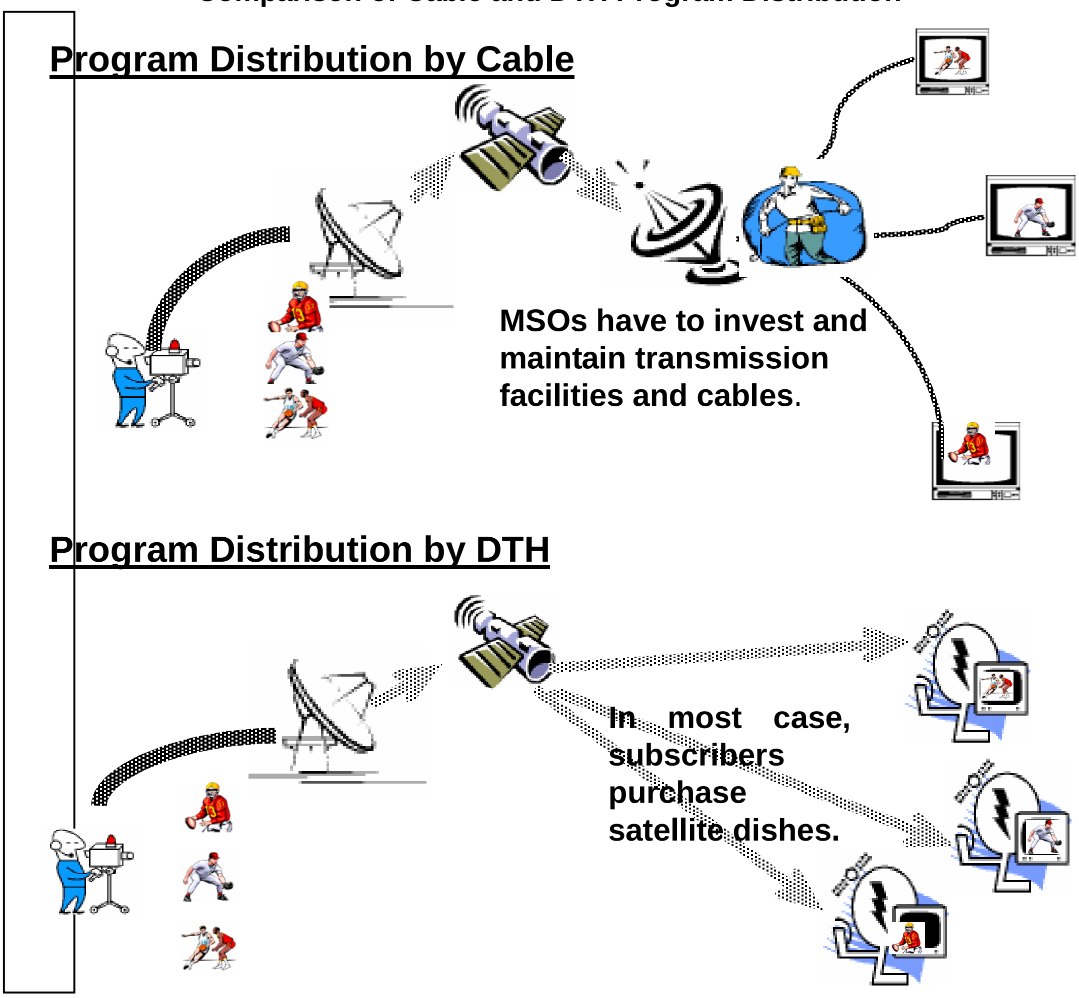
Cable has been the major alternative distribution system to the network-affiliate broadcasting system. Although cable is upgrading to digital service that offers more channels, improved picture quality, and extras such as the Internet, Direct-to-Home Digital Service (DTH) has emerged as a prime competitor to cable in the United States. DTH service subscribers receive digital signals via a pizza-sized dish. Figure 6.1 provides a comparison of cable and DTH distribution systems. Since DTH providers do not have to invest and maintain transmission facilities and cables, they can potentially break-even at fewer than 3 million subscribers, an economic advantage over other distribution systems (Vogel, 1998).

According to a December 1999 Consumer Report survey, about two-thirds of satellite subscribers were very or completely satisfied with almost everything about satellite: picture, sound quality, customer service, channel selection, and value for money. In contrast, only one-third of cable subscribers were very or completely satisfied.

The top DTH service provider in the United States is DirecTV with 2.8 million subscribers in 1998 (International Television & Video Almanac 44th Edition). Roughly 50 percent of DTH subscribers cancel their cable subscriptions and most stop renting videocassettes or cut their rentals to a minimum (Blumenthal & Goodenough, 1998).

The NFL began a satellite subscription package, NFL Sunday Ticket, including all AFC and NFC telecasts of Sunday afternoon games in 1994. NFL Sunday Ticket allows subscribers to receive up to 13 games each Sunday throughout the NFL's 17-week season for a total of nearly 200 games. It started with less than 250,000 subscribers in 1994 but reached 700,000 subscribers in 1998 and is now credited with being one of the main reasons Americans purchase satellite dishes (TV Sports File, 1998). In 1998, as part of its long-term strategy to expand NFL Sunday Ticket's reach outside the U.S., distribution expanded into Canada (Rogers Cable Systems), Bahamas (Cable Bahamas), Central and South America (Galaxy Latin America), and Japan (SKY PerfecTV).

Figure 6.1
Comparison of Cable and DTH Program Distribution



The NFL on DTH

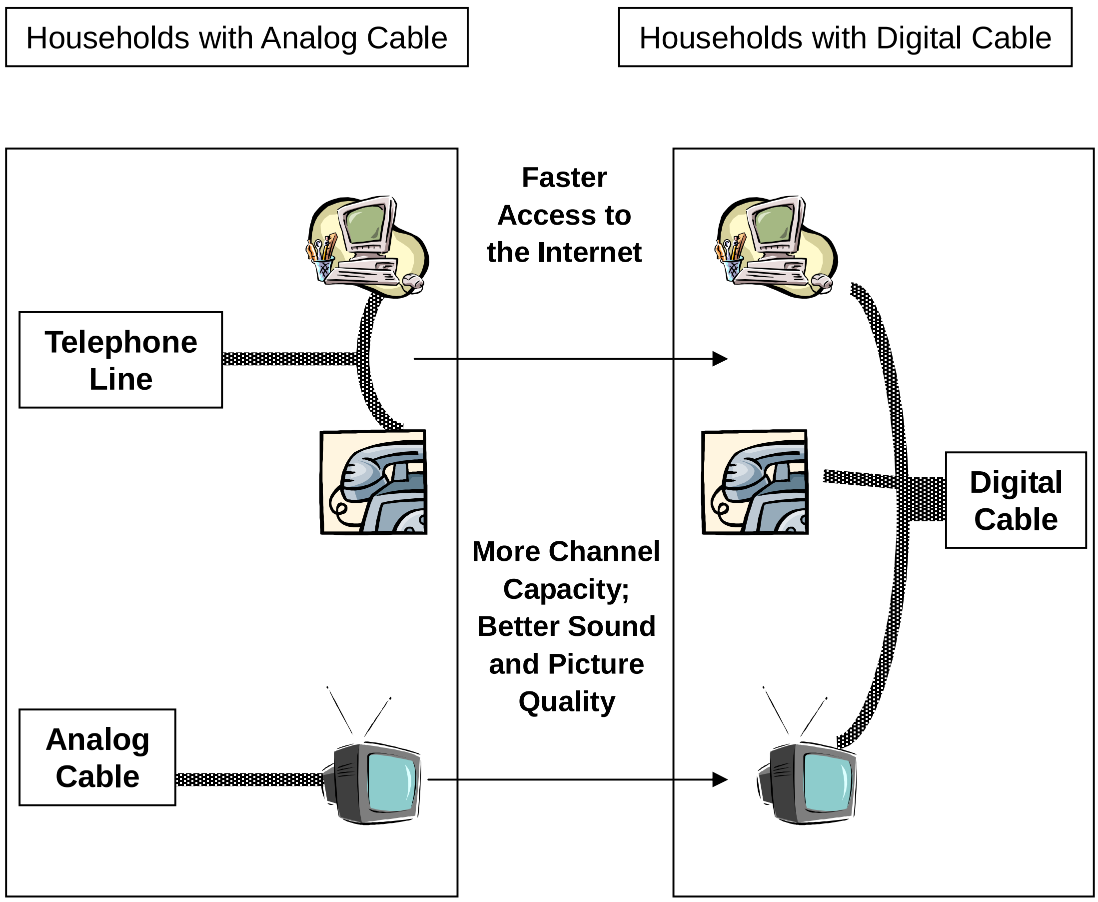
Although the contract between the NFL and DTH service providers has not yet revealed, calculating from the $139 early subscription fees (through June 6, 1998), the NFL created a $100 million market as well as introduced new subscribers to the DTH industry during the year. Now, both MLB and NBA offer the same type of satellite subscription package, MLB Extra Innings and NBA League Pass.

Challenges to cable

Until November 29, 1999, when President Clinton signed the Satellite Home Viewer Improvement Act, the largest drawback of DTH was that it had been prohibited from carrying local television station programming. However, under the new law, DTH can begin providing subscribers with local channels, boosting their ability to compete with cable. Predictably, major DTH Digital service providers, DirecTV and EchoStar, began offering local signals from ABC, CBS, NBC, and Fox stations in several major cities right after President Clinton signed the law (Nathan, 1999).

In order to effectively compete with the vast channel selection and sharper images of DTH, a growing number of cable operators are upgrading their networks from analog to digital service. Figure 6.2 displays differences between households with analog cable and digital cable. As the figure shows, digital cable offers not only better quality of picture and sound, but also what DTH cannot offer; high-speed Internet access via cable modems and local phone service. This $100 billion local telephone market is a prime reason for AT&T (The Associated Press State & Local Wire, 1999) to have spent $59 billion in March 1999 to acquire Tele-Communications, the top cable MSO in the United States with 14 million subscribers (International Television & Video Almanac 44th Edition).

Figure 6.2
Analog Cable and Digital Cable:
Household Differences



Currently, AT&T Cable Services, formerly Tele-Communications Inc., provides digital cable service (AT&T Digital Cable) and cable Internet connection service (AT&T@Home). This Internet service is provided exclusively by Excite@Home, an Internet content company partly owned by AT&T (Douglass, 2000). By paying an $150 installation fee and a $39.95 monthly fee, subscribers get an Internet connection up to 100 times faster than a 28.8 phone modem (AT&T@Home, homepage).

Just six weeks after completing the acquisition of Tele-Communications Inc, AT&T CEO C. Michael Armstrong announced a $54 billion bid for MediaOne Group, the third largest cable MSO in the United States with approximately 5 million subscribers. If AT&T completes this merger, it will be the biggest player in cable, with cable systems reaching no less than 60 percent of U.S. cable households (Siklos, Barret, Yang & Crockett, 1999). This deal for MediaOne is also an important step in AT&T's strategy to offer local phone service via cable (Siklos, Barret, Yang & Crockett, 1999). Essentially, these cable mergers would transform AT&T into the only giant digital distributor with high-speed broadband cables directly connected with millions of homes over which to offer bundles of voice, motion pictures, and Internet services (Siklos, Barret, Yang & Crockett, 1999).

War in Digital Cable

This ambition is certainly not limited to AT&T. All Internet providers are eager to access digital cable directly connected with U.S. households. Digital cable, which allows data to transmit 100 times faster than regular telephone lines, is a competitive necessity for Internet providers. Currently, there are 1.1 million Internet users connecting their computers with digital cable, and this number is expected to grow to 9 million by 2003 (Marco, 2000). However, AT&T, which provides the Internet service AT&T@Home via its digital cable, has not offered open access to its cable to competing Internet providers, including America Online (AOL) (Bernstein, 2000). AOL and AT&T have been in a nationwide dispute over whether cable system operators should be forced to give unaffiliated Internet providers access to cable operators' digital cable (Douglass, 2000). The policy fight over "open access" has steadily escalated under pressure by consumer groups to pledge AT&T to open its cable lines to Internet competitors (Douglass, 2000).

On January 12, 2000, AOL announced a plan to acquire Time-Warner for $182 billion. Since AOL could not persuade any cable carriers to offer its high-speed Internet service over digital cable, Time Warner's cable systems, which service 13 million homes is a prime rationale for the deal (Bernstein, 2000). Having Time Warner's 13 million homes provides two cards to AOL to negotiate "open access" to AT&T's digital cables, which it is acquiring from Tele-Communications Inc, and MediaOne. First, AOL-Time Warner can offer local telephone rights to its 13 million homes to AT&T, in exchange for "open access" to AT&T's digital cables. Secondly, AOL-Time Warner can open up its digital cables to its Internet service competitors to ensure "open access" to the digital cables owned by AT&T. Another reason for the merger from AOL perspective is Time Warner's entertainment content; 33 magazines, 119 million records sold last year and an 18 percent share of the U.S. movie business (Bernstein, 2000). If the 13 million cable subscribers were the only reason, AOL could have elected to purchase Comcast Corp., Adelpha Communications Corp., and Cable Vision System Corp. These four companies collectively have 14.4 million cable subscribers and have a combined market capitalization of $24.4 billion, about a quarter of Time Warner's market value (Bernstein, 2000).

Time Warner vs. CBS vs. Disney on the web

From Time Warner's point of view, it is the 20 million Internet subscribers who are high-end, media-savvy consumers, which benefit most by the merger with AOL. One possible beneficiary is Time Warner's sport Internet site, CNNSI.com. Table 6.1 displays the number of unique visitors of top sports sites. Disney's ESPN.com registers up to 150 percent more, and CBS's SportsLine.com twice as many, unique visitors than Time Warner's CNNSI.com.

However, SportsLine.com has been attracting its traffic partly from AOL SportsChannel with its three-year $24 million deal as an anchor tenant on the network (Liberman, 2000). If CNNSI.com replaces SportsLine.com on the AOL SportsChannel, CNNSI.com could surpass SportsLine.com. Also, it could narrow the gap with ESPN.com, which benefits directly from its affiliations with NFL.com, NBA.com, and NASCAR.com (Liberman, 2000). If CNNSI.com garners more traffic, not only CNNSI.com, but also Time Warner's CNNSI television network and Sports Illustrated would increase in media value because of new opportunities for cross promotion between the three different medias.

Table 6.1
Top Sports Site Online
September to November 1999

	Site	Nov. 1999	Oct. 1999	Sept. 1999
1	ESPN.com	5,305,000	5,558,000	5,373,000
2	SportsLine.com	3,586,000	4,505,000	4,655,000
3	NFL.com	2,892,000	3,074,000	3,100,000
4	CNNSI.com	2,029,000	2,402,000	2,295,000
5	NBA.com	1,277,000	976,000	566,000
6	NASCAR.com	1,059,000	1,340,000	1,269,000
7	FoxSports.com	1,025,000	1,104,000	1,037,000
8	FANSonly Network	918,000	899,000	911,000
9	SportingNews.com	849,000	767,000	952,000
10	Sandbox.net	837,000	767,000	962,000
	AOL SportsChannel	**9,190,000**	**9,260,000**	**8,920,000**

Source: Sports Business Journal, Jan, 17-23, 2000

Future of Sports Broadcasting

Throughout this chapter, we have reviewed some key trends in sports broadcasting from late 1999 into early 2000. Since new technology is continually introduced and the future becomes more uncertain every day, it is very difficult to predict the future. However, the fundamentals that support and drive the sports broadcasting industry will be the same.

Based on our understanding of these fundamentals, a number of logical expectations emerge. First, audience fragmentation will increase. Throughout sport broadcasting history, the advancement of technology has resulted in consumers having more and more choices. When cable was introduced, for example, viewers gained choices such as a 24-hour sports cable network and superstations. When DTH television arrived, viewers benefited from the opportunity to watch their favorite NFL team's game when the game was not network broadcasted. Eventually, broadband will enable the Internet broadcast of sport games and events with very little investment, providing consumers with a tremendous number of viewing options. As these options proliferate, audience fragmentation will also increase.

Secondly, sports broadcasting will become more global. The most significant difference between the Internet and conventional television is that the Internet does not have borders. While cable and satellite television developments outside of the United States have helped U.S. sports leagues to transmit their content abroad, the Internet has the potential to exponentially increase sport content distribution. As long as their computers are connected with high-speed Internet services, viewers will be able to watch their favorite sports games and events wherever they live. The international interest in NBA.com provides a glimpse of this potential. During the week of Feb. 7-13, for example, NBA.com broke its record for weekly usage, attracting 4.65 million visitors, with more than a third of the traffic from overseas (Mullen, 2000).

Thirdly, when the audience for sports is more fragmented and internationalized by advanced technology, the marketing of, and through sports will become more complex. In the cable era, for example, ESPN not only broadcasted the America's Cup all over the United States for the first time, but also connected the yacht race with sponsors such as Cadillac, a champagne manufacturer, and a personal insurance company that had previously seldom saw the expensive light of television network advertising (Klatell & Marcus, 1996).

The following are a few examples in the Internet era. In 1999, the Seattle Mariners, which signed Japanese MVP reliever Kazuhiro Sasaki to a two-year $8 million contract, upgraded their lines of communication with Japanese-speaking consumers by creating a telephone hot line, Web pages and a direct e-mail link to Japanese-speaking staff members. Hide Sueyoshi, Mariners' liaison to its Japanese-speaking customers, wrote on the Japanese-language homepage, "News will spread out among Japanese people all over the world. Plus, those people will buy our merchandise." (King, 2000. p.21) The previously mentioned NBA.com plans to launch five international versions at the fall of 2000 and may begin to sell regional foreign sponsorships in the various countries and to existing NBA global sponsor companies that want to extend their message to each region (Mullin, 2000). Clearly, rapidly advancing technology will result in greater complexity and importance for marketing of, and through sports to fragmented and internationalized audiences.

Fourth, the point of contact with consumers will continue to have significant importance. Throughout the history of the broadcast industry, the point of contact with the audience has been an important aspect to maintain competitive advantage. In the era of the three networks, the number of affiliated local television stations determined the coverage rate of the networks. To reach a greater audience, the three networks competed to expand their connection with affiliated local television stations. In the cable era, Multiple Service Operators (MSO's) garnered power by selecting which networks to deliver to its subscribers. Start up cable networks had to pay a fee to MSO's to deliver their programs to subscribers. Even in the Internet era, the situation will not change in that the entities that are directly connected with large numbers of subscribers will have strong market power. This is one of the primary rationales for the merger of AOL and Time Warner, and AT&T and Tele-Communications Inc.

Fifth, exclusive rights with players will become more important. The more broadcast technology advanced, the less expensive it became to run television networks. The decreasing cost to launch this type of business allowed new niche cable networks such as ESPN, ESPN2, New England Sports Networks, and Golf Channel to emerge. As a result of the increasing intensity of competition in the broadcast industry, the value of exclusive rights with teams and leagues escalated. With a small investment, the Internet enables ordinary individuals to have their own homepages to dispatch information. When the cost of establishing a television network was very expensive, it was very difficult for the teams in the MLB, NFL, and NBA, as well as leagues to own their television networks. However, in the Internet era, it is easy for leagues, teams, and just as critically, athletes to have their own homepages. With the low entry barrier, competition between sport websites intensifies. When the competition among the three networks became very intense, exclusive rights to the MLB, NBA, and NFL became quite important. When competition among the cable network became intense, strong relationships between superstations and teams, such as TBS and Atlanta Braves, and WGB and Chicago Bulls increased its importance. Therefore, in the Internet era, the exclusive right not only to leagues and teams, but also to individual athletes will increase its value because audience will become more fragmented.

The Japanese-language homepage of Seattle Mariners is a good example. Using its homepage, Mariners try to convert fans of Japanese baseball into avid Mariners consumers and try to sell them Mariners' merchandise (King, 2000). Japanese fans, however, want to follow Japanese superstar Sasaki closely via the Internet, and not the Mariners. Sasaki and his agent could try to monopolize Sasaki's marketing rights through the Internet; establishing Sasaki's individual homepage, creating a link with the Mariners' homepage, and bringing traffic from Japan and taking merchandise orders from Japanese customers. These actions would result in Sasaki and his agent profiting from some percentage of total Mariner's merchandise sales from Japan. This opportunity is created because Sasaki is in a better position than the Mariners to generate traffic to the website from this fragmented audience.

It is clear from this analysis that technological advances will accelerate audience fragmentation and globalization of the sports broadcasting to make sport marketing more complicated, and interesting. Two aspects of sports' content distribution; the point of contact with consumers and exclusive rights with leagues, teams, and players will increase in value. One technological advance that is not specifically addressed in this chapter, but will likely significantly alter the landscape, is the convergence of the Internet with television. At this juncture in time, however, attempting to predict the timing and impact of convergence is pure speculation and beyond the scope of this paper.

Conclusion

It took around 50 years for major television networks to emerge, construct distribution systems by way of expanding affiliation with local television stations, and make the world their oyster. However, in about 20 years, the development of distribution systems created by satellite, such as cable television, superstations, and direct to home television decreased the competitive advantage of the major three television networks and essentially incorporated the three networks into the new distribution system. As we enter the new millenium, the Internet is rapidly changing the entire distribution system. Sports' broadcasting has always, and continues to, play a key role in television industry competition. As competition becomes more intense, sports' broadcasting becomes even more valuable.

The introduction of this paper began to compare the development of broadcasting in the U.S. to Japan. Although there are slight infrastructure differences, such as the saturation rate of cable television and high-speed Internet connections, the situation is otherwise very similar between these two superpowers. Just like in the U.S. sports' broadcasting is playing a key role in media competition. However, for professional athletes in Japan to benefit from their value, they will have to patiently await the improvement of other distribution systems. While the distribution of sport content is one piece of the puzzle, also crucial is the revenue distribution between the league and individual teams and the collective bargaining agreement with the players.

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