

Does the NFL on the NFL Network Make Cents?

Stephen W. Dittmore, East Stroudsburg University

**Session 28: Finance
Presentation (25-minute)**

Saturday, June 2, 2007

1:00 PM - 1:25 PM

Quirk and Fort (1999) observed the monopoly power of professional sport leagues ensures that the leagues, and their owners, are in a position to maximize income from the auctioning of media rights. The National Football League's (NFL) decision to award exclusive media rights of regular season games to its own network, the NFL Network, appeared to contradict that wisdom by turning down more than \$300 million in guaranteed annual rights fees from Comcast (Bernstein, 2006). The purpose of this case study is to consider whether the NFL's decision to vertically integrate the distribution of its games on its own network provided greater value to the league than the traditional auctioning of media rights.

The study is grounded in the literature of vertical integration in sport which states that the principal advantage of a vertical integration strategy is that it allows a business more control over the production process, reduced costs, and potentially increased sales margins (Slack & Parent, 2006). Harrigan (1983) identified two reasons for a business to consider vertical integration: a) internal benefits and costs, and b) effects on competitive posture. The combination of those two reasons should lead to increased profitability for the business.

Several professional teams have employed a vertical integration strategy as a method of increasing profitability. Recent research on the benefits of vertical integration within professional sport has emphasized team ownership of media (Dittmore, 2006; Fry, 2005; Rosner, 2003; Shilbury, 2001) and media ownership of sports teams (Andrews, 2003; Gerrard, 2000; Lee, Harvey, & Kemp, 2002; Stotlar, 2000). Team- or league-owned television networks reduce costs in areas such as human resources and financial operations while permitting properties to integrate their sponsors into television broadcasts, creating greater sponsor recognition and increasing the value of the sponsorship. In addition to reducing costs, team- or league-owned networks present organizations with additional revenue opportunities through subscriber fees, advertising and cross promotion (Fry, 2005), while simultaneously enhancing the asset value of the franchise (Rosner, 2003).

This case study employs multiple analytical techniques to create a model for assessing the financial benefits, and risks, of the NFL's decision. The following data will be analyzed: a) ratings data for games on the NFL Network compared with nationally televised games on other networks; b) content analysis of the eight games televised on the NFL Network to assess potential value-added for NFL sponsors; c) possible revenue amounts generated through advertising spots; and d) NFL Network distribution and corresponding subscriber fees. Sport industry analysts questioned whether the NFL's decision would prove profitable primarily because of the NFL Network's low distribution on cable and satellite providers. As of October 30, 2006, the NFL Network was available in approximately 41 million households, fewer than 50% of all television households in the United States (Ourand, 2006).

Additional relevant data, such as team matchups, may be included in the analysis. Findings and their implications for professional leagues and other owners of auctioned media rights conclude the case study.