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# THE FUTURE OF TELEVISED SPORTS

April 6, 1989

Seminar Notes

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Seminar Notes

Jack Craig
Television Sports Columnist
The Boston Globe

Prof. David Klatell
Journalism Department
Boston University

Prof. Peter Lemieux, Moderator
Political Science Department
MIT

Gail Kosloff
Rapporteur
MIT

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This session focused on the future of televised sports especially in the United States market. Boston University Professor and author (Sports For Sale) David Klatell addressed the structure of the TV sports industry to illustrate how it operates as a business today and how it might change in the future. Jack Craig, a sports and television columnist for The Boston Globe and a writer for Sports News, concentrated his talk more on the programming side of the business, and provided an insider's view of the people and how their influence will impact the future of televised sports.

Professor Peter Lemieux began the session by noting that if we were having this session ten years ago the nature of the discussion would be very different. According to Prof. Lemieux, ten years ago the issue of cable competing with conventional TV programming was of great concern. He noted that even six years ago we would have been concerned with the viability of emerging sports-only networks like Sports Channel and NESN. Lemieux believes that today we can stand back and say that the sports industry has survived all this and thus he raised the quetion: What is the future of televised sports?

Professor David Klatell began his presentation by noting he had been asked recently by the Sunday New York Times to write an article to address this very question in 1,000 words. He responded by saying he did not have a concrete prediction of the future of sports on T.V. He characterized the TV sports industry as very dynamic and certainly experiencing a lot of changes especially in the areas of revenue streams and operating capital, delivery systems, pricing, and marketplace competition.

One recent debate which is of particular interest to him is the recent battle between the Madison Square Garden Programming Service who holds a $500 million, 12 year-contract with the New York Yankees, and the cable stations surrounding the New York City area. This battle has brought to the forefront the issue of who will pay for sports on TV. According to Prof. Klatell, the local cable companies wanted to offer games on a paid tier while the Yankees and Madison Square Garden wanted the games to be offered on "basic" cable service. Klatell notes that the Yankees and Madison Square Garden preferred offering games to subscribers of basic service since this would guarantee reaching the maximum number of homes in the area, and bolster their advertising rates and related revenues. On the otherhand, the cable companies thought it was unfair that the subscribers to basic cable service would be forced to in fact pay for the Yankee games even if they chose not to watch them.

Klatell foresees the TV sports industry "remaining fluid and dynamic, but at some poimt it will reach a plateau and will stop being a growth industry." He noted that at some point the industry will start becoming more of a "zero sum" industry where one company's gain is another company's loss. In the case of television, Klatell believes it will continue to be an industry driven by technology. In his opinion, sports has driven the major penetration of cable and sports sparked "basic" cable (e.g., ESPN). He also noted that people talk about the economic viability of pay-per-view in terms of sports programming. In addition, Klatell cited that the first CATV system in the country (Hartford, CT) used a sports and movies format which has continued to be a popular programming combination. Klatell believes that basic, pay and expanded cable will continue to remain in contention.

Klatell observed that today is the era of "bigger is better" in terms of large companies being able to bid on the better programming, etc. He sees the three major contenders for sports programming as (1.) the broadcast networks, (2.) the major sports networks (e.g., ESPN), and (3.) the major regional networks (e.g., Sports Channel America and Prime Sports Network). These major regional networks have focused all of their attention on the major markets such as Boston, New York, Los Angeles, Chicago and other major cities in

the U.S., while ignoring the smaller cities. He noted that people like Bill Daniels are working to capitalize on super regional systems.

In his opinion, to start up in the TV sports TV business today you need programming, audience and a delivery system. Klatell acknowledged that the issue of programming and audience is often a "chicken and egg" situation. The issue of what to charge viewers is another difficult issue. Klatell noted that since there is no government regulation pertaining to cable charges it is up to the service provider to establish an effective pricing mechanism. With no government imposed ceiling on cable prices there is a lot of question about what is the right fee. Klatell cited the recent Michael Spinks fight as a example of the difficulty of pricing pay-per-view sports. Viewers of this fight paid $30-$35 for pay-per-view; most of them subscribed just a few hours before fight time as is typical of pay-per-view. Based on the fact that the fight only lasted 90 seconds, this data does not help a provider establish a pricing mechanism. According to Klatell, a pricing mechanism for pay-per-view will not emerge until there is a lot of pay-per-view events and companies can analyze how much viewers are willing to pay for sports programming. He believes the programming versus audience is probably a "chicken and egg" scenario as well.

Next, Prof. Klatell addressed the issue of vertical integration. According to Klatell the networks are restricted from owning interest in entertainment studios. He noted that in the area of sports the broadcast networks can and are buying into cable, e.g., Capitol Cities bought ESPN, NBC just bought 50% of Sports Channel, and CBS bought 30% of Sports Channel years ago and then it sold its share.

Klatell also commented on the state of advertising revenues tied to sports programming. He noted that begining with the 1994 Olympics (Norway) that the Summer and Winter Olympics will no longer be held in the same year, but will be separated by a two year period of time. According to Klatell this change was greatly influenced by the fact that the United States contributes 92% of the advertising revenues during the Olympics. This new schedule will give American advertisers a break so they do not feel compelled to take advertising dollars away from other sports programming.

In general, Klatell believes that advertiser spending on sports programming will top-out. He also predicts that the rate of cable subscription growth is slowing down rapidly. Klatell believes that the early, rapid subscriber growth in cable was in the suburbs and the rural areas will not be growth areas.

In closing he made three recommendations to those involved in the TV sports industry:

(1.) slash rights fees charged for events;
(2.) absorb each others markets by merger or acquisition;
(3.) pursue overseas markets (the NHL is already playing games in Europe).

The second speaker, Jack Craig, started by putting the issue of sports "rights fees" in perspective with the times. Mr. Craig recalled that there was no coverage of the Celtics and the Bruins teams on television in Boston in the 1960s. According to Craig, when Storrer Broadcasting bought Channel 38 it bought the rights to televise the Bruins games and only paid $500 per game. At that time there was not much sports programming on TV. Craig noted that on a normal night the Bruins games did 15 rating points which was as good as a Cosby show. Craig explained that in 1975 when the Red Sox were popular WHDH radio surrendered the rights for $158,000; the value of the rights have gone up at least 5 times this figure. Mr. Craig related these stories to highlight how difficult it is for people to see into the future.

On the subject of advertising, Mr. Craig noted that in 1984 there was little money left in the marketplace for sports programming after most of it had been consumed by the Olympics. He remarked that a new trend was possibly set when companies did not advertise during the professional football season and sales did not fall off. In contrast, Craig noted that today it is difficult to buy time on college football.

Craig noted that eventhough one-third of today's sports audience has been identified as female, most of the advertising remains targeted at males: insurance, automobiles, and beer. He does not believe the networks in their recent attempts to fill the gap and attract products to address the female audience, are seeing the future clearly. He believes that advertisers will continue to pay a premium (up to 15% more) to get to a male audience. Craig noted that in reality you often get the advertiser and then you decide on the programming. Prof. Klatell noted that ESPN is a leader in this area since in many cases they just sell or lease air time, and are not involved in producing the programs.

Commenting on the case of Madison Square Garden and the rights to broadcast the Yankee games over cable, Craig believes that "baseball may be unique in its fear of the market dictating the image of the team." It is Craig's opinion that the owner of the Yankees is making more from cable rights than for everything else combined. He mentioned that Steinbrenner is being cautious with how he spends this money since he would want to avoid any kind of anti-trust action questioning the distribution of funds. Craig noted that in the case of football it was exempted from ever having to face anti-trust action per a 1961 decision.

In Craig's opinion, cable is beginning to take on a dominant role in sports programming thus the three major networks are either participating or exploring ways to participate in this medium. It is ironic to Craig that sports was once considered by the networks to be a "necessary nuisance." He noted that sports broadcasting did go into decline in the early 1980s which made it a bad time for announcers who had to contend with declining salaries. Craig believes that the best job in sports twenty-five years ago was the job of baseball announcer; there were only 24 major league spots to aspire to. In contrast, Craig feels that most announcers today are disallusioned and most will never make more than $100,000.

In closing, Craig voiced agreement with Prof. Klatell in that sports programming will likely be offered more and more as pay cable programming. He sees the relationship between the networks and the cable companies growing and that the quality of programming will improve. While broadcasters will continue to have to meet the "advertising test" with programming, cable will continue to capitalize on the fact that it has a "locked-in" audience and its programming is not advertising dependent. Craig believes that the younger cable viewers will consider cable subscription to be like any other utility. Craig agrees with Prof. Klatell that sports fans will be forced to pay more and more to enjoy their sports programs. Both speakers noted they are struck by the youthfulness of the people making sports programming decisions at the networks. Both were also in agreement that CBS's recent purchase of the rights for the upcoming Olympics may set a trend whereby one company pays for the entire rights and sells off some of the rights it does not want to others.