

Armand Carabén Workshop on Football Economics, IESE Barcelona
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The Economics of Trade in Football Broadcasting Rights

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Economics and football: how efficient is the invisible hand...?

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Outline

- Is it ridiculous to apply economics to a sport?
- The big questions about the sale of broadcasting rights
- A simple model of economic competition among football clubs
 - The rôle of sporting success in a club's overall economic success
 - Other things football fans care about
 - Investing in talent: are decentralized decisions efficient? Are coordinated decisions any better?
- Summary and conclusions

Is it ridiculous to apply economics to a sport?(I)

- « All this absurd, wasteful squabbling as to which side shall put the ball through which goal – and when and how often – as if this weren't a matter that could be settled in an adult and sensible manner round a table beforehand » - N.F. Simpson, English playwright.

Is it ridiculous to apply economics to a sport?(I)

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- « The football industry has shown a deplorable failure of labor productivity in recent years. Since 1950 the number of person-hours required to produce a motor vehicle has declined from 85 to 32, an improvement of 166%. In 1950 it took 22 players plus one referee 90 minutes to produce one football match; in 2009 it takes precisely the same – a productivity improvement of zero! » McFlimsey and Co.
Report on the Economics of the Football Industry

Is it ridiculous to apply economics to a sport?(II)

- Our answer: No - it's not ridiculous
- So long as we remember that economic competition and sporting competition are not the same thing
- The key: think of football as a very special kind of theatre or cinema
- The *competitors* in the league or the tournament are also *collaborators* in the business of entertaining spectators
- The mix of competition-plus-collaboration is very interesting!

Competition versus collaboration?

- In sporting contests, competition is a « fixed pie » or « zero sum » type
- In economic competition the pie is not usually fixed – so some degree of cooperation can often be good for everyone
- The growth of football broadcasting has enormously increased the size of the pie in recent years – partly due to « superstar effects »
- So football clubs have to manage as a variable pie a spectacle which is considered by spectators as a fixed pie

The big questions about the sale of broadcasting rights

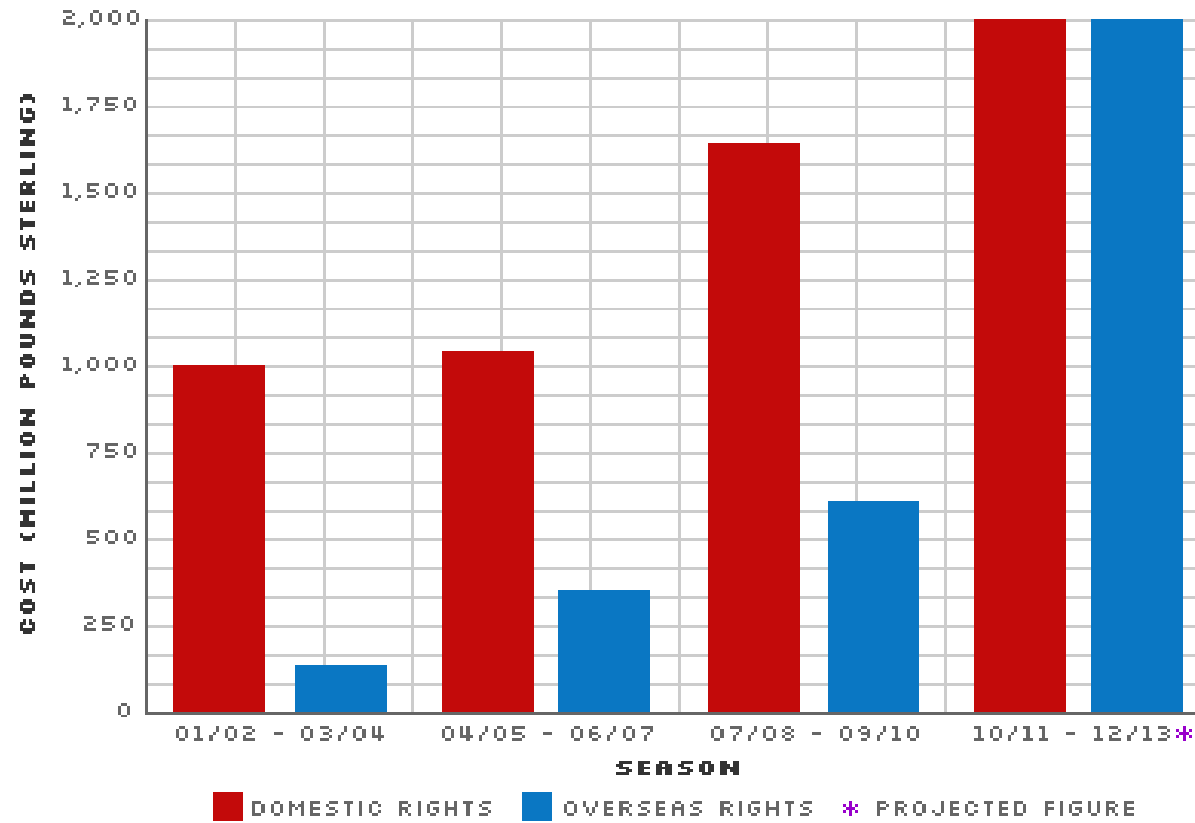
- What kind of goods are broadcasting rights?
- What are the different ways in which broadcasting rights are currently traded?
- Does decentralized negotiation of broadcasting rights lead to
 - The maximum revenue for clubs?
 - Efficient incentives for investments in footballing talent?
 - Value for money for spectators?
- Would collective negotiation be better?

What kinds of goods are broadcasting rights?

- They're not like classic private goods, because they have high fixed costs but zero marginal costs; in the real world they have to be sold at some margin above marginal cost
- Broadcasting is a « two-sided market », with viewers and advertisers both needing to be brought on board
- But football spectators often have a higher willingness to pay than their « eyeball value » to broadcasters – the value of watching a match decays fast over time
- Broadcasting rights often have high levels of complementarity; the value of watching a series of matches is much higher than the sum of the values of watching each match by itself

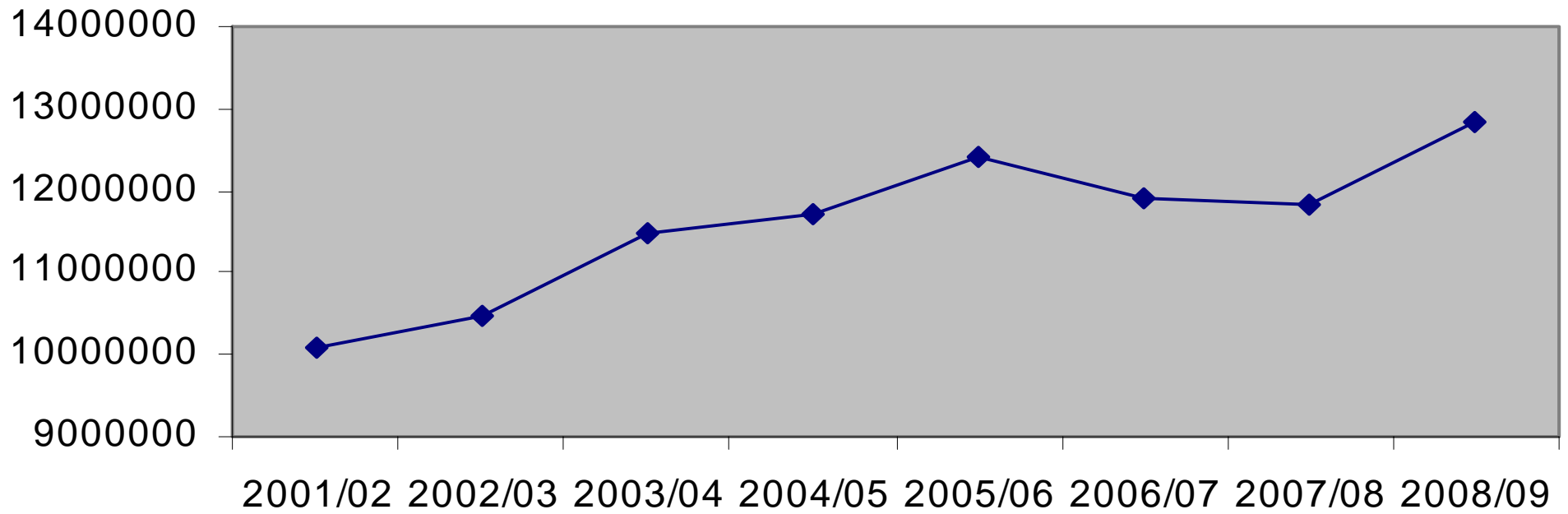
Sources of revenue of football clubs

Team	Season	Revenue competitions	Revenue memberships and subscriptions	Revenue broadcasting	Revenue advertizing
Osasuna	2008/2009 (revenue: 36.921)	2.9%	16.45%	43.15%	17.17%
F.C. Barcelona	2008/2009 (revenues: 384.8)	11.43%	4.6% (memb) 8.3% (subs)	39.5%	29.1%
Liverpool	2006 (revenue: L119.5)	22.47%	21.1%	24.8% (Premier League)	14.98% (sponsorship) 13.65% (merchandise)
Arsenal	2008 (revenue: L222.970)		42.41% (gate and other match day revenues)	30.65%	5.8% (retail income) 14.01% (commercial)



http://news.bbc.co.uk/sport2/hi/football/eng_prem/7232378.stm

Bundesliga Attendance (spectatos overall)



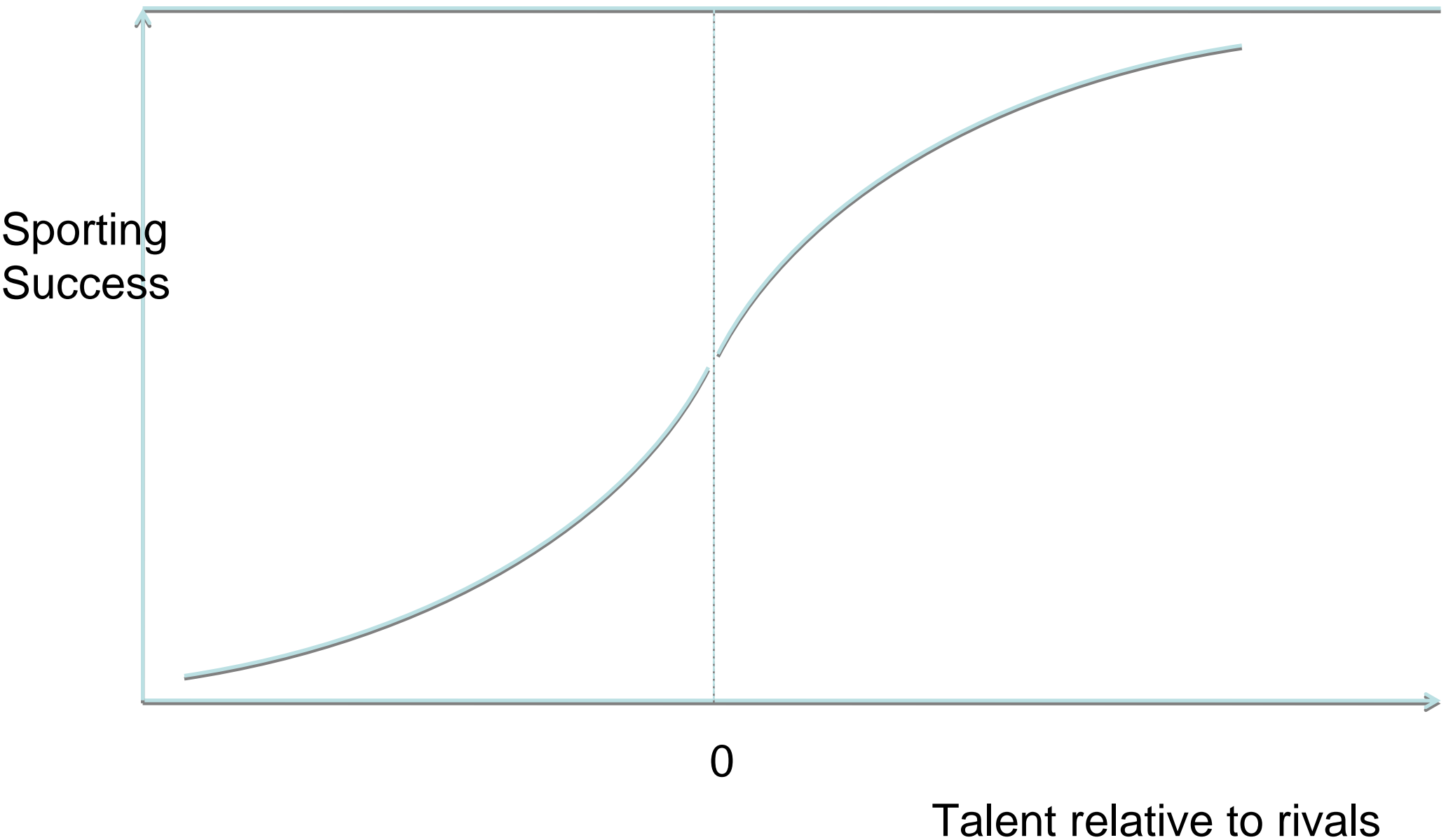
Different mechanisms for sale of broadcasting rights

Allocation mechanism	Countries	Sharing rule
Collective bargaining	Premiere League (UK), France, Italy (after 2010)	France: 75% of revenues are shared equally among the clubs, remaining 25% is split according to last season's national ranking. UK: 25% based on number of TV appearances each club makes during the domestic football season, 25% 'merit award' based on the Club's finishing position and 50% of revenues form a 'Basic Award' shared equally among all clubs.
Independent bargaining by each Club	Spain, Italy before 2010	
Mixed system	UEFA Champions League/FIFA	Clubs participating in the competition receive transfers that are function their performance in the competitions. Plus a share of revenues is distributed in 'solidarity' to National Federations/Clubs not participating in the competition.

A simple model of economic competition among football clubs

- Our model is a simplification (like a map); it focuses on the factors that determine investment in talent
- We model clubs as gaining revenue from attendance at the ground, from sale of broadcasting rights and from advertising/merchandise
- Each of these responds to three factors that are the result of investments in talent
 - Sporting success
 - Entertainment value
 - Suspense (uncertainty)

Success and Talent: A Logistic Function



Some features of contests

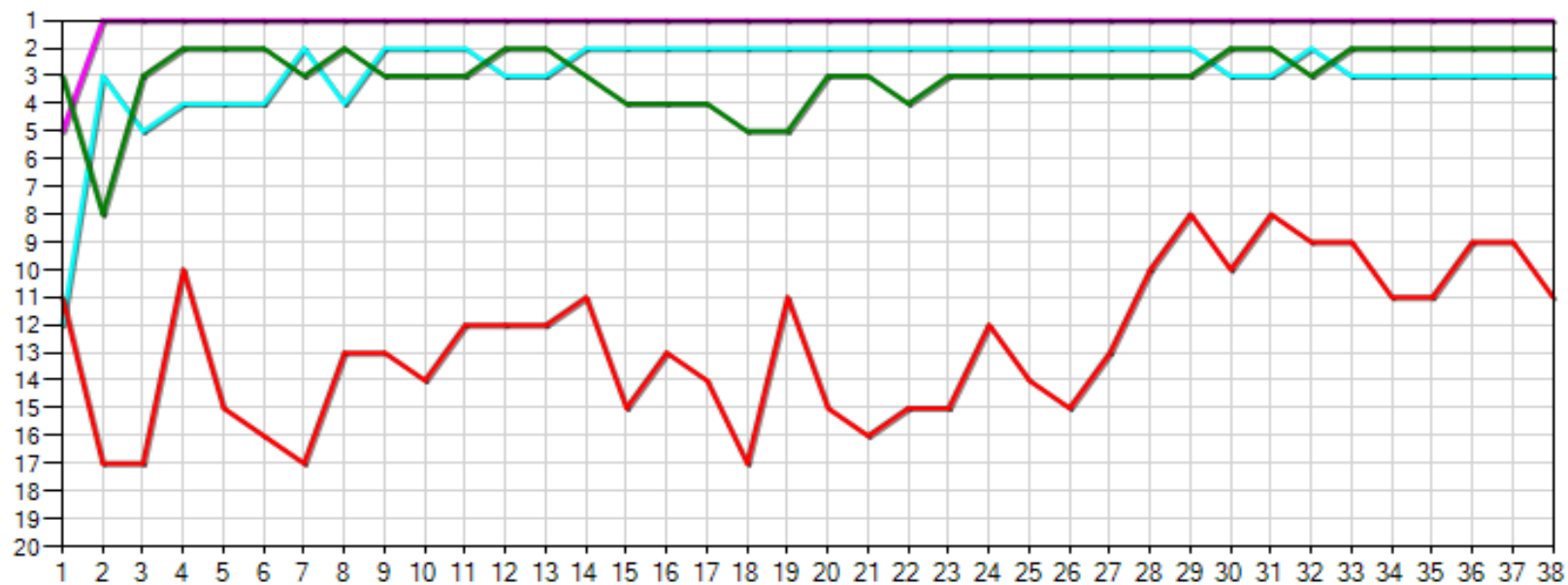
- The returns to investment in talent are typically higher when the contestants are reasonably closely matched
 - This can magnify initial differences between the contestants in their ability to translate talent into success
 - In our model this is reinforced by differences between clubs in their natural ability to translate success into revenue
 - Because contests have some characteristics of « increasing returns », contests can « tip » - have very asymmetric outcomes
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The role of uncertainty

- The structure of the competition (league or tournament) makes a big difference
- In leagues the outcome is often decided quite early in the season
- There can be uncertainty about the result (who wins?) even if only a few clubs are realistically in with a chance



La Liga BBVA: Evolution season 2007/2008



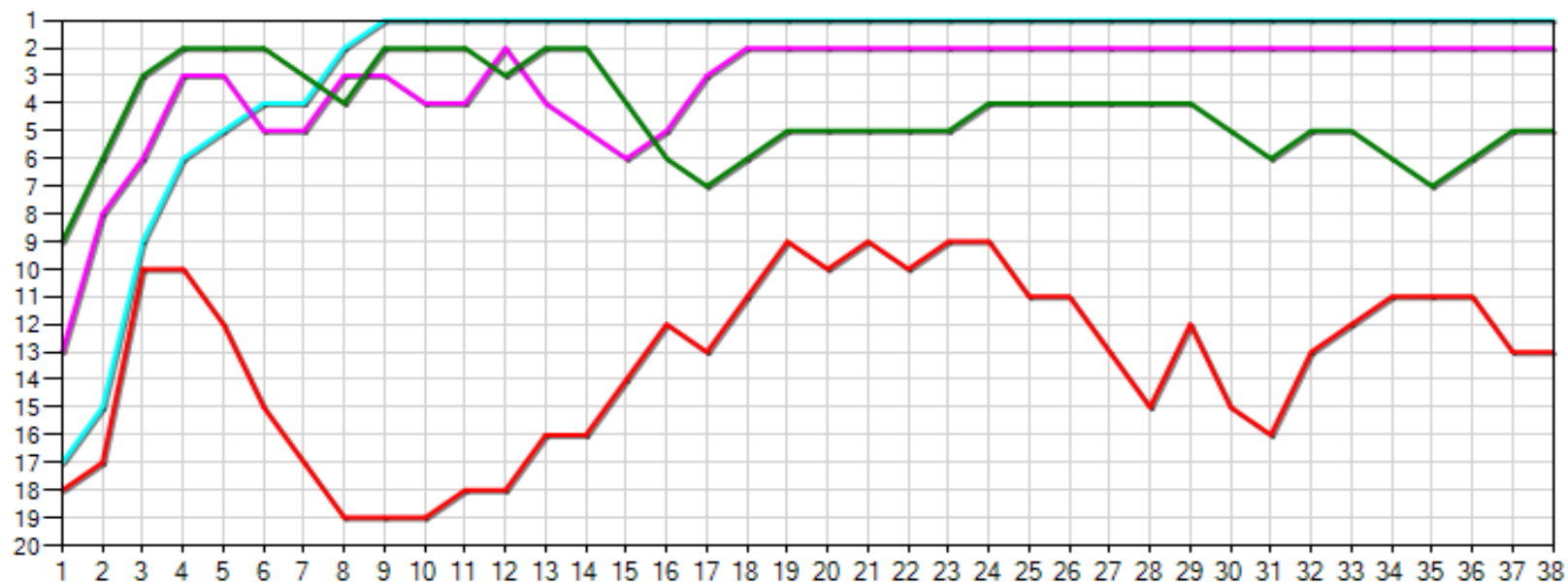
Barcelona

R. Madrid

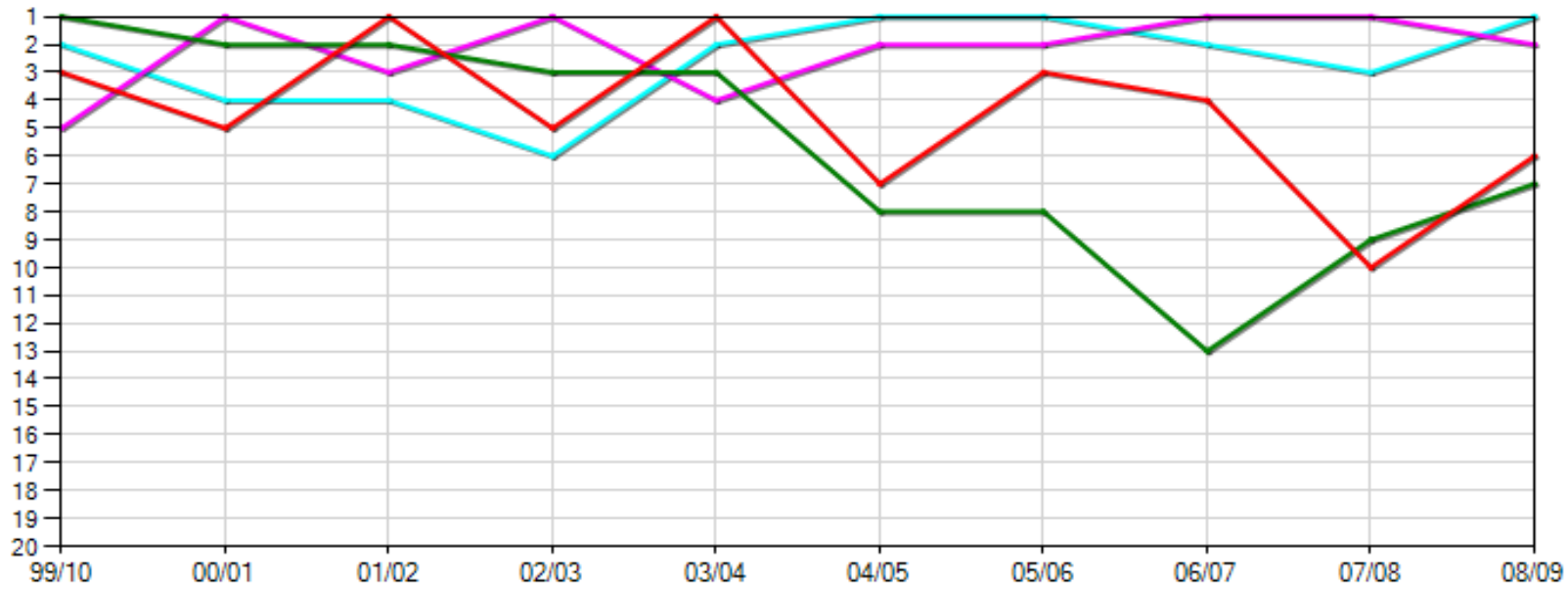
Villarreal

Athletic

La Liga BBVA: Evolution season 2008/2009



La Liga BBVA: time series top positions



Barcelona

R. Madrid

Deportivo

Valencia

Some simple conclusions from the model (I)

- Decentralized competition does not necessarily produce efficient outcomes – there are many externalities between clubs
 - These externalities are both positive and negative – it's not easy to say whether decentralized competition leads to more or less investment in talent than the optimum
 - The positive externalities come from the contribution each club's talent makes to the entertainment value of the matches played by other clubs – this can be very large
 - The negative externalities come from the « fixed-pie » nature of sporting success – but this is only one part of the benefits
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Some simple conclusions from the model (II)

- Centralized negotiation could produce more revenue for clubs – but only if the sharing rule genuinely reflects externalities
 - Too much redistribution could be self-defeating – because it may blunt the incentives for investment in talent on the part of those clubs that are good at turning talent into revenue
 - Smaller clubs could be better off with a smaller share of a larger pie
 - Asymmetries in endowments between clubs lead to asymmetries in sporting outcomes – this is both inevitable and (up to a point) desirable
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Complementarities: the *TPS-Canal+* case

- French professional football league held auctions in 2002 for rights to broadcast matches in First Division
 - 3 crucial lots:
 - 1st and 3rd choice matches
 - 2nd choice match and Magazine
 - Pay-per-view matches
 - Canal+ had previously broadcast 1st choice and Magazine
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Outcome

- TPS bid (€260m, €38m, €113m) + €9m if lots 2 and 3 exclusive
 - Canal+ bid (€150m, €20m, €20m) + €290m if lots 1-3 exclusive (€240m if lot 3 shared)
 - League awarded contract to Canal+
 - Decision overturned by Competition Council, then taken to arbitration
 - Auction eventually annulled by common consent; previous allocation extended 1 year
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Interesting point of contention: division of lots

- Consider alternative bundle
 - 1st and Magazine
 - 2nd choice match and 3rd choice match
 - Pay-per-view matches
 - C+ could have bid for 1; TPS could have bid for 2
 - But lower revenue overall
 - Here bundling may have increased revenue
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Do spectators benefit from coordination between clubs?

- To some extent clubs are indeed competitors (one club's matches are partially substitutes for those of another club, for at least some spectators)
 - For broadcasting, the prices/services faced by viewers will be determined by competition in the broadcasting market, not by the cost of broadcasting rights; these are a FIXED cost.
 - So coordination on broadcasting rights will not harm spectators but just affect the share of clubs vs broadcasters
 - For ticket prices and subscriptions, competition between clubs is important, and cooperation should not be encouraged
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Summary and conclusions

- Football clubs may be sporting competitors but they are economic collaborators as well as economic competitors – and broadcasting has enormously increased the extent of this
 - Each club's investment in talent exerts various externalities on other clubs
 - Some positive (entertainment value, suspense - for weak clubs)
 - Some negative (sporting success, suspense - for strong clubs)
 - Spectators probably benefit from cooperation between clubs over negotiating sale of broadcasting rights, but NOT over sale of tickets, subscriptions, merchandise
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