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Operating in the New Economic Reality

INTRODUCTION

It is clear that the post-recession economy poses serious challenges for the managers of sport enterprises. Paradoxically, consumers have more choices than ever before, but fewer discretionary dollars available to spend on entertainment options. The competition for sports fans' time and disposable income is ferocious. This chapter highlights many key changes that confront sports managers in this challenging environment. One emerging issue addressed in the chapter is the rapid proliferation of televised sport and its impact on live attendance. Sports fans now have access to a growing host of national and regional cable networks dedicated to providing 24/7 sports programming. The ubiquitous content presents a growing dilemma to the owners and operators of sports leagues and teams. Will fans reach a point where the quality and convenience of home viewing is preferable to going to the arena or stadium? There is already some evidence that fans are substituting live sport on TV for the live experience in the ballpark

Sport is operating in a new economic reality. Courtesy of Dreamstime

or arena. Consider America's most popular sports league. In 2012, the NFL's average television rating was up 15% compared to 2007. In contrast, over the same five year period, live game attendance steadily declined with almost 5% fewer fans attending in 2012.[1] While it is likely that more fans are choosing to forego the in-stadium or arena experience for the comfort and convenience of their living room television, it is clear that a contributing factor, if not the primary cause of eroding attendance for a growing number of fans, is the high cost of attendance. The lingering effects of the recession have made it increasingly difficult for many households to afford the cost of attending major professional and college sporting events. Evidence suggests that the high prices required to attend major league games has meant that only the most affluent American households can afford to attend on a regular basis. The chapter addresses the issue of price as an increasing barrier to live attendance and the growing likelihood of an ever-shrinking pool of prospective season-ticket holders representing as few as 15% to 20% of the households in a given marketplace. Again, consider the NFL. "Fans simply can't afford to go to games. If you take a family of four and you get an average seat—between the parking and making the day for the kids a good experience [with concession items] you are spending about $600, which is the price you'd pay for a good TV back home" (para. 6).[1] While franchise operators face the challenge of producing more revenue to meet ever-increasing operational costs (e.g., player salaries, venue debt obligations, etc.), they must recognize that fewer households may be able to afford the price of attending major sporting events. The impact of affordability on live attendance has become a heightened concern with the explosive growth of televised sport. It raises the serious question of whether even die-hard fans will be willing to spend hundreds of dollars to go to the ballpark when they can watch the same game for "free" on their 50-inch HD television? Successful managers will find creative ways to reduce price as a barrier to attendance to ensure access to as many fans as possible. The chapter also examines the challenges and opportunities resulting from the rapid globalization of sport. Major sports properties around the globe, led by the English Premier League, are aggressively pursuing efforts to expand their international presence through television, live exhibitions and licensing agreements. The NBA has led the charge in this country to penetrate markets in both Asia and Europe. Finally, the chapter examines how the Ultimate Fighting Championship (UFC) used social media to become the dominant sports property in what has become the world's fastest growing sport over the last decade, Mixed Martial Arts.

OPERATING IN A NEW ECONOMIC REALITY

While the economic recovery has been slow, real signs of life appeared in 2012 The Dow Jones Industrial Average's continuing climb, a rise in factory output, and the decline in the rate of job layoffs over the first quarter of the year were all encouraging signs. All of these positive trends continued into 2013. Even the housing market showed signs of recovery, with sales of existing homes edging up about 3%.[2] And as the general economy improved, so did the fortunes of most sports properties.

Corporate spending on sport has rebounded from a very down year in 2009. According to the *IEG Sponsorship Report*, investment by North American companies in sport grew a modest 3.4% in 2010, followed by an accelerated rate of 6.1percent in 2011.[3] The four major leagues have been the primary beneficiaries of this expanded corporate investment. Since 2009, the four major sports leagues have seen sponsorship revenue increase by more than $400 million to a total of $2.46 billion in 2011.

Attendance at sporting events also showed a slight uptick into 2012. Major League Baseball attendance was up 4% from 2011, averaging 31,516 league-wide. While encouraging, MLB attendance remains below the pre-recession high of 32,785 in 2007. NFL attendance was essentially flat, with just a 0.3% increase. Significantly, nine NFL teams were down 6% or more from 2011 attendance levels. Both the NBA and NHL reported modest overall attendance gains for the 2010–11 season, with both leagues up just 1% over 2009–10. Although neither league has returned to pre-recession attendance levels, an encouraging sign is that almost two-thirds of the teams in each league showed an increase or, at least, no decline in average home attendance during the 2010–11 season. Unfortunately, there are a handful of teams in both leagues that continue to struggle at the gate. Attendance woes have plagued many of the NHL's so-called "Sun Belt" teams for years. Hockey franchises in a number of markets, such as Atlanta, Anaheim, and Phoenix, have perennially drawn an average of 3,000 to 5,000 fewer fans per home game than the league average. At the end of the 2011 season, the NHL franchise in Atlanta, the Thrashers, relocated to Winnipeg, Canada (now the Winnipeg Jets) due to dwindling attendance. There is a strong possibility that the Phoenix Coyotes will be the next Sun Belt team to relocate. Despite advancing to the Western Conference Finals, the team was dead last in attendance, averaging slightly more than 12,000 per home game during the 2011–12 season. According to the former owner of the Coyotes, the team has never made money in the Phoenix market, losing $30 million annually.[4] The NHL bought the team out of bankruptcy for $140 million in 2009 and had been trying to sell the franchise to ownership groups who would honor the team's existing lease with the City of Glendale. AZ. The inability of the league to find a qualified local buyer into 2013, has increased the probability of the team relocating to new markets in suburban Toronto, Quebec City and, possibly, to a new arena proposed in downtown Seattle.

The same was true for a number of NBA teams, where traditionally well-supported franchises, such as the Philadelphia 76ers and Sacramento Kings have suffered major attendance losses over several seasons as both teams fell toward the bottom of the standings. The economic downturn was devastating for the NBA's Detroit Pistons. In Detroit, the epicenter of the hard-hit automobile industry, the Great Recession resulted in unemployment close to a staggering 30%—one out of two auto workers was out of work in 2009.[5] Consequently, the Detroit Pistons' attendance fell from 1st in 2007–08 to 29th overall in 2011–12. Despite the continued woes of the Pistons and about half a dozen other teams in each league, it appears that live attendance in most North American markets has begun to increase in both the NBA and NHL.

While signs of recovery are apparent, it's clear that sports businesses are still operating in a rough economic environment. Many families continue to confront substantial financial challenges caused by persistently high levels of unemployment and an unsettled housing market, and many households are still deeply in debt. Consequently, consumers facing an uncertain economic future will be inclined to spend less and save more. This tendency to "hunker down" has repercussions for sports properties, across all levels of professional sport and for "Big Time" intercollegiate athletic programs. As many households constrain spending on consumer products, the effects are felt by the many companies manufacturing these products. The next section examines some of the most challenging issues that this new economic landscape presents the owners and operators of sports businesses.

FEROCIOUS COMPETITION FOR CONSUMERS' TIME AND MONEY

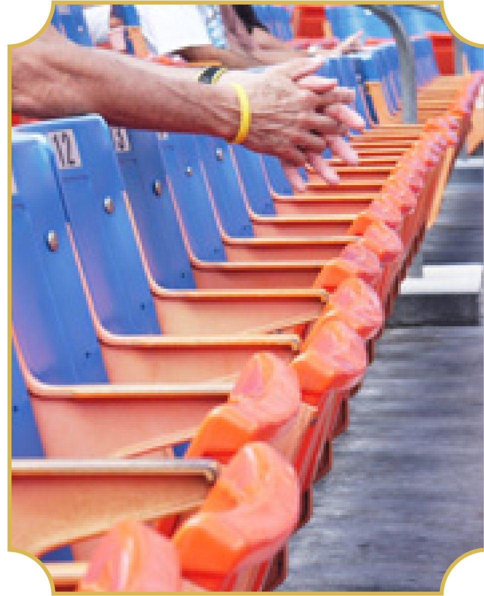
Competing for a fair share of consumers' disposable income in a post-recessionary economy will be a formidable challenge for sports enterprises. The challenge is pretty straightforward. People have a finite amount of discretionary income and an almost infinite number of choices on which to spend those limited dollars. As mentioned earlier in this chapter, in recent years, US families spent approximately $2,700 to $2,800 a year on entertainment outside the home, which is about 5% of their gross annual household income. Economists project no significant growth in entertainment spending into the foreseeable future. Meanwhile, the range of discretionary spending options appear limitless. *Business Week* referred to it as an "entertainment glut."[6]

The rapid expansion of movie theaters (one new IMAX Theater opened each week in 2011), theme parks, and a myriad number of other well-established "entertainment" outlets such as restaurants, museums, and shopping malls, all compete for consumers' discrete time and money. Add to that robust mix the many alluring sport-related options from bowling, to golf, to sports and fitness clubs, to the explosive growth of sports bars, and it's easy to see that consumers have an abundance of choices as to how they can spend their time and money outside the home.

That's *if* people are willing to leave their homes. There are more compelling home entertainment options available than ever before. Technology breakthroughs from high-definition to emerging 3D television, video on demand and increasingly interactive gaming options have resulted in the home entertainment sector growing in popularity. By 2010, both young (18–30 years) as well as more middle-aged (31–44 years) adults were found to spend more time on the Web than watching television. Both groups spent a total of 26 hours a week on average either online or with TV.[7]

According to another time study, when you add up all the in-home discretionary activities in which adults engage, Americans spend almost 5 hours each day watching TV or rented videos, surfing the Web, listening to music, playing video games, and/or reading for pleasure.[8] It is not surprising, then, to see that in 2010, spending on home entertainment exceeded a record $20 billion in the US.[9]

THE IMPACT OF TELEVISION ON LIVE ATTENDANCE



Is the explosive growth of TV negatively affecting live attendance? Courtesy of iStockphoto.com

Sports fans have never had more opportunity to view their favorite sports team and/or sport on television. According to Nielsen, American viewers in 2012 could see more than 43,700 hours of live sporting events on broadcast and cable television.[10] By 2012, 26 national cable networks dedicated to sport had been established.

Table 1.1 provides a list of the networks and the year in which each first began broadcasting. Each of these networks provides year-round, "24–7" coverage focused on sports content. The Entertainment Sports Programming Network (ESPN) was the first cable network to devote its entire programming to a single subject. The pioneering network's initial broadcast in September, 1979 reached about one million homes, and featured a slow-pitch softball world series game between the Milwaukee Schlitzes and the Kentucky Bourbons. From that modest beginning, ESPN has become the leading destination for American sports fans, now reaching over 100 million homes. The original network has spun off five additional domestic ESPN-branded television broadcast outlets, which provide in-depth news, commentary and live event programming across multiple platforms.

The enormous success of ESPN inspired the launch of sport-specific networks in the mid-1990s, led by the Golf Channel (1995) and SPEED TV (1996), both of which now reach about 80 million US households. The proliferation of specialized sports networks is a relatively recent phenomenon, with two-thirds of the cable networks established within the last decade. Now viewers are provided in-depth coverage of their favorite sport across multiple outlets—most of which receive limited coverage on the major networks (ABC, CBS, FOX and NBC) such as outdoor sports (e.g., Outdoor Channel, Pursuit, WFN), motorsports (e.g., Fuel, SPEED)* and thoroughbred racing. (e.g., Horse Racing TV, TVG network).

For the home viewer, not only are there more sports than ever available on television, but technology has enhanced the viewing experience. According to the Consumer Electronics Association, over two-thirds of US households now own at least one high-definition television, an increase of 17% over 2009. The impact of HDTV on sports viewing is significant. Neilsen reports that sports viewing ratings are 21% higher on

*In August 2013, Fox Sports changed the name of SPEED TV to Fox Sports 1 and sports media analysts expect Fox to rebrand Fuel as Fox Sports 2 sometime in 2014.

Table 1.1. National Cable Sports Networks Distribution

Network (Year Established)	(# TV households)	Programming Focus
ESPN (1979)	101.5 MM	Comprehensive sports coverage
ESPN2 (1993)	99.5	2nd outlet for ESPN's mainstream coverage
Golf Channel (1995)	83.1	Golf news, commentary and tournament coverage
SPEED TV (1996)	77.2	Motorsports news, commentary and race coverage
ESPNews (1996)	75.3	24-hour-a-day sports news
Versus (2006)*	75.1	Comprehensive sports coverage
Big Ten Network (2007)	75.0	College sports exclusive to Big 10
ESPNU (2005)	72.5	College sports news, commentary, live events
NFL Network (2003)	56.8	NFL league-produced news, commentary, live coverage
MLB Network (2009)	55.2	MLB league-produced news, commentary, live coverage
NBA TV (1999)	54.0	NBA league-produced news, commentary, live coverage
NHL Network (2007)	40.0	NHL league-produced news, commentary, live coverage
ESPN Classic (1997)	39.7	Re-runs of classic sporting events, live coverage of poker, bowling, documentaries
Fox College Sports (2002)		College sports on 3 regional networks, live events
Soccer Channel (2005)	37.0	Live matches (MLS, Premier), news, commentary
Outdoor Channel (1994)	35.0	Hunting, Fishing
TVG Network (1999)	31.0	Horse Racing, Online betting
Tennis Channel (2003)	28.0	Live matches, news, commentary
Fuel TV (2003)	26.0	Adrenaline sports: Moto, skateboarding, surfing, snowboarding
Sportsman Channel (2003)	25.0	Hunting, Fishing,
Pursuit Channel (2008)	24.0	Hunting, Fishing
CBS College Sports Network (2002)	21.0	Live men's and women's college sports, news, commentary
World Fishing Network (2005)	20.0	Recreational and Sport Fishing
Horse Racing TV (2003)	19.0	Horse Racing and Online Betting
Fox Deportes (2010)	18.0	Sports programming in Spanish
Gol TV (2003)	9.0	Bilingual (English & Spanish) soccer matches, news, commentary
ESPN Deportes (2004)	5.2	(Hispanic Hshlds) Sports programming in Spanish

*Re-branded as NBC Sports Network in 2012, with 77.9 million viewers.

Source: Don Walker, The top sports networks? You might be surprised. The Business of Sports, JSOnline, 12/3/10, http//www.jsonline.com/blogs/sports/111275439.html

HD TVs.[11] Industry analysts are optimistic that 3D television will soon become the next "killer app." According to Bryan Burns, VP of Business Development for ESPN, "3D is a renaissance that will be fueled not by movies, but by live sports. . . ." (para. 2).[12]

While most of the viewing occurs in private households, the growing popularity of "sports" bars attests to the enormous popularity of televised sports outside the home. It is estimated that more than 6,000 sports bars exist across North America with HDTV technology.[13] This is an affordable option for fans who want to share the experience of watching their favorite team in the company of other sports enthusiasts.

Given the explosive growth of televised sport, the key issue facing leagues and teams is whether this abundance of in-home viewing opportunities is having (or will have) an adverse impact on live attendance at sporting events. For several years, researchers have examined whether television encourages or detracts from stadium or arena attendance. Some of the early work in both the US and England in the mid-1980s and 1990s indicated that watching sport on television had a positive or stimulative effect on live attendance. Much like advertising, the exposure provided by television encouraged people to witness live sports action in stadiums and arenas.[14] However, other studies reported a contrary result, showing that as television viewing increased, stadium attendance decreased. Andreff and Szymanski referred to this as a "substitution effect" (p. 179).[14] They concluded that a sports fan's decision to substitute watching a game on TV rather than attending in person will be influenced by a number of factors, including price of attendance, (household) income, and a number of "opportunity costs" associated with attending. Factors such as travel time, convenience, accessibility, and the quality of available seating opportunities all enter into a consumer's decision to substitute the comforts of home for the live experience.

The potential adverse impact of televised sport on live attendance has probably never been greater for several reasons. First, there is more content than ever before, creating considerably more opportunities for fans to substitute a televised broadcast for a live experience. Second, given the financial constraints facing many households, watching the game on television may be the only feasible option. The prospect of attending the game, even if live attendance were the preferred option, diminishes for many families when the average cost of attending a major league game for a party of four reaches $300 and beyond. Television becomes not only the cheaper alternative but, in fact, the *only* viewing option for these households. Finally, watching the game at home may be appealing for many fans because it eliminates the "hassle" associated with driving, parking, and in some cases, poor weather conditions.

While for many fans, there will never be a true substitute for the live, in-stadium experience, television may be an increasingly attractive alternative for a growing segment of the population. The quality of the viewing experience, enhanced by high-definition or even 3D transmission, and further augmented by replays and expert commentary, suggests that the potential for consumers to exercise the "substitute effect" has never been as compelling. As one New York Giants fan noted, "I can buy a huge HDTV for well less than the cost of one season ticket and never have to leave the comfort of my home. Forget driving, parking and $9 beer" (pp. 5, 8).[15]

Even those who may be able to afford to attend games in person may find the enhanced quality of the television broadcast a superior viewing alternative. The surge in home entertainment spending, led by the rapid adoption of high-definition television, has to be recognized as a prime competitor for consumers' scarce time and money.

TV Ratings Up, Attendance Down

The fact that more people are watching sport on television may more than compensate for any adverse impact television coverage may have on live attendance at sporting events. For some sports leagues, the ability to sell the broadcast rights to league games is the single largest source of annual income, more than offsetting any losses in gate receipts. Also, the relative contribution of television broadcast rights fees has grown substantially for most major sports properties over the past several decades. The NFL leads the way. In 2010, 43% of the total gross revenues generated by the league, over $3 billion, came from the sale of broadcast rights to major television networks. The recent renewal of the league's television broadcast agreements ensure that the NFL will generate close to $7 billion in annual revenues starting in 2014.

As Table 1.2 shows, the NFL is not the only entity receiving significant broadcast rights fees from television networks. Major national television networks committed over $30 billion to the four major professional sports leagues in North America between 2010 and 2013. The NHL's new 10-year, $2 billion deal with NBC more than doubles the value of the league's previous national broadcast agreement. In addition, Fox Sports has an 8-year contract with NASCAR through the 2014 racing season in which the network will pay the premier motorsports organization $4.5 billion for the exclusive right to air the Daytona 500 and 12 additional Sprint Cup series races each year. CBS and Turner Sports reached a nearly $11 billion agreement with the NCAA to broadcast the men's national basketball tournament from 2012 to 2024.

The reason networks have been willing to pay such large rights fees to broadcast live sports events is that sport programming delivers large audiences. In 2010, 11 of the 13 television programs (85%) that drew more than 30 million viewers were sports related. By comparison, in 2004–05, fewer than half the shows attracting 30 million or more viewers were sports programs.[16] The 2012 Super Bowl between the New England Patriots and the New York Giants was the most watched show in history, averaging 111.3 million viewers throughout the broadcast. It was this record audience that persuaded advertisers to pay up to $3.5 million to air a 30-second commercial during the game. During this period, ratings for sports telecasts were up across the board, with many properties attracting substantially larger viewing audiences. Sizeable gains were realized by the NFL, NBA, NHL, college football and basketball, and by the telecast of the 2010 Kentucky Derby (most watched horse race since 1989).

Emergence of Regional Sports Networks

With almost 44,000 hours of air time to fill, major network and cable channel operators are anxious to find compelling sport programming opportunities. As a result, sports leagues and individual teams have never had as much opportunity to exploit the abun-

Table 1.2. Television Broadcast Rights Fees for Major Sports Properties

League/ Property	Value of Rights Fee (network partner)	Length of Current Agreement(s)
NFL	$20.4 billion (CBS, NBC, ESPN, Fox); $ 4.0 billion (Direct TV [satellite] $15.2 billion (ESPN) $27.8 billion (CBS, NBC, Fox)	through 2013; 2009–2014 2014–2021 2014–2022
MLB	$5.3 billion (Fox, ESPN, TBS); $700 million (Direct TV [satellite])	2007–2013; 2007–2013
NBA	$7.44 billion (ESPN/ABC, TNT)	2008/09–2015/16
NHL	$ 2.84 billion (NBC, TSN, CBC)	2005/06–2010/11
NASCAR	$4.48 billion (Fox, SPEED, TNT, ABC/ESPN)	2007–2014
NCAA Basketball Tournament	$10. 8 billion (CBS, TSN)	2011–2024

dance of programming opportunities. An increasing number are partnering with major cable distributors, like Fox and Comcast, to broadcast live games as well as specialized programming to fans in their local or regional market. These entities, known as Regional Sports Networks (RSNs), provide another layer of specialized or targeted sports programming. RSNs have proven to be very popular. There are now more than 40 regional sports networks in North America. A majority of RSNs are joint or multiple ventures involving two or more teams in a local market. For example, the New England Sports Network (NESN) is co-owned by the Boston Red Sox (MLB) and the Boston Bruins of the NHL. NESN also features minor league baseball, regional college sports and sports talk shows to viewers in six New England states. RSNs are very profitable, with margins estimated at 30–40% derived from average fees of $2 a month per subscriber. Media analyst company SNL Kagan reported that the New York Yankees' YES network took in $417.1 million in total revenues in 2009. Kagan reported that total revenues for the 36 regional networks in the US were up 6.6% in 2009, reaching $4.6 billion.[17] The variety of ways sports properties can produce, distribute and sell broadcast rights is discussed in detail in Chapter 13.

TV's Complex Relationship with Sport

Television's relationship with sport is two-edged. On one hand, it appears that home viewing competes with live gate ticket sales. Yet, at the same time, televised sports' growing popularity provides a lucrative source of revenue for many sport leagues and franchises.

This complex relationship is exemplified by the San Diego Padres' 2010 season. In the midst of a torrid pennant race over the last month of the season, the Padres played 12 home games against attractive opponents, including 3 games with their heated rivals,

the Los Angeles Dodgers. Despite the excitement of the pennant race, the average attendance (21,500) barely filled half the stadium's available capacity. Yet, over that same period of time, the Padres' television ratings were up substantially. In fact, one Dodger game drew a 9.2 rating, the highest of the season. Club officials attributed poor in-stadium attendance to a number of factors, such as the struggling local economy and the abundance of entertainment options in the San Diego market. However, a local analyst provided an alternative explanation: "Why pay for tickets that cost as much as $61, plus $8 beers, $5 hot dogs and $10 for parking when you can watch the games on your big screen, high-definition TV with your feet propped up in the comfort of your own living room."[18]

Does the Padre experience provide a window to the future? An interesting question confronts the owners and operators of sports teams: Will the San Diego Padres' experience become a prevalent pattern across sports and markets in the years to come? Will getting fans off their couches and out to stadiums and/or arenas become an increasingly difficult challenge?

CUTTING THROUGH THE CLUTTER

Current trends suggest that for many consumers television will likely become an increasingly attractive alternative to live attendance. Yet, the challenge facing owners and operators of sport franchises extends beyond the growing appeal of television to finding ways to make attending live sporting events compelling in such a crowded entertainment market. To effectively compete will demand more creativity and flexibility in the delivery of the sport experience. Teams will have to be more price conscious, offering more affordable, budget-sensitive opportunities to prospective attendees. Increasingly, fans will be presented with special discounts like the Charlotte Bobcats "Pay-The-Pick" promotion described in Exhibit 1.1. Recent pricing tactics, including early or prepayment discounts, installment and/or deferred payment plans and, even, money-back guarantees are likely to become standard practice. Emerging techniques like dynamic or variable pricing also will become more prominent. Extensive coverage of traditional and more recent pricing strategies and tactics is provided in Chapter 12.

In addition to ameliorating price barriers, teams will have to work harder at reinforcing the benefits of live, in-person attendance. The unique affinity fans have with their favorite teams is an important predictor of attendance.[19] Fan loyalty-building programs such as regular newsletters and personal (email, tweets) communications; direct access for members (e.g., chat rooms with coaches and players; regular pre- or post-game meetings (e.g., chalk talks) with coaches or team executives; and special autograph signings opportunities with players, all correlate positively with increased attendance.

This underscores the need for teams to develop programs that enhance fans' identification with the team in which "their relationship with the team becomes a significant part of their lives" (p. 322).[19] Multiple benefits result when fans feel a greater sense of attachment with their favorite team. In addition to increased attendance, these fans display diminished price sensitivity and an increased propensity to seek out and patronize team sponsors. All of which are crucial to the financial viability of a sports organization.