

Televised sport: broadcasting rights and tele-dependence?

History shows that sport and television have maintained a long and mutual interest. From the 1960s onwards, sport and television have developed by benefiting from their converging and complementary interests. The ability of sport to attract large audiences represents an important source of revenue for the channels, either directly through the sale of programmes (subscriptions to pay-tv channels), or indirectly through the marketing of advertising space (free or pay-tv channels).

Intense competition between channels for the acquisition of broadcasting rights led, from the 1990s onwards to an unprecedented increase in sports revenue resulting from the administrative deregulation of television with the abandonment of the public broadcasting monopoly (in Europe from the 1980s onwards) and a revolution in technologies (cable, satellite, digital, pay-TV).

There are two principal interlinking markets for televised sport. Downstream, the primary market for sports broadcasts, is the forum for exchange between broadcasters (suppliers) and television viewers (demanders). Upstream, the secondary market for sports retransmission rights brings into play the same broadcasters, in this case, demanders, and the sports organisers (clubs, leagues, federations), suppliers of the rights they hold [Bourg and Gouguet, 2012; Bourg, 1998].

The IOC is the owner of the Olympic Games, as well as of their derivative products. Customary law explains the origin of this ownership, as the IOC, under its statutes, has always collected the broadcasting rights and not the athletes involved. Professional leagues are also considered to be the owners of the rights to competition, whether national or continental, insofar as they are the creators and organisers of the competition, while the participating clubs are only physical organisers at a local level.

Standard concepts of competitive and administered markets, as well as auction theory, are used to explain price formation in the secondary market, i.e., the determination of the number of broadcasting rights, which is worth \$49.5 billion worldwide (SportBusiness Consulting Global Media Report 2018)

Theories of imperfect markets for broadcasting rights

Of all the markets in the sports economy, those for the market of televised sports broadcasts have the most diverse and imperfect forms [Andreff, 2012]. These markets will become imperfect as agents on both sides of the market try to combine to alter the free

play of competition. Several of the assumptions of perfect competition are not respected. The evolution of the legal framework has over time modified the way in which the supply of and demand for broadcasting rights are determined and reorganised the market by strengthening the power of sports organisers vis-à-vis the channels.

In the early days of sports broadcasting, in the 1930s in the United States and the 1950s in Europe, no or very low fees were charged for sport. Since the 1960s in the USA and the 1980s in Europe, television stations have had to pay progressively higher fees.

Around the market structures, four main forms are in place: monopoly, reduced monopoly, bilateral monopoly and monopsony.

The cartelisation of the demand for rights by television stations

A cartel is usually defined as a horizontal agreement between companies involved in the same activity on minimum selling prices (supply cartel) or maximum buying prices (demand cartel) and the quantities exchanged. A cartel of bidders exists when television stations join together in the same organisation (ORTF, a public broadcasting monopoly at the national level; the European Broadcasting Union, EBU, at the international level) to negotiate the purchase of broadcasting rights with sports organisers. The purpose of the cartel is to influence purchase prices and limit the volume of demand.

Two types of market result from this. The monopsony is a rare market favourable to the buyer (the ORTF) who finds themselves alone in front of a large number of sellers (the clubs and not the league). In this configuration, which prevailed in Europe from the 1950s to the 1970s, the price paid, but also the volume purchased, is low.

The bilateral monopoly corresponds to the EBU's position for the purchase of rights to international events: a single seller of a specified product has only one customer. This market structure was institutionalised at the European level for some 30 years from 1950 onwards in order to fight against the overbidding of the cartelised sporting offer (IOC, FIFA, UEFA, etc.), and has set itself the objective of controlling demand by means of strict rules (a strategy of 'going it alone' is forbidden) to bring prices down. The increase in the number of private and pay-tv channels that are not members of the EBU has reduced its power. This bilateral monopoly was temporary.

The cartelisation of supply rights by sports organisers

This is a case of organising a monopoly through a specific market to control it and to charge prices that are not competitive. In this case, there is a cartel of suppliers when a sports grouping (leagues, federations) is the sole holder of the rights to negotiate the sale of

the broadcast with the television stations. It was in the United States, at the beginning of the 1960s, that an excess of competition on the supply side of broadcasting caused a sharp drop in revenue. To remedy this, a cartelisation of the supply in a league was implemented to maximise the turnover and profits of the clubs.

However, the establishment of a single power centre responsible for selling TV rights violated US antitrust legislation (Sherman Act of 1910). Law 87-331 of September 30, 1961, based on the idea that a centralised sale of rights would preserve the balance and interest of competitions, and thus increase the welfare of consumers of sports entertainment, resolved this incompatibility [Andreff, Nys and Bourg, 1987]. In Europe, the collective sale of broadcasting rights - theoretically prejudicial to the principle of free competition - has been admitted by the community authorities under certain conditions (short-term contracts, sale by lots allowing several channels to acquire part of the rights, etc.), to favour the economic and sporting balance of competitions.

The monopoly of leagues and sporting organisations

This market has only one seller facing a large number of potential buyers. Depending on the geographical area of activity, at the national level, the seller is the league, at the global level the seller is the IOC or an international federation. The cartelisation of the sellers eliminates any competition on their side. This collective bargaining has set in motion bidding mechanisms that are all the more effective as demand expands and fragments. In such a configuration, the monopolist (the league, the IOC or the international federation), capturing all the demand, will choose the price (the TV rights) and the quantity (the volume of broadcasts) that maximise its profit.

Like any cartel, the league generally distributes television revenue amongst the clubs on an equal basis. In addition to the benefits of joint distribution for the balance of the competition, the cartel negotiation makes it possible to impose longer-term contracts on the channels than would have been the case if the rights had been sold individually. This way, the clubs have a guaranteed income that is independent of the evolution of their sporting results. In addition, the league aims to keep the broadcasting fees received by the clubs as high as possible. These cartel practices benefit the clubs to the detriment of the broadcasters and sponsors who have to pay high fees and obviously the viewers who have to pay an escalating access fee.

More stable than a league (a cartel of clubs that may be weakened or challenged), the IOC has a de facto monopoly of supply with the Olympic Games, since it is a unique event with no competing or substitutable competition. Its bargaining power, reinforced by this absolute monopoly, explains the very sharp increases in world

rights: for the summer Olympics, 0.5 million dollars in 1960 (first TV rights paid), \$400 million in 1988, \$1.4 billion in 2004, rising to \$6 billion in 2021.

The reduced monopoly: the dominant model in European markets

There is a reduced monopoly when a single supplier is faced with a few buyers. This has been the dominant situation throughout the last thirty years (1990-2020), which still continues in most of the major sports in Europe. In football, for example, each national league invites bids from three or four audiovisual groups. In contrast to the former monopsony (clubs - public broadcaster) or bilateral monopoly (league - public broadcaster), which is not very profitable for sports organisers, this system involves a larger number of channels, but also and above all a larger number of broadcasting windows through a system of lot sales.

There is no longer just one request for broadcasting, but several. Until the mid-1980s, the main focus was on live and free-to-air broadcasting of a match, i.e., on a free channel. Today, the market is segmented and demand covers several forms of exploitation: live, delayed, full, summary, free-to-air, encrypted, pay-per-view. The rights sold concern exclusivity for a type of broadcast, and no longer only geographical exclusivity.

This new possibility of negotiating with alternative media for the same broadcast, which is then resold twice or three times, increases competition on the demand side and increases the profitability of the product. As a result of this multiplicity of rights, television has been the main source of income for football clubs in all European countries since the mid-1990s (35 %), rising to between 45 % and 55 % since the early 2000s. Thirty years earlier, this percentage was less than 5 %.

Auction theory

Beyond the evolution of the forms of the broadcasting rights market, which have become very favourable to sports organisers, the exponential growth of TV revenues can also be explained by the modus operandi chosen by these organisers to sell an asset, which is often unique [Lévêque, 2017]. Indeed, auction procedures can ensure an efficient allocation.

Auction theory analyses, with the tools of game theory, the strategic behaviour of different economic agents with opposing objectives, as well as the interactions and games of influence between them: the seller and designer of the auction (the sports organiser), the bidders (the television stations), and the auction mechanisms.

The actors value the good in different ways and are partially unaware of how other agents value it.

How can a price be established when it is not established on a traditional market, but by the competition of subjectivities and in a context of asymmetry of objective information (the true value of the object of the auction)? How can we foresee, anticipate and thwart the strategic behaviour of the actors? Whatever the other 'players' do, it is always in the bidder's interest to make an offer for an amount equal to his 'real' valuation of the object in the auction.

Offering a price lower than one's willingness to pay reduces the bidder's chances of winning the auction. Conversely, announcing a price higher than its private valuation increases the probability of winning, but exposes the bidder to pay more than it is willing to pay, and thus to buying at a loss. In other words, the dilemma for television stations can be summarised as follows: accept the overpricing of the rights to maintain an attractive but expensive offer, or contain their costs by not bidding higher, but at the risk of losing subscribers.

The particularity of the sports economy is that it is based on monopolies of competitions, whose owners/organisers strive to perfect their bidding systems to secure the greater part of these monopoly rents. If the auction is well designed, the bidder bets all the profit he hopes for. He does not make money and may even lose money if he makes mistakes. This is often the case for the summer and winter Olympics, the World Cup, the Euros, the Champions League, certain national football championships and the American Football Championship.

However, it does not make economic sense to buy rights that pay less than they cost. The bidding TV station should not offer more than the sum of the discounted profits it would receive from the deal if it were to win. However, uncertainties about the actual value of the object of the auction and about the estimated willingness to pay of the consumer (the viewer) complicate the strategy. How many subscribers will this exclusive broadcasting right gain? By how much should the subscription price be increased? What effect will an increase in the subscription fee have on existing and potential future subscribers?

An illustration of the winners' curse: football

The principle of the auction is that the most optimistic (or bluffing) of the candidates wins. There is therefore a permanent risk of a winners' curse, as the winner tends to overestimate the coveted asset. The television rights to French football sold in 2004, according to the so-called "first-price auction" procedure, is a good illustration of this. The TF1 group's strategy consisted in pushing Canal Plus - by sending signals demonstrating its great interest in these TV rights - to pay

more than 600 million euros per year for three seasons, whereas at the time of the opening of the bids, the sum proposed by TF1 (326 million) showed that its only objective was to place Canal Plus in the "winner's curse" position in order to destabilise its economic model.

The Ligue de Football Professionnel (LFP) organised a sequential auction for a period of four years (2016-2020), where six lots were successively put up for sale, ranging from lot 1, the most attractive with the broadcasting of two live matches, to lot 6, the least attractive with the broadcasting of excerpts from all the matches in a delayed format. Canal Plus won the first two packages for €540 million per season. BeIN Sports won the other four lots for 160 million euros per season. This represents an overall annual contract that is 20% higher than the previous one and revenue that is six times higher than the contract signed in 1999.

As a result of this purchase, Canal Plus was expected to generate revenue of 2.7 billion euros from 2016 to 2020 (new subscribers, more expensive subscriptions, retention of old subscribers). BeIN Sports, for its part, was counting on 800 million euros. Traditional business secrecy does not allow us to verify whether such objectives have been met, even though both broadcasters were in a rather delicate situation at the end of this contract (loss of subscribers, deficits, etc.).

From 2020 until 2024, the rights for French Ligue 1 and Ligue 2 were to reach €1.15 billion per season for the seven packages, with €780 million coming from the Chinese-Spanish agency Mediapro for 85% of the live Ligue 1 matches, a further 64% increase on 2016-2020. Mediapro's financial difficulties with its pay channel "Téléfoot", which came to the forefront at the start of the first year of operation due to an insufficient number of subscribers (600,000 instead of the 3.5 million hoped for as a break-even point), reflected the extent of the market's overestimation. This is all the more true given that the average audience in 2019-2020 (the last year of the previous contract with Canal Plus) was 851,000 viewers and that the record for the season, held by the PSG-Olympique de Marseille match, had attracted only 1.9 million viewers!

With the foreseeable withdrawal of Mediapro and the inevitable closure of the Téléfoot channel in December 2020 after only four months of activity, as well as the downward purchase by Canal Plus of the broadcasting rights until the end of the current season, initially held by Mediapro, the amount of TV revenue for 2020-2021 fell by 41% (680 million euros instead of 1.15 billion).

In the following seasons, the value of the French Premier League product lacked homogeneity and attractiveness, and potential broadcasters were no longer willing to outbid each other as in the past. This deflationary trend was confirmed by the marketing of the broadcasting service for the period 2021-2024: 663 million euros per year. This drop would have been more significant if Amazon, the

world's number one e-commerce company, had not bought the main package (80% of the matches) to feed its Amazon Prime (Prime Video) broadcasting platform to attract a maximum number of subscribers to its delivery service. The market for the rights to the French football championship contrasts sharply with that of the English Premier League, whose national and international rights exceed 1.8 billion euros per season for 2022-2025 [Buraimo, 2019].

The inflationary mechanisms of football auctions

There are two main reasons for the inflation of TV rights. The sellers (sports organisers) are capturing an increasing share of the revenue generated by the broadcasting of sports events. The buyers (the channels) covet increasing revenues from the broadcasting of events.

The sellers' strategy is to divide the product being auctioned into several lots, sequence their bidding in descending order of intrinsic value, and prevent a single bidder from acquiring them all. In this way, they succeed in bringing other candidates into the game. Experience shows that the more participants, the more intense the competition and the greater the overestimation. The aim is to get the bidders to formulate bids for each lot that tend towards their maximum willingness to pay. Obtaining these broadcasting rights indeed allows the winner not only to reserve their commercial exploitation but also to weaken his competitors who are deprived of the offer. By obtaining exclusive rights, the winner of the auction increases the value of his portfolio while reducing the value of his rivals'.

The sequential nature of the auction also contributes to intensifying competition, unlike ascending auctions in which each actor knows 'his' value of the goods sold, i.e., the value at which he will stop bidding. Once lot 1 has been awarded, only the winner knows to whom it has been awarded and at what price. The other bidders only know that they have lost the first round. The competition for the second lot will be much more intense than in a simultaneous auction procedure where all the candidates would have submitted their bids for all the lots at the same time.

By optimising the choice of auction mechanisms, the sellers of rights can thus approach a cut-off point: cashing in the entire monopoly or scarcity rent, i.e., the profits expected by the buyers from their subscribers and advertisers. At this point, the buyers pay the sellers everything they earn and thus make a zero profit on the rights they exploit. In this case, the auction dissipates the buyers' ex-ante gains. Competition between bidders leads to the same result as perfect competition: zero profit [Lévêque,2017].

The revenue expected from television broadcasts is increasing because football is more attractive than other sports and generates

more viewers, subscriptions and advertising revenue than other programmes (unique spectacles, live events with an uncertain outcome). These elements allow the channels to buy TV rights at a higher price. In doing so, are the channels getting closer to the maximum amount that viewers are willing to pay (720 euros per year for the national and international football offer in France, 2016-2020), or can they even exceed this threshold of acceptability (1020 euros for the same offer, 2020-2024)? The failure of Mediapro provides an unambiguous answer. From now on, the fans will be more demanding on the quality of the content of the offer proposed to them and vigilant on the quality/price ratio.

Lessons and perspectives

The candidates for the acquisition of TV rights are progressively more numerous and diversified, and this is within the framework of the increasing internationalisation of the broadcasting of sporting events: free television channels, national and foreign pay-tv channels, and Internet access providers. Soon, might digital giants invest massively in sports rights to improve their brand image with states and populations? [Drut, 2019]. These digital giants (Western GAFAMs, Chinese BATXs, etc.) are looking for products and content to diversify their multiplay offers. Additionally, these rights can be amortised over a large number of subscribers.

However, more overbidding for broadcasting rights means more money for the athletes and less money for the viewers. Most of the TV rights revenue from the auction goes to the event owners, who in turn spend most of it on sports transfers and salaries. The more exclusive TV rights are profitable, thanks to heightened competition between TV channels and sophisticated auction techniques, the more viewers that are financially involved. Subscribers to pay-tv channels finance the league and the clubs and indirectly pay the salaries of players, coaches and sports agents because the channels do not make money in this type of market.

But the viewer's willingness to pay has its limits. It is now very difficult to attract and retain new subscribers, as viewers are being solicited by different subscription offers. In addition, how televised sport is consumed is changing thanks to digital platforms that give access to 3,500 television channels from all over the world, with broadcasting, legal or illegal, free or at very low cost (streaming websites, Internet Protocol TeleVision offers, so-called "IPTV").

Sports piracy is said to account for 20% of the broadcasting audience, if this phenomenon were to increase, what value would TV rights have at future auctions? The digital giants could be taxed because they are the vectors of such new illegal consumption practices.

The television dependence of sports organisers (30 to 50% of the turnover of events) may call into question the economic model of professional sport if there is an unfavourable downturn in the broadcasting rights market! Is the post-Bosman deregulation of football, with its consequences of transfer liberalisation and wage inflation, the harbinger of a crisis, since TV revenues could become unstable or decline, and would no longer be able to compensate for the financial abuses of this deregulation?

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