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A QUALITATIVE ANALYSIS OF REVENUE SHARING IN PROFESSIONAL SPORTS BROADCASTING USING NETWORK THEORY

By

TRAVIS BELL

A Thesis submitted to the
Department of Sport Management, Recreation Management, and
Physical Education
in partial fulfillment of the
requirements for the degree of
Master of Science

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This is dedicated to the people who help make me the best person I can be. My parents, Hugh and Flo, inspire me every minute of every day and taught me to value everything in life. My brother, Court, is the best sibling anyone could ever imagine. My grandparents, Al and Frances, value education and support me in more ways than they will ever know. And finally, my fiancé, Beth, is the best person to ever walk into my life. She inspires me, challenges me, and will continue making me a better person throughout our life.

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ABSTRACT

Over the past 25 years, the relationship between professional sports leagues and broadcast networks has employed a traditional rights fee model. This model involves a guaranteed upfront payment from the networks to the leagues. Over the past decade, the National Football League, the National Basketball Association, Major League Baseball, and the National Hockey League have each utilized multiple networks as their television outlet. In 2002, NBC became the first of the four major networks to not be affiliated with any of the four leagues after claiming they lost hundreds of millions of dollars due to skyrocketing rights fees.

NBC is now attempting a revenue sharing model with the Arena Football League in an effort to control their expenses. Wolfe, Meenaghan, and O'Sullivan's (1998) network theory concepts of power, dependency, and relationship provide the foundation of this study. The purpose of this study was to examine the effectiveness of the alternative revenue sharing model, and how the model could alter Wolfe et al.'s (1998) network theory concepts between broadcast networks and professional sports leagues.

A qualitative case study approach was utilized to interpret data collected through interviews with four participants who have expert knowledge of the sports broadcasting industry. The major findings reveal that the revenue sharing model is an effective model for broadcast networks and professional sports leagues, and the revenue sharing model impacts the concepts of power, dependency, and relationship between the networks and the leagues. This study answers research questions relating to network theory, as well as future implications for the relationship between television and sport.

CHAPTER 1

INTRODUCTION

The relationship between sport and media has rapidly developed during the past quarter century. Sport has gone from a game to big business, and the role of the media has increased from simply providing exposure for consumers to a partner with sport. This ever-expanding relationship has resulted in a power struggle, with billions of dollars exchanging hands between the broadcast providers and the sports leagues, and rules changes occurring in sport to make sporting event telecasts more aesthetically pleasing. The broadcast providers and sports leagues represent two-thirds of what has been described by Wolfe, Meenaghan, and O'Sullivan (1998) as "the sports network" (p. 55). The third member of this growing sports network is the sponsor. Sponsors have begun partnering with sports teams, sports leagues, and broadcast providers to round out the overall sports network. The sports network is a combination of these relationships (e.g., sport-media, sport-sponsor, and media-sponsor). The three members are constantly developing in an ever-changing cycle, centered on three major components of network theory: power, dependency, and relationship.

The proposed sports network (Wolfe et al., 1998) is based on Emerson's (1962) study of power-dependence relations. The developments occurring between sport, media, and sponsors constantly alter the relationships between the three members. According to Emerson (1962), "the notion of reciprocity in power-dependency relations raises the question of equality or inequality of power in the relation" (p. 33). A professional sports league such as the National Football League (NFL) has a stronghold on their broadcast partners and sponsors. The NFL has the power to demand more than two billion dollars in broadcast rights annually, while their respective teams can garner millions of dollars per season for stadium naming rights. The Houston Texans, for example, receive $10 million annually from Reliant Energy to name their facility Reliant Stadium ("Stadium naming rights", 2004). Broadcasters and sponsors lack

bargaining power with the NFL because the television ratings remain strong and annual attendance continues to rise. The National Hockey League (NHL), in contrast, lost a large portion of their power with broadcasters when they signed a two-year, zero-dollar, revenue-sharing deal with NBC. The league did re-sign with ESPN for $60 million per year, but overall the deal is a far cry from the $600 million, five-year deal that expired in 2004 with ABC and ESPN (Dunnavant, 2004b). The NHL's dependence on the broadcasters and sponsors to create revenue has shifted the relationship in favor of television and corporate sponsors. This shift occurs because the league's growth in the 1990s relied heavily on the exposure provided by its network partners and the financial backing from the sponsors, so the league cannot afford to lose either option.

Problem

What this all means is that the sports leagues, their respective broadcast partners, and the corporate sponsors are in a constant multi-billion dollar cycle that, at times, seems to be spinning out of control. Factor in an unstable economy, rapidly developing technology (e.g., league-owned channels, regional sports networks), more media players (e.g., cable, satellite television), more leagues available for broadcast (e.g., Arena Football), and government intervention, and the sports network continues to develop into a larger cycle with more uncertainty. Emerson (1962, p. 36) states:

> While each relation in a network will involve interactions which appear to be independent of other relations in the network, the internal features of one relation are nonetheless a function of the entire network. Any adequate conception of a 'power structure' must be based upon this fact.

While each respective party in the sports network continues to develop relationships with each other, not accounting for that independent relationship's impact on the overall sports network could be detrimental to their respective success in the sports network. Major developments are occurring between professional sports leagues and broadcast networks as they undergo changes to their overall business models. Thus, the research problem involved in this study investigates the nature of the association between broadcast networks and professional sports leagues.

Purpose of the Study

Few studies have examined the relationship between broadcast television networks and professional sports leagues. The long-standing model used between these partners has been the payment of flat broadcast rights fees from a network to an individual league. The traditional model has generated vast amounts of money for the leagues and their respective teams. More recently, an alternative revenue sharing model has emerged. This model no longer contains a direct payment from the network to the respective league. NBC is the first network employing this alternative model. The revenue sharing model created by NBC will help cover the production and promotion costs incurred by the network to televise live sporting events. After NBC's pre-arranged allotment of money is dispersed, a flat amount of revenue is paid directly to the league. After both parties have received their initial payments, they then split in half any revenue generated beyond that point. A revenue sharing concept between broadcast networks and a major professional sports league (NFL, NBA, MLB, and NHL) has only been attempted once previously, when The Baseball Network (TBN) was created by NBC, ABC, and Major League Baseball in 1994. However, that partnership did not last two full seasons due to the 1994 players' strike. MLB then signed a traditional rights fee deal beginning with the 1996 season. While that venture was short lived, NBC's current revenue sharing deals with the Arena Football League and the NHL raise the question as to how feasible this model will be in future broadcast rights negotiations.

The alternative revenue sharing model is in its infancy, so the impact that could be felt by other major professional sport leagues is unknown. However, if this new venture is profitable for both parties, it could change how networks approach the leagues when rights fee deals expire. The revenue sharing concept could also alter where the leagues look for television outlets for their respective sports, and how they might generate the additional revenue they could lose from the current model. Thus, the purpose of this study was to examine how the revenue sharing model could alter the network theory concepts of power, dependency, and relationship between broadcast networks and professional sports leagues.

Explanation of the Study

Wolfe et al.'s (1998) sports network includes sponsors; however, this study will be limited to the relationship between professional sports leagues and their television broadcast partners. Sponsors were not included because the purpose of this study is to examine the impact that power, dependency, and relationship have on broadcast networks and professional sports leagues in the revenue sharing model, independent of their individual relationships with sponsors. The untested revenue sharing model developed between NBC and the Arena Football League will be studied. The literature review explores the current state of the relationship between the professional sports leagues and broadcast networks. The responses to the interview questions are analyzed in order to assess how the network theory concepts of power, dependency, and relationship are be affected by the revenue sharing model. The responses are also analyzed to ascertain how the relationship between professional sports leagues and broadcast networks may change. Finally, the potential use of the revenue sharing model in future television contracts is examined.

Significance of the Study

The relationship between broadcast networks and professional sports leagues is very complex and must be studied for several reasons. First, understanding why broadcast networks pay billions of dollars to professional sports knowing they will lose millions of dollars through such deals defies typical business decision-making. Second, few, if any, studies explore how revenue sharing between broadcast networks and professional sports leagues could impact how sport is able to generate the revenue dollars to reach their current billion-dollar level. Finally, this study offers ideas on how changes to business models between professional sports leagues and their broadcast partners may dramatically affect the relationship between the two entities.

Definition of Terms

The complexity of the relationship between broadcast networks and professional sports leagues includes a variety of terms. A few words or concepts must be defined to understand this

study. These definitions relate to Wolfe et al.'s (1998) network theory, as well as the different business models between broadcast providers and sports leagues.

Network: "a specific type of relationship linking a defined set of persons, objects, or events" (Wolfe et al., 1998, p. 53).

Network theory: "a rich collective of ideas" (Wolfe et al., 1998, p. 53).

Rights fee: upfront payment of money from a television outlet to a professional sports league.

Revenue sharing: sharing advertising revenue equally between parties.

Time buy: purchasing a specific amount of time from a broadcast outlet to televise a program.

The rights fee model gives the television outlet the legal right to broadcast games from the respective professional sports league. For the purpose of this paper, revenue sharing takes place after the broadcast network and the professional sports league receive their initial payments. Finally, a sports league that purchases a time buy is allotted a specified amount of time during the broadcast to sell advertising. These definitions explain the different relationships in place between broadcast networks and professional sports leagues.

Organization of the Study

This paper is divided into five chapters. The first chapter provides a brief introduction to the relationship between broadcast networks and professional sports leagues, and an explanation as to why that relationship needs to be examined further. Chapter two offers a history of that relationship, especially with regard to the traditional rights fee model. It also examines Wolfe et al.'s (1998) network theory concepts of power, dependency, and relationship. Finally, chapter two discusses the elements of the revenue sharing model developed between NBC and the Arena Football League.

Chapter three describes the qualitative methodology that guided this study. Chapter four examines the responses of the four interviews that provided the data about the revenue sharing model. It also examines the four basic research questions about the network theory concepts of power, dependency, and relationship based on the responses to the interview questions. The final chapter explains conclusions of the study's findings, recommendations for future research, and the limitations of the study.

CHAPTER 2

REVIEW OF THE LITERATURE

History

Before World War II, sports relied heavily on local radio broadcasts and print media for exposure to potential consumers. Through the advent of television sport has soared to new heights. With rising costs to attend live events, millions of fans get their daily and weekly sports "fix" through television. For decades, there was a symbiotic relationship between the leagues and broadcasters. The leagues provided live programming for television, while the broadcast networks provided a worldwide promotional outlet for the respective sports.

Sports on network television did not initially attract the type of viewership that would later demand billions of dollars. Professional sports did, however, tap a new market for broadcast networks to explore. The first live coverage of the World Series was provided by NBC in 1949 (Lee & Chun, 2002). Within five years, sports leagues began to package their television rights. The NBA was the first to initiate this type of broadcast rights deal with NBC in 1954. MLB was the next league to sign with NBC. Meanwhile, football signed with CBS and ABC. CBS completed a deal with the NFL, while ABC signed a contract with the American Football League (AFL) in 1960 (Rockerbie, 2003).

Legal battles ensued from there. The CBS-NFL deal was struck down. The issue at hand was that the leagues did not have the right to pool their league games without the local teams being allowed to sell individual rights to local broadcasters. "In 1961, Congress passed the Sports Broadcasting Act, which permitted leagues to operate as cartels in the negotiation and sale of broadcast rights" (Rockerbie, 2003, p.17). Following a four-year deal with ABC, the AFL signed a new deal with NBC. In 1969, the NFL and AFL merged, and the newly formed league maintained the acronym NFL. CBS continued their deal with the former NFL (now known as

the NFC), while NBC's contract provided rights to the AFC (formerly the AFL) games. This format with the NFL remained until the 1990s (Rockerbie, 2003).

Over the years, the broadcast networks began airing more sports in an effort to maximize the value of their contracts. ABC, CBS, and NBC combined to show 1,500 hours of programming in 1985, which doubled the amount from 1960 (Baran, 1997). With the addition of FOX, programming available on the four broadcast networks now exceeds 2,100 hours (Lee & Chun, 2002). As the number of programming hours continued to increase, broadcast rights fees increased as well.

In 2004, ABC, CBS, and FOX combined to spend $5.8 billion on the four major sports (Waldman, 2003). For decades, the leagues and networks have been dependent upon each other. However, there has always been a power struggle over how much the broadcast networks were willing to pay to air live sports programming. NBC was the first to willingly depart from the cash cow that was supposed to be professional sports. While it has been well documented (Fatsis & Pope, 1998; Higgins, 2003; Lowry, 2003) that broadcast networks were willing to lose money televising sports because it was such a powerful promotional tool for their prime-time programming, NBC decided they had had enough (Burke, 2002; White, 2001). It was a risky move for a company that was synonymous with sports for more than 40 years.

Echoing NBC's claim of major financial losses, FOX announced in 2002 that it had "grossly miscalculated the value of its sports fare … in the face of a dramatic sea change in TV sports economics" (Mermigas, 2002, p. 14). This resulted in a $909 million sports write-down for the company because they overestimated the initial value of the contract. Mermigas (2002) added, "some industry experts say they don't see how CBS and ABC each can avoid at least $500 million in sports rights write-downs in light of massive losses on the NFL and other major events" (p. 14). This growing trend is causing the broadcast networks to reevaluate their position in the sports network. It is also causing the leagues to explore new outlets to continue driving their massive revenue stream. However, since the number of sport products available for big-time broadcasting is limited to mostly the four major sports, the networks have a lot of soul searching to do with regard to sports properties. As Emerson (1962) noted, "the *values* people use in ordering roles or persons express the dependence of the system upon those roles, and that the *availability* factor in dependency plays the decisive part in historically shaping those values"

(p. 40). As long as broadcast companies value sports properties, they will continue to pay high prices because there is limited availability to enter the sports network.

NBC

While ABC's *Monday Night Football* is the longest running primetime sports program, NBC has been synonymous with network sports programming since it began. The dawn of the sport and network bond was in 1944. NBC televised a featherweight boxing championship bout between Willie Pep and Chalky White during the network's *Gillette Cavalcade of Sports*. While sports premiered on television in 1939, the boxing match was the first network sports broadcast (Baran, 1997). During the next decade, sports began a shift from the primetime slot to a successful time on the weekends. It was during this time that professional leagues began packaging their television rights with broadcast networks. Enter NBC, and sports programming reached new heights.

By the 1990s, NBC was the model of sports broadcasting, especially among the four major networks. NBC televised the World Series, Super Bowl, NBA Finals and Summer Olympics in 1995-96. That marked the first time in history that one network televised each of those four major properties in the same year. In 1996, NBC was contracted with MLB, the NBA, and the NFL. They were paying $187.5 million per season from 1994-98 for NBA games, $217 million annually to the NFL from 1994-97, and $80 million per year from 1996-2000 to MLB (Lee & Chun, 2002). NBC was in for the long haul with billions of dollars tied to those three major leagues. Surprisingly the company cut ties first with MLB and then with the NFL. Their final contract with the NBA for $437.5 million annually ended a 12-year relationship in 2002. NBC was unwilling to pay the high prices anymore for these three sports ("In the sports business", 2004).

Within six years of setting the standard for broadcast networks, NBC held only the rights to the Olympics from their quartet of marquee events. While NBC's prime-time programming was known at that time as must-see-TV, their sports programming reflected that of a watered down version of their previous standard that other broadcast networks strived to reach. That is not to say that NBC has severed its sports programming. However, they are now attempting to

be the first network to institute a business strategy that includes traditional rights fee models as well as the new revenue sharing model.

The network is currently paying a traditional rights fee for the Olympics through 2012, NASCAR Nextel Cup racing, University of Notre Dame football, PGA Tour golf, horse racing's Triple Crown, and tennis' Wimbledon and French Open ("Corporate info", 2004). The Olympics provide the premier sporting event around which NBC is centering their sports programming. However, it is the fiscally responsible revenue sharing deal in place with the AFL that could have networks rethinking their current trend of spending billions of dollars on MLB, the NBA, and the NFL. There are several outside factors; however, impacting the current relationship between broadcast networks and professional sports leagues.

New Television Outlets

Could there be a day when the NFL's Super Bowl, MLB's World Series, or the NBA's championship round is not on free, network television? With the rapidly changing technology in the broadcasting industry, the question may not be *could* it happen, but *when* it might happen. If you examine what is occurring in Great Britain, the government is attempting to protect their national sports treasures from moving to pay television. This is largely because of media mogul Rupert Murdoch's BSkyB, the most profitable television station in Britain. The twist is that BSkyB is a satellite provider, and it has begun gobbling up broadcast rights to Britain's major sports leagues. The power in the British sports network is squarely in Murdoch's hands. The British Broadcasting Corporation (BBC) is the free, national television outlet that Murdoch is challenging (Butler, 1996).

In an effort to protect eight major sporting events from going to pay television, the British Parliament passed legislation ensuring these high profile events will remain on free television. But at the time the legislation was passed, nearly 80 percent of British households did not own a satellite dish. While Murdoch's purchase of broadcast rights to regular season games prevents these consumers from watching their beloved sports, the new law still allows viewers access to the championship events, which Butler (1996) says some people view as a "national birthright." Meanwhile, Parliament's legislation still allows Murdoch to purchase regular season events, thus

potentially causing many of the notable leagues in Britain to move from the BBC to pay television.

While there is relatively little professional sports programming currently available exclusively through satellite television in the U.S., Murdoch's purchase of DirecTV for $6.6 billion (Stilson, 2003) gives him more of a stake in future broadcast negotiations with the big three leagues. DirecTV currently has the rights to "NFL Sunday Ticket," which allows viewers to watch out-of-market games by purchasing the annual television package. DirecTV is under the umbrella of Murdoch's News Corp., which already is a major player with its FOX network that currently has broadcast rights to the NFL and MLB. "News Corp. could dramatically shift the dynamics at play in the realm of sports. And to make matters more complex, a Murdoch-controlled DirecTV could greatly expand the level of enhanced television available in the U.S." (Stilson, 2003, p. 22).

The advent of satellite television provides more leverage for the sports leagues when broadcast rights expire. Murdoch has proven in Britain and Australia that he is willing to be a major player in the sports business by building much of his empire with sports properties. Satellite television is an avenue that Murdoch is exploring to increase his global company. Leagues will certainly listen because DirecTV could provide Murdoch the necessary firepower to alter the sports broadcasting landscape. Wolfe et al. (1998) explain "the power of one party resides implicitly in the dependence of another party with whom they share a relationship" (p. 54). In other words, if Murdoch were dependent enough upon sports rights to build up DirecTV, the sports leagues would hold the power in negotiating new deals for more money with him. This should be a concern for ABC, CBS, and NBC because Murdoch has proven before that he is willing to bid high when he really wants something.

Along with satellite television, cable has become a major sports provider for the viewing public. ESPN has already firmly planted itself in the Wolfe et al. (1998) "sports network" as a major media outlet, and the all-sports channel now holds broadcast rights contracts with all four professional leagues. ESPN has been a major bargaining tool for professional sports to rely upon when negotiating new rights fees. For years ESPN was attempting to enter into live sports programming, but continued to lose out to other cable networks such as USA Network and TBS. Initially the NFL, NBA, and MLB all refused to consider cable. That changed over time. "The

single most important victory in the history of the network came in 1987, when ESPN secured its first NFL deal, which became one of the foundations of the channel" (Dunnavant, 2004a, p. 24).

Since ESPN is now largely dependent upon the professional leagues for quality programming, their relationships with the respective leagues must remain symbiotic. The ESPN tie to sport is different from the broadcast networks because the networks produce a large portion of non-sports programming, so they could survive without sports. Despite having Disney (which also owns ABC) as their parent company, ESPN would crumble. As a result, they must continue to challenge other broadcast outlets for sports rights because there is "greater competition between media owners for a relatively limited number of sporting events" (Wolfe et al., 1998, p. 56). The leagues rely upon ESPN to provide them with a steady broadcast outlet, while an ever-expanding ESPN, now with four channels, needs plenty of programming to provide 24-hour coverage.

Impact of Cable and Satellite Providers

While the NFL deal with ESPN opened the eyes of other professional sports leagues to cable, the NBA was the first league to move a majority of its game from broadcast networks to cable. When the league moved from NBC to ABC in 2002, it lost several games carried on network television. In NBC's final year as a partner with the NBA, the network televised 31 games. During the 2003-04 season ABC carried only 16 games, which was actually an increase from the 12 they aired during their inaugural campaign (Fitzgerald, 2004a). This has been a growing trend in the relationship between leagues and their network partners.

MLB, with each of its teams playing 162 regular season games, relies on local television partners to air the majority of its games. While the World Series has remained on free television, the first round of the playoffs has been split between the networks and other cable affiliates. FOX has maintained its Saturday afternoon games during the regular season, but ESPN has become the major national outlet for America's Pastime with its Sunday night broadcasts and various mid-week games. While MLB's schedule is not conducive to year-round network coverage, the mighty NFL has even suggested a shift to other outlets.

Currently, the only NFL games that air on cable are the nationally televised Sunday night games on ESPN. However, that trend could be revamped. While CBS and FOX recently signed

up for six more years with the NFL for $8 billion for rights to Sunday afternoon telecasts (Bernstein, 2004c), the league is exploring more revenue sources for expanded coverage. ABC and ESPN have yet to re-negotiate their Monday and Sunday night deals, respectively, and there is talk of adding a Thursday and Saturday deal to the television contract beginning in 2006. It has been reported that this new deal would probably be awarded to a cable partner, ranging from TNT to FX to USA (Fitzgerald, 2004b). "That can't sit well. That will mean a thinning of the ad market dollars" (Curcio, 2004, ¶ 14). This would continue the growing trend of major professional sports drifting further away from free network television and into subscriber-based cable's hands.

Meanwhile, Rupert Murdoch still looms as a combatant to not only the networks, minus his own FOX network, but also cable providers who are looking to add professional sports to its lineup. The Murdoch-owned DirecTV signed a five-year, $3.5 billion deal with the NFL to retain the rights to "NFL Sunday Ticket" (Bernstein, 2004c). Along with his FOX network, Murdoch now has major stakes in NFL broadcast rights through both free and subscription-based viewers. "FOX could be a wild card and start a new cable sports network, using NFL games as a means to build distributorship" (Curcio, 2004, ¶ 20). Enhanced television viewing through DirecTV allows the satellite-based programming option to further develop. Bernstein (2004c) explains that Murdoch is attempting to use NFL programming "to reshape DirecTV in the mold of News Corp.'s British satellite broadcast company, BSkyB, which has made interactive television and exclusive sports content its hallmark" (p. 32). With rapidly increasing technology and consumer demand, the NFL is leading the way in new, innovative ways to reach viewers.

The evolving relationship between sports leagues and their television outlets is in a state of flux. With satellite and cable providers searching for a bigger piece of the sports pie, the big four broadcast networks (ABC, CBS, NBC, FOX) are soul searching to decide if sport is still the way to go. However, the satellite and cable providers could serve simply as a short-term solution before a new idea emerges from the leagues. The leagues are not only looking for new sources of revenue but are also considering taking the production of live telecasts in-house, meaning the league would pay to produce the event and sell all the advertising rather than have a broadcast provider receive all the advertising revenue. This would allow the league to reap all the financial reward. The NFL, NBA, and MLB have all either started their own channel or are currently in

the process of starting one. Therefore, the once consistent relationship between sports leagues and broadcast networks could see major changes on the horizon.

This jockeying for position is a recurring theme for professional sports leagues and broadcast networks. Both entities are always attempting to get the upper hand with the network theory concepts of power, dependency, and relationship. If the balance of these three concepts is slanted in favor of one side over the other, it can result in a multi-million dollar swing in bargaining power. Therefore, the following section will discuss the significant concepts from network theory developed by Wolfe et al. (1998). It will explain and analyze each of the three network theory concepts and how they impact the sport leagues and their broadcast partners.

Network Theory

Network theory studies relationships that exist within networks. For example, Wolfe et al. (1998) examined the relationships between sport, media, and sponsors, who are all part of the sports network. While network theory "embraces a rich collective of ideas" (Wolfe et al., 1998, p. 53), it is important to select a specific relationship to study within a specific network. Wolfe et al. (1998) determined three significant concepts to examine within their sports network: power, dependency, and relationship. Those three concepts are used for the purpose of this study to examine the association between professional sports leagues and broadcast networks.

Power

Wolfe et al. (1998) determined that "power is the central concept in network analysis" (p. 53). In a dynamic environment, such as the sports industry, Wolfe et al. (1998) explain that "shifts in the relative position of actors and their power relationships … bring about change in the network" (p.53). Therefore, power is the central concept in the relationship between professional sports leagues and broadcast networks, and any change to their respective positions with power can alter their relationship.

Since the honeymoon period of the marriage between television and sports from the early 1960s to the early 1990s, broadcast networks realized that they could utilize sports as a unique programming outlet that could reach viewers. In contrast to other programming that was

prerecorded, sports represented live events that could maintain a viewing audience because the outcome could be altered at any moment during a game. During the formative years of the NFL, NBA, MLB, and NHL, the major league sport product was unfamiliar to the viewing public. Each league had to first overcome instability within their respective league, the threat of other competitive leagues (e.g., the American Basketball Association, the World Hockey Association), and lack of exposure to potential consumers. MLB had the most stability when television became a mainstay in American culture. There was no other professional baseball league to challenge them. The league had established baseball powers in major metropolitan areas, such as New York, Boston, Chicago, and Detroit.

Baseball has been referred to as "America's Pastime" because fans grew up following players such Mickey Mantle of the New York Yankees, the Boston Red Sox's Ted Williams, and Hank Greenberg from the Detroit Tigers. These players were icons for their sport and garnered national notoriety for the game of baseball. They began endorsing products and became celebrities. Most of the attention, however, came through print media. Newspapers covered the games, and fans would turn to their local sports sections for the previous day's scores and headlines. The advent of live televised sports created even more national recognition for professional baseball players.

Baseball was the first sport in which teams sold their individual television rights to local stations. This format for television rights was based on the previous arrangements signed by teams and their respective radio partners. Local television stations followed suit, signing deals with their local teams to carry broadcasts of games. The stations would produce a broadcast for local viewing. However, "broadcasts to the home market were blacked out when the team was playing at home; only away games were broadcast" (Rockerbie, 2003, p.17). While this process delivered a new revenue stream for the individual teams, MLB was not garnering a financial reward because the teams sold their own rights. The league realized there was more untapped money to be had, and they entered the fray when they sold a league package deal highlighted by the World Series.

While the broadcast networks initially had the power over baseball because they were a new medium that could give access to millions of people who could not attend games, baseball's explosion as a part of American culture quickly erupted well beyond its already immense popularity. Relocation of major franchises expanded the game to the West coast. In 1958, the

Brooklyn Dodgers and New York Giants moved to Los Angeles and San Francisco, respectively, and baseball reached untapped markets west of the Mississippi. Expansion also shifted the balance of power between the league and broadcast networks. The new locations exposed the sport to new fans and gave the league bargaining power with the broadcasters because the game could now be viewed on a national level. Networks were willing to spend big bucks because they could easily sell new advertising during broadcasts because they were tapping into hard to reach demographics, especially men. Since baseball could provide this desired target market, they began to demand millions from their broadcast partners for the rights to televise games. MLB now used television to its advantage.

The NBA has bounced from cable to the networks and predominately back to cable. Their most recent $4.6 billion, six-year deal with ABC, ESPN, and TNT puts more games on cable than ever, but it generates an extra $166 million a year from the three television providers (Thomaselli, 2003). NBC's payout had grown from $187.5 million in 1994 to $437.5 million in 2002 until ABC took over as the NBA's network partner. The NBA, like the NFL, used its athletes' star power to garner a nearly threefold increase in revenue from their television partners. The new deal meant less money from the leagues network affiliate, but brought in more money annually thanks to cable. The NBA's power over the broadcasters has dwindled somewhat since the retirement of Michael Jordan, but the league has still been able to generate additional revenue through television.

The NHL stands alone as the only sport of the big four that has taken a step back. That is due in large part to labor disputes and minimal television ratings. The NHL became a prime target for NBC to return to the big four. To remain on network television, the NHL signed their zero-dollar, revenue-sharing deal with NBC in 2004. The league also re-signed a deal with ESPN for half of the $120 million deal they signed from 1999-2003. According to NHL commissioner Gary Bettman, this deal could bring a lot of money to both parties (Martzke, 2004). This deal with the NHL best summarizes NBC's cautious return to big time professional sports, but still allows the league to maintain some network status. Despite the NHL's inability to generate hundreds of millions of dollars in broadcast rights fees, they are an aberration in regard to the power that professional sports leagues maintain in the sports network. "It must be remembered that ultimately…it is the (leagues) which own the rights to the sport, and this gives

them the ultimate power, and perhaps, the ultimate right, to control its destiny" (Wolfe, et al,, 1998, p. 61).

No sport, or arguably any property, has utilized television to its advantage like the NFL. Currently the NFL receives $2.2 billion annually from ABC, CBS, FOX, and ESPN. This is a result of the NFL being the first sports league to capitalize on a package deal with the broadcast companies. Rather than allowing its individual franchises to sell local broadcast rights, the league sells its rights in a package deal to the highest bidder. "The National Football League was the first emerging league to increase their national market through television, an often repeated story that establishes the Super Bowl and *Monday Night Football* by the 1970's" (Hutcherson, 2003, Background section, ¶ 2).

Once the original National Football League merged with the AFL in 1969, the major football property courted by the broadcast networks was the current NFL. Despite a three-year attempt by the United States Football League in the early 1980s to rival the NFL, the established league had built a monopoly with regard to broadcast rights fees. The NFL is able to capitalize on the fact that each of their teams plays only 16 games per season, thus increasing the amount of money that broadcasters and advertisers are willing to pay because the value of each game is enhanced due to limited quantity. Broadcast partners are willing to pay costs at alarming rates believing they can sell enough advertising to recoup their initial investment. This method "is what justifies paying for the rights to any event. If there is an audience, there is value" (Hutcherson, 2003, Background section, ¶ 2).

Many broadcast companies have viewed the NFL as a major value, especially because nine of the 15 highest-rated shows in television history have been NFL championship games (Kuney, 2003). But it was not always this way. "Was football always television's darling? Of course not. Football came of age in the 1920s, and it took more than 50 years for it to catch up with its potential audience" (Kuney, 2003, p. 49). It caught up in a flash by the mid-1990s. FOX, in an effort to establish itself as one of the major networks, jumped at the chance to partner with the NFL. In negotiations with the NFL for the 1993 television deal, CBS refused to enter into another losing venture with the league. They lost the broadcast rights to the National Football Conference because FOX paid $1.6 billion for the four-year contract, which was reportedly $100 million a year more than CBS offered. CBS reentered the NFL circle four years later, when they outbid NBC by 150 percent with a $4 billion, eight-year deal to broadcast

American Football Conference games (Bellamy, 1998). NBC's loss of the NFL marked the end of a 33-year marriage the network had enjoyed with the league. Regarding the relationship between the NFL and its network "partners," the balance of power had clearly shifted to the league.

While the leagues hold the ultimate power because they have the product that is most desired, the broadcast outlets are not rendered powerless because they have been able to corral viewers by offering them exactly what they want: arguably the best leagues in each of the four major professional team sports in the U.S. But while it has cost the broadcast companies billions of dollars to bring these sports to their airwaves, some of them now claim that sports rights have overpriced themselves and a correction must be made for these sports to continue on network television. The broadcasters have enjoyed a long-standing relationship with the professional leagues, and they would gladly keep them on the air, for the right price. That is where the balance of power could shift back toward the broadcast providers.

The sport leagues have been willing to alter their schedules to ensure that the broadcast companies get the time slots they prefer. Some sports have even altered the rules of the game to accommodate television broadcasts. For example, all four professional sports leagues have media timeouts at selected intervals during live broadcasts, which allow the networks to cover their costs with prearranged advertising time that is sold to counter the rising rights fees. Football introduced the 40-second play clock to speed up the game for television. More directly, franchises have moved locations to be in a bigger "market" because there are more viewers available to consume the product. Sports have also begun allowing virtual advertising during sporting events. Broadcasters sell advertising that can only be seen by the television viewing audience, either on a football field or behind home plate during baseball games. Wolfe et al. (1998, p. 59) explain the broadcasters' power:

> The argument does stand…that if a media channel is prepared to buy the rights to an event for millions of pounds [or dollars], it [as owner of these rights] must have some say, perhaps in terms of when the event is scheduled and how it might be made more exciting.

Sports can be seen on television any night of the week, which is a result of the power that the broadcast partners have had during the rapid development of sports on television. Whether it is professional football opening their season on a Thursday night or the NBA tipping off on the same night as a presidential election, television does hold a significant amount of power with

respect to the professional sports leagues. Nevertheless, the leagues and broadcast partners must share power to better serve the consumer, who may be the ultimate decision-maker in the ever-changing relationship between the two entities.

Dependency

The second network theory concept examined is dependency. Wolfe et al. (1998) describe dependency in the sports networks as “the parties in a power relationship are tied to one another by the dependence of one on the other, or perhaps by mutual dependence” (p. 54). Professional sport leagues and network television have evolved together, which suggests that even the almighty NFL is dependent upon network television and vice versa. “In today’s atmosphere, who can imagine a Sunday afternoon without pro football” (Kuney, 2003, p. 49)? Television used sport in the wake of radio’s success broadcasting live events. Meanwhile, sport took full advantage of the new visual medium to enhance the game and bring it to millions of viewers who might not ever see a live sporting event.   Sports leagues would be wise to ensure that their television partners continue to desire their product because without the billions of dollars in television revenue, sport could be in for a major correction with regard to expenditures, whether it is with players’ salaries, stadium construction costs, or ticket prices. The television packages that have been so lucrative for the leagues have made them more dependent on their broadcast partners. This run by ABC, CBS, and FOX could come to a screeching halt if they continue to lose hundreds of millions of dollars. Without NBC bidding for any of the big four major sports leagues, the three remaining networks are left to go alone into what could be an abyss they may never escape.

The major issue weighing on the broadcast providers’ dependency on the sport leagues is that the broadcasters battle for a very limited product. Unless the television companies band together and take a stand against their billion dollar outlay to the sports leagues, prices will continue to increase with companies either bowing out of sports broadcasting altogether or only the premier sporting events remaining on free television. “Sports uniqueness as a marketing tool has led to a significant demand for major events, which in turn has led to inflated sponsorship prices for events in the sports market” (Wolfe et al., 1998, p. 57). Broadcast networks have been unwilling to part ways with professional sports because they do not want to lose marquee events

such as the Super Bowl and the World Series (Downey, 2002). These events mean millions of dollars in advertising revenue for a select few days each year.

Rupert Murdoch, chairman of FOX parent company News Corp., said of FOX's five-year contract with the NFL that began in 1998, "Broadcasters can't make money on sports any longer. I know we couldn't" (Lowry, 2003, p. 90). This was shocking news because Murdoch has been blamed for putting the broadcast companies in their current financial state. While Murdoch admitted to overspending, networks will continue to lose money unless they correct their own mistakes. Until that adjustment is made, or even attempted, broadcasters will depend on the leagues because they have the product that is so desired.

The NBA's shift to cable is a major example of a league's dependence on a television partner. Commissioner David Stern spearheaded the move. "What Mr. Stern gave up in a larger audience on network TV he gained in programming and exposure" (Thomaselli, 2003, p. 4). However, this sudden move to broadcast a large majority of NBA games on cable comes as somewhat of a surprise. Isidore (2002) writes, "The shift to cable is something that broadcast executives have seen coming for years. The only surprise with the NBA contract is that it happened now, rather than five or six years from now" (¶ 10). Professional leagues must have seen the writing on the walls when a major sports property such as the NBA made a major move to cable. While the NBA was able to increase overall revenue for their television rights from cable, will the other sports leagues be able to do the same? And will the networks be willing to offer the same amount of airtime that 24-hour sports channels can provide?

Downey (2002) predicts that sports properties are likely to be gobbled up by cable providers in the foreseeable future. This is not because they will be able to pay more; it will be the result of unwillingness by the major broadcast networks to increase expenses. While this is one author's prediction, it has yet to come to fruition, at least on a full-scale assault by the broadcasters. NBC has bailed out of bidding for major professional team sports. However, until any of the other three major broadcast networks show the same willingness to cut traditional ties with the leagues, they will forever depend upon the leagues because of the dollar amounts they have invested.

While the current relationship between professional sports leagues and broadcast networks is a specific, complex relationship, Emerson's (1962) work on more ambiguous relationships can be applied to what has occurred between broadcast networks and sport. The

networks have continued to pay major dollars because the sports properties provided them value; therefore their dependence upon professional sports remained high. Despite the networks claiming major financial losses, they continue to pay more and more to maintain their relationship with the leagues. As Emerson (1962) states, "the denial of dependency involved in this balancing operation will have the effect of moving actors away from relations which are unbalanced to their disadvantage" (p. 36). In short, the networks may eventually move away from the leagues because their level of dependency will be severely unbalanced, both financially and from a ratings standpoint. But sports are "more than just a straight ad-vs.-rights equation. Weaker networks use sports to boost distribution" (Higgins, 2003, p. 11). While this sounds a lot like the networks' rationalization for televising sports in the 1970s and 1980s, it is now a way for new players such as Rupert Murdoch to increase exposure for DirecTV or for another all-sports network to challenge ESPN and their ever-growing sports media empire.

Meanwhile, professional sports leagues' dependence on network television is slowly drifting away. The proliferation of cable has allowed the leagues to expand to outside providers who are willing and able to spend big bucks on sports programming because it is much cheaper to air than first-run programming (Baran, 1997). Wolfe et al. (1998) stated that more alternative television outlets have led to a bidding war for sports properties. However, the authors then contend that if sports move away from free, network television, that the "sports will inevitably reach smaller audiences, and this 'could be the undoing of sport'" (p. 57). Leagues have surely been dependent upon networks for exposure, and greed cannot get in the way of what they think should be done for the betterment of the game.

Relationship

The third concept in network theory is relationship. Wolfe et al. (1998) define relationships as "interconnections between different parties or actors in a network" (p. 54). The relationship between professional sports leagues and broadcast networks was once symbiotic, despite the networks paying traditional rights fees to the leagues. The increasing revenue from rights fees was an easy way for the leagues to make money and promote their sport through a national medium. Many positives existed for the networks as well. They could use sports to promote their own future programming in order to gain new viewers, and hopefully, new

consumers for the advertisers. Lowry (2003) explains that "the strategy among execs used to be that if they couldn't recoup their investment in broadcast contracts, they could always use the games' huge audiences as a one-of-a-kind opportunity to promote their prime-time lineups and other network programming" (p. 90). Long-term relationships with leagues also allowed networks to create a brand image with the league. NBC used the slogan "The NBA on NBC" as the standard campaign during their 12 years together. Despite dwindling ratings, *Monday Night Football* continues to be a top 10 prime-time show. The weekly NFL game has been a fixture in prime-time television for 35 years and is synonymous with ABC.

For nearly 25 years this rights fee business model worked wonders for all parties involved. However, the expiration of the NFL television contract in 1993 signaled the end of strong, and potentially long-term, relationships between broadcast networks and professional sports leagues. When FOX secured the NFL by overbidding for the property, the once symbiotic relationship between professional sports leagues and broadcast networks turned more to a parasitic relationship. The mutual benefit that once resulted in decade-long relationships has been replaced by the search for the almighty dollar. The sports leagues do not want to see this major revenue stream evaporate. Networks, however, have begun to re-evaluate their need for sports programming at such a major cost. The rights fee relationship existed because networks were willing to lose money on sport because it generated viewers. Now that more sports are televised on broadcast networks, advertisers are less willing to pay major dollars for such a fragmented market. Therefore, networks are now less willing to pay as much for sports properties. This has led to professional sports leagues jumping from network to network or even to cable to secure the most money. The leagues and networks now face an unstable relationship that never previously existed.

Professional sports and network television have grown up together over the past 60 years, but the type of relationship they currently hold is in question. "Is the relationship between mass media of communication and the world of sports one of exploitation (parasitic) or mutual benefit (symbiotic)?" (Real, 1998, p. 15). Have the profit-seeking, network-jumping efforts of professional sports influenced what the networks are willing to pay? Or have the networks forgotten what sensibility is with regard to business strategy? NBC President Dick Ebersol stated, in regard to the NFL deal that began in 1998, "the word aggressive has now been replaced by the word reckless" (Fatsis & Pope, 1998, p. B1). Many analysts agree. Morgan Stanley Dean

Witter reported that the U.S. television networks could lose more than $6 billion by 2006 (Lowry, 2003). While sports are still a good investment to attract viewers, they cannot be sustained at the multi-billion levels that the networks are currently paying.

The once symbiotic relationship has now turned parasitic. Leagues now are willing to leave network television to secure more dollars for what could be a more fragmented market. With cable and satellite providers now entering the bidding war for sports properties, advertisers are beginning to split their spending between live broadcasts and league partnerships. Bellamy (1998, p. 75) describes this change:

> The combination of what many believed was a declining broadcast industry, the rise of alternative television outlets, and the perceived need of sports entities to maximize television revenues led to a fissure in the traditional big television/big sports partnership that seemingly reached its apex in the early 1990s.

As a result of this fissure between television in sport, networks are now creating their own sports leagues to generate programming, thus providing them with all advertising revenue. Leagues are also beginning ventures into their own television channels, which could further fragment the market for advertisers. "The presence of these channels, and their cost of operation, will put pressure on leagues to convince official sponsors to increase spending directly on their media vehicles" ("In the sports business", 2004, ¶ 6). The potential impact of the NFL Network, NBA TV, and a yet unnamed MLB channel could be great. The long-standing marriage between network television and professional sport leagues is entering uncharted territory. However, a newly developed business model could be a small step toward renewing the idea of a symbiotic relationship between the networks and sports leagues.

Revenue Sharing Model

Two business models have emerged over the past 50 years. First and foremost, networks have paid a flat fee to the respective leagues ever since they began their original relationship. Until 2002, this had been the standard format maintained between the four major networks and the four major leagues. Lowry (2003) says, "The old economic model for TV sports is dated" (p. 90). In the face of increasing competition and staggering rights fees, a new, alternative business model is being explored. NBC created a revenue sharing model that could alter the fate of network sports programming. The network is attempting to create a new financial model to

provide leagues with exposure while generating affordable programming for their own network. In the past two years, NBC has signed separate revenue-sharing deals with the Arena Football League and the NHL. The basic premise is that the network use initial revenue to cover production and promotion costs. Once the network's expenses have been paid, the respective league(s) will receive a portion of revenue. Any additional revenue would be split between the network and the league (Fatsis, 2004). Figures for the NHL are not yet available because the league has not played a season under their new agreement with NBC. During the first year of the Arena League deal, NBC received the first $10 million to cover production and promotion costs. The league took home the next $3 million. Then unspecified additional revenue was split between the league and NBC (Gregory, 2003).

While the revenue sharing deals between NBC and the two separate leagues are the first between one network and one league, a similar deal ten years ago provided the basis for what NBC is attempting to do. The Baseball Network (TBN) formed a partnership between MLB, NBC, and ABC. "TBN, as a media entity, was charged with generating revenue for MLB by selling advertising time and promotional rights" (Lee & Chun, 2002, Media Revenue section, ¶ 3). MLB was to receive 88 percent of advertising and sponsorship revenue rather than a flat rights fee from the network. Thus, MLB had a financial stake with the networks. This deal came on the heels of CBS reporting a $500 million loss on their previous deal with MLB (Lee & Chun, 2002). The partnership with such a prominent league signaled what many thought would be a future model for television deals between networks and leagues. Following the baseball strike in 1994 that cost MLB the World Series and the initial part of the 1995 season, advertisers were hesitant to return to the game. Therefore, the creation of TBN did not last long. The venture lost approximately $95 million in advertising revenue and $500 million in local and national spending ("The history of film", 2005). The deal was voided following the 1995 season, and FOX, NBC, and ESPN negotiated individual five-year deals with MLB for approximately $1.41 billion combined (Lee & Chun, 2002). Despite NBC's failed attempt, The Baseball Network illustrated that some type of revenue sharing model could be possible between a broadcast network and a professional sports league.

NBC is taking a risk with their new approach. Deals with the Arena Football League and the NHL have taken NBC down a new path for network television that is untested and unproven; however, they feel like it is the right move at the right time. "The National Broadcasting

Corporation is currently leading an active critique of sports rights, designing a counter system that gives broadcasters an equity stake in a league with payments based on ratings performance" (Hutcherson, 2003, The Big Picture section, ¶ 1). For the first time in a long time, NBC is truly a partner with both leagues. However, this is not NBC's first attempt to try something new.

NBC's ill-fated creation of the XFL in 2000 was a disaster. The network worked with wrestling promoter Vince McMahon to create the football league in an attempt to challenge the NFL. Not since the United States Football League (USFL) had a rival league received such initial fanfare. Following high ratings during the first week, NBC thought they had a moneymaker. Nevertheless, rapidly decreasing television ratings brought about the demise of the league and cost NBC approximately $35 million (Burke, 2002). NBC's struggle with the XFL pushed aside the idea of creating a new sports league in the mold of the NFL, NBA, or MLB, but the financial partnership behind the deal laid the foundation for what NBC is doing with its revenue sharing model.

The alternative revenue sharing model has potential to shift the power, dependence, and relationship between the broadcast networks and professional sports leagues. To better understand the impact of the revenue sharing model on the three concepts, the following questions are posed for investigation.

1. Does the alternative revenue sharing model shift the balance of power between professional sports leagues and broadcast networks?
2. Does the alternative revenue sharing model impact the dependency of professional sports leagues and broadcast networks on each other?
3. Does the alternative revenue sharing model alter the relationship between a broadcast network and a professional sports league?
4. How may the alternative revenue sharing model impact future television contracts with professional sports leagues?

Summary

The concept of professional sports leagues packaging their rights to sell to individual broadcast networks has developed into a multi-billion dollar revenue stream for the leagues. While this idea spawned from radio, the visual benefit that television provides led to rapid

expansion for both networks and sport. The emergence of cable and satellite providers has allowed professional sports to further enhance their exposure, while it has challenged the broadcast networks for sports programming. This has resulted in a shift to Wolfe et al.'s (1998) network theory concepts of power, dependency, and relationship.

Professional sports leagues have gained the power that broadcast networks initially held, which is evident by the networks willingness to lose millions of dollars to retain the individual leagues' television rights. Both entities have grown to be dependent on each other, largely because the leagues need a television outlet to reach the largest audience possible and the networks need sports programming that provides high ratings. The relationship in the traditional rights fee model has gone from symbiotic to one-sided in favor of the sports leagues.

The alternative revenue sharing model developed between NBC and the Arena Football League seems to provide a sense of forward thinking that may allow the leagues and networks to reach a financial middle ground. The current study examines how the revenue sharing model impacts the network theory concepts of power, dependency, and relationship. Also, the impact of the revenue sharing model on future relationships between broadcast networks and professional sports leagues will determine how effective this model has been and potentially can be.

CHAPTER 3

METHODOLOGY

Rationale

This study will examine a new revenue sharing model that was developed between NBC and the Arena Football League. The revenue sharing model must be examined because it is the first of its kind and it contrasts the traditional rights fee model. Unlike the rights fee model, the new model does not provide an upfront payment from a broadcast network to a professional sports league. This study will explore the viability of the revenue sharing model relative to Wolfe et al.'s (1998) network theory concepts of power, dependency, and relationship. The impact of the revenue sharing model on future relationships between broadcast networks and professional sports leagues will also be examined.

This study was comparative because the revenue sharing model has not previously existed. The revenue sharing model was compared to the traditional rights fee model using the three network theory concepts. The only revenue sharing deal previously attempted was The Baseball Network (TBN) between ABC, NBC, and MLB. This model was not a true, revenue sharing partnership where two parties share revenue. MLB was set to receive a disproportionate amount of revenue more than the networks. Also, the TBN agreement between the three entities ended after just one full season due to the 1994 baseball strike. MLB then signed their traditional rights fee deal. Therefore, the TBN model can only be credited with giving NBC the basic idea of revenue sharing and is not a foundation to the current model being evaluated.

Since the revenue sharing model created between NBC and the Arena Football League is the first of its kind, it can only be compared to the traditional rights fee model currently in place. Using Wolfe et al.'s (1998) sports network concepts of power, dependency, and relationship as a

basis for this study, the following research questions have been designed to examine the revenue sharing model between broadcast networks and professional sports leagues.

1. Compared to the traditional rights fee model, does the alternative revenue sharing model shift the balance of power between professional sports leagues and broadcast networks?
2. Does the alternative revenue sharing model impact the dependency of professional sports leagues and broadcast networks on each other?
3. Does the alternative revenue sharing model alter the relationship between a broadcast network and a professional sports league?
4. How may the alternative revenue sharing model impact future television contracts with professional sports leagues?

Research Design

The major reason a qualitative design was selected for this study is because the analysis is largely interpretive (Creswell, 2003). Since the revenue sharing model is new, a qualitative design allows for an assessment of whether this may be an emergent model for television contracts. The qualitative approach is also necessary because the research material relies predominately on secondary sources and in-depth interviews with key participants, as well as observations (Creswell, 2003) of the alternative model. Since the information is fundamentally interpretive, a qualitative design allows more in-depth analysis of the model based upon information provided by the parties involved.

McMillan (2000) provides several strengths for a qualitative research design. First, information is obtained directly from the persons most directly involved with the data being studied. Second, "the goal in qualitative research is to understand participants from their point of view" (p. 254). Third, the qualitative design is used because it allows themes to emerge during data collection. Next, qualitative research allows for "rich descriptions that cannot be achieved by reducing pages of narration to numbers" (p. 253). Finally, a qualitative design allows the researcher to gather data first, and then inductively analyze it to open new ways of understanding the specific topic being studied.

A weakness of the qualitative design is that the results from the study will not allow for an assessment as to whether the revenue sharing model has been effective thus far and/or will

work in the future. Another limitation of the qualitative approach for this study is it examines the revenue sharing model holistically, so this study may appear broad rather than provide micro-analysis (Creswell, 2003). Finally, researcher bias can enter into the analysis because "one cannot escape the personal interpretations brought to qualitative data analysis" (Creswell, 2003, p. 182). While a qualitative research design has its limitations, it works for this study because the revenue sharing model is early in the developmental stage and is largely interpretive.

Within the qualitative research design, several strategies of inquiry exist. To best examine NBC's revenue sharing model, a case study approach was utilized to assess the alternative model. A case study is best used to study one single entity (McMillan, 2000). The one entity to be examined is the revenue sharing model. Case studies also allow for in-depth analysis based upon interviews with the participants directly involved with the revenue sharing model (McMillan, 2000). It allows for open-ended questioning of the subjects to further delve into why the revenue sharing model was chosen and to examine how well it has worked. A case study approach also allows the researcher to study the process of how the model was developed, why it was selected for this particular partnership, and how the participants implement it into their current business structure.

There are, however, some drawbacks in the case study approach for this report. The study is bounded by time (Creswell, 2003) because the alternative model has only been in place for two years and no other models can be used for comparison. There is also limited activity with other revenue sharing models being developed between broadcast networks and professional sports leagues. Also, since the interviews are open-ended, there is very little structure for data collection (Creswell, 2003). Finally, the researcher selected the interviewees, so bias can factor into the study's findings because there is no random selection of participants. However, researcher bias can be overcome with rich, narrative descriptions using the interviewees' direct responses. While personal interpretation cannot be escaped, viewing the revenue sharing model holistically helps the researcher provide a broad, panoramic view of its impact on television contracts (Creswell, 2003).

Role of the Researcher

The researcher has been directly involved with the relationship between television and sport. As a sports reporter and photographer, the researcher has reported on professional sports as a journalist for five years. The researcher has not been directly involved with contract negotiations between professional sports leagues and broadcast networks. Prior academic papers examining relationships between television and sport have been written by the researcher. The researcher has a broad understanding of the relationship between broadcast networks and professional sports leagues, how these television contracts have been constructed, and what the financial concerns are for both entities.

Data Collection

Permission to conduct research involving human subjects has been obtained from the Institutional Review Board (IRB). A Human Subjects Application was obtained through the Florida State University website. The application was completed by the researcher and mailed to the IRB on February 14, 2005. Participants in this study were initially contacted via e-mail. They were selected because of their direct involvement with the revenue sharing model. Participants were e-mailed the interview question prior to their phone interviews. Also, informed consent forms were sent via e-mail, signed by the participant and a witness, and faxed back to the researcher. All participants were interviewed in their normal work environment, but the duration of the interviews varied. A detailed description of the participants appears later in this chapter.

In-depth interviews were conducted with members of all parties involved in the revenue sharing model. Interviews were selected as the means of gathering information because very little research has been conducted (McMillan, 2000) about revenue sharing models used in television contracts between broadcast networks and professional sports leagues. Interviewees were initially contacted via e-mail. A specific interview date and time were established in advance so the interviewees would allow enough time for in-depth interviews.

The participants were telephoned in their individual work environments. Once contacted, they were informed that the interview would be recorded to ensure accurate reporting of the

information they provided and then asked to give their official working title. The interviews were taped at the television station in which the researcher works to ensure that the recording would be of high quality. The structure of the interview was based upon interview questions developed prior to the interview. However, the researcher had the ability to ask additional questions relevant to information provided by the interviewees.

Following the conclusion of the interviews, all participants were thanked for their assistance with this research project. The in-depth interviews were then transcribed within 24 hours of completion so that the information remained fresh in the researcher's mind. Once the interviews were transcribed, the researcher read through the material multiple times to better organize the information. Responses were underlined and labeled as to which research questions the answers would best help analyze. All interviews have been transcribed and studied in their entirety.

The major parties involved in the interview process were from NBC and the Arena Football League. Due to the current NHL labor situation, their partnership with NBC is not being studied because their first season together will not be completed by the conclusion of this study. The AFL completed their first two-year revenue sharing contract with NBC following the 2004 season. Both parties re-signed another two-year deal that runs through the 2006 season. The case study approach will allow in-depth analysis of the first contract's successes and shortcomings.

Primary interviews with members of both NBC and the Arena Football League explored the relationship between the two entities and their revenue sharing agreement. The interview with the network explored why they entered into such an agreement with the league. Also, why the network re-signed another deal with the league despite television ratings not reaching the stated goal of the first contract was discussed. Lastly, the development of the revenue sharing model examines how it might work in future broadcast rights negotiations for their network and the broadcast industry as a whole. The AFL's information explains how effective the model was during the first two-year contract. It also explored what network exposure provided for the league and how much it helped the league grow. Finally, the information allows for an assessment of whether this deal is better for the league compared to a potential rights fee payment from a network partner.

Secondary interviews provided the necessary insight into the revenue sharing model and examined its feasibility to work long-term in broadcast rights contracts between broadcast networks and professional sports leagues. These also explored whether other leagues have considered similar revenue sharing agreements, and how closely other networks and leagues are following this deal to study if it works between a broadcast network and a professional sports league. This interview information also allows for an evaluation of whether the revenue sharing model was a good fit for NBC and the AFL.

Participants

The interviewees were a NBC Sports executive, an AFL executive, a newspaper journalist, and a consultant for the AFL. The NBC Sports executive (network executive) is the person most responsible for the Arena Football League appearing on the network. The individual has worked at NBC since 1982 and is one of the top executives responsible for sports programming on NBC. The AFL executive (league executive) is a top-level manager in charge of broadcasting for the league. This person was one of the main negotiators for the league during contract talks with the network. The two executives provide the most intimate knowledge about the revenue sharing model that was developed.

The journalist and consultant provide an external voice about the development of the revenue sharing model and its potential impact. The journalist especially provides an unbiased view about the model. He (journalist) reports on developments between sport and media in a weekly column appearing in a national newspaper. The television and sports consultant (consultant) is a former television executive who now owns his own consulting firm. The individual served as a consultant for the AFL and was prominent in the development of the revenue sharing model. Throughout the duration of this paper, the interviewees will be referred to by their code names: network executive, league executive, journalist, and consultant.

Interview Questions

The four participants were selected for in-depth interviews because they could provide broad information pertaining to the revenue sharing model as well as information about various

topics relating to the relationship between television and sport. The interview questions were divided into sections that related to the four major research questions. The following provides the interview questions separated under the research question that helped spawn its development.

Interview Questions for Research Question #1

1. What do you think was the reason(s) that led NBC to propose the revenue sharing model?
2. Why do you think the Arena Football League was the first league to attempt this type of alternative revenue sharing model?

Comparison to rights fee model

1. What would you say are the strengths of the revenue sharing model between NBC and the Arena Football League?
2. What would you say are the weaknesses of the revenue sharing model between NBC and the Arena Football League?
3. How do you think the revenue sharing model differs from the traditional rights fee model?
4. What would you say are the similarities between the revenue sharing model and the rights fee model?

Power

1. Compared to the traditional rights fee model, how would you say the revenue sharing model may alter the balance of power between professional sport leagues and broadcast networks?
2. Who would you say gains more power from the revenue sharing model, and why?
3. What loss of power do you think the broadcast networks may experience with the revenue sharing model?
4. What loss of power do you think the professional sports leagues may experience with the revenue sharing model?
5. What type of negative impact may be felt if one side loses too much power in a revenue sharing partnership?

Interview Questions for Research Question #2

Dependency

1. In what way(s) do you think the Arena Football League is dependent on NBC in the revenue sharing model?
2. In what way(s) do you think NBC is dependent on the Arena Football League in the revenue sharing model?
3. How do you think the issue of dependency is different with the revenue sharing model compared to the traditional rights fee model?
4. In what way(s) do you think the issue of dependency is the same for the revenue sharing and the traditional rights fee model?

Interview Questions for Research Question #3

Relationship

1. How would you describe the relationship between a broadcast network and a professional sports league under the traditional rights fee model?
2. In what way(s) do you think the revenue sharing model may alter the relationship between a broadcast network and a professional sports league?

Interview Questions for Research Question #4

Future TV contracts

1. How do you think other professional sports leagues may utilize the revenue sharing model to acquire network exposure?
2. Since the Arena Football League contract was signed, what affect do you think the revenue sharing model has had on subsequent television contract negotiations with professional sports leagues?
3. What changes, if any, do you think need to be made to the revenue sharing model to make it viable for television contracts with other professional sports leagues?
4. If networks continue to explore the revenue sharing model, what impact could it have on professional sports leagues possibly moving to cable and satellite providers completely?
5. How likely do you think it is that the revenue sharing model could replace the traditional rights fee model?
6. What other models, if any, do you know about that have been explored to garner network exposure for professional sports leagues?

The interview questions were developed throughout the literature review process as well as during the selection of the research design that would best serve this study. Questions were narrowed down to provide a wealth of information that remained pertinent to each research question. However, the interview questions were predominately limited to the revenue sharing model to ensure that the study was limited to its development and impact. The number of interview questions was somewhat limited due to the time restraints for the interviews. Therefore, interview questions were designed to gather information pertaining directly to each research questions. Finally, the interview questions were approved before they were used to conduct any interviews with the participants.

Data Analysis

The interview questions provided the basis for each individual interview. However, the interviews were not limited to just those preliminary questions. Based upon respondent answers, some interviews allowed for more detailed discussion and questions that were not preplanned. The interview responses are the foundation of the data that is analyzed in chapter four. Data analysis involves making sense of the information provided by the participants, and gaining a deeper understanding of what it means for the relationship between broadcast networks and professional sports leagues. Creswell (2003) describes it as “making an interpretation of the larger meaning of the data” (p. 190). Since the information was collected using open-ended questions, there is a large amount of information that must be examined and broken down into specific topics and themes that relate to the broad picture. “Specific data elements have to be organized and then synthesized to derive the patterns and ideas that will form the basis of the conclusions” (McMillan, 2000, p. 264).

This research study follows the six-step process Creswell (2003) describes for data analysis. First, the data was organized and prepared. This step involves the transcription of the interviews as well as arranging the data to begin analyzing it in future steps. Step two involves “obtaining a general sense of the information and to reflect on its overall meaning” (p. 191). This step involves reading through the interview transcripts to get a better understanding of what themes are developing from the interviews. Making notes on the transcripts to help organize the researcher’s thoughts is also included in step two. Next, the coding process creates ideas conjured from the network theory concepts of power, dependency, and relationship. Fourth, specific themes and topics were developed to better describe the network theory concepts of power, dependency, and relationship. Next, three topics were selected to be further developed under each network theory concept. Finally, the participants’ information was interpreted to answer the research questions and better understand how the revenue sharing model impacts the concepts of power, dependency, and relationship between television and sport.

Summary

A qualitative method was selected to study the revenue sharing model being attempted by NBC and the Arena Football League. This study is comparative because this is an emergent model in the relationship between broadcast networks and professional sports leagues. The case study approach was chosen because it is best used to study one single entity (e.g. the revenue sharing model). Beyond the secondary information available about the revenue sharing model, interviews were conducted with participants who were directly involved in the development of this model or those who cover the ever-expanding world of sports programming on television. Finally, research questions were designed to analyze the network theory concepts of power, dependency, and relationship between professional sports leagues and broadcast networks. The purpose of this study was to examine how the revenue sharing model could alter the network theory concepts of power, dependency, and relationship between broadcast networks and professional sports leagues.

CHAPTER 4

RESULTS

Introduction

NBC began re-evaluating their position with sports programming in the late 1990s. There is a consensus that NBC, in essence, walked away from televising the big four major professional sports leagues if a rights fee payment was required. According to the network executive, "rights fees had far exceeded any kind of value that we could achieve from advertising generation and promotion value." The claim of hundreds of millions of dollars in losses may be overstated, but clearly NBC's position is that they wanted more control over their financial stake in sports that they televise. The network currently pays rights fees for NASCAR, the PGA Tour, and the Triple Crown, none of which are team sports. None of those sports, however, have delivered the sustained success on television that the NFL, NBA, and MLB have provided during the past few decades. NBC admits that the NFL, NBA, and MLB are great properties, but only at the right price (network executive). Currently, NBC is on an island that the other major networks (ABC, CBS, and FOX) do not appear to be heading. After walking away from the NBA following the 2001-02 season, NBC was the only broadcast network without any of the four major team sports.

The revenue sharing concept that was developed with the Arena Football League was all about timing. The AFL knew that NBC "had an aversion to losing money on sports properties" (consultant). NBC had a void, however, from February to June that was previously filled by the NBA. They were in search of programming to fill that void and the AFL was in search of a network willing to provide more exposure than one or two games per year. Discussions between the two entities began when NBC decided to no longer bid for the NBA television package. The AFL expressed a willingness to switch their season from the traditional April to August

schedule, and the two formed a partnership. “We could provide them with the same quantity of programming” (consultant). The AFL programming now sits in the same February to June time slot previously filled by the NBA.

NBC had one goal in mind with its revenue sharing model. The model was created because NBC “wanted to change the business paradigm” (network executive). That paradigm previously meant spending millions of dollars in upfront rights fees. According to the journalist, NBC has been smart in their business strategy because they now cover their production costs and “make a little money” in the process. NBC followed up their deal with the AFL by signing a similar revenue sharing deal with the NHL, predominately because the league saw that no network was willing to pay them a rights fee. NBC has accomplished their goal of not paying rights fees to professional sports leagues and changed the business paradigm, but the only paradigm that is altered is their own. Now three years removed from signing their first revenue sharing deal, no other network has stopped paying rights fees to the NFL, NBA, and MLB.

The AFL has benefited immensely from their partnership with NBC. Their willingness to attempt this new revenue sharing model was viewed as a step up for the league because it now provided them with consistent network exposure that they desired. “Things aren’t necessarily viewed here as black and white, and you don’t have to just go along with the traditional model. People think outside the box” (league executive). However, there is a contention that if NBC were paying a rights fee to the AFL that the league would have been dropped following their initial deal. The journalist feels that NBC “picked up a two-year option at the end of last season on something that normally would not be (picked up) … because they were doing so poorly in the ratings”. Nevertheless, the revenue sharing model lives on for at least another two years.

A series of consistent themes emerged during the data collection. These themes answer the research questions relating to the network theory concepts of power, dependency, relationship, as well as future developments with television contracts. These will be the predominate themes explored throughout this section.

Research Questions

Research Question #1

Compared to the traditional rights fee model, does the alternative revenue sharing model shift the balance of power between professional sports leagues and broadcast networks?

According to the journalist, the AFL does not "have any power" in their revenue sharing relationship with NBC. No other participant felt that strongly. According to the league executive and the consultant, the models in place between broadcast networks and professional sports leagues cannot be viewed independently. The league executive says the models cannot be viewed in a vacuum because there are other factors that are influenced. The consultant admits that different business models cannot be viewed in isolation because "they all take place in a very complex market. It's supply and demand."

While sports programming has always been in high demand, the supply that has been available and most attractive to broadcast networks has been limited to the big four professional sports leagues in the U.S. (NFL, NBA, MLB, and to a lesser extent the NHL). This limited supply is what has driven traditional rights fee payments into the multi-billion dollar levels. The league executive explains it is "people making calculations on how they think different properties will or won't work." In contrast, the revenue sharing model is attempting to reign in some of the money that is filtered directly to the leagues. While the network claims not to gain power with the revenue sharing model, the network executive states "clearly it gives NBC a way to enter into this business without risking millions of millions of dollars in premiums and premium rights fees." Thus, the revenue sharing model allows networks to hedge their bets with the cost of sports programming. The dominant themes that emerged under power are perpetuity, risk, and marketplace.

<u>Perpetuity</u>

The major difference between the traditional rights fee model and the revenue sharing model is that there is no longer a direct payment upfront from a network to a sports league. While this is a major shift in terms of the financial commitment from the network, the revenue sharing model also gives the network a perpetual option. The consultant explains the major difference with the revenue sharing contract "is that part of the deal that NBC made with the

Arena Leagues calls for NBC to have… a perpetual option." With the AFL contract, the perpetual option allows NBC to retain the broadcast rights to the AFL games as long as the network desires to continue the contract (e.g., see Table 1). This perpetual option increases the power of the broadcast network because they determine when the contract could end. The network executive admits, "we've got the league in a place where we have their exclusive television rights." The league cannot sign another television deal without the blessing of the network.

Compared to the traditional rights fee model, the perpetual option gives the network complete control in the revenue sharing model. In the traditional rights fee model, networks are contracted to leagues for a certain length of time. After that contract expires, the league can then shop around for the highest bidder. The league executive concedes the networks "don't like having the opportunity to work with a property, build it up, and then eventually get outbid for the property and walk away with nothing." So now the network not only receives inexpensive programming, but it is not at risk of losing a sports property unless it decides to not pick up the option following the expiration of the contract (e.g., see Table 1). The consultant worked on behalf of the AFL during their negotiation with NBC, and he knows, "NBC negotiated for an option to continue with the Arena League as long as they choose to exercise those options."

Table 1 – Perpetuity

Interviewee	Response
Network executive	"Because of the way the deal is written, we are not in a position where have to worry about losing the Arena Football League deal." "If they want to expand into cable or into other media, they can do that but they need our blessing and our permission to do that."
Consultant	"We at the Arena League are committed to staying with NBC as long as they want us. In a normal rights fee deal, you don't have that."
League executive	"We view it as they have rights and perpetuity with us… The contract is for another two years, but it may be long after I'm gone."

Risk

Another major shift in balance of power involves risk. Every participant explained that a benefit for networks in the revenue sharing model is a decreased amount of risk. In the traditional rights fee model, the network executive says, “you’re a vendor. … You’re out there taking all the risk. It’s all one-sided.” When explaining the revenue sharing deal, he added, “our feeling was that we need someone to share the risk, as well as the upside.” The journalist goes further, stating “there’s no jeopardy for NBC.” The league executive finds more middle ground, adding the revenue sharing model “relieves them (the network) of some of the risk that they would otherwise have.” Since advertising revenue is the sole source of income for networks televising sports, not having an upfront payment to a league to receive programming is a win-win situation (e.g., see Table 2). As long as the network is able to recoup the production costs, there is no expense to the network.

While the network has reduced risk in the revenue sharing model, the league has increased risk because they do not receive guaranteed money as they would in the traditional rights fee model (e.g., see Table 2). The league would prefer high-cost productions that deliver a more appealing product to viewers, but they must now be concerned with the production expense because until the network recovers their production costs, the league receives no advertising revenue. “Clearly the league is concerned about production costs, where with the NFL they don’t care how much their partners are spending on production. … They’ve gotten their guaranteed payday” (network executive). The league executive adds, “I wouldn’t be surprised if networks wouldn’t like to see more of these models because it gives them a little more foot in the door.” This is largely because the revenue sharing model forces the leagues to realize that unless the network recovers their money, the league will be left with nothing but network exposure. The financial uncertainty is the biggest risk for the league, thus swaying power in favor of the network.

Table 2 – Risk

Interviewee	Response
Journalist	"Because networks in recent years … have suffered losses on big contracts … they're going to be much more wary of taking on these big contracts."
Consultant	"Normally the league generates less dollars from a revenue share than it would from a rights fee." "It's a comfortable one for NBC because they're not risking any significant rights fees. The problem with the concept is it doesn't always work."

Marketplace

The marketplace is the final deciding factor in the balance of power between networks and leagues. If a traditional rights fee is not available to a league, then the revenue sharing model is the second best option. "The big question becomes that the marketplace has grown so fast and so quickly" (network executive). NBC did not like the direction the market was heading, so they created the revenue sharing model. If none of the networks pay a rights fee, then a league must settle for that second best option (e.g., see Table 3). Thus, the networks regain more power when television contracts are negotiated. "A lot depends on the competitive environment, scheduling opportunities, the economy of the country, the demographics, and the economy of the sport you're talking about. There are a lot of variables here" (consultant).

All participants agree that the NFL is not headed toward the revenue sharing model anytime soon (e.g., see Table 3). The league executive even admits, "if I'm the NFL, I wouldn't want to go to this model because they're getting guaranteed billions of dollars and exposure from these guys. So there's no reason for them to do that." While MLB is still receiving a rights fee payment from FOX, the NBA has joined the NHL in not receiving a rights fee from any of the four broadcast networks. ESPN paid the entire rights fee for the NBA, but they do a time buy on ABC. That means that ESPN buys time on ABC then the network televises the games. "I know there are a lot of leagues that hate it. The NBA is desperately afraid of it" (network executive). The revenue sharing option now could make leagues wary of demanding too much money in a traditional rights fee with the fear that networks will not see enough value to justify paying one (e.g., see Table 3).

Table 3 – Marketplace

Interviewee	Response
Network executive	"The thing with the NFL is they've been able to get people to spend enormous money on their properties because they deliver. They deliver consistently high ratings."
Consultant	"It is really what are the negotiation strengths and weaknesses of the two entities, and what is the marketplace reaction to all of this."
League executive	"It depends on the specific property, the circumstances, the market, and where additional dollars may be."
Journalist	"You get a rights fee if you've got a sport that a network deems worthy of getting a rights fee that they'd be willing to pay for it."

Simply stated, the revenue sharing model clearly shifts the balance of power to the broadcast networks. "From the outside, it looks different than what it is on the inside. … Revenue sharing deals are only good for the networks. The only reason that they're any good for leagues is because it gets them on national TV" (journalist). The revenue sharing model could become the only avenue for leagues to get that coveted exposure on network television. "The problem is that if the rights fee model is not available, what's your next best choice? What's your next best option" (consultant)? If the television market shows an unwillingness to pay large rights fees, then the leagues will lose more power.

Research Question #2

Does the alternative revenue sharing model impact the dependency of professional sports leagues and broadcast networks on each other?

Sports leagues have depended on broadcast networks to provide them the national outlet they covet. Networks depend on the leagues to provide them highly rated programming that cannot be seen anywhere else. That is how FOX became the fourth broadcast network when

they signed the NFL in 1993. Through association with the league, “the NFL in effect made FOX a major network” (journalist). All the participants emphasize the dependence of leagues and networks upon each other, whether leagues receive a rights fee or are involved in a revenue sharing deal. However, the revenue sharing model has impacted how NBC and the AFL have worked together compared to if they had a traditional rights fee deal. “They would still work closely with us, I think, to help us deliver ratings. But it would be your traditional model where you’re renting the programming. I didn’t want to rent programming anymore” (network executive). Thus the major themes to emerge with dependency are mutual incentives, obligation, and growth.

Mutual Incentives

The revenue sharing model drives the leagues and networks to ensure that each is successful. The league wants to help ratings grow because that increases the amount of advertising dollars, thus delivering them more money. The network wants to ensure steady promotion of the league (e.g., see Table 4) because it increases fan awareness, which leads to larger viewership. “We are mutually incentivized to help the other because when one is successful it helps the other” (network executive). The consultant echoes that idea. “It is mutually beneficial to share revenues and have advertisers buy time on the network as well as become official sponsors of the league.” Cross promotion between the network and the league becomes much more important.

This has meant that leagues and networks must break down some barriers that have existed in the past. Leagues have altered rules and even moved when their seasons take place. Networks have altered when games would be televised to maximize ratings potential (e.g., see Table 4). “We take to heart some of their thoughts and absolutely include that in the way we make decisions” (league executive). However, that does not mean that the league bases all its decisions on what the network wants and vice versa. The network executive says, “I think they’d love to see five or six games being telecast every Sunday. We’re not doing that many because until the ratings grow the money’s not there to support that kind of production.” While they both want each other to succeed, final decisions still come down to ratings and advertising dollars, much the same way as in the traditional rights fee model.

Table 4 – Mutual Incentives

Interviewee	Response
Network executive	"We care a lot about attendance. We care a lot about their sponsorship and their licensing and their marketing and their fantasy business, etc. They care an awful lot about our ratings and our advertising abilities."
League executive	"We rely on them for something similar, putting us on air in a consistent time frame, being a strong partner to help us grow and achieve some of our objectives, whether they relate to sponsorship, other media opportunities, general exposure, attendance."
Consultant	"The smart commissioners and the smart leagues work very hard, even in rights fee deals, to help the network generate incremental dollars."

Obligation

Shifting to a revenue sharing model does not increase the network's dependence on sports leagues as it relates to the product they deliver to viewers. As the network executive states, "I'm responsible to several different masters … to deliver profitable, successfully, highly-rated programming." While network affiliates, advertisers, parent company, and stockholders were included in the list of masters, sports leagues were not mentioned at all. The journalist refers to ABC's potential end of their 35-year relationship with the NFL and *Monday Night Football*. Because of the traditional rights fee model, he says, ABC "may just have to walk away rather than go into a contract they know is going to be a money-loser from the start. And that's where these revenue sharing deals come in." Therefore, broadcast networks' dependence on, and obligation to, professional sports leagues have decreased (e.g., see Table 5).

For the leagues, it depends on what their objectives are. If the revenue sharing model provides the potential to make more money, then a league will be more willing to attempt the new model. While the AFL stepped up to the revenue sharing model, a league such as the NHL has to make some drastic changes. After having their rights fee dollars cut in half and losing some games on network television by signing a revenue sharing deal, "it kind of increases the obligation on the part of the league to help generate advertiser and sponsor dollars" (consultant).

Whether it means switching the season schedule or changing rules, leagues depend more on broadcast networks with the revenue sharing model to help their league(e.g., see Table 5). "There's a lot of different ways that having a revenue sharing partnership works that gives them an incentive to work with us" (network executive). In the end, the league has an obligation to provide the network with high-quality programming, while the network is obligated to properly position the league to maximize its revenue-generating potential.

Table 5 – Obligation

Interviewee	Response
Network executive	"Basically we had a good first two years. … I didn't want to commit to four years, if we weren't going to see continued growth in the process. There's every reason to believe that it will continue to grow and get stronger."
League executive	"We want them to succeed in our broadcasts because obviously that helps our sport."
Consultant	"It's relative to what your other options and choices are. For the networks, revenue share means that they can get attractive programming at relatively low risk."

Growth

The broadcast networks' dependence on sports leagues does not vanish in the revenue sharing model. Following the loss of the NBA, NBC needed a sports property to fill that void (e.g., see Table 6). "I think they depend on us in the form of strong, consistent programming within an important time frame for them" (league executive). He then added, "they know that as we grow, they have the opportunity to grow. So the AFL is kind of in their mind as they make decisions as well." NBC is depending on the AFL and the NHL to help the revenue sharing model blossom. If other leagues witness success for the AFL and the NHL, they may attempt this model.

That is why the AFL jumped at the opportunity to create the revenue sharing model. The growth of the league has generated more sponsors, increased attendance, and an exponential rise in the number of television viewers (e.g., see Table 6). "It's hard to quantify, but the league has certainly benefited substantially from its network exposure" (consultant). The network executive reiterates the dependency of the league. "We are the lion's share of their means of getting the word out there on this property." Thus the dependency of the league on the network is dramatically affected in the revenue sharing model.

Table 6 – Growth

Interviewee	Response
Network executive	"We're very happy with it. We have a great relationship with the Arena League, and we think it's worked well for them. We know it's worked well for us. Their property is getting more exposure than they ever could have imagined."
League executive	"We essentially replaced the NBA programming that they had previously … So I think they're dependent on us for that as well as helping them maintain, grow their position within the network sport industry."
Consultant	"It's getting far more exposure than it did under its previous deal with ESPN and ABC. … The league has benefited exceptionally well from the NBC deal."
Journalist	"The weakness is this is not a popular sport for network TV. There's only so much football." "It really hasn't worked out that well."

Sports leagues and networks that work well together will always be dependent upon each other, no matter what type of agreement they have in place. The consultant admits even "in rights fee deals, the leagues that are sensitive to television work hard to make them work for the network. If what you're saying is, when you have a rights fee deal, does the league simply not

care how the network is selling and not provide assistance, that is not the case." Leagues and networks must be co-dependent to ensure that each party is receiving its fair share. However, the revenue sharing model emphasizes this concept much more on the surface because neither side benefits without the direct assistance and success of the other.

Research Question #3

Does the alternative revenue sharing model alter the relationship between a broadcast network and a professional sports league?

While professional sports leagues and broadcast networks grew up together, their relationship has grown tense over the past decade due to the skyrocketing rights fees. Leagues have attempted to generate as much money as possible and have succeeded. The networks are now attempting to reign in the dollars by limiting the amount of games that they televise or by allowing some sports properties to move to cable. So the question becomes, will the two entities ever go their separate ways? The network executive doesn't think so. "I think they need each other. I think there's a strong relationship with all these different groups, and they're going to make sure they work together." The revenue sharing model helps guide the leagues and networks to work out their differences. The major themes surrounding their relationship are partnership, security, and expansion.

Partnership

One key word emerged from all the participants. Leagues and networks are "partners" in the revenue sharing model. "It makes us more 50-50 partners" (network executive). "It's a partnership" (consultant). "It is set up as a partnership" (league executive). "They call it where you are a television partner of the so and so sport" (journalist). Leagues and networks must cooperate with each other to maximize their individual benefits in the revenue sharing model (e.g. see Table 7). The partnership idea affords both parties joint rights to share in any success due to the revenue sharing model. Much like NBC did with the NBA, the AFL and the network are attempting to brand their product under the slogan "The AFL on NBC." However, it takes more than just a catchy slogan to be true partners (e.g. see Table 7).

Both parties involved in a revenue sharing deal have a high level of responsibility to help the other succeed. The network executive knows that "the league is obviously very cognizant

about what television is doing." A partnership also forces both sides to work out any differences because their success depends on them being open and honest with each other about what may and may not work in the final delivery of the product. "They don't sit on our board, but we do consult with them on a lot of things" (league executive). Sharing ideas on how to make the product better for consumers would be beneficial to the league and network.

Table 7 – Partnership

Interviewee	Response
League executive	"I think it's more in a partnership mold where we work well together to achieve our respective goals and objectives."
Consultant	"You might say a revenue share does require a closer degree of partnership than a rights fee, but I don't want to mislead you. … It isn't quite as black and white as you might think."
Journalist	"They were partners. Business partners. There's some benefit that comes from that."

Security

The revenue sharing model gives the network more security than the league receives. From a financial standpoint, it helps the network avoid major losses (e.g., see Table 8). The network executive says that NBC will not "throw a lot of money around. And I think that's a big issue that people are understanding that if you want to come here it's got to be a good business for us." The consultant adds "the network has a situation where they can secure broadcast rights without having to commit, or guarantee, a specific rights fee." There is no guarantee of financial gains unless the network properly promotes the sport to maximize its revenue generating potential.

The revenue sharing model does not mean that the league receives no financial security. New sponsors have emerged because of the network exposure, thus generating revenue that previously did not exist. However, "in this, the finances are not as much of a certainty. They

could be higher or lower based on performance" (league executive). That is why it is important for the network to ensure that they place the sport in a beneficial time slot. The concept of being partners provides each entity the notion that the other is making decisions in the best interests of both parties. When NBC extended the contract with the AFL, it was a good indicator that the revenue sharing model had accomplished its initial goals. "It's a sign that they believe in us because if they didn't, they probably would have just walked away from it" (league executive).

Table 8 – Security

Interviewee	Response
Network executive	"One of the obvious concerns is that the league … still doesn't have the benefit of a huge cash infusion from a rights holder to cover a lot of expenses that these other leagues have."
Consultant	"Usually the revenue share is negotiated because the network is very uncertain as to the level of revenue that it can generate."
Journalist	"Ever since the USFL, way back in the mid 80s, there's been no evidence that America is clamoring for football in the spring and early summer." "They're the ones that have more or less concentrated, in the meantime, on these revenue sharing deals. And now you don't hear much talk about NBC."

Expansion

The AFL has already received positive reinforcement from their revenue sharing partnership with NBC (e.g., see Table 9). Thanks largely to the network exposure they receive through NBC the league signed a separate television deal with Fox Sports Net. The regional deal landed 107 games on television, which is more than a 100 percent increase in the amount of AFL games that were televised in previous years. The AFL now has two television homes where fans know they can watch weekly AFL games on consistent channels. NBC is happy with the

expansion to another channel. “We’ve never stood in their way” (network executive). New markets mean potential advertisers, which could lead to more money.

As for the network, they have already expanded the revenue sharing model to the NHL. Future expansion for the network into other sports leagues could soon follow. Perceived success of the AFL’s broadcast network contract could have a major impact on those future developments. Similar contracts for NBC would allow for more inexpensive programming, and a strong relationship with the AFL and NHL would look good for future league partners.

Table 9 – Expansion

Interviewee	Response
League executive	“I think the increase in our viewership is exponentially larger than the 31 percent increase in attendance from 2001 to the present.”
Network executive	“We might say no to ABC doing a game of the week if we’re doing a game of the week, obviously.”
Consultant	“The prestige of the league, the stature of the league, the exposure of the league has increased dramatically since the NBC deal was put in place.

NBC hopes this is a sign of further expansion that could help their relationship with the AFL develop. “This model is a little different because part of it relates to the on-air product and part of it relates to the overall product” (league executive). In the revenue sharing model, the network holds the key. They can maintain the relationship as long as they desire thanks to the perpetual option. If the network helps the sport grow and succeed, they can receive additional finances that are not available in the traditional rights fee model.

Research Question #4

How may the alternative revenue sharing model impact future television contracts with professional sports leagues?

The original revenue sharing model between NBC and the AFL has already spawned other deals. "NBC admitted it used the template of the Arena deal to negotiate the deal with the National Hockey League" (consultant). The network hopes this is a sign of future developments. "I think it has made people realize that we're prepared to do business differently" (network executive). But different does not necessarily mean better. Some sports leagues may not view broadcast networks and the revenue sharing model as their best option. "I think they'll look at it as, if they're not getting network exposure, as an avenue to get network exposure if they think that's what they need. Not everybody thinks that's what they need" (league executive). That mindset is a result of new television outlets emerging every year, such as cable and satellite providers as well as league-owned channels. Thus the major themes surrounding future deals are threats, dual revenue, and leverage.

<u>Threats</u>

The rapid growth of cable television has posed a major threat to broadcast networks trying to keep professional sports leagues on free television. "For many years cable was really an unattractive option. It was an option only if you couldn't get on the networks. That seems to have changed" (consultant). ESPN offering more money to the NBA than the broadcast networks is just one glaring example of cable channels making headway with professional sports leagues (e.g., see Table 10). The network executive admits, "the paradigm has shifted dramatically. We are no longer the big guys in the game." This admission explains why networks are exploring the revenue sharing model as a business model for them to remain successful while extending their long-standing relationship with professional sports leagues.

None of the participants, however, envisions the day that networks no longer televise professional sports. "You're always going to have sports on broadcast network television" (journalist). But for the majority of professional sports leagues to remain on broadcast networks, a rights fee will be required. The revenue sharing model may work for some professional sports leagues outside of the NFL, NBA, and MLB, but more likely if the cable and satellite providers are unable to pay a rights fee. It does not seem likely that the revenue sharing model will have a

significant impact on future television contracts. “I think what we’re finding is these cable/satellite delivery systems are now reasonably equal competitors to the broadcasters in terms of major sports properties” (consultant).

The professional sports leagues have successfully utilized these new competitors to drive the demand for sports programming, thus limiting the potential effectiveness of the revenue sharing model for the broadcast networks. However, the revenue sharing model could be explored by the cable and satellite providers. Even if the revenue sharing model is not the predominate model used for professional sports leagues, it could be used as a supplement to an overall television package. For example, ESPN could sign a rights fee agreement with MLB, but the league could sign a secondary revenue sharing contract for their minor league teams to appear on ESPN or one of its subsidiary channels. Nevertheless, the revenue sharing model is another option, but a second best option to a rights fee.

Table 10 – Threats

Interviewee	Response
Consultant	“The shift has been happening for a while. It’s not universal. NASCAR went from cable to broadcast. The NBA went from broadcast to cable. You kind of go where the money is.” “Broadcasters are still bidding against each other, and cable is bidding against cable. But there have been some situations where cable has outbid the broadcasters.”
Network executive	“The NBA chose to come off network television, for all intents and purposes, and cast their lot with cable. Because their feeling what is that it was more important to get the association with ESPN and that audiences than it was to reach a broad, casual fan and take all the promotions that they would get from a network.”
League executive	“That’s kind of what you saw happen with NBC and the NBA. The NBA basically went over to ESPN and ESPN was able to pay more money for the package.”

Dual Revenue

Cable's rapid rise to prominence has significantly affected the relationship between professional sports leagues and broadcast networks. ESPN has led cable's surge into professional sports because they have a dual revenue stream that is not available to the networks. This is why the revenue sharing model may not be an attractive option for leagues that can receive a rights fee from ESPN or another cable channel. The channels generate the same traditional advertising revenue as broadcast networks, but ESPN receives subscriber fees from the individual cable providers that deliver the channel to the customers. "At $3 a month times 90 million homes, that's $270 million a month. Times 12 (months), that's $3.2 billion that ESPN collects before they sell any advertising" (network executive). Those are dollars that broadcast networks will never see because they are free channels.

That is the competitive advantage that cable channels have over broadcast networks. Since they are generating so much more additional revenue thanks to subscriber fees, they are able to offer sports leagues traditional rights fees because they are not risking as much financially. However, if cable's willingness to pay rights fees decreased, then the cable providers could potentially gain even more revenue. If a cable channel negotiated a revenue sharing deal with a sports league, then the cable provider would no longer pay upfront money to the league and continue receiving subscriber fees advertising revenue. The financial increases for cable could be even greater with the revenue sharing model.

Currently, however, there are no indications that cable is headed in the direction of the revenue sharing model. The NBA did not necessarily leave the broadcast networks because they were unwilling to pay a rights fee, but the league secured a larger rights fee through ESPN because they can afford it thanks to dual revenue. "That's what has made ESPN into the power it is. ESPN is clearly the most profitable network in all of broadcasting" (journalist). If ESPN is the most profitable network even with rights fees, then the dual revenue stream is what could make the revenue sharing model unattractive to professional sports leagues because cable still has the financial means to pay upfront. Nevertheless, other cable channels could still explore the revenue sharing model as a way to secure professional sports without stretching their budgets.

Table 11 – Dual Revenue

Interviewee	Response
League executive	"The cable systems, satellite, the ESPN's of the world, they've got dual sources of income. It's the advertising revenue and the subscriber fees that they pick up. … that creates an issue for the networks."
Journalist	"That's why NBC had to back down on the NBA, and ESPN was ready to come in. Plus then you bring ABC in on network telecasts, but in effect the rights fee is coming from ESPN."

Leverage

While cable channels have leverage against the broadcast networks thanks to the dual revenue stream, the professional sports leagues are now attempting to gain more leverage in their overall relationship with television. League-owned channels afford the leagues the option of televising games on their own channel. The NBA already carries games on NBA TV, which is a subscription-based channel. However, the NFL is the first league that could leverage their channel against potential bidders for the newly created Thursday/Saturday television package (e.g., see Table 12). While the participants agree that league-owned channels will mostly serve as "a supplement" (journalist) or "shoulder programming" (network executive) to television contracts with broadcast networks and cable, the NFL has the power to legitimately leverage the channel. "I do think that you're going to see the NFL Network used as a club in order to get their cable rights fees higher" (network executive).

While the NFL has the financial stability to potentially produce their own broadcasts, leagues such as the NBA and MLB, both with significantly more games each season than the NFL, could use the revenue sharing model as a way to share the cost of producing games for their respective channels (e.g., see Table 12). Because the league may not want to incur the total expense of production costs for live broadcasts, they could partner with production companies owned by the broadcast networks (e.g., see Table 12). The games would be televised on the league-owned channel, but advertising revenue could be shared by the league and the production company. Therefore, the league would not have the initial startup costs of purchasing the

equipment necessary for live broadcasts, and the production companies would secure additional revenue that was otherwise not available without the revenue sharing agreement.

If the NFL decides to televise their own games, it is not a sign that the league is attempting to take complete control over live broadcasts of all their games. "One of the reasons they've created the NFL channel is to have an option, (and) not be totally dependent on broadcasters. I don't see any of the major leagues moving the totality of their broadcasts to their own channels because it does require the league to take all the risk" (consultant). And minimal risk is one of the predominate advantages the NFL has over the broadcast networks that pay them billions of dollars annually. While league-owned channels are another way the leagues can leverage their product for further financial growth, they may want to explore the revenue sharing model as a way to grow their own channel while sharing revenue with someone else.

Table 12 – Leverage

Interviewee	Response
Network executive	"I think eventually you may see the NFL Network used as a carrier of a few games to help drive distribution of their network."
Journalist	"Major League Baseball is coming up with a baseball channel, but there's already so many baseball games on here already. … And there's so many NBA games on that there's a reluctance to pay extra for those games."
Consultant	"I don't see this as an either/or situation. I see the leagues doing this as a supplement to their normal broadcast strategy. But I think they will continue to be largely dependent on rights fees in coming years. I don't see them taking on the enormous risk if producing and selling their own product to the exclusion of broadcast and cable revenue."

The other participants agree that the leagues do not want to risk losing the guaranteed payments from broadcast networks or cable and satellite providers by taking the production costs

of live programming in-house. Much like the leagues using their own channels to gain leverage, the networks attempt to do the same with the revenue sharing model. However, the willingness of cable and satellite providers to spend money on sports programming limits the networks' leverage. The future relationship between broadcast networks and professional sports leagues will continue to develop, and the revenue sharing model provides them an alternative option to explore new relationships.

CHAPTER 5

DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

Discussion

Analysis of the interview responses indicates that the primary concept from network theory is power. The concept of power is what both the leagues and the networks are ultimately striving to gain, both with each other and sponsors. While dependency and relationship are important concepts in network theory, it seems that they should be viewed more as subsidiaries of power. This is because the findings show that NBC created the revenue sharing model because they no longer wanted to lose money on sports programming, and the only way to avoid this perceived problem was to create a model that gave the network more control. The revenue sharing model accomplished this, at least in the relationship between NBC and the AFL, due to the perpetual option. Whether the network is dependent upon sports programming or not, the network simply wanted to regain power they had lost in previous relationships with professional sports leagues.

The results of the study also illustrate the difficulty of differentiating between dependency and relationship. The themes that emerged relative to dependency and relationship could be applied to either concept because the dependency that a league has on a network and vise versa impacts the relationship that the two sides have with each other. The issue of power, however, directly impacts dependency and relationship. When one side has more power, the side with less power becomes more dependent. Therefore, the most notable finding of this study relates to the balance of power between professional sports leagues and broadcast networks in the revenue sharing model.

Interpretations Related to the Research Questions

The revenue sharing model significantly impacts the Wolfe et al. (1998) network theory concepts of power, dependency, and relationship within the relationship between broadcast networks and professional sports leagues. The results pertaining to research question #1 illustrate that the revenue sharing model has the greatest, and most prevalent, on the power concept. The findings reflect a shift in balance of power toward the broadcast networks because the revenue sharing model removes any initial rights fee payment to the league, thus decreasing the amount of risk the network incurs to secure broadcast rights for professional sports leagues. Whereas the rights fee in the traditional model gives the league the power because they have their guaranteed upfront payment, and thus do not necessarily have to help the network generate revenue.

The perpetual option negotiated by the broadcast network is another example of the shift in balance of power. Compared to the traditional rights fee model where leagues can switch to a different network when the contract expires, the perpetual option that NBC has in the AFL contract affords the network peace of mind knowing that the league cannot move to another network or even a cable channel without first receiving the blessing of the network. This option also binds the league to the network as long as the network wishes to retain the broadcast rights. While the network would be narrow minded to not allow a sports league to expand and grow, the perpetual option gives them the dominant bargaining power with the respective league. While the perpetual option would probably not be in place with any of the big four professional sports leagues, it is an option that other sports leagues could explore if they desire to be on network television. The perpetual option in any subsequent deals for NBC will afford them the ultimate power in those relationships as well.

Research questions #2 and #3 could be combined in future studies because dependency and relationship are so closely related. The two concepts could even be examined as subsets of the concept of power. This should occur because the balance of power ultimately influences how dependent a league or a network could be on each other, and that impact could affect the overall relationship between the two parties. Nevertheless, the findings of this study indicate that professional sports leagues and broadcast networks are more dependent upon each other in the revenue sharing model compared to the traditional rights fee model. This is largely due to both

sides in the revenue sharing model needing to help generate more advertising revenue because without the additional revenue, neither side can maximize their potential earnings. Within a rights fee model, the network is strictly reliant on the sale of advertising, whereas the league has already maximized their potential earnings from the broadcast network and can focus on generating additional revenue for itself through sponsorship. Therefore, leagues and networks in a revenue sharing model must work together to generate maximum advertising revenue.

Since both sides are more dependent upon each other in the revenue sharing model, the relationship must be more coexistent rather than independent. The network must be cognizant of when and where to schedule games for broadcast to ensure the maximum audience they are attempting to reach. They must also be willing to properly promote the league to ensure that advertisers see that the network values the sports property, thus increasing the number of advertisers that provide the revenue that drives this model. While the league relies on the network to properly promote the sport, the league also develops its own sponsors. The league must then guide those sponsors to the network broadcasts to ensure that the network is reaching advertisers who believe in the programming. This need to ensure that both sides are working toward common goals strengthens the overall relationship in the revenue sharing model.

These findings do not suggest, however, that the dependency and relationship concepts are irrelevant in the traditional rights fee model. This study finds that these concepts are strengthened in the revenue sharing model compared to the traditional rights fee model. Within the rights fee model, the dependency issues are different. The network must still properly promote and position the league broadcasts, but this is simply to generate maximum advertising revenue because that is what funnels directly to the network. The leagues still look for new sponsors; however, they do not necessarily have to drive them to the broadcast network because they are not reliant on the advertising revenue. Just because the league uses their product to generate new sponsors, they also must provide a strong product to the network because without that the ratings will suffer and the relationship between the two parties could suffer. Despite working independently to generate the majority of their individual revenue, the leagues and networks ensure the best product and the best outlet, respectively, so the relationship remains strong because each side is maximizing their potential rewards.

Research question #4 was posed to examine the impact of the revenue sharing model on future contracts; however, the findings uncover several external avenues that exist for

professional sports leagues to use to their advantage. The revenue sharing model has had some initial success influencing other leagues (e.g., the NHL) to attempt this model. Leagues similar in stature to the AFL could use the revenue sharing model as a step up to a new revenue stream. The biggest concern for any league entering into the revenue sharing agreement may be if the network requires a perpetual option because it could limit some potential growth for the respective league. However, if a league desires network exposure enough, they may be willing to risk that loss of power to grow with a potential lifelong television partner. Also, if a league is wary of reaching network status too quickly, then they could explore the idea of a revenue sharing deal with a cable channel that may not require a perpetual option. This would allow the league to grow while retaining the option to generate more revenue in the future with a new television partner. Cable channels looking to make a name in the sports broadcasting industry could use the revenue sharing model to partner with sports leagues looking to grow, without risking a major rights fee payment. The success or failure of the AFL deal, and in the future the NHL deal, with NBC will be closely watched by other broadcast networks and cable providers to determine if it could be an alternative business model with professional sports leagues.

So the big questions remains: if broadcast networks ever stop paying rights fees to these leagues, could the revenue sharing model be the long-term replacement of the traditional rights fee model? The findings suggest, at times, that it could happen if the marketplace moves in that direction. The biggest determining factor could be do the networks generate enough value for the amount of money they spend on sports programming? If the answer to this question is no, then the revenue sharing model could be the new model for the association between broadcast networks and professional sports leagues. However, the findings do not suggest that this move will happen because of the high demand placed upon premier professional sports, which are in limited supply.

Interpretations Related to Emerging Threats

While the revenue sharing model is an alternative way of thinking, especially for the broadcast networks, professional sports leagues as well as their individual teams are exploring new ventures that could further impact the network theory concepts of power, dependency, and relationship. Two major developments are opposing the networks, and even their cable brethren,

in any quest to remain a predominant player in sports broadcasting. Regional sports networks developed by the teams themselves are one potential roadblock. The other is new, league-owned networks. "The leagues, for their part, are examining a world with less broadcast TV" (Fatsis, 2003, ¶ 11). Both could serve as catalysts in any future broadcast rights negotiations between leagues and their potential television partners.

First, individual teams have begun an onslaught of regional sports networks that not only provide them with a consistent outlet, but also provide them direct financial rewards. However, teams have not done this without fair warning. "The path to introducing a regional sports network is littered with many failed efforts" (Freeman, 2003, p. 12). However, teams in MLB and the NBA have started making headway in this battle for more television exposure. The powerful New York Yankees launched the successful YES Network, but even smaller market clubs such as the Kansas City Royals and Minnesota Twins have ventured into the idea of launching their own regional networks (Freeman, 2003). "The ascendancy of TV sports has emboldened more team owners to take a flier and create regional sports nets of their own" (Dempsey, 2004, p. 18).

Apparently the potential reward has been well worth any inherent risk with regard to this new idea. Some teams have even partnered with other teams in the same city to venture into the regional sports network genre. In Houston, the NBA's Rockets and MLB's Astros pooled their rights to keep Fox Sports Net from swaying one of the teams from their planned regional sports network (Bernstein, 2004a). Meanwhile, Comcast Corp. launched their own regional sports network in Chicago, corralling broadcast rights for the NBA's Bulls, MLB's Cubs and White Sox, and the NHL's Blackhawks from Fox Sport Net for local broadcast rights (Dempsey, 2004). "There appears to be some recognition that in a competitive marketplace … the value of local team rights deals has gone up" (Bernstein, 2004a, p. 4). And teams are attempting to cash in on this perceived value.

While these regional sports networks challenge local television rights, the national packages are viewing league-owned channels as a threat. The NBA was the first league to create its own broadcast channel, originally through its league website (Bianco, 1999). The league has since spawned the channel into an outlet to broadcast live games. During the 2003-04 basketball season the NBA aired 95 games on NBA TV despite having ABC, ESPN, and TNT as their broadcast partners (Thomaselli, 2004). Bianco (1999) posed the question, "is the Internet (which

is now NBA TV) a supplement to TV or its replacement as the primary link to the vast audience for sports programming?" (p. 241). This question has led other leagues to create their own channels, potentially as an answer to the question.

The powerful NFL was next to attempt this concept, launching its own channel in 2004. While the newly created NFL Network does not currently air live game broadcasts, could it in the future? With the newly signed deals with FOX and CBS through 2011, the opportunity is limited. However, if ESPN, which currently holds rights to Sunday night broadcasts, wavers when their current deal ends following the 2005 season, "the game plan may go something like this: Get its channel carried on a big chunk of the nation's projected 90 million cable and satellite homes by 2005. If ESPN won't pay the NFL's price, Sunday night games would go to NFL Network" (Grover, 2003, p. 86). The NFL Network could also televise the newly created Thursday or Saturday package, potentially losing the estimated $200 million rights fee but gaining major dollars by selling its own advertising (Bernstein, 2004b). "A package of one or two games a week could bring revenue straight to league coffers, and owners' pockets" (Curcio, 2004, ¶ 22). MLB has plans to launch its own network by 2006 (Thomaselli, 2004).

These newly formed league-owned channels pose a major threat to the networks because of limited advertising dollars. If they begin to deliver more live broadcasting, the leagues could challenge their current television partners for advertising dollars that might not be available because of further fragmentation. However, there are people who feel that league-owned channels cannot survive as standalones without the networks. "To think the leagues could become their own cable companies and sell so much advertising that it would be more profitable than selling their rights fees seems unrealistic" (Thomaselli, 2004, p. 25). This is largely because the cost of production for live broadcasts could be too high, and these league-owned channels might not be able to reach the same market potential as free television. Nevertheless, networks have become aware of the potential threat posed by these newly spawned channels.

Interpretation Related to Previous Research

The findings in this study extend the work done by Wolfe et al. (1998) because the study further explores the association between broadcast networks and professional sports leagues, and how the network theory concepts of power, dependency, and relationship alter those

associations. Wolfe et al. (1998) found that "power is now more overtly acknowledged" (p. 60) in the sports network, and that all parties attempt to manipulate power to their advantage. This idea of manipulating power is encompassed by NBC's negotiation for the perpetual option in the revenue sharing model. As for dependency, Wolfe et al. (1998) acknowledged that "media are important to sport, but the inverse relationship … is equally important" (p. 55). Therefore, leagues and networks in the revenue sharing model have mutual incentives to help each other grow.

With the network and league now acting as partners in the newly developed revenue sharing model, Wolfe et al. (1998) properly predicted "new relationships are emerging, and there is an evident increase in the importance of the issue of trust between the actors" (p. 62). However, they acknowledge that the emergence of cable and satellite providers pose a threat to the broadcast networks for sports programming. Wolfe et al. (1998) stated that "the advent of satellite brought major changes to the original, relatively simple, set of relationships" (p. 62). The authors' description of the growing complexity in the associations between television and sport is further enhanced by this study.

Interpretations Related to Methodology

The findings confirm that the network theory concepts of power, dependency, and relationship are altered by the revenue sharing model, but the methodology that was used and the subjects selected to participate in the data collection do limit the generalizability of the findings. Three of the four participants involved in this study have a direct connection with the revenue sharing model, so they could have an underlying desire to see the model's successful implementation into the association between broadcast networks and professional sports leagues. However, those three participants have either been involved with, or are currently involved with, traditional rights fee models at some level of sport. While they may hope for the future development and advancement of the revenue sharing model, they are able to provide a unique understanding of how both models function as well as the advantages and disadvantages they have provided in past or present contracts.

The methodology selected for this study was a qualitative research design using a case study approach. This method allowed for an in-depth analysis of the revenue sharing model.

The data was collected through interviews with the four participants. While the participants provided expert knowledge about the topic, the findings could be limited due to the researcher's limited background with qualitative research. The researcher's professional knowledge in sport media provided the foundation for conducting in-depth interviews, but the magnitude of these interviews allowed the questioning to stray from the predetermined questions used to guide this study. Despite any shortcomings, however, a wealth of knowledge was ascertained to provide significant findings in this study.

Conclusions

In this study the alternative revenue sharing model was examined based on Wolfe et al.'s (1998) network theory concepts of power, dependency, and relationship. The sports network initially discussed by Wolfe et al. included sponsors as a third component. The current study did not examine the impact of the alternative revenue sharing model on sponsors, but that component should be examined. Responses from the interviews indicate that sponsors may play a significant role in any shift of the network theory concepts. In the revenue sharing model, the AFL is attempting to generate more sponsorship through their association with NBC. The consistent media coverage from NBC provides the AFL with the necessary exposure to generate those additional sponsors. In return, the league then drives those sponsors to the NBC telecasts to purchase advertising time during the live broadcast. So the main source of revenue that is generated in the revenue sharing model, which is split by the league and network, is ultimately delivered by the sponsors. Therefore, the sponsors hold the key to any potential success of the revenue sharing model or any model that is developed between broadcast networks and professional sports leagues.

The traditional rights fees model between professional sports leagues and broadcast networks grew rapidly because the networks allowed it to happen. It is acknowledged in the findings that the broadcast networks compete against each other. That is why the broadcast networks, in an effort to secure marquee sporting events, were willing to risk millions of dollars in guaranteed contracts upfront to the professional sports leagues. The leagues, rightfully so, took full advantage of the money that was made available to them and will continue to do so in the future. The traditional rights fee model seems to be firmly in place because leagues such as

the NFL, NBA, and MLB have proven that they are capable of delivering ratings to the broadcast providers that are difficult to match with other programming. Unless those ratings diminish, the broadcast providers will continue to pay guaranteed money in an effort to get guaranteed ratings.

NBC is the first network, however, that determined the marketplace was not producing enough value for them to continue bidding on professional sports leagues. Therefore they walked away from television contracts with the NFL, NBA, and MLB. The network admits these are good properties to associate with, but the leagues did not provide enough value relative to the amount of risk the network felt they were taking in the traditional rights fee model. However, the other three networks do not view the traditional rights fee model as bad business because they continue to sign new contracts with professional sports leagues.

Nevertheless, NBC is attempting an untested revenue sharing model with the AFL, and will do the same with the NHL, in an effort to change the landscape of how they do business with professional sports leagues. The model with the AFL was the only one examined during this study because the NHL has not completed the first year of its deal with NBC. Despite completing the first two-year contract with the AFL, the model has been described as a work in progress because it is still in the infancy stage. Both parties admit that ratings and advertising sales have not reached expectations, but they are optimistic about the potential growth and success of the revenue sharing model. Nevertheless, it remains to be seen if the revenue sharing model can provide enough financial gain for NBC and the AFL to continue beyond their current two-year contract that expires following the conclusion of the 2006 season. The purpose of this study was to examine whether the alternative revenue sharing model may alter the network theory concepts of power, dependency, and relationship between broadcast networks and professional sports leagues.

The revenue sharing model gives broadcast networks and leagues another option during contract negotiations. This study found that compared to the traditional rights fee model, the revenue sharing model decreases the risk for the network, increases their potential financial reward, and strengthens their relationship with the respective leagues. The weaknesses for the network are that it may only result in minimal financial gains with sports that do not deliver highly-rated programming. The network now runs the risk of providing coverage of too many undesirable sports to viewers on network television.

This study also found that the revenue sharing model can lead to increased exposure and new revenue for leagues. The model provides them an avenue to network television that could spawn additional television contracts as the league grows. There is some trepidation, however, on the part of the league to get overextended on network television and run the risk of failing in the public eye on a national stage. Obviously the AFL and the NHL are willing to take that risk because the potential upside of the revenue sharing model is more than what they could receive through any traditional rights fee that was available.

NBC, the AFL, and the NHL have cleared the path to a new way of thinking with the revenue sharing model. Now it depends on what the market will bear financially, and how the professional sports leagues react to any drastic changes that could influence their relationship with broadcast networks. If the British market is any indication, televised sports could be headed down a steep slope toward viewers paying for regular-season programming, with marquee events dangling out there for a potential highest bidder. What lies ahead may have no boundaries, and the landscape of sports on television has never seemed so blind.

Implications

The marriage between sport and television will continue to grow whether it is on broadcast networks, cable, satellite, league-owned channels, regional sports networks, or niche channels. The NFL, NBA, and MLB have reached a level of financial security with rights fees that may never again be reached. That is why they are exploring their own channels as a way to leverage their product and maximize revenue. No other U.S. sports league can match the status that these three leagues have attained. However, the growth of sports on television has shown no signs of slowing down. Niche channels such as the Golf Channel and Speed Channel develop every year as an outlet to deliver more sports to consumers. Now it is just a matter of deciding which outlets these sports utilize to maximize their revenue as well as their amount of television exposure.

The revenue sharing model built a foundation upon which other leagues and networks should seek out new relationships. That is why success is so important for NBC and the AFL in their partnership because it could open doors for so many other leagues and networks that previously were on the outside of television exposure. Leagues such as Major League Soccer

and Major League Lacrosse are currently on network television because they do a time buy. However, they could enter into a revenue sharing agreement with a lesser-known cable channel that is looking to expand into sports programming, which would give them a consistent home base and a partner who would work with them to help the leagues grow. Or the two leagues could form a partnership, similar to the regional sports networks that combine multiple teams within the same city or region.

Similar to the idea behind The Baseball Network, a sports league could partner with more than one television outlet and split the revenue three ways. While no other broadcast network has expressed a willingness to attempt the revenue sharing model, cable and satellite providers should attempt this model because they could still retain their subscriber fees, while paying no rights fee and covering their production costs. For sports such as tennis and golf, which are witnessing ratings declines, a revenue sharing model could provide the extra support it might take to help boost ratings.

The true test will be when the NHL revenue sharing model with NBC begins. Because this league has been to television's highest peak, having postseason games on network television, their reaction to how NBC handles the production and promotion of the games will be intriguing. If the NHL is successful with the implementation of the revenue sharing model, then no other professional sports league outside of the NFL, NBA, and MLB should even think twice about not joining forces in a revenue sharing deal. They should contact their nearest network and ask for the same deal the NHL has, assuming that the new league could provide the same value the NHL may bring to the network. Despite decreased ratings, the NHL is still one of the most popular sports in the United States, and other leagues would be smart to follow their lead with regard to partnering with a broadcast network, even if it does not result in a rights fee.

Limitations of the Study

The relationship between broadcast networks and professional sports leagues is complex and difficult to examine. While this study enhances our understanding of that relationship as it pertains to the contracts in place between the two entities, there are some prevalent limitations. First and foremost, three of the four interviews for this study were conducted with the participants involved in the revenue sharing model. Interviews with parties involved in

traditional rights fee agreements would add depth to the analysis of the relationship between broadcast networks and professional sports leagues. Also, interview responses were analyzed and interpreted solely by the researcher, so researcher bias could enter into the findings because the responses could be interpreted differently.

The case study approach limited the study only to verbal responses. There is no statistical data available to examine the effectiveness of the revenue sharing model. Another limitation exists because there are a limited number of revenue sharing deals currently in use, so few models are available to compare and contrast the network theory concepts of power, dependency, and relationship in similar contracts. It is also difficult to study the revenue sharing model's impact because it has only existed with broadcast networks for less than three years. Lastly, the findings cannot be generalized for all relationships involving professional sports leagues and their television partners because different rules and regulations apply to broadcast networks than to cable and satellite providers.

Recommendations for Future Research

This study conceptualized that power, dependency, and relationship were independent of each other. However, since power was determined to be the most important concept in the relationship between broadcast networks and professional sports leagues, future studies should examine how the balance of power is impacted. The concepts of dependency and relationship should be used to help determine how power is impacted. Also, the impact of outside forces on the balance of power in any relationship should be factored into future studies.

More specific studies involving the relationship between television and sport need to be explored as well. Once the NHL revenue sharing deal with NBC begins or other revenue sharing deals are signed, those models could be compared to the deal between NBC and the AFL to further examine Wolfe et al.'s (1998) network theory concepts of power, dependency, and relationship. While this study was limited to the relationship between broadcast networks and professional sports leagues, it did not examine the impact of sponsors, as Wolfe et al.'s (1998) study did examine. The importance of sponsors was revealed during this study's findings, so future studies relating to the impact of sponsors on both broadcast networks and professional sports leagues needs to be explored. The most important study about sponsors should revolve

around the power that sponsors have in Wolfe et al.'s (1998) sports network, and how that power impacts the relationship between broadcast providers and leagues.

While it is known that ABC and ESPN are both owned by Disney, how those two broadcast providers are utilized together in contract negotiations should be explored because no other broadcast network has a cable partner that can match the power of ESPN in the sports broadcasting industry. The impact of cable and satellite providers must be studied to explore how their relationship with professional sports leagues differs from the league relationships with broadcast networks. How leagues and networks grow and benefit financially due to the revenue sharing model should be explored in further detail. The impact of the perpetual option theme that emerged from this study should be further examined, especially the long-term affect it could have on the league since they relinquished the power for future growth to the network.

More studies also need to examine how leagues and networks can generate additional revenue in the revenue sharing model, especially beyond the traditional advertising revenue that is currently shared. How the leagues attempt to generate new and additional revenue can be studied, especially if the newly created league-owned channels begin to broadcast games and take programming away from their television partners. Finally, if the traditional rights fee model ever ceases to exist, what effect would that have on the leagues' player salaries, promotional costs, and marketing expenses, as well as where and how they would generate the amount of revenue comparable to their current levels.

APPENDIX A

INFORMED CONSENT FORM

INFORMED CONSENT FORM

Travis Bell, a graduate student in the Sport Management Department at Florida State University, is conducting this research. The purpose of this research project is to better understand the relationship between broadcast networks and professional sports leagues. In addition to the general relationship between the two entities, it will examine the revenue sharing model developed between NBC and the Arena Football League. Participants in the project will be asked questions about the revenue sharing model and both NBC and the Arena Football League as well as general information about the relationship between professional sports leagues and broadcast networks.

Participation will take place via a phone interview. The total time commitment would be approximately one hour. The interview will be tape recorded by the researcher. The interviews are taped to ensure that the researcher uses accurate information rather than relying on written notes or recall of interview responses. The researcher will use this information only for research purposes. The researcher will keep these tapes in a locked filing cabinet. Only the researcher will have access to these tapes and that they will be destroyed by March 8, 2010.

Your participation is totally voluntary and you may stop participation at anytime. If you decide to stop, any information provided until that time can still be used. All answers to the questions will be kept confidential to the extent allowed by law and identified only by a general title. No individual's name will appear on any of the results. No individual responses will be reported. Responses will only be used to compare with answers to similar research questions.

There is no more than minimal risk involved if you agree to participate in this study. There are several potential benefits for this research project. First, it may provide a better understanding of the effectiveness of the revenue sharing model. Second, the responses will provide valuable insight to the relationship between broadcast networks and professional sports leagues. Third, the knowledge shared can assist in better understanding the impact that sport and the media have on one another.

By signing below I freely and voluntarily and without element of force or coercion, consent to be a participant in the research project entitled "A qualitative analysis of revenue sharing in professional sports broadcasting using network theory."

I understand that this consent may be withdrawn at any time without prejudice, penalty or loss of benefits to which I am otherwise entitled. I have been given the right to ask and have answered any inquiry concerning the study. Questions, if any, have been answered to my satisfaction.

I understand that I may contact Travis Bell, (850) 591-5536, trb02d@fsu.edu, Dr. Jeffrey James, Florida State University, Sport Management Department, (850) 644-9214, james@coe.fsu.edu, or the Human Subjects Committee, (850) 644-8836, for answers to questions about this research or my rights.

I have read and understand this consent form.

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(Subject) (Date)

APPENDIX B

INTERVIEW TRANSCRIPT FOR CONSULTANT

Interview Transcript for Consultant

Obviously you had a lot to do with the revenue sharing deal between NBC and the Arena League, what do you think the reasons that led NBC to want to propose this type of revenue sharing deal?
Well NBC had just come off an experience where they had lost huge amounts of money on major sports television contracts. They had walked away from the NFL. They had walked away from Major League Baseball. And literally the day before I came in their door to talk about Arena Football, they had walked away from the NBA. So I was well aware that they had an aversion to losing money on sports properties. So that's what led them to suggest a revenue sharing concept to us at Arena Football.

Why do you think the Arena League was the first league to try an attempt at this alternative revenue sharing model?
Well, our timing was good. I had previously talked to NBC about the Arena League, but they had no place to schedule it. When they lost the NBA, literally the day I heard they were giving up on the NBA, I called Dick Ebersol and Ken Schanzer, and suggested that the Arena Football League, with its 20 teams and schedule of playing four or five games every week could be an excellent substitute for the NBA. That we could provide them with the same quantity of programming, that it was high quality, exciting, entertaining sport. And that we would move our season, from an April to August season to a February to June season, if NBC was interested, because that would allow us to play in the same time periods as they were previously scheduling the NBA.

What would you say are the strengths of the revenue sharing model between NBC and the Arena Football League?
For NBC, it was relatively risk free. They were committing, I think, somewhere in the area of 55 to 60 hours of programming. And not paying a huge rights fee. They were advancing production costs, which they recover from first dollars of revenue. Then there is a payment to the Arena League. And then the revenue share kicks in. So for NBC, it was relatively risk free. For the Arena Football League, the benefits were enormous because we had never had a broadcast network agreement. And we got tremendous amounts of attention and publicity and media focus that we had never received before. We got our league, literally, on the front page of many newspapers. And it was great benefit for the Arena League. So it worked well for both parties.

Overall, what are some of the weaknesses you would say of the revenue sharing model that is set in place between the two entities?
There is no weakness. You have to realize, the Arena League didn't have a better choice. It wasn't as if we gave up a revenue stream to get this deal. We were an emerging league. We were stepping up to a revenue share. Rather than stepping down from a previously negotiated rights fee. So for us, there was no weakness, there was no downside. Now you contrast the Arena League's position with the National Hockey League, you have a different story. For the Arena League, it was a win-win. We got exposure on a major broadcast network. We got the

opportunity to share in upside revenues. We had our production costs paid for. So it was a great deal for us at the Arena League, and a good deal for NBC.

Obviously, the difference between the revenue sharing model and the traditional rights fee model where there is not the direct rights fee payment. In what other ways do you think the revenue sharing model differs from that traditional rights fee model?
You've identified the principle reason. It takes away the risk factor, the substantial risk factor on the part of the network. They share in revenues. It works in certain situations. You can focus on just one example, and say it's good or bad. It's relative to what your other options and choices are. For the networks, revenue share means that they can get attractive programming at relatively low risk. But it's not always available to them because if another network is prepared to offer a rights fee, in most cases, the league or the sports event will choose the rights fee. You can't look at these things in isolation. They all take place in a very complex market. It's supply and demand.

Are there any similarities between the two models, this new revenue sharing model and the traditional rights fee model that you can see?
The relationship is. The big difference is that part of the deal that NBC made with the Arena League calls for NBC to have what we call a perpetual option. By that I mean, we at the Arena League are committed to staying with NBC as long as they want us. In a normal rights fee deal, you don't have that. So NBC negotiated for an option to continue with the Arena League as long as they choose to exercise those options.

Compared to the traditional rights fee model, how would you say the revenue sharing model may alter the balance of power between professional sports leagues and broadcast networks?
I'm having difficulty with your question. It isn't an issue of balance of power. It's an issue of how the marketplace treats various leagues and sports. If the National Hockey League could have achieved a rights fee deal with a network, they would have negotiated it. It's a second option for leagues and sports. The first option is a rights fee. A revenue share is the second option. A third option is a time buy where the entire risk shifts over to the sports event or the league or the team. So the revenue share is kind of a middle ground, where the leagues gives up a vision of getting rights fees, but gets broadcast exposure. And the network has a situation where they can secure broadcast rights without having to commit, or guarantee, a specific rights fee. So it isn't so much balance of power as it is really what are the negotiation strengths and weaknesses of the two entities. And what is the marketplace reaction to all of this. Any broadcast network that offers a rights fee generally can get a deal done if the other network is offering a revenue share.

Since this is a middle ground model, what does a league like the NHL give up by switching to a revenue sharing model?
The deal pretty much works the same way. The network selects games that it wants to televise. Then the league provides those games. The network provides production, which it would normally do in a rights fee situation. What the league gives up is the guaranteed revenue stream. There are hypothetical situations where this could benefit a league. For example, let's say their option is a $10 million rights fee, or a 50-50 revenue share. It's conceivable that under the

revenue share they would actually generate more money than they would under a rights fee deal. But it would not be guaranteed. It would be dependent on the level of sale, how many units are sold, how much money is generated. If the venture between the network and the league generates, pick a number, $30 million of net revenue, on a 50-50 deal, the league might end up with $15 million of revenue rather than $10, which it would have generated from the rights fee. So there is an upside, but usually the revenue share is negotiated because the network is very uncertain as to the level of revenue that it can generate. And that usually means it anticipates that the sport or the team or the league is not capable of generating enough money in sales to cover the rights fee and the cost of production. So while there is a hypothetical upside opportunity for a league in a revenue share, normally they don't reach those levels. And normally the league generates less dollars from a revenue share than it would from a rights fee. But it could go the other way.

How has this, in the two plus years, that it's been in place for the Arena League, how well has it worked from an exposure standpoint?
It's been outstanding for the Arena League in terms of its exposure. It's getting far more exposure than it did under its previous deal with ESPN and ABC. It's got regular network attention. Our attendance has increased dramatically. We have, as I think partially as a result of the network deal, been able to negotiate a 100-game, Fox regional sports deal, where the games take place on Friday night and Saturday night. Not in competition with Sunday afternoon football. The league has benefited exceptionally well from the NBC deal.

Now that the Arena League deal is in place, how much does this change the Arena League's dependence on NBC in this partnership now that they have this network exposure?
It's not a dependence on NBC. It's a partnership with NBC. We have a deal with NBC. They're good partners. I would also tell you that in addition to the benefits the league experienced with both attendance and exposure, we've experience substantial increase in sponsorship interest and in official sponsor support for the league. Where we have sponsors now that we did not have in prior years, who now see us on television and like what they see and they make a financial commitment to both the league and to NBC to be official sponsors of the Arena Football League.

How much benefit has the Arena League gotten from being able to incorporate the television partner and the sponsor to increase the league as a whole?
The prestige of the league, the stature of the league, the exposure of the league has increased dramatically since the NBC deal was put in place. It's hard to quantify it. But the league has certainly benefited substantially from its network exposure, mostly on Sunday afternoons on NBC.

We talk about the relationship with the Arena League and NBC as a partnership. Is there a difference in the relationship between a network and a league under the traditional rights fee model, where it's maybe not the direct partnership in terms of needing the generate revenue for each other?
Well, yes there is. Although, even in rights fee deals, the leagues that are sensitive to television work hard to make them work for the network. If what you're saying is, when you have a rights fee deal, does the league simply not care how the network is selling and not provide assistance, that is not the case. There are many instances, the NBA, PGA Tour, NFL, where the league

works hard to help the network generate advertiser revenues. On the other hand, when you have a revenue share, then you have this true partnership where both sides must support the other. And it is mutually beneficial to share revenues and have advertisers buy time on the network as well as become official sponsors of the league. So you might say a revenue share does require a closer degree of partnership than a rights fee, but I don't want to mislead you. In most rights fee situations, the league or the sport is sophisticated enough to know that if they don't help the network generate sponsor dollars, the next time around it will impact the rights fee. So it isn't quite as black and white as you might think.

An example you brought up earlier, with the NHL, when they got into their deal with NBC, you see that they want to make sure they keep the network exposure. Does their relationship change or alter now that they're in this type of partnership with NBC?
The problem with the NHL is that they haven't had a season to implement it. But they go from a rights fee deal to a revenue share deal, and it kind of increases the obligation on the part of the league to help generate advertiser and sponsor dollars. But to think that when the NHL or any other major league has only a rights fee deal, that they are oblivious to advertiser and sponsor support for the network. The smart commissioners and the smart leagues work very hard, even in rights fee deals, to help the network generate incremental dollars.

For the NHL, you had mentioned that you have the rights fee model, the revenue sharing model, and then a time buy. So for a league like the NHL, that has had the network exposure, is the revenue sharing idea a way for them to make sure that they maintain that network exposure, with the ultimate goal to get the rights fee model?
I would say so. The problem is that if the rights fee model is not available, what's your next best choice? What's your next best alternative? Obviously they were unable to continue the level of rights fee that they had generated under the prior agreement. Their ESPN deal was reduced. And their network deal, which previously had been kind of an ESPN/ABC combo deal. They didn't have a network deal. They didn't have a broadcast network deal. They talked to all the carriers, and the only network that had scheduling opportunities and was interested in carrying the NHL was NBC. And they were only interested in carrying it on a revenue share basis.

Since the Arena League got in this partnership with NBC, what type of effect has it had on any other TV contract negotiations for professional sports leagues, if any?
Certainly it led to the NHL deal. NBC admitted it used the template of the Arena deal to negotiate the deal with the National Hockey League. There were some variations and some differences, but it's essentially the same type of deal. NBC, I know, has offered other properties this type of deal. It's a comfortable one for NBC because they're not risking any significant rights fees. The problem with the concept is it doesn't always work. You may want to offer a revenue share, but if another network is prepared to offer a rights fee, usually the sport or the league takes the rights fee. So it isn't going to work in every situation. A lot depends on the competitive environment, scheduling opportunities, the economy of the country, the demographics and the economy of the sport you're talking about. There are a lot of variable here. But it is one option, and obviously it's an option that NBC enjoys. But if NBC were to bid for the NFL, they're not going to do it on a revenue share. I tell you that. They're going to have to come up with hard dollars.

Do you ever foresee that this type of revenue sharing model could work between networks and any of the three major leagues, meaning the NFL, the NBA, and Major League Baseball?
Could it work? It will work if the marketplace moves in that direction. It isn't a question of working or not working. The question is probability, I guess. From a probability point of view, it's probably not likely in the next eight to ten years that I can foresee. Where a sport is sufficiently popular, so that there is modest or low risk in network sales, you probably will continue to see a rights fee competition. That applies to a number of major properties. I can list them. There are probably close to a dozen or more. But when you get below that level of guaranteed audience support, you get to a level where there is a good deal of uncertainty as to how many advertising dollars can be generated. And that's when you begin to look at a revenue share.

You look and the NFL Network, NBA TV, and Major League Baseball is considering starting their own television channel. How much does that alter the relationship between leagues and networks when the leagues consider taking the production in house?
It's not unexpected. It is what we see happening. The leagues acknowledge that they do it for leverage. Commissioner Tagliabue basically said the other day it's one of the reasons they've created the NFL channel is to have an option. Not be totally dependent on broadcasters. I don't see any of the major leagues moving the totality of their broadcasts to their own channels because it does require the league to take all the risk. In other words, the league can say, well, the rights fees aren't adequate but if you put it on your own channel, you have to sell it, you have to produce it, you have to carry it, and you have to hope to make the kind of profit you would make from a rights fee. So I see the various leagues doing this for multiple purposes. One is to control their own promotion and their own exposure, and to put on the type of programming about the league that they enjoy doing. Another reason is to create, of course, some leverage and a possible option to put their programming on their own channel, rather than on broadcasters. But I don't see this as an either/or situation. I see the leagues doing this as a supplement to their normal broadcast strategy. But I think they will continue to be largely dependent on rights fee in the coming years. I don't see them taking on the enormous risk of producing and selling their own product to the exclusion of broadcast and cable revenue.

Other outside sources working its way in is DirecTV, with their NFL deal. Do you see a shift going more toward cable and satellite with the DirecTV deal coming into place?
That shift has been happening for a while. It's not universal. NASCAR went from cable to broadcast. The NBA went from broadcast to cable. You kind of go where the money is. The NFL is maintaining a balance between broadcast and satellite and cable. The NFL has the best leverage of any of the major sports. Major League Baseball is, this year, going to have to deal with issues as to where is the money. Is it in cable or is it in broadcast? I think what has happened, when I got involved 35 years ago and watched this develop, for many years cable was really an unattractive option. It was an option only if you couldn’t get on the networks. That seems to have changed. With ESPN having 85 to 88 percent penetration, and with the other major cable sports entities like Fox regional and TNT and so forth, getting widespread distribution, the gap between broadcasters and cable has narrowed dramatically. And it was David Stern’s decision to move the NBA more deeply into cable that validated cable as not a second sister to broadcast, but as an equal competitor. So that’s where I see this going. There

are new cable competitors all the time. Comcast is developing as a sports carrier. Verizon has expressed interest in major sports properties. DirecTV obviously is a competitor. I think what we're finding is these cable/satellite delivery systems are now reasonably equal competitors to the broadcasters in terms of major sports properties.

How much do you think cable coming in approximately in the mid 1980s helped with this rapid increase in rights fee payment? How much did cable's increased exposure help drive up the rights fees?
Well, certainly it had an impact. But I think for the most part, the broadcasters compete against each other. It wasn't so much ESPN being around that drove up the NFL rights fees. So I think for the most part, broadcasters are still bidding against each other. And cable is bidding against cable, but there have been some situations where cable has outbid the broadcasters. Namely, that was the most recent ESPN outbidding NBC for the NBA. But that hasn't happened in other sports yet. It may happen in baseball. But it hasn't happened with the NFL at this point. They have basically controlled their packages so that they have both broadcast and cable.

From a league perspective it is important for them to find ways to generate more revenue. With the DirecTV concept coming in to play, with it's subscription-based service, is there any concern from a league's perspective about potentially moving a portion of their games to a subscription-based service on a regular basis?
Well, it's all marketplace driven. If the league can do that, and still maintain its general broadcast exposure. DirecTV only has what 11-12 million homes, so for a sport that wants national exposure, its not the best first choice. On the other hand, if you can do both, have games on DirecTV and have games on broadcast network and have games on cable, that's usually the best option. But those options are not always available. So it's an option, but when you say is it a league concern, it's not really a concern. It's an opportunity. It's another source of revenue, and you evaluate that when you look at your overall strategy in getting a deal done.

How does the time buy work as a third option in a relationship between the leagues and networks?
It's real simple. The network says, 'look we're not going to pay you a rights fee, we're not going to revenue share, but if you want to buy time on our channel for your sport, we'll sell it to you.' The type of pricing that you're talking about is between $200,000 and $300,000 an hour. And for that, you get an hour of network time. You produce it, you sell it, and you put it on their air. So they're kind of leasing the channel to you.

Is that the concept that Major League Lacrosse is using to get on NBC?
Yep. Major League Lacrosse, IRL, CART, women's golf, a lot of that is time buys.

Is the revenue sharing model a way for new leagues to try to get into the network bubble and get that network exposure?
It's more an option for the network to make a deal with a new league that is relatively risk free. Most new leagues would rather do a revenue share than a time buy. It all depends on their leverage. It all depends on how the marketplace is treating the particular situation. If one network offers a revenue share and another says you have to buy time, which one would you choose? Obviously you go the revenue share. Yes, it does present opportunities for sports to get

on the air. And it's generally available to those sports that have a little more leverage than the time buy situation, but not enough leverage to get a rights fee.

Are there any other models or concepts being discussed between networks and leagues beyond the three that we've discussed: the rights fee, the revenue sharing, and the time buy?
There are variations on all three. On a time buy, for example, maybe the network does the production rather than the league. On a revenue share, there are various splits and payment dates and time periods that can be negotiated. On rights fees, you can do a rights fee, and conceivably have a low rights fee, and maybe have a revenue share on top of it if certain sales goals are met. So each of those three have variations of them, but no there isn't a fourth totally different concept other than the league creating its own channel and controlling all aspects of production and sale.

Overall, the revenue sharing deal having been in place for two years with the Arena League, what's your overall perspective on how it's worked in the relationship between the two partners?
Well, I think we've had a close working relationship with NBC. I think we both would hope to have higher sales. The league is working hard to help steer advertisers to the network. And I'd say it's a work in progress. It's done OK. It could be better. Ratings could be higher. Sales activity could be stronger. But on balance, I think both NBC and the Arena League are satisfied with the relationship.

APPENDIX C

INTERVIEW TRANSCRIPT FOR NETWORK EXECUTIVE

Interview Transcript for Network Executive

What were the reasons that led NBC to want to propose this type of revenue sharing model in a partnership with a professional sports league?
We had walked away from the three major properties over the prior four years. We had first walked away from the NFL in 1998. We had walked away from Major League Baseball in 2000. And in the fall of 2001, we chose to walk away from the NBA. All because their rights fees had far exceeded any kind of value that we could achieve from advertising generation and promotion value. We only have the one revenue stream, which is selling advertising. So we had to find a way to make those properties work. Those were all great properties, but we just couldn't make the deals work for us financially. GE is a demanding parent, and said you have to find a different way to do business. We had been very successful in creating and owning some of our own properties in the past, which had been very profitable and very successful. But they were basically one-off properties. We started looking at new opportunities following dropping the NBA. And the feeling was we wanted to change the business paradigm, and that's how we came about it.

In your opinion, why do you think the Arena League was a good fit to be the first league to try to attempt this type of alternative revenue sharing model?
We had been watching the Arena League for many years. I had become friendly with David Baker, who was the commissioner. I had a long-time relationship with Casey Wasserman, who is the owner of the Los Angeles Avengers who is a personal friend. Neal Pilson, who was their television consultant, I obviously had a relationship with. He was the former president of CBS Sports. So, we had had an ongoing dialogue for many years about the Arena League. But we never had the opportunity nor the appetite. They had come to us in the past about broadcasting just their championship game in August. We were not interested in doing just a one-time pop. When the NBA went away, we ended up with a hole basically from February to June. The Arena League was April through August. So we began to have some very quiet conversation in November when we knew the NBA was going south, about them possibly changing their season. And when they indicated that they would, that's when we changed things.

Compared to the traditional rights fee model, what would you say are the strengths of this revenue sharing model that you all have between yourself and the Arena Football League?
Well, it's an open book policy. It's an open book relationship. We are both mutually incentivized to see the other be successful. We care a lot about attendance. We care a lot about their sponsorship and their licensing and their marketing and their fantasy business, etc. They care an awful lot about our ratings and our advertising abilities and stuff like that. So we are mutually incentivized to help the other because when one is successful it helps the other. Also because of the way the deal is written, we are not in a position where we have to worry about losing the Arena Football League deal much the way you would worry about losing Major League Baseball or the NFL or some other property if somebody wanted to come in and offer a much, much higher license fee. So we have an incentive to grow it because it basically is something we stand to benefit from in success.

Do you see any weaknesses from this revenue sharing model?
I think one of the obvious concerns is that the league is still very, even though it is going to be celebrating its 20th year next year, it still doesn't have the benefit of a huge cash infusion from a rights holder to cover a lot of expenses that these other leagues have. Their salary cap has been managed quite effectively, but they don't have as much money to spend on outside, off-channel marketing and promotion as an NFL or an NBA might. But other than that, I don't see any downside from it because they know that everything they get they've worked hard for and they've earned. And it makes victory that much sweeter.

Other than the obvious change of not getting a direct rights fee payment, how do you think that this revenue sharing model differs from a traditional rights fee model from your perspective and from what you see from the league's perspective?
Well, clearly the league is concerned about production costs, where with the NFL they don't care how much their partners are spending on production. The league is concerned about promotion and ratings delivery because it is directly tied into sales returns. The other leagues could care less about whether their partners are making money or not. They've gotten their guaranteed payday.

In your opinion, how does the revenue sharing model alter the balance of power that's in place between the two entities?
I don't know if it alters it, but it makes us more 50-50 partners. And the league is obviously very cognizant about what television is doing. They work very closely with us about game changes and little things. They're very accommodating when it comes to helping us make progress or changes and stuff on the field and those kinds of things. There's a lot of different ways that having a revenue sharing partnership works that gives them an incentive to work with us.

In your opinion, does one side gain more power from having this idea of a revenue sharing concept between the two?
I don't know that one side gains power, but clearly it gives NBC a way to enter into this business without risking millions of millions of dollars in premiums and premium rights fees. And for the league, obviously we've got the league in a place where we have their exclusive television rights. So if they want to expand into cable or into other media, they can do that but they need our blessing and our permission to do that.

Is that the major loss of power that leagues would experience, that they have to go through you to get to that secondary outlet?
I think that's one of the big question marks that they're going to have. But for example this year, we've never stood in their way. And this year, for example, they've got 120 games on Fox Sports Net. So we're never going to say no to that. We might say no to ABC doing a game of the week if we're doing a game of the week, obviously.

In what way do you think the league is dependent on you in this revenue sharing model?
Well, I think there are a couple of things. Number one, we are the lion's share of their promotion. We are the lion's share of their means of getting the word out there on this property. And so that's one of the things that they're dependent upon our schedule and what our availabilities are. And it's also a question of what we can generate advertising wise. I think

they'd love to see five or six games being telecast every single Sunday. We're not doing that many because until the ratings grow the money's not there to support that kind of production commitment.

You had the option after the first two-year deal to sign for four more years but re-signed for two. What was the major reasoning and thinking behind only re-signing for two years?
Basically we had a good first two years. We made a little money, not a lot. We still want to see the ratings grow. At the end of the day, I'm responsible to several different masters. I'm responsible to 210 affiliates. I'm responsible to my advertisers. And I'm responsible to GE and their stockholders to deliver profitable, successfully, highly rated programming. And I didn't want to commit to four years, if we weren't going to see continue growth in the process. There's every reason to believe that it will continue to grow and get stronger. But our feeling was that it only warranted a two-year extension at that time.

How does the level of dependency differ between the revenue sharing model and the traditional rights fee agreement?
If we had a traditional rights fee agreement, they would be getting a payday from us. They would still work closely with us, I think, to help us deliver ratings. But it would be your traditional model where you're renting the programming. I didn't want to rent programming anymore.

You talked earlier about why you got out of the relationships with the big three sports. How do you describe the model that currently in place?
Well, you're a vendor. You're paying them for the rights to broadcast their events. They're responsibility is to deliver you the property. And you're out their taking all the risk. It's all one-sided. The leagues aren't taking any risk at that point. Our feeling was that we need someone to share the risk, as well as share the upside. In the NBA right now, you see a situation where the NBA chose to come off network television, for all intents and purposes, and cast their lot with cable. Because their feeling was is that it was more important to get the association with ESPN and that audience than it was to reach a broad, casual fan and take all the promotion that they would get from a network. So I think it just varies on the property.

In your opinion, how much has cable helped with this explosion that has occurred in terms of rights fee payments for these professional leagues?
It's meant everything. The paradigm has shifted dramatically. We are no longer the big guys in the game. The ESPN's, they have this dual revenue stream where they get advertising revenue, but more than the advertising revenue they get, they get the subscription revenue. And at $3 a month times 90 million homes, that's $270 million a month. Times 12, that's $3.2 billion that ESPN collects before they sell any advertising.

The NFL recently signed their deal with DirecTV. How much do you see satellite and this idea of subscription-based channels beyond cable playing a major factor in negotiations with professional leagues?
I think they'll have some degree on the smaller scale, but I don't think they'll ever take over the major events. I don't think you're going to see the World Series or the Super Bowl or the NBA Finals on subscription cable. You may eventually see some of them, the NBA probably, on basic

cable, but I don't think you'll see the NFL or the World Series. They're played in public stadiums. They use public works. I think that Congress would have a real hard time taking those properties away from those guys.

What level of competition do you think that league-owned channels can provide the networks in the future?
I think they can provide them shoulder programming. But I do think that you're going to see the NFL Network used as a club in order to get their cable rights fees higher. And I think eventually you may see the NFL Network used as a carrier of a few games to help drive distribution of their network.

So you view the league-owned channels as a leverage factor for the leagues?
Exactly. Well, and also as a business opportunity.

How does the NHL's taking a step back from a traditional rights fee model to a revenue sharing model alter their previous relationship with a network?
The NHL was in a different situation. The NHL was in a situation when they went to market, they had no bidders for their property. Much the way the NBA had no bidders for their property, other than ESPN. When we walked away from the NBA in 2001, they went out and shopped it to FOX and CBS and ABC. And all of them passed. So they chose to go with ESPN at time. The NHL did the same thing. They had no place else to go. They made their cable deal with ESPN, much like the NBA did, albeit at less dollars. But they had no network takers. So they saw what we had done with the Arena Football League, and said 'well the Arena Football League model is clearly working for the AFL They're getting an enormous amount of promotion and exposure, etc. We have a great game, with a great history, and a good sponsorship base. We'd like to talk to you about that.' And that's how we did it. They basically came in here. We said the only way we would do it is if you would agree to do it Arena style.

Since you have had this model in place, what effect has it had, in your opinion, on any subsequent TV contract negotiations in the past three years?
Well, I think it has made people realize that we're prepared to do business differently. A lot of people want to do business at NBC because of the way we (a) conduct business but (b) we're known in the business as being very good partners. But we also don't throw a lot of money around. And I think that's a big issue that people are understanding that if you want to come here it's got to be a good business for us, for us to go forward with it. So that's how that came about. The other thing I would say to you is, is that we're looking at a NASCAR bid that's coming up and some other properties that are going to be negotiated, the PGA Tour, etc. And we're going to make what we think are good business deals, but we are not afraid to walk away if you need to. It's not our choice. It's not what we want to be doing. But we're not going to make bad business deals.

It's hard to fathom this type of model working for a league like the NFL where they generate $2 billion annually.
Well they've got somebody that's willing to take the risk. The thing with the NFL is they've been able to get people to spend enormous money on their properties because they deliver. They deliver consistently high ratings. They deliver consistently great audiences and great promotion.

They're the Big Mac Daddy. Make no mistake about it. There's the NFL at number one. And everybody else comes in line behind them. And I think that's a real significant thing that's important to understand. There's no property out there that compares with the power and the reach and the effectiveness of the NFL.

In your opinion, do you think that it's likely that the revenue sharing model could ever replace the traditional payment of rights fees?
I think it could on certain properties. I don't think it ever will on the NFL. As long as the NFL has this many packages and can deliver audiences the way they do, they don't have to get away from it, to be honest with you, because they're so strong.

Are there any other models that you know of?
There's the time buy. There's the revenue share model. There's the partial time-sale revenue share model. There's guaranteed rating kick ins. The big question becomes that the marketplace has grown so fast and so quickly. I'll give you an example that's actually a pretty good parallel for you to have. In 1988 when I moved over to NBC Sports programming from NBC sales, there were 100 college basketball games on broadcast television. That was it. NBC was doing it, as was CBS, FOX, and at that time ESPN, which really hadn't been developed to the level that they're developed now. What ended up happening was that over time, college basketball, which had been delivering good ratings, became a very effective, efficient property, an inexpensive property for cable networks to produce and distribute. All the different schools saw that as a revenue sharing opportunity. What ended up happening at that point was an explosion of college basketball programming, to the point where units that used to sell in 1988 for $35,000 for a 30-second spot and would deliver you a six rating. Now deliver you a one rating and only sell for $7,500 a spot because there are 3,200 games on television.

Do you ever foresee that the ties between networks and leagues would be severed?
No, I don't think they'll ever be severed because I think they need each other. I think there's a strong relationship with all these different groups, and they're going to make sure they work together. I don't see that ever going like that.

The revenue sharing model was a step in forward thinking. Overall, how do you feel that it has worked for you and do you foresee that this is the type of model that you will carry on?
Oh very much such. We're very happy with it. We have a great relationship with the Arena League, and we think it's worked well for them. We know it's worked well for us. Their property is getting more exposure than they ever could have imagined. That's something that everybody is looking for. I know there are a lot of leagues that hate it. The NBA is desperately afraid of it. I think the NBA probably stays awake at night because right now they've got this deal with ESPN and ABC for their programming, but they don't have any other outlet besides those guys. And the problem is, if their property continues to drop ratings and get weaker attendance and have sponsors fleeing, they might find themselves in a tough situation. It's not for everybody, but when you can do it and it works well for you, you definitely need to go that way.

APPENDIX D

INTERVIEW TRANSCRIPT FOR LEAGUE EXECUTIVE

Interview Transcript for League Executive

What were some of the reasons that you all went to NBC and they agreed to propose this revenue sharing model?
I think a lot of it had to do with timing. Where we were in our relationships, where they were in their relationships. We were, at the time, ending a relationship that we had had for about three years with TNN, which is now Spike, in which we had regular season games on Spike, followed by playoffs on Spike, ESPN, and then ABC, which was carrying one of our semifinal games and our Arena Bowl championships. Around the same time that was concluding, we had one year left on that agreement, was the same time that the NBA and NBC, when their relationship ended. I think it was around December or January when NBC announced that they weren't going to be bidding for the NBA anymore. That's when we started talking to them. From our perspective, one of the things that we wanted to do was get additional exposure and have a true network partner, which NBC has become as opposed to having regular season games just on cable and appearing on network a few times. So then as part of the conversations and the negotiation, we ended up with the model that we ended up with.

Are you surprised that it took this long for a professional sports league to attempt this revenue sharing model?
I'm not, in that, the league is, I don't know if innovative is the right word. Things aren't necessarily viewed here as black and white and you don't have to just go along with the traditional model. People think outside the box a little bit. It's something that seemed to make a lot of sense from our perspective. It seemed to make a lot of sense from their perspective. And I think timing took the appropriate conversation to take place between two parties.

You mentioned about having a true network partner, and that is a strength of the model. What are some other strengths that you see within the model?
I think we both have an interest in seeing both of us succeed. We want them to succeed in our broadcasts because obviously that helps our sports. And they want to see us succeed, not only in the broadcasts, but in the growth of the league because they have the opportunity to share in that growth. So it is set up as a partnership. They don't sit on our board, but we do consult with them on a lot of things. And take their advice in counsel. What they say is not the ultimate because obviously we have our board and our ownership, but we take to heart some of their thoughts and absolutely include that in the way we make decisions. They're not making decisions for us, but they do have an interest in seeing us grow. So that's helped out a lot. In other thing they do, they know that as we grow, they have the opportunity to grow. So the AFL is kind of in their mind as they make decisions as well.

Since you have gone from a traditional rights fee model with TNN, and now you've shifted to the revenue sharing model with NBC, what sort of differences do you see between the two models?
My feeling is that this is much more of a partnership, where on a rights fee model, this isn't to say that the NFL and their broadcast partners don't work together and that the NBA and their broadcast partners don't work together, but this model is a little different because part of it

relates to the on-air product and part of it relates to the overall product. So I think this is a bit more of a partnership. There have been some instances, not taking any one in particular, but where somebody pays the money and then the property takes the money and that's kind of the end of the conversation. They put the thing on the air. Or sometimes in some international deals, they don't put the thing on the air and they still pay the people, and there's no effort to work together to grow the property. Again, in general terms, not speaking of any specific instance or property, that's probably the biggest difference.

Now that you've been in the revenue sharing model for two years, are there any weaknesses that you see from this model?
From the growth of a property, not really. What some may say is that, you see the NFL and they know that they are going to have x-millions or billions of dollars over the next however many years, and that's a certainty. In this, the finances are not as much of a certainty. They could be higher or lower based on performance. From my perspective, that's not a negative. That could be an issue that somebody in finance would think more about.

Compared to the traditional rights fee model, how would you say that this revenue sharing model could alter the balance of power between professional sports leagues and networks if it were to be implemented on a regular basis?
Not speaking about us specifically, I wouldn't be surprised if networks wouldn't like to see more of these models because it gives them a little more foot in the game. You'd have to talk to NBC about this, but I'm sure if you've read some of the things that Ken Schanzer or others have said one of the points that they've made is that, with the NBA for example or even the NFL, they don't like having the opportunity to work with a property, build it up, and then eventually get outbid for the property and walk away with nothing. Not nothing, but perceived nothing. Networks would probably be interested in developing this model more and more if they could. Whether it's this, or depending on the property, potentially owning some of the properties, which they do. NBC basically owns the Dew Action Sports Tour. XFL was an extreme, where I don't know if that's the model. Models like this, I assume, would be pretty attractive to the broadcasters to the networks and even cable.

That gives the idea that the networks would gain additional power if this revenue sharing model is implemented. Is there a loss of power that you would see in general from sports leagues?
I think it all depends on the situation, and the league, and the property. I don't know that the NFL is going to enter this specific relationship, but they are looking at, hey, do we enter into a partnership with, whether it's News Corp. or Comcast or Time Warner or a combination of all of those, for another package. As opposed to the traditional rights fee that they're getting from DirecTV or CBS or FOX. So they're looking at things like that. A lot has to do with the market, and where a league is positioned. The NHL, they're not playing right now, but they entered a deal with NBC that's very similar to ours. Some may argue that in some ways ours is better because I believe for those guys to get into primetime, they've got to compensate to actually get into primetime. But a lot of their model is very similar to ours. It depends on the specific property, the circumstance, the market, and where additional dollars may be and where additional exposure may be and things like that.

In what ways does your league depend upon NBC and in what ways do they depend upon your product?
I think they depend on us in the form of strong, consistent programming within an important time frame for them. We essentially replaced the NBA programming that they had previously, over the 12 years or so that it was on NBC. So I think they're dependent on us for that as well as helping them maintain, grow their position within the network sports industry. We rely on them for something similar, putting us on air in a consistent time frame, being a strong partner to help us grow and achieve some of our objectives, whether they relate to sponsorship, other media opportunities, general exposure, attendance, things like that. We've been very happy with the partnership. We've got 17 strong teams. Our ownership has improved since we entered the partnership. Our attendance has increased. Our sponsorship dollars, number of sponsors has increased. We're not only on NBC now. We have a regional deal with Fox Sports Net, where we have 107 games. That's up over 100 percent over previous years. The promotion and other things that we get from them. It's no one thing. I don't know that dependent is the right word, but I think it's more in a partnership mold where we work well together to achieve our respective goals and objectives. They're not the only ones that we work with to achieve those. But we work well with them in advancing those things.

Was there any concern on the league's part that NBC only renewed for two years rather than four year?
We view it as, they have rights and perpetuity with us, and we kind of view it that way. The contract is for another two years, but it may be long after I'm gone. We view it as positive that we're renewed with them, and it's a sign that they believe in this. Because if they didn't, they probably would have just walked away from it. I think it's working from their perspective. It's working from our perspective and continue working together to make it grow.

Attendance increased 31 percent from 2001 to 2004, but ratings have remained around 1.0. What are some of the things that you've pinpointed to help increase the viewership on television?
One, I think the increase in our viewership is exponentially larger than the 31 percent increase in attendance from 2001 to the present because we went from x-number of games that were seen on TNN to 20-plus weeks straight on NBC. So our viewership has increased far more than 31 percent. The second thing is, our ratings over the first couple of years are comparable to other sports that are much older, more established, that are seen more from at least the traditional media, the newspapers and the like, as more established, things like the NHL and others. Our ratings are equal to or better than many of theirs. If you look at, most everybody's ratings are actually declining at this point. And we, on one hand, have increased our viewership exponentially. And on the other hand, within these two years have maintained the audience that we started out with, as opposed to going the other way. That being said, we're working with them. I think the first year we wanted to let people know that we were here. We're on NBC. Then the second year we were focusing on that John vs. John promotion, again letting people know that we're there. And this year, we're focusing on kind of building some of our stars a little bit more. So concentrating on guys like Graziani in Philadelphia, and this guy Ramen Philyaw in Chicago, and Damian Hurrell in Colorado. Letting them learn the game again last year, and then now letting them now more about the stars that we have. So that's one of the pushes this year.

How important has it been to help fans understand the game?
I think it's very important because on one level it's football. But on a deeper level, another level, it's a different type of sport. You've got to, first, expose them to it, but you also have to let them know what it is. You kind of look at it like there are great players here. But if you want to get deeper into it, there's different strategy in understanding that six of the eight go on offense and defense, and what does that really mean. And the different timing rules. And the different rules on defense and how do you play things. So it's important to let people learn and know about the basic rules of the game, so they can enjoy it that much more. The other thing is that none of this, an important point in whatever you ultimately write or do, is that none of this can be looked at in a vacuum. That's one of the reasons why I said that dependent may not be the right word. Because NBC is not the sole partner. They're obviously one of our most important. Fox Sports Net, that's just another layer. ADT and what they're doing. And Spalding, and what they're doing. And Nike and what they're doing is another layer. P.R. and what they do in their efforts. Marketing efforts. All that has to go hand in hand, and none of it can be looked at in a vacuum.

How much have you seen the relationship between sport, media, and sponsors grow?
Exponentially. The first year, in 2001, I don't know what the exact numbers were, but it's fair to say that it's grown three or four times in those years. 31 percent increase in attendance is nice, but one of the reasons is that we were doing well with attendance in the first place. You can't double and triple attendance. We would have had to have an average of 3,000 people in the buildings. I'm not saying that the attendance isn't strong, but the number of partners and the dollars that are being spent on Arena Football has again grown exponentially in the last few years. I think that's fair to say both at the national level and the local level.

How would you describe the relationship between a broadcast network and a professional sports league under the traditional rights fee model?
Going into it, it's people making calculations on how they think different properties will or won't work. Sometimes the model they come up with works perfectly. Sometimes it doesn't. A lot of it depends on what their objectives are. I think you have to look at it on a case by case basis. Sometimes people overpay. Sometimes people underpay. Sometimes people are trying to achieve certain objectives. The network might be trying to achieve certain objectives by having a property. You have to look it on a case by case basis. I don't think you can have a broad statement on whether it works or it doesn't work.

In what ways to you think the revenue sharing model may alter the relationship between a broadcast network and a professional sports league?
It will be case by case. I think I mentioned the other day, one the one hand, networks may want to see that model in place more often because there's less potential risk that they have to take. If you look at the USA Today today, I think there's something in Rudy Martzke's column about David Hill saying, 'we're paying $1.6 billion for NASCAR and it looks like it may be profitable.' At the beginning of that, they have to do some type of calculus, where this is how much we think it's worth. They may be right, they may be wrong. It will all depend on how much the ad sales are. If they are able to put that together as a revenue share, they have less risk on their end. They'd be sharing the revenue that's coming in, rather than paying these guys x-million or billions of dollars. And then hoping that they make it up in the ad sales and getting to

profitability. So I think the networks, from their standpoint, it relieves them of some of the risk that they would otherwise have.

Since your league's contract was signed, what affect do you think the revenue sharing model has had on subsequent television contract negotiations?
There are other properties that have something similar. Dew Actions Sports Tour, I don't know the specific setup, but that may be similar. Obviously the NHL is out there. There are some other where you're seeing it a little more. I think the NFL is investigating, not necessarily a revenue share, but some kind of partnership with any one or a combination of FOX or the cable systems or other people for that Thursday/Saturday package that they're talking about. So that may be a little less traditional than some of the deals that you see out there. As you see more and more channels developing, whether it's network or cable, you'll start to see more of that stuff.

What impact do you think cable and satellite providers having on professional sports moving more toward them instead of networks?
You start to see it. They have additional streams of revenue. The network model is based on advertising revenue coming in. The cable systems, satellite, the ESPN's of the world, they've got dual sources of income. It's the advertising revenue and the subscriber fees that they pick up. So whether it's ESPN and the however many dollars per subscriber or it's DirecTV, and the subscription fees that they're getting subscribers to pay. They've got dual sources. So that creates an issue for the networks. And that's kind of what you saw happen with NBC and the NBA. The NBA basically went over to ESPN and ESPN was able to pay more money for the package based on the cable systems fees and the advertising dollars. The real deal there was that ESPN was paying the money for the entire package, including what was on ABC. They basically did a time buy on ABC for however many games are on ABC over there are paid for by ESPN. So if next weekend you watch whatever NBA game is on ABC, if you watch the end of the telecast with the credits, it will say something about the broadcast being paid for by ESPN.

I thought that ABC and ESPN went in as partners to pay a flat rights fee to the NBA.
That's similar to what the NHL's deal was with ABC last year. ABC doesn't pay the NBA anything. They didn't pay the NHL anything last year. They're owned by the same companies, but ESPN did their deal with both entities. As part of that, NHL and NBA said you have to put us on network x-number of times and you have to pay for that. Because ABC was unwilling to pay a rights fee for those things.

That helps bring some clarity to the issue.
It's ESPN that footing the bill. Now that's completely different from the NFL. But that's what has been going on with the NBA and the NHL. Now obviously the NHL is different because they have their NBC thing where again they're not being paid a rights fee.

What changes do you think need to be made to the revenue sharing model to make it viable for a league like the NBA, Major League Baseball, and maybe down the road, the NFL?
It all comes down to where the properties are and in their situation what they're trying to achieve. If I'm the NFL, I wouldn't want to go to this model because they're getting guaranteed billions of dollars and exposure from these guys. So there's no reason for them to do that. However, they're starting to develop a different property themselves. The Thursday/Saturday package that they're

potentially looking at, and getting involved with these guys to potentially become a partner in one of these networks. So now if all of a sudden they're a partner in the network, they look at it as a different model of how do we grow this. We're on both sides of this. What's the best model for us to do, so they may look at it from that standpoint. The NHL, they're not getting any rights fee, so what's the best model they can put together. So you have to look at it from a case by case basis. Where you are, and what you're trying to achieve.

How do you think other professional sports leagues may utilize the revenue sharing model to acquire network exposure?
I think they'll look at it as, if they're not getting network exposure, as an avenue to get network exposure if they think that's what they need. Not everybody thinks that's what they need. If you go on, and you fail, it's a big failure and it's a well seen failure. Almost like the XFL. You have to know where you are and where you want to go and if you're ready for that or if that's what you need.

How likely do you think it is that the revenue sharing model could ever replace the traditional rights fee model?
I think for a while there will be a combination of both. Sometimes you'll see a straight rights fee. Other times, you'll see this revenue sharing partnership model. I guess it all depends on the marketplace. But I think for a while, you'll see a combination of both.

APPENDIX E

INTERVIEW TRANSCRIPT FOR JOURNALIST

Interview Transcript for Journalist

What do you think were some of the reasons that led NBC to propose the revenue sharing model?
The way that I understand it is that the Arena League was not really on network TV. They had had a pretty successful run on cable. I think they were on TNN and then ESPN for a while. But it was an unknown thing, and on how well it would do on network TV. NBC, in the last few years, has been quite smart at saying, 'OK, we'll take on certain sports.' The NHL being the most recent one on a revenue sharing basis. Meaning there's no jeopardy for NBC. The way these deals work, the first income from ad sales go to NBC to cover its production costs. So they're now guaranteed not to have a loss. Additional ad sales are split between NBC and the Arena League. So NBC covers whatever their expenses are. If there is additional revenue, then they make some money out of it. The Arena League makes some money. But on top of that, they get network exposure. But it really hasn't worked out that well. In other words, that's a reason why it's still on air on NBC. They picked up a two-year option at the end of last season on something that normally would not be, an option that would not be picked up if there was a regular rights fee. Because they were doing so poorly in the ratings, like a low ones. The Arena League right now is doing a 1.3 rating now, down 24 percent from last year which was a 1.7. You get to the low ones, and usually at that time, network affiliates complain and say, 'hey we can put on a movie and get a two or three, so we don't really want this programming that you're going to give us from the sports division.' But if it doesn't cost NBC any money, and they make a little money on it, that kind of offsets it. That's why NBC picked up the two-year option for the Arena League.

You mentioned some of the strengths of the model. What are some of the weaknesses that you see?
Let me tell you. Here's the thing. The weakness is, this is not a popular sports for network TV. There's only so much football on. There's already a lot of football on in the fall, which carries right over into January. The NFL itself goes into February with the Super Bowl and the Pro Bowl. So ever since the USFL, way back in the early to mid 80s, there's been no evidence that America is clamoring for football in the spring and early summer. This is now a third year, and you could ask, probably 100 people out of 100 outside of let's say an Arena League city, and nobody could name a player. People just don't really care. NBC, this year was going to be a big year, where they thought they would start making a ratings comeback. They moved the season up two weeks. First week was going to be the week off before the Super Bowl where there was no football being played. They thought they would get a break there. Then they had a game on Super Bowl weekend where they though the higher usage of TV sets on Super Bowl Sunday that they'd get a break on that. They didn't. That's why these ratings are down to an all-time low. You don't have people walking around saying 'I want to see this stuff.' I mean Orlando has a team, and that's nice. If you were in Tampa, nobody would care. If you were in Jacksonville, nobody cares. In Miami, nobody cares in the state. It's not a popular sport other than it's a pretty good spectator sport to go to.

Is there a shift in balance of power between the leagues and networks with the revenue sharing model?
You get a rights fee if somebody thinks you're important enough. You get a rights fee if you've got a sport that a network deems worthy of getting a rights fee that they'd be willing to pay for it. Revenue sharing, you've got the sport, the league is at the low end of the totem pole as far as popularity, and they'll do anything they can to get on TV. So it'll go for a revenue sharing deal, so that it can get on network television. And the network itself is guaranteed against a loss because it will take in this first revenue. The only way that this is good is for the network and not the sport.

So for a league like the Arena League, you think they would lose power in terms of their relationship with a network?
They don't have any power. They don't have any power, as far as I'm concerned. They're just happy to be on. And I would not be surprised if, at the end of these two years, if this is it. It's over. After two and a fifth years, they don't have any base. The only reason the WNBA is on right now, on network television which is now ABC, is because of the power of the NBA. Where an ABC is required to carry some games as part of its contract for the NBA. That's why. Otherwise, the WNBA even gets lower ratings than the Arena League. But they both get around say a one. Last year, I think the Arena League was around a 1.0. So the WNBA is like a 0.8 or 0.9. The MISL is like that, and the MLS is the same thing.

Talking about that relationship between ABC and the NBA, it sounds like ABC is somewhat dependent on the NBA and that's why they're willing to put the WNBA on.
They're not willing to. They have to. Here's the thing. You're a college kid, and you're just getting into this. From the outside, it looks different than what it is on the inside. And I'm trying to tell you what the deal is on the inside. Revenue sharing deals are really only good for the networks. The only reason that they're any good for leagues is because it gets them on national TV.

Do you still see the networks being dependent upon sports programming, and how has that relationship changed over the past years?
You're always going to have sports on broadcast, network television. But because networks in recent years, let's say the last 10 years or longer really since 1990, have suffered losses of enormous amounts. And in some cases, they're going to be much more wary of taking on these big contracts. ABC is going through that right now in their decision on Monday Night Football, which they've had for 35 years. They may lose it. And may just have to walk away rather than go into a contract that they know is going to be a money-loser from the start. And that's where these revenue sharing deals come in. That's what NBC decided to do, six or seven years ago, when it lost the NFL. They actually were just outbid. They decided not to come up with as much money as they had to pay to keep the AFC. And so they walked away, and said 'OK, we're just not going into these losing contracts anymore.' They're the ones that have more or less concentrated, in the meantime, on these revenue sharing deals. And now you don't hear as much talk about NBC. They just are not in these major sports as they were. They still have the Olympics where they make money, but their bottom line is a lot better than it used to be.

How has the revenue sharing deal changed the idea of networks being dependent upon sports leagues?

I don't know if it's the word dependency as much as relationships. They call it where you are a television partner of the so and so sport. What's happened is that the networks, because there is so much money at stake and in losses of some cases, have stepped back and said, 'hey, it's better for us to not be involved if the cost is going to be a loss, financially.' And so they have become, I don't know if the word is more powerful, but taken bold steps to say, 'if we can't afford a sport, we're just not going to be in.' And that's where these revenue sharing deals came. If a sport still wanted to be on network TV, it was. FOX was the one that came in in late 1993 and changed everything. Until FOX came around, networks always looked at sports on a general, conservative basis. It's going to cost this much to put in a bid. We've got to see if we can get enough money involved, let's say income from advertising sales, to offset that and maybe make some kind of profit. But when FOX came in and grabbed the NFC away from CBS, they did it for other reasons. To take it away from an incumbent, CBS, they had to come up with a lot more money, which meant it was going to be a money-loser. But wait, they came in for the reason of like 'this will make our network.' FOX at that time was a weak number four, not even considered a real, major network at that time. But the NFL, through the association with the NFL, and all its telecasts that actually promoted other prime-time events on FOX. The NFL in effect made FOX a major network. But they caused a lot of jump arounds at that time of other sports and other networks followed that position too, and wound up with losers. And they all kind of had to back off over the last few years.

One way the relationship between the two has been described is the network as a vendor. How would you describe the relationship between a broadcast network and a professional sports league under the traditional rights fee model?

Like I said, they were partners. Business partners. There's some benefits that come from that. If a network wants to get more access to the players, it has to go to the league and ask for that. And the league says 'Let's give it to them. They're paying this amount of money to keep us solvent. And on top of that, we want them to be around to renew the contract.' So they work closely together. Actually, up until somewhere in the mid 1990s, Major League Baseball was not friendly. There was an arrogance there. They were not friendly with their TV partners, which at that time were NBC and ABC. And really thwarted them on a lot of things the networks wanted to do to get closer to the players, dugouts, locker room, and so on. It was only after there was that strike in 1994-1995, and then also they had to go to The Baseball Network because nobody wanted to pay any kind of reasonable or sufficient rights fee for baseball. In effect, The Baseball Network was a revenue sharing deal between NBC, ABC, and Major League Baseball. It was only at that time that Major League Baseball started to reach out to the TV partners and allow all these other things that have enhanced the telecasts. So you go back and forth on these things.

Do you think The Baseball Network jumpstarted NBC's thinking into their current revenue sharing model?

It's not just NBC. There's other networks that have had revenue sharing too on various sports. ABC, in effect, for Major League Soccer it's either some kind of form of revenue sharing. The other thing we're talking about is time buy too. Where, let's say a sport like Major League Soccer, which really only gets like 0.9's when it's on, comes up with its own sponsors. Let's say that want to sponsor soccer, and they buy the time on say ABC. There's a lot of those deals that

go around. All these skiing events and snowboarding events you see on NBC in the winter, those are all time buys. So they're not revenue share, but they're time buys. That's something else where the network says our time is worth x-amount of dollars. Maybe it's worth $300,000 on a Sunday afternoon or Saturday afternoon per hour. And they'll sell that time. So somebody can buy there way onto it.

Are there any other business models that you've heard of between networks and league?
I think those are the three main one. It's rights fees, which has always been involved usually with the big, major sports. And of course the Olympics too, which is a rights fee.

How much do you see cable being a part of what has caused this explosion between TV and sports leagues?
Here's the big difference between cable and broadcast networks. Cable has two revenue streams. They're called dual revenue streams of not only advertising money, but also subscriber fees. That's what has made ESPN into the power it is. ESPN is clearly the most profitable network in all of broadcasting. In fact, when Disney bought ABC/ESPN, from the company that it bought it from. They gave as a reason, ESPN. They know what the profit center it is. So that's why an ESPN lately can step in and say, 'hey, they've got all the four major sports.' We still call the NHL a major sport. That's the first time that's every happened that one entity has all those sports. And yet, it's a cable company. Because they make all this money. They get around $2.30 at least per home per month. The broadcast networks can't do that. And that's why NBC had to back down on the NBA, and ESPN was ready to come in. Plus then they bring ABC in on network telecasts, but in effect the rights fee is coming from ESPN.

The idea of these league-owned channels, what level of competition do you see them providing for these television outlets?
I think they'd be a supplement. Two things. One, there a supplement to what you already get. Let's say if it's Major League Baseball on ESPN and all your local FOX affiliates that carry individual teams. Now Major League Baseball is coming up with a baseball channel. But there's already so many baseball games on here already. The difference is, the NFL has it's own NFL Network. Right now they don't have any live, regular season games on there even though they have 25 million homes or so that they've signed up. Remember, there are about 89 million, 90 million cable homes right now. To get the big jump there, they have to determine if they are going to take some of those new Thursday/Saturday games that's coming up in this next TV deal. If they do, the feeling is, that will be the big boost that they need for their number of homes that they'd be in. Get themselves over 80 million homes and so on. But that's the only one, I'd say, of the sports where it would make a big impact. The NBA already has NBA TV, and they do carry live regular season telecasts of games on there, maybe 100 for the season. But it's really only available on digital TV, like DirecTV and so on, Dish Network. And there's so many NBA games on that there's a reluctance to pay extra for those games. The only sport that I think would make a major impact with is the NFL.

APPENDIX F

HUMAN SUBJECTS APPROVAL LETTER

Office of the Vice President For Research
Human Subjects Committee
Tallahassee, Florida 32306-2763
(850) 644-8633 · FAX (850) 644-4392

APPROVAL MEMORANDUM

Date: 4/2/2005

To:
Travis Bell
4526 Northern Dancer Way
Orlando, FL 32826

Dept.: **SPORT MANAGEMENT/PHYSICAL ED.**

From: **Thomas L. Jacobson, Chair**

Re: **Use of Human Subjects in Research**
A qualitative analysis of re venue sharing in professional sports broadcasting using network theory,

The forms that you submitted to this office in regard to the use of human subjects in the proposal referenced above have been reviewed by the Human Subjects Committee at its meeting on **3/16/2005**. Your project was approved by the Committee.

The Human Subjects Committee has not evaluated your proposal for scientific merit, except to weigh the risk to the human participants and the aspects of the proposal related to potential risk and benefit. This approval does not replace any departmental or other approvals which may be required.

If the project has not been completed by **3/15/2006** you must request renewed approval for continuation of the project.

You are advised that any change in protocol in this project must be approved by resubmission of the project to the Committee for approval. Also, the principal investigator must promptly report, in writing, any unexpected problems causing risks to research subjects or others.

By copy of this memorandum, the chairman of your department and/or your major professor is reminded that he/she is responsible for being informed concerning research projects involving human subjects in the department, and should review protocols of such investigations as often as needed to insure that the project is being conducted in compliance with our institution and with DHHS regulations.

This institution has an Assurance on file with the Office for Protection from Research Risks. The Assurance Number is IRB00000446.

cc: Jeffrey James
HSC No. 2005.155

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BIOGRAPHICAL SKETCH

EXPERIENCE

WESH-TV — October 2004 – Present — Orlando, FL
Sports Videojournalist
- Shoot and edit features and daily stories for sports department.
- Orchestrate and shoot live shots.

WCTV-TV — May 2002 – October 2004 — Tallahassee, FL
Sports Reporter/Videojournalist
- Shot, wrote, and edited features and daily stories for sports department.
- Orchestrated and shot live shots.
- Reported live for sports department.

WPTY-TV — July 2001 – May 2002 — Memphis, TN
Videojournalist/Reporter
- Shot and edited features and daily stories for news department.
- Produced weekly features for John Calipari basketball show.
- Orchestrated and shot live shots.

KTRE-TV — May 2000 – June 2001 — Lufkin, TX
Reporter/Videojournalist
- Shot, wrote, and edited features and daily stories for news/sports departments.
- Reported live and anchored for sports department.

WKMG-TV — August 1999 – May 2000 — Orlando, FL
Sports Department Intern
- Assisted with Sunday sports show production.
- Produced weekly highlight reel for Florida Citrus Sports.

EDUCATION

Florida State University — August 2002 – Present — Tallahassee, FL
- M.S., Sport Management.
- Expected April 2005.

University of Central Florida — August 1995 – May 2000 — Orlando, FL
- B.A., Radio-TV Broadcasting.
- B.S., General Business Administration.

OTHER PROFESSIONAL EXPERIENCE

Freelance Journalist – *Orlando Sentinel, Tampa Tribune, Northwest Florida Daily News.*
Beat Writer – *USA Today* Online (college football and basketball) 1997-98.
Sports Editor/Writer – *Central Florida Future* 1995-2000.

AWARDS AND PROFESSIONAL ASSOCIATIONS

1st Place Associated Press – Best Sports Feature 2003.
2nd Place Associated Press – Best Sports Feature 2002.
National Press Photographers Association.
Collegiate Baseball Writers Association.