The National Sport Network in 2017: Changing Environment and Drivers of Ratings

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The sports broadcasting industry in the United States is changing and changing quickly. Over the past decade, "changes in technology and policy have increased the number of potential buyers of sports rights" (Noll, 2007, p. 402) however, in recent years, the nature of buying has been impacted by 'cable cutting', with the pace at which consumers are dumping their paid cable TV bundles increasing rapidly in 2016 and in early 2017. Notably, the most expensive cable channel, ESPN (Travis, 2016), has lost seven million subscribers in the past two years, estimated to cost the network about $600 million a year in revenue (Travis, 2016). Although some of these revenues are being replaced by alternate channels of consumption, such as online streaming via Netflix, Amazon Prime, Hulu, and Sling TV, television is typically given preference by the networks (Burroughs & Rugg, 2014) and the expectation is that revenues are flowing out of sport media via this trend, making the requirement for sport organizations to make their televised content more attractive and 'sticky' increasingly important to sport networks and sport properties.

Research and industry sources have identified that the best ways to maintain revenues are to (i) develop a superior product that may include elite game announcers, interesting promotional information, and offering interactive fantasy sport contests (Edelman, 2016), and (ii) to facilitate access to the content on mobile devices. For example, Major League Baseball (MLB) Advanced Media created MLB.TV that made broadcasts of live MLB games available on computers and cell phones. As of 2012, MLB.TV had over 2.2 million subscribers, generating over $250 million in revenue for the league (Horner, 2012).

The challenge with decreasing cable subscribers (and their decreasing revenues) is that many are locked into long-term rights deals with sport properties. For instance, MLB will receive $12.4 billion annually from its television broadcasting contracts with FOX, TBS, and ESPN (Horner, 2014). There are also leakages of viewers through technology loopholes (e.g., US viewers putting their location as UK to livestream the 2012 Olympic Games) and unofficial sources streaming content without permission (Burroughs & Rugg, 2014).

Within this context, this research endeavors to identify and determine the relative impact of what drives the value of televised sport products and the ever-expanding rights fees associated with them. The context of the National Sport Network (NSN) is selected. The impetus for this research comes directly from personal communications between the authors and the senior leadership of two NSNs who face a variety of important decisions related to content selection, rights fees pricing, contract details, and NSN strategy. Although it is widely believed that the value of rights fees was highly correlated with the television ratings of a sport property (Smith & Ourand, 2012; Lombardo & Ourand, 2011), these NSN executives informed us that this is not always the case. Thus, in an effort to better understand rights fees dynamics, this paper seeks to identify the potential influencers of rights fees, in additional to television ratings, and undertake analysis to identify the magnitude of each influencer.

NSNs are the sport content providers that bring subject matter to consumers at a national level. These networks include ESPN, TNT, NBC Sports, Fox Sports, etc. Content providers negotiate the rights fees to produce from content creators, such as sports leagues, clubs, and events. The value of rights fees for NSNs is increasing at a substantial rate. NSNs often sign deals quickly, scooping up rights before finalizing the details of the offering, such as the service, the content, or even the name (Ourand, 2014). NSNs face challenges in the future due to rising costs of media rights contracts, which are growing at an annual compound rate of 9.1 percent, and projected to be a $19.3 billion industry by 2018 (PWC). Due to this trend coupled with the cutting of cable, NSNs must do whatever they can to maintain viewers of their content. In turn, they are seeking the most attractive content for their network. This research endevors to empirically determine what drives that interest (i.e., ratings, rights fees) through an analysis of a series of potential drivers (independent variables). Specifically, we seek to model – from an NSN perspective – the rights fees that should be paid for a specifiic sport property. For example, in their contract with the NFL, ESPN is estimated to pay $1.9 billion each year for the rights to air Monday Night Football games. ESPN must judge whether paying $118,750,000 to air each game is worth the rewards.

In order to accomplish this, our research involved creating a conceptual model centered around a single dependent variable (rights fees) and 38 independent variables (including TV ratings) thought to affect the dependent variable in a statistically significant way. Variables that could not realistically be quantified were removed from the model, which was analyzed as a regression. The 38 independent variables include television ratings, timing of the telecast, the market potential of the sport, the strength of the event, the quality of the telecast, the reach (subscriber base) of the NSN, the demographics of the viewership, aspects of the deal, and the competing content televised in the same time slot. The data were reduced and modeled in the same way as previously published similar articles (e.g., Foster et al., 2014).

The resulting model is strong and will inform future research on the topic and provide direction to NSN and sport property management during negotiations. The model includes a number of variables that are found to be particularly influential on the rights fee level. These variables that influence rights fees are identified, reduced explained, and kept/discarded to provide a model that can evaluate the value of NSN rights fees for any given sport property.

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