

THE BIGGEST GAME IN TOWN: THE NFL, THE EPL, AND  
A NEW MODEL FOR VALUE CREATION IN PROFESSIONAL SPORTS

By  
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A THESIS

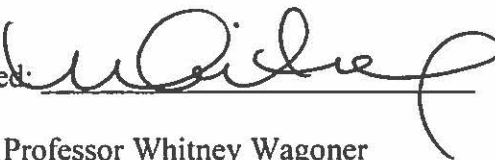
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An Abstract of the Thesis of

Keagen Gregory Edwards for the degree of Bachelor of Science

In the Lundquist College of Business to be taken December 13, 2013

Title: The Biggest Game in Town: The NFL, The EPL, and a New Model for Value Creation in Professional Sports

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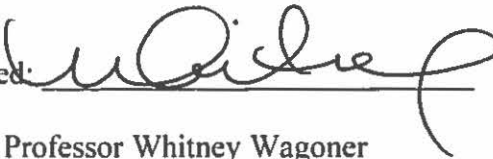
The National Football League and English Premier League sit atop the professional sports industry as the two organizations that create the most economic and social value. This thesis investigates how these two leagues have achieved this success by exploring both the external, environmental factors that influence each league, as well as the internal, strategic resources that each league leverages to create value. Using the findings of this investigation, this thesis proposes a new model for value creation in professional sports that considers the fundamental elements of professional sports organizations, how those elements interact, and how leagues can evolve to capitalize on those interactions in order to maximize economic and social value.

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## **INTRODUCTION**

*“Price is what you pay. Value is what you get.” - Warren Buffett*

From 2010-2011, the National Football League generated just under \$9 billion in revenue. Over the same period, the English Premier League garnered around £2.3 billion (about \$3.7 billion) in revenue. These figures represent the *prices* that fans, sponsors, and broadcasting companies pay these two leagues each year, and they clearly indicate that in their respective markets (for the NFL, the United States; for the EPL, the United Kingdom), each has established a dominant economic position in the industry. However, the *value* that these leagues generate goes far beyond simple comparisons of financial statements – the NFL and the EPL are also the most important sports organizations in their respective markets based on popularity, average attendance, and other measures of social impact. This thesis seeks to explore how each of these two leagues has risen to the top not only in terms of economic capital, but also in terms of other measures of influence, especially social capital.<sup>1</sup> Using the findings of this exploration, this thesis will posit a model for other professional sports leagues seeking to achieve similar success.

### ***Background and History - National Football League***

The National Football League, officially established in 1920, operates as an unincorporated association, rather than a traditional for-profit corporation. Practically speaking, this designation means that the league office is not subject to income tax because it does not make a profit, while each individual team is responsible for paying

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<sup>1</sup> Sandalio Gomez, Kimio Kase and Ignacio Urrutia, *Value Creation and Sports Management* (Cambridge University Press, 2010).

taxes. The league is comprised of 32 franchises spread across the United States. The NFL (as a whole) is managed by the owners of each of these 32 franchises, along with the commissioner, who wields disciplinary and decision-making authority. At present, the league has the “most centralized operations of any traditional league,” with \$5.2 billion in media revenue per season split among the teams.<sup>2</sup> Even after a lengthy labor dispute over the collective bargaining agreement threatened to disrupt the 2012 season, 59 percent of Americans claimed to follow the NFL.<sup>3</sup> More Americans cite professional football as their favorite sport (34 percent) than the next three professional sports *combined* – professional baseball, auto racing, and men’s professional basketball.<sup>4</sup>

### ***Background and History - English Premier League***

The English Premier League as it exists today was established as a limited company in 1992 when first division clubs from the then-104-year-old English Football League resigned, reorganizing in order to capture more revenue.<sup>5</sup> The limited company designation means that the EPL essentially operates as a corporation owned by the 20 member clubs – each club acts a shareholder with voting power, and they elect a chairman, chief executive, and board of directors to oversee management of the league. The Football Association, the governing body of English soccer, is typically not involved in the day-to-day operations of the Premier League, but it does hold veto

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<sup>2</sup> Mark Conrad, *The Business of Sports: A Primer for Journalists* (New York: Routledge, 2011).

<sup>3</sup> Harris Interactive, "Football Continues to be America's Favorite Sport; the Gap With Baseball Narrows Slightly this Year," *HarrisInteractive.com*, January 17, 2013, <http://www.harrisinteractive.com/NewsRoom/HarrisPolls/tabid/447/ctl/ReadCustom%20Default/mid/1508/ArticleId/1136/Default.aspx>.

<sup>4</sup> Ibid.

<sup>5</sup> Frank P. Jozsa, *Global Sports: Cultures, Markets, and Organizations* (Singapore: World Scientific, 2009).

power as a “special shareholder” in electing a new chairman or chief executive or adopting new rules.

### ***Defining Value Creation***

Instituto de Estudios Superiores de la Empresa (IESE) Business School professors Sandalio Gomez, Kimio Kase, and Ignacio Urrutia put forth four types of value that sports organizations create in their book, *Value Creation and Sports Management*. These four types of value are economic, social, historic, and media capital. This project focuses on only two of these value categories – economic and social capital – because these types of value cover both the tangible and intangible importance of a professional sports organization. Economic capital includes the traditional measures of business success that are often easily quantified, including revenues, profits, market share, return on investment, and other objective indicators of the economic value created by a firm. Social capital, on the other hand, includes more subjective, qualitative outcomes of what a business performs. For example, in a sports context, the positive effect that a professional sports organization has on participation in youth sports might be one way of creating social capital. Other types of social value creation include participation in charitable causes and other forms of “corporate social responsibility” programs.

This thesis uses established academic frameworks as the basis for not only identifying how the National Football League and English Premier League create economic value, but also how the environment in which they operate and the strategic resources they leverage affect how they create social value.



### *Definitions and Style Notes*

1) This thesis will use “football” to refer to American football, and “soccer” to refer to traditional European football, except for when referring a European organizing body that uses “football” in the title (e.g., the Football Association). This is to avoid ambiguity when discussing two sports that often use overlapping terminology.

2) This thesis will refer to the “English Premier League” (or “Premier League” or “EPL”) as such, rather than using the current sponsored title, the “Barclays Premier League” or “Barclays Premiership”. Again, this is to enhance clarity and consistency for the reader.

3) Direct quotes are italicized. Quotes from print and web sources are not italicized.

## **PART I: EXTERNAL ANALYSIS**

A professional sports league, like any other firm in any other industry, does not operate in a vacuum. The environmental factors that influence how a business operates are often unpredictable, variable in magnitude, and sometimes difficult to even identify. However, these truths have scarcely prevented the academic and professional communities from trying to create systematic ways of exploring these external factors, in order to understand them and even leverage them into success. This section relies on a particular pair of these well-established academic frameworks to guide and organize the analysis of the business environments in which the National Football League and English Premier League operate.

The first such framework through which one can set the general context for each league is a modified version of the PEST model. First proposed by Harvard Business School Professor Emeritus of Business Administration Francis Aguilar, this model originally considered the political, economic, social, and technological factors that affect how a business operates.<sup>6</sup> Other business strategy theorists have added to, changed, and/or redefined the four PEST categories, first put forth in Aguilar's 1967 book *Scanning the Business Environment*.

For the purposes of this thesis, the modifications made to the original four categories ensure that the most important external factors influencing each league are addressed in appropriate depth. The first adjustment to the framework is to consolidate political and legal factors into one section. More recent iterations of the PEST model (e.g. the PESTLE model) often include a legal element as an additional set of factors,

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<sup>6</sup> Francis J. Aguilar, *Scanning the Business Environment* (New York: Macmillan, 1967).

but political and legal influences are intertwined enough in the professional sports industry to discuss them together. The other change to Aguilar's model extends the "social" category into a more comprehensive set of drivers, or "socio-cultural" factors. Redefining this category allows for a more thorough analysis of important cultural influences on each league and how they affect social value creation.

The PEST model and most modified versions of it are usually tuned towards discussing the factors that affect the traditional business operations of a firm. Including the social value component proposed by Gomez, Kase, and Urrutia in this framework results in more comprehensive conclusions to apply towards a model for professional sports league success and value creation. In each of the following sections, the factors identified represent a few of the most important influences from what may be a wide selection. However, this framework analysis seeks to only set the context for each league, and it need not be exhaustive.

### ***Modified PEST Analysis - National Football League***

#### ***Political/Legal Factors***

##### ***Factor 1: Antitrust Exemption for Broadcasting Rights***

No other single legislative decision has impacted the National Football League's ability to create economic value more than the Sports Broadcasting Act of 1961. The Act effectively exempts the NFL (and, to a lesser extent, the other major American professional sports leagues) from antitrust restrictions in negotiating "pooled" broadcasting rights. In other words, the Act allows NFL teams to negotiate joint, exclusive agreements with broadcast partners as a group, instead of individually. The

Act views each franchise as part of an interdependent network of partners, as opposed to a group of competitors. This aligns closely with the NFL's key resource of parity and revenue sharing, as discussed later on in this thesis. According to Martin Cave and Robert W. Crandall, "the result [of the Act] was a dramatic increase in the value of national network televisions sports rights throughout the 1960s as a network triopoly bid aggressively for the right to broadcast NFL games."<sup>7</sup> This legal decision set the foundation for the explosion in broadcasting rights fees that would eventually occur in the late 1990s. The legal environment could not be more favorable for the NFL to command such extraordinary economic value and the league capitalizes on this in spades: the TV deals with CBS, NBC, ESPN, and FOX running through the 2022 season collectively generate about \$3 billion, or about one third of the league's annual revenue.<sup>8</sup> As for social value, the NFL leans so heavily on television as its main distribution channel that these national contracts represent the lifeblood of the social reach of the organization. The league claims that 200 million unique viewers tuned in to the 2011 season – and as the last section of this thesis will address, the success of a professional sports league hinges on the cultural momentum that such extensive distribution can provide.<sup>9</sup>

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<sup>7</sup> Martin Cave and Robert W. Crandall, "Sports Rights and the Broadcast Industry," *The Economic Journal* (Blackwell Publishers), 2001.

<sup>8</sup> NFL Communications, *The tradition continues: NFL to remain on broadcast TV*, December 14, 2011, <http://nflcommunications.com/2011/12/14/the-tradition-continues-nfl-to-remain-on-broadcast-tv/>.

<sup>9</sup> NFL Communications, *More than 200 million tune in to NFL games in 2011 — NFL TV recap*, January 5, 2012, <http://nflcommunications.com/2012/01/05/more-than-200-million-tune-in-to-nfl-games-in-2011-nfl-tv-recap/>.

## *Factor 2: Public Sector Support*

Relative to other countries, the United States exhibits more local governmental support of professional sports leagues. Major League Soccer Vice President of Club Services Declan Bolger notes:

*“[After the antitrust exemption] the second [example of how the government intervenes in the operations of American sports leagues] would be more local - what the government believes their role, versus the private sector role, is in creating and supporting leagues...the relative openness for municipalities to help fund sporting venues which doesn’t exist in Europe. [...] The U.S. is the most capitalist country in the world, but it has the most socialist-based sports system.”<sup>10</sup>*

The willingness of local and state governments to fund facilities for NFL teams provides a favorable environment for the league to capitalize on fan interest and avidity. Judith Grant Long, a Harvard University professor of urban planning, calculates that league-wide, 70 percent of the capital cost of NFL stadiums has been provided by taxpayers, not NFL owners.<sup>11</sup> Unlike other traditional business endeavors, NFL owners are not entirely “on the hook” for the infrastructure investment required to make their product viable. While this external capital investment only represents part of the league’s ability to generate economic and even social value (since it is quite difficult to generate social value if at least some fans cannot actually watch their team play live), it effectively ensures iterative success in that fans are invested not only emotionally, but

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<sup>10</sup> Declan Bolger, interview by Keagen Edwards, (October 28, 2013).

<sup>11</sup> Gregg Easterbrook, *How the NFL Fleeces Taxpayers*, October 2013, <http://www.theatlantic.com/magazine/archive/2013/10/how-the-nfl-fleeces-taxpayers/309448/>.

also financially and politically as well. Politicians could not afford to take the risk of shouldering the burden of millions of dollars in venue investments if the popularity and local economic impact of the league could not justify it.

*Taxpayer Burden of Select NFL Stadiums*

<b>Team</b>	<b>Stadium</b>	<b>Cost</b>	<b>% Paid by Tax*</b>
Minnesota Vikings	Vikings Stadium	\$1.1 billion	~50%
San Francisco 49ers	Levi's Stadium	\$1.2 billion	~90%**
Seattle Seahawks	Century Link Field	\$590M	~70%

\* Tax includes "hard taxes" (e.g. sales taxes) and "soft taxes" (e.g. tourism taxes)

\*\*Santa Clara Stadium Authority loaned \$950M on behalf of taxpayers<sup>12</sup>

*Factor 3: Tax-Exempt Status*

In 1966, Congress officially classified the NFL as a 501(c)6 organization - a non-for-profit designation that groups the league together with chambers of commerce and boards of trade. In fact, on its IRS tax form, the NFL classifies itself as a "trade association promoting interests of its 32 member clubs." Almost all of the league office's \$255 million in revenue in 2011 came from team membership dues, paid by franchises to the league office, which (if the league were not tax-exempt) could be written off as a tax deduction as a "business expense" regardless.<sup>13</sup> In essence, the tax-exempt status of the NFL serves as a reminder that the economic value created by the league occurs primarily at the franchise level, but that the organization provided by the league office strongly facilitates this value creation. While this may indicate a detriment to the league's creation of social value at first glance, the league itself does exactly "what it says on the tin": it promotes the interests of member clubs, each of which then

<sup>12</sup> Ibid.

<sup>13</sup> Brent Schrottenboer, *To tax or not? The NFL's relationship with the IRS*, May 30, 2013, <http://www.usatoday.com/story/sports/nfl/2013/05/29/nfl-sports-leagues-irs-tax-exemption/2370945/>.

pays the appropriate taxes, which funnel back to the city, state, and/or federal government.

### ***Economic Factors***

#### *Factor 1: Macroeconomic Trends*

Macroeconomic factors, like unemployment rates, trends in gross domestic product, and especially inflation, normally represent important considerations for large-scale enterprises. Inflation does influence the operational costs of the league, including the cost of infrastructure. However, for the NFL, the nature of the product (i.e. professional sports) offers some insulation from such factors. Rob Lampman, partner at Eiger Marketing Group, puts it thusly: “*the only impact of inflation is that it’s used as a sales tool [...] it’s just a justification for trying to increase rights fees.*”<sup>14</sup> The NFL can leverage external macroeconomic factors in creating economic value through broadcasting rights fees more than those same factors can negatively affect the day-to-day economic operations of the league.

On a general scale, however, the NFL cannot completely escape a wide-scale economic downturn without marginal decline in certain metrics. For example, through the recession starting in 2008, attendance numbers fell across the league for the first time in years as consumers were forced to redirect discretionary income away from attending live sports, including the NFL.

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<sup>14</sup> Rob Lampman, interview by Keagen Edwards, (October 10, 2013).

The following table shows attendance figures from 2006-2012<sup>15</sup>:

<b>Year</b>	<b>Avg Attendance/Game</b>	<b>Total Attendance</b>
2006	68,712	17,590,340
2007	68,763	17,603,314
2008	68,264	17,334,276
2009	67,498	17,146,404
2010	66,953	17,007,172
2011	67,358	17,124,389
2012	67,604	17,301,800

Though this dip in attendance may seem insignificant (only about 2.5 percent from 2007 to 2010), the economic and social value of the league did suffer due to the recession. Ticket revenue flattened at about \$1.3 billion from 2008 to 2012, and the owners came up “about \$1 billion short of the growth in real dollars they were projecting [...] in 2006.”<sup>16</sup> In essence, the combination of the economic downturn and the labor stoppage of the summer of 2011 resulted in a stagnation of the momentum that had been building since the mid-90s. Whether the league can recover and start back on the path of growth and progress in terms of value creation remains to be seen.

### ***Socio-Cultural Factors***

#### *Factor 1: Established Popularity*

The NFL holds more widespread popularity than any other major American professional sports league. The results of a 2011 Adweek/ Harris Poll indicate, “two thirds of U.S. adults say they currently watch NFL football (64%), including almost

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<sup>15</sup> Winthrop Intelligence, *NFL and NCAA Division I FBS Home Attendance Numbers*, 2012, <http://winthropintelligence.com/wp-content/uploads/2012/12/NFL-and-NCAA-Division-I-FBS-Home-Attendance-Numbers1.png>.

<sup>16</sup> Matthew Futterman, *The NFL's \$1 Billion Game of Chicken*, February 17, 2011, <http://online.wsj.com/news/articles/SB10001424052748703373404576148712424300234>.



three quarters of men (73%) and over half of women (55%).”<sup>17</sup> The league garners higher ratings, greater per-game attendance, and more overall revenue than any of the other “Big Four” American leagues (i.e. Major League Baseball, the National Basketball Association, and the National Hockey League). Perhaps even more telling, however, is that the NFL reigns in terms of popularity when it comes to entertainment *as a whole*. Individual broadcasts of NFL games “accounted for 23 of the 25 most-watched TV shows among all programming and the 16 most-watched shows on cable” in 2011, and historically, the top 21 TV broadcasts of all-time are NFL Super Bowls.<sup>18</sup> Not only do these figures accentuate the importance of television as the NFL’s most important distribution channel, they also indicate how Americans are drawn to the NFL for a variety of reasons.

#### *Factor 2: Catharsis, Escape, and Aesthetic Appeal*

The NFL represents a unique outlet for catharsis and escape as part of the very nature of the sport. Research indicates, “collision sports, such as rugby and American football [...] have a strong attraction to fans who need to escape from their tightly controlled work and social environments.”<sup>19</sup> Combined with the integrative social appeal of being involved in a communal activity, the NFL offers fans the chance to fulfill the dual role of breaking the mechanistic constructs of a work environment and reinforcing a tightly knit sense of belonging. On a more basic level, the aesthetics of the

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<sup>17</sup> Bill Gorman, *No Surprise: 64% Of Americans Watch NFL Football; 73% of Men, 55% of Women*, October 14, 2011, <http://tvbythenumbers.zap2it.com/2011/10/14/no-surprise-64-americans-watch-nfl-football-73-of-men-55-of-women/107308/>.

<sup>18</sup> NFL Communications, *More than 200 million tune in to NFL games in 2011 — NFL TV recap*, January 5, 2012, <http://nflcommunications.com/2012/01/05/more-than-200-million-tune-in-to-nfl-games-in-2011-nfl-tv-recap/>.

<sup>19</sup> Hans Westerbeek and Aaron Smith, *Sports Business in the Global Marketplace* (New York: Palgrave Macmillan, 2003).

NFL's most basic product – professional football - is unrivaled, appealing to consumers of all demographics. Lampman notes this as a key to social-cultural success: “*The product on the field is the athletes, (they) are amazing. [...] they do things that normal people can't do.*”<sup>20</sup> Michael Oriard, author of *Brand NFL: Marketing and Selling America's Favorite Sport* posits, “the *tension* between the hit-or-be-hit side and the ballet side [earlier described as ‘perfect passes, circus catches, breakaway runs, etc’] defines the essence of football.”<sup>21</sup> Soccer often lays claim to the title of “the beautiful game,” but Americans clearly find football (and, by extension, the NFL) beautiful in its own regard.

### *Factor 3: Gambling*

A socio-cultural factor that ensures a relatively sustainable competitive advantage for the NFL in the professional sports industry is the popularity of gambling on NFL games. Rob Lampman notes, “*Gambling drives the NFL [...] it's the single biggest factor that makes that league popular.*”<sup>22</sup> While the league officially distances itself from this “shadow economy” of gambling, both legal and illegal, in the interest of maintaining the authentic, family-friendly image it works so hard to protect, it is still an influence ensuring competitive advantage in the professional sports industry. According to the Nevada Gaming Commission, nearly 41 percent of the \$3.2 billion wagered legally on sports can be attributed to football, while estimates of total illegal wagering

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<sup>20</sup> Rob Lampman, interview by Keagen Edwards, (October 10, 2013).

<sup>21</sup> Michael Oriard, *Brand NFL: Making and Selling America's Favorite Sport* (Chapel Hill: University of North Carolina Press, 2007).

<sup>22</sup> Rob Lampman, interview by Keagen Edwards, (October 10, 2013).

on the NFL are close to \$100 *billion* worldwide.<sup>23</sup><sup>24</sup> The sheer volume of money changing hands indicates a widespread interest – both personal and financial – in the league that goes beyond the accounting statements of any individual franchise or the league office. The attachment that gamblers have to the league results in secondary value being generated for the league. For example, when gamblers tune in to a matchup that they have bet on, that boost in viewers, no matter how insignificant, is indistinguishable from any other rise in ratings.

### ***Technological Factors***

#### *Factor 1: “DVR Proof”*

Watching NFL football on television has remained the primary mode of consumption for fans since the middle of the last century, but technological changes have influenced how that consumption occurs. Most notably, the advent of digital video recording systems (DVRs) has rendered the concept of “appointment viewing” obsolete for many forms of television entertainment. However, live sports offers its own built-in resistance to the DVR revolution, and especially so in the case of the NFL, for a combination of reasons. For one, the social entertainment value of viewing a game hinges almost entirely upon not knowing the outcome. This uncertainty (called “eustress”, a portmanteau of euphoria and stress, by psychologist Daniel Wann) is time-bound – that is to say, in the age of instant information availability via social media, fans must watch a game at the time it is played if they want to experience the full

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<sup>23</sup> Miranda Green, *NFL’s Shadow Economy of Gambling and Fantasy Football is a Multibillion Dollar Business*, October 26, 2012, <http://www.thedailybeast.com/articles/2012/10/06/nfl-s-shadow-economy-of-gambling-and-fantasy-football-is-a-multibillion-dollar-business.html>.

<sup>24</sup> American Gaming Association, *Sports Wagering*, June 30, 2012, <http://www.americangaming.org/industry-resources/research/fact-sheets/sports-wagering>.

eustress effect. Because each NFL team only plays 16 regular season games a year, the entertainment value of each individual game is elevated relative to, for example, one of 162 regular season Major League Baseball games. Since the NFL is virtually DVR-proof as a result of information availability and its limited schedule, it can demand higher rights fees from broadcasters because advertising time is inherently more valuable (i.e., expensive) when viewers are unable to skip past it. This boosts economic value for the league, especially in comparison to other forms of television entertainment without the same insulation from the advent of DVR.

*Factor 2: 24/7/365 Consumption Options*

Technological advances allow NFL fans to follow their team and the league in more ways than ever. For illustration's sake, here are just a few of the options available to an average Seattle Seahawks fan for "consuming" the NFL:

Hourly:

- Follow the league on Twitter (@NFL, 5.3M followers, 36 tweets/day)
- Like the NFL on Facebook (/NFL, 8.5M likes, 500K "talking about")
- Follow the Seahawks on Twitter (@Seahawks, 300K followers, 12 tweets/day)
- Subscribe to NFL Network (24/7 NFL coverage, incl. Thursday Night Football)

Daily:

- Watch ESPN's NFL studio shows (NFL Live, NFL Insiders, NFL Primetime, NFL 32)
- Watch Sunday Night Football (NBC) and Monday Night Football (ESPN)
- Watch the regional broadcast of the Seahawks game

Monthly:

- Follow the NFL Combine (February)

- Watch coverage of the NFL Draft (April/May)
- Watch HBO's *Hard Knocks* and NFL Preseason games, draft fantasy team (August/September)

In essence, technological advances in social media and expanded television options ensure that a fan can effectively interact with the NFL quite literally whenever and wherever they want to.

### ***Modified PEST Analysis - English Premier League***

#### ***Political/Legal Factors***

##### *Factor 1: The European Commission*

The European Commission has presided over a number of cases that dictate the English Premier League's ability to generate economic (and, by extension, social) value. First, as of the 2012 season, the EPL sells its broadcasting rights on a collective basis, similar to the NFL. However, the functional reasoning behind why this collective sale is allowed is slightly different than in the case of the NFL. The European Commission considers the EPL collective selling legal under an exemption to Article 81(1) of the EC Treaty (the *de facto* equivalent of the Sherman Antitrust Act in the United States) in that collective broadcast agreement "[allows] consumers a fair share of the resulting benefit."<sup>25</sup> As with the NFL, the collective sale of broadcasting rights allows the EPL to demand high rights fees, but the revenue sharing structure is radically different. According to the league,

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<sup>25</sup> European Commission, *Article 81 of the EC Treaty (ex Article 85)*, 2007, [http://ec.europa.eu/competition/legislation/treaties/ec/art81\\_en.html](http://ec.europa.eu/competition/legislation/treaties/ec/art81_en.html).

*“domestic broadcast revenue is divided on a 50:25:25 basis; 50% is divided equally between the clubs; 25% is awarded on a merit basis determined by a club’s final league position and the final 25% is distributed as a facilities fee for the number of matches shown on television involving the club.”<sup>26</sup>*

Whereas revenue is divided equally in the NFL (to the tune of about \$200 million per team including all media rights), success on the field correlates to economic value for individual clubs in the EPL. This last season saw league champions Manchester United draw over £60 million in TV revenue, while the bottom club, QPR, earned around £40M. However, at the end of this season, which is the first of a new rights deal that totals nearly £3 billion, the league winners are likely to see over £100 million in TV revenue compared to around £60 million for the bottom club.<sup>27</sup> While revenue is shared to some extent in the EPL thanks to the European Commission’s relaxed view on collective selling, the ability to create economic value still tends to pool at the top of the league as winners receive more compensation than teams in danger of relegation. Accordingly, the competitive parity on the field is less evident than it is in the NFL.

#### *Factor 2: Relative Lack of Public Sector Support*

Unlike in the United States, the various governmental entities of the United Kingdom have exhibited a reluctance to provide public sector funding for EPL infrastructure and stadiums. There are two primary reasons for this; one, the club model of European soccer (including the EPL) lends itself to financing models that are more heavily reliant on private investment, and two, the cultural inclination towards

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<sup>26</sup> Premier League, *How does the Premier League sell its TV rights?*, 2013, <http://www.premierleague.com/en-gb/fans/faqs/how-does-the-premier-league-sell-its-tv-rights.html>.

<sup>27</sup> Ibid.

professional sports that backs the political willingness to fund stadiums in the US does not exist as strongly in the UK. To the first point, the EPL club model creates a type of capitalist, zero-sum game where clubs must invest in their own infrastructure without the assistance of the taxpayer to survive. For example, a distance of less than two miles separates the stadia of two rival London clubs, Chelsea and Fulham. Passing a funding measure for the expansion of either of the clubs and not the other would prove difficult when half of the taxpaying voters support the other team. Even in areas where one club dominates the voting populace, public funding is limited. Tottenham Hotspur FC's new Northumberland Development Project, which includes a yet-to-be-named stadium proposed to supplant White Hart Lane as the home of Spurs, has only secured about £50 million in public funding towards its estimated £400 million cost.<sup>28</sup> This trend continues beyond the Premier League, indicating a more widespread cultural aversion in the United Kingdom towards public funding of stadiums. Even the iconic Wembley Stadium, which has hosted dozens of international sporting events, was renovated in 2006 with only 21 percent of the £757 million project cost backed by public sector funding, according to the National Audit Office.<sup>29</sup> Declan Bolger notes,

*"I've got friends who've owned Premier League clubs, and they're quite taken aback at the support that the municipalities provide [leagues in the United States]. There's no penny bed tax in Europe, in England, to support stadiums."*<sup>30</sup>

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<sup>28</sup> "Supporting Our Future: A Community Share Proposal to Support Northumberland Park Development," 2013, <http://www.spursfuture.org/CSPropTHFCSof.pdf> .

<sup>29</sup> National Audit Office, *The English National Stadium Project at Wembley*, 2003, <http://www.nao.org.uk/report/the-english-national-stadium-project-at-wembley/>.

<sup>30</sup> Declan Bolger, interview by Keagen Edwards, (October 28, 2013).

In essence, what the UK exhibits is the opposite of the US in terms of political support for professional sports infrastructure investment. Clubs evolved from small, local organizations with little economic impact, while in the NFL, new franchises have an immediate economic impact on their home city. In addition, the physical proximity between clubs lowers the ability of any one club to put pressure on a local government to fund infrastructure. Therefore, the EPL as a whole must overcome the burden of private investment to create economic value, as opposed to receiving the generous head start that taxpaying fans (and even non-fans) provide to the NFL. As a result, private investment in the EPL remains the lifeblood of the organization – foreign capital from owners like Chelsea’s Roman Abramovich (net worth: \$10 billion) and Manchester City’s Sheikh Mansour bin Zayed bin Sultan Al Nahyan (net worth: \$31.5 billion) keeps private spending at the franchise level high.<sup>31</sup>

### ***Economic Factors***

#### *Factor 1: General Economic Trends*

As with the NFL in the United States, the ability of the EPL to create economic value is sensitive to general macroeconomic trends. The economic recession starting in 2008 was not limited to the United States – markets and industries worldwide felt the negative effects. As one might expect, the effects on the EPL were similar to those on the NFL – combined club revenue in the EPL reached a plateau that lasted through 2010. However, the EPL bounced back more quickly than the NFL did in terms of creating economic value, due in no small part to new TV deals that came into effect in

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<sup>31</sup> Forbes, *Profile: Roman Abramovich*, March 2013, <http://www.forbes.com/profile/roman-abramovich/>.



2010 and 2013. League revenue increased nearly 25 percent from 2010/11 to 2012/13, settling closer to £2.5 billion. The ability of the EPL to rebound from the economic downturn indicates that new TV revenue can serve as an effective stopgap solution to negative macroeconomic influences.

### ***Socio-Cultural Factors***

#### ***Factor 1: Geographic Structure***

The unique structure of the English Premier League results in a significantly different cultural approach to the league. Geographically speaking, clubs are much closer together, and the tradition and history of the club plays a much bigger role in ensuring social identification amongst fans. With one club for every 4,750 square miles of domestic land area (compared to one NFL team per 118,000 square miles in the US), identifying with a team in person is much easier, logistically speaking. A Premier League survey from 2007 indicates that the fans travel an average of only about 50 miles to attend home matches.<sup>32</sup> The clubs can create social value in person at the local level much more easily when their avid fans are right down the street, as opposed to hundreds of miles away. This ties in closely with how the clubs were organized before the creation of the Premier League in 1992 – the Football Association and the Football League effectively ran the clubs as social entities that did not focus primarily on revenue generation.<sup>33</sup>

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<sup>32</sup> Premier League, "National Fan Survey," 2007, <http://www.premierleague.com/content/dam/premierleague/site-content/News/publications/fan-surveys/national-fan-survey-2007-08.pdf>.

<sup>33</sup> Declan Bolger, interview by Keagen Edwards, (October 28, 2013).

However, this geographic clustering creates a situation in which the EPL must rely more heavily on international marketing to generate revenue. There are only a certain number of discretionary pounds available in the UK for the EPL to capture, and the league's revenue-generating focus since its inception has led to more and more international marketing efforts in order to create economic value. According to Declan Bolger, "*there's no doubt that the overall, collective interest in [soccer] has never been greater.*"<sup>34</sup> The EPL stands to capture value from both domestic and international markets on a greater scale than ever before as international distribution channels grow and reach more and more potential fans.

#### *Factor 2: Cultural Attitudes*

As a whole, the game of soccer appeals more to the consumer on the grounds of aesthetic technique and finesse, rather than sheer strength or the violence offered in the game of football. Fans surveyed by the Premier League in 2007 rated "Technical Skill" as the highest influencer of their opinion of players.<sup>35</sup> However, the on-field product of the EPL is unique in that consumers perceive it as "less pretty" than the style of soccer played in other professional domestic leagues.<sup>36</sup> Interestingly, this parallels well with the appeal of NFL – the "tension" described by Oriard between tough, hard-nosed action and displays of technical skill is balanced more evenly in the EPL than in other domestic soccer leagues. The relative quality of the athletes is similar, as top international players are drawn to the EPL as one of the most prestigious of leagues in international soccer. Accordingly, those watching for the eustress and aesthetic

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<sup>34</sup> Ibid.

<sup>35</sup> Premier League, "National Fan Survey," 2007, <http://www.premierleague.com/content/dam/premierleague/site-content/News/publications/fan-surveys/national-fan-survey-2007-08.pdf>.

<sup>36</sup> Rob Lampman, interview by Keagen Edwards, (October 10, 2013).

elements of the game are treated to the best of the best, and the EPL builds on that reputation in creating social value for its fans.

### ***Technological***

#### *Factor 1: “DVR Proof”*

The English Premier League has taken several steps in recent years to remain competitive when it comes to digital distribution. Like the NFL, the EPL enjoys a natural insulation from the threat of DVR technology when negotiating rights fees. However, with a slightly longer league schedule (38 games, one at home and one away against every other EPL team), the relative viewing value of each game is not as high compared to the NFL. Without a playoff system, the “mini-competitions” that drive fan interest through to the end of the league season bolster the value of the content that the EPL can offer for digital distribution. This represents a strategic resource that will be addressed in more depth during the internal analysis section.

#### *Factor 2: International Distribution*

Given that the EPL relies so much more heavily on international revenue due to a smaller domestic fan base, it has had to find unique ways to effectively distribute its content (namely, game broadcasts) to international markets. Other than actually travelling to play games live, as clubs do for the biennial Barclays Asia Trophy competition, the EPL also uses digital distribution on both traditional television and online platforms. The EPL has entered a relatively untapped market for international soccer in the United States by way of a \$250 million rights deal with NBC over the next three seasons. New content includes over 1600 hours of programming, studio shows,

and online-integrated coverage of the league.<sup>37</sup> While only 9 percent of Americans over 12 years old consider themselves avid fans of international soccer (including the EPL), the non-exclusive nature of sports fandom (and by extension, economic and social involvement in sports) dictates that the EPL stands to increase this number through new broadcasting and distribution partnerships.<sup>38</sup>

***Modified PEST Analysis Conclusion***

In theory, the National Football League and English Premier League would face some similar influences in the business environment, independent of the geographic market that they occupied. However, the specific factors that dictate the ability of each of these leagues to create value are far from identical. This is partly due to the way each league has evolved over the years, but these influences pose different challenges for each league as they continue trying to maintain the top spot in terms of value creation in their respective markets.

<b>Factor Type</b>	<b>National Football League</b>	<b>English Premier League</b>
Political-Legal	Antitrust Exemption Public Sector Support Tax-Exempt Status	European Commission Lack of Public Sector Support
Economic	Macroeconomic Trends	
Socio-Cultural	Established Popularity Catharsis/Escape Gambling	Geographic Structure Cultural Attitudes
Technological	“DVR Proof”	
	24/7/365 Consumption	International Distribution

<sup>37</sup> Kevin Baxter, *NBC goes all in with coverage of English Premier League soccer*, August 10, 2013, <http://articles.latimes.com/2013/aug/10/sports/la-sp-baxter-soccer-20130811>.

<sup>38</sup> Luker, *Soccer Popularity Continues to Climb*, 2012, <http://sportspath.typepad.com/files/soccer-popularity-continues-to-climb.pdf>.

### ***Porter's Five Forces Analysis***

Michael Porter's Five Forces approach represents one of the most important theories in business strategy study. His model is primarily used to determine the "attractiveness", or profitability potential, for firms within an industry. Each force describes a different set of influences on the firms of that industry. For both the NFL and EPL, the industry in question is professional sports; however, each league does not necessarily encounter the same forces to the same extent. This analysis addresses how the Five Forces affect each league.

### ***Threat of Entrants***

The first of these forces is the threat of new entrants. Porter explains, "new entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete."<sup>39</sup> Barriers to entry in an industry include economies of scale, consumer switching costs, capital requirements, access to distribution channels, and government policies. Both the NFL and EPL enjoy significant insulation from the threat of new entrants as a result of a number of these barriers to entry being so high in the professional sports industry. The economies of scale are extreme – ticket sales, licensing deals, and broadcasting contracts put less strain on the resources of a league when it is firmly established in the market. Consumers are loyal to their team, and while it is possible for an NFL or EPL fan to become a fan of a new professional sports team, the sports industry is unique in

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<sup>39</sup> Michael Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* (Harvard Business Publishing), 2008.

that fandom is not a zero-sum game, so leagues can create social value for fans regardless of how many other teams they support. With that said, assuming that fans have a finite amount of discretionary income to spend on their fandom, the economic value a league can generate might fluctuate on a franchise to franchise basis if a new professional sports league were to enter the market. However, for the leagues at the top (i.e. the NFL and EPL), consumer spending patterns are established enough to diminish the threat of new entrants by keeping switching costs high. In terms of capital requirements and access to distribution channels, the barriers to entry are very high, given “the momentum of broadcast [rights] fees”, according to Rob Lampman.<sup>40</sup> If a new league wants to distribute content to consumers on the scale of the NFL or the EPL, it will either have to either raise an exorbitant amount of capital to compete in traditional distribution channels or leverage new distribution channels. Specific to the EPL, the threat of entrants is slightly different in that new entrants to the league itself might affect how the league as a whole creates capital, given the promotion and relegation system. However, even these “in-house” entrants face the same barriers: according to Declan Bolger, “*The jump from Championship to Premier League is much harder than it is perceived publicly to be.*”<sup>41</sup> All told, the threat to top leagues like the NFL and EPL of new entrants to the industry is very low, allowing the leagues to keep a hold on their competitive advantage.

### ***Threat of Substitutes***

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<sup>40</sup> Rob Lampman, interview by Keagen Edwards, (October 10, 2013).

<sup>41</sup> Declan Bolger, interview by Keagen Edwards, (October 28, 2013).

The second of the five forces is the threat of substitutes. According to Porter, a substitute “performs the same or a similar function as an industry’s product by different means.”<sup>42</sup> For the professional sports industry, the “function” is to provide entertainment. Accordingly, any substitute to the NFL or EPL would provide entertainment in a way other than professional sports. The most analogous entertainment source to the NFL is amateur sports, most notably college football and basketball. While amateur sports are also a substitute for the EPL, the threat is not as strong in the United Kingdom as it is in the United States. According to a 2012 Harris Poll, 11 percent of American fans cite college football (organized by the NCAA) as their favorite sport, less than professional baseball (16%), but more than auto racing (8%) and professional basketball (7%).<sup>43</sup> While the NFL still sits atop the standings at 34%, college football is indeed a viable substitute to the NFL in that it provides amateur sports entertainment. However, the NFL has its own built-in insulation from this threat: the most popular amateur sport in America is effectively the breeding ground for its own talent. In other words, most of the talent in the NFL started in the college ranks, and the success of the NFL and NCAA football are accordingly intertwined. The EPL faces a different set of substitutes for professional sport. In the UK, amateur sport is more participatory than spectator-based, but amateur sports still put pressure on the EPL in the form of time and money redirected away from following professional soccer.

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<sup>42</sup> Michael Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* (Harvard Business Publishing), 2008.

<sup>43</sup> Harris Interactive, "Football Continues to be America's Favorite Sport; the Gap With Baseball Narrows Slightly this Year," *HarrisInteractive.com*, January 17, 2013, <http://www.harrisinteractive.com/NewsRoom/HarrisPolls/tabid/447/ctl/ReadCustom%20Default/mid/1508/ArticleId/1136/Default.aspx>.

As for non-sport entertainment, any other leisure options available to consumers pose a potential threat to the NFL and EPL, including, but not limited to: television, movies, music, art, theatre, and personal recreation. However, the notion that any one of these substitutes would command enough of a consumer's attention, interest, and spending to wholly disrupt the economic operations of the NFL or EPL is currently quite unlikely, as customer loyalty is stronger in the professional sports industry than in the entertainment industry, as spending patterns on professional sports and entertainment are generally linked in the form of discretionary income. Whether that remains the case over the long term remains to be seen.

### ***Bargaining Power of Buyers***

The next force described by Porter is the bargaining power of buyers. Porter notes that “powerful customers [...] can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs) and generally playing industry participants off against one another, all at the expense of industry profitability.”<sup>44</sup> The NFL and EPL face different groups of “consumers”, including fans, corporate partners, and broadcasting partners. At the corporate level, the power of buyers is relatively low. The top leagues both auction off their broadcast and licensing rights to the highest bidder, and if one partner cannot compete, another will step in to take its place – the properties are simply too valuable to pass on. For example, when the NFL's decade-long deal with Reebok as the official league apparel sponsor expired, Nike offered nearly 30 percent more per year to acquire the rights. However, the

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<sup>44</sup> Michael Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* (Harvard Business Publishing), 2008.



bargaining power of corporate buyers is relatively low only because the consumer support of each of these leagues is so strong. For now, the fan base of each league is established, widespread, and still growing. This allows the leagues to command higher fees from its external partners – broadcasters can charge brands high advertising fees, and the leagues know this information when entering a negotiation. However, as soon as consumer preferences shift away from these leagues for whatever reason, the bargaining power of corporate buyers starts to increase. Fewer “eyeballs” translates to lower advertising fees, which increases the ability of broadcasters to negotiate down rights fees. Therefore, the real threat to the NFL and EPL resides at the most basic level: the fans. Spending on sports is not infinitely inelastic – at a certain price, fans will simply stop showing up to games or buying sport-specific cable packages. As the preferences of fans evolve, so too must a professional sports league, as the final section of this thesis will explain.

### ***Bargaining Power of Suppliers***

On the supplier side, bargaining power is not as diffused as it is among buyers. For professional sports leagues, the most important suppliers – the players – hold a certain amount of bargaining power in that players represent a much more significant portion of the cost structure of leagues compared to firms in other industries. In the EPL, around 70 percent of club revenues are spent on player wages, while in the NFL, players in total receive only about 47 percent of league revenue.<sup>45</sup> Specific to the NFL,

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<sup>45</sup> Deloitte, "Annual Review of Football Finance – Highlights," Sports Business Group, June 2013, <http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/Sports%20Business%20Group/deloitte-uk-sbg-arff-2013-highlights-download.pdf>.

the league must also deal with labor unions such as the NFL Players Association and the NFL Referees Association. Recent labor stoppages as a result of failure to reach agreements with these two entities – the 2011 player lockout and 2012 referee lockout – highlighted the bargaining power of these suppliers. The player lockout, while only costing the league the preseason and no regular season games, threatened to cost each city hosting an NFL franchise nearly \$160 million if the season had been cancelled. The referee lockout, on the other hand, had more intangible negative effects on the social value created by the brand of the NFL – once the quality of games deteriorated due to inadequate officiating, a firestorm of negative press eventually pressured the league into reaching a deal with the referee union. While the bargaining power of suppliers does influence each of these leagues, the fact that the symbiotic nature of the relationship between the league’s suppliers and the league itself encourages both parties to maintain some semblance of peace ensures that this influence does not become too strong for a league to manage.

### ***Intensity of Competitive Rivalry***

The final factor described by Porter’s five forces is the intensity of the competitive rivalry between firms within the industry. Porter neatly sums up competitive rivalry into one line: “High rivalry limits the profitability of an industry.”<sup>46</sup> In other words, when the rivalry between existing firms is intense in that firms are exacting any measures necessary to gain market share, the industry as a whole tends to lose profit potential. For the NFL and EPL, existing competitive rivals are other

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<sup>46</sup> Michael Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* (Harvard Business Publishing), 2008.

domestic and international professional sports leagues – in the US, Major League Baseball, the National Basketball Association, Major League Soccer, the National Hockey League, and so on; for the UK, the LV= County Championship (cricket), Aviva Premiership (rugby), and other smaller leagues. The NFL captured the title of “most popular US professional sport” from Major League Baseball during the 1960s, and has never looked back, as no other sport has surpassed the league in popularity since the Harris Poll began.<sup>47</sup> In 2013, for the first time in years, an MLB World Series game earned a higher rating than a competing NFL regular season broadcast, a testament to the size of the gap between the two leagues in terms of economic and social value creation. On the other side of the Atlantic, soccer has been the most dominant sport in the UK since perhaps before the creation of the Football Association in the late 1800s, and the EPL still leverages that popularity today to outpace its industry rivals by a wide, wide margin; for example, the Aviva Premiership actually operated at a £16.2 million loss in 2012.<sup>48</sup> As it stands, only a severe shift in cultural preferences away from each of these leagues stands to pose a threat to their economic supremacy, as the intensity of competitive rivalry is fairly low. However, both the EPL and NFL must continue leveraging their own strategic resources if they hope to continue on the successful path of value creation they currently hold.

<b>Factor</b>	<b>Threat Level</b>
Threat of Entrants	Low
Threat of Substitutes	Mild
Bargaining Power:	Moderate

<sup>47</sup> Harris Interactive, " Football Continues to be America's Favorite Sport; the Gap With Baseball Narrows Slightly this Year," *HarrisInteractive.com*, January 17, 2013, <http://www.harrisinteractive.com/NewsRoom/HarrisPolls/tabid/447/ctl/ReadCustom%20Default/mid/1508/ArticleId/1136/Default.aspx>.

<sup>48</sup> ESPN Staff, *Premiership chief hails improving financial picture*, May 20, 2012, <http://www.espnscrum.com/premiership-2011-12/rugby/story/164350.html>.

Consumers	
Bargaining Power: Suppliers	Mild
Competitive Rivalry	Moderate (NFL), Mild (EPL)

## **PART II: INTERNAL ANALYSIS**

### ***Introduction***

The modified PEST analysis above focuses mainly on the external factors that influence how the NFL and EPL do business, while the following resource-based view (RBV) analysis focuses more on the strategic resources available to each league and how they leverage them to create economic and social value. The RBV model created by David Collis and Cynthia Montgomery in 1995 and most recently updated by Jay Barney in 2001 is a more thorough manifestation of the traditional SWOT (strengths, weaknesses, opportunities, threats) analysis tool. It assesses the value of business resources based on the ability of competitors to imitate them, their durability, their appropriability, and their substitutability. The resource-based view combines the findings of external analysis tools (i.e. PEST and Five Forces) with internal analysis of a firm's available resources to assess a firm's strategy in terms of its ability to create value and generate an advantage in the market.

Each of these two leagues has numerous resources at its disposal given the momentum that each is currently riding as the top league in their domestic market. However, there are several resources that have been especially vital to the success of each league, and the RBV analysis provides an approach that identifies the extent to which each of these resources is unique in its ability to drive sustainable competitive advantage.

## ***RBV Analysis - National Football League***

### ***Resource 1: Parity***

As mentioned briefly in the PEST analysis, one of the most important resources leveraged by the National Football League is its emphasis on competitive parity. The NFL has made a strategic choice to encourage parity, and it leverages this choice to create value. Several factors contribute to the parity of the league, including the structure of the draft, the emphasis on equal revenue sharing, and the restrictive salary cap. First, the NFL Draft, in which NFL teams select eligible players from the ranks of college football, ensures parity by allowing the teams to select players in reverse order from how they finished the previous season. In other words, the “worst” team of the previous season receives the rights to the first pick in each round. First proposed by Philadelphia Eagles owner Bert Bell in 1935, the reverse-order draft does not guarantee success – the list of top draft picks who have failed in the NFL is not a short one – but in general, it provides an injection of talent for teams that are struggling. Combined with the salary cap restrictions included in the collective bargaining agreement, the reverse-order draft virtually ensures that small market teams (such as the Green Bay Packers) can compete on a long-term basis with large market teams (like the New York Giants). Notable tenets of the most recent CBA that ensure this parity include a rookie wage scale that cut average rookie contracts by 50 percent, allowing small market teams to better afford both young talent and veteran experience, and the continuation of the “franchise tag” designation, which allows a team to keep a player from becoming an unrestricted free agent under certain conditions.

Finally, a steadfast commitment to equal revenue sharing ensures that the economic value created by the league, regardless of the franchise that actually completes the transaction, gets shared across all 32 franchises. While some franchises are in fact more valuable than others (the Dallas Cowboys are worth approximately three times as much as the Oakland Raiders), the revenue sharing component offers teams the economic means to attract top talent, invest in competitive infrastructure, and level the proverbial playing field.<sup>49</sup> The following chart compares average win percentages and standard deviation of win percentages of clubs by league. The chart separates franchises/clubs on the basis of time spent in the league.<sup>50</sup>

League	2-10 Years in League			11-20 Years in League			21-30 Years in League		
	Avg Win%	S.D. Win%	#	Avg Win%	S.D. Win%	#	Avg Win%	S.D. Win%	#
NFL	0.44	0.14	7	0.51	0.19	5	0.5	0.18	25
EPL	0.41	0.11	15	0.45	0.12	14	0.55	0.12	14

The data above leads to several conclusions. First, relatively young expansion teams in the NFL are more competitive with their more established rivals than recently promoted teams in the EPL. This suggests that the parity-promoting provisions of the reverse-order draft, revenue sharing, and the salary cap allow new teams to rise to a competitive talent level in a short amount of time. Only six points separate the average win percentages of the youngest and oldest teams, while in the EPL, a full fourteen percentage points distinguish the established “old guard” from clubs that are fighting to avoid relegation. In addition to encouraging the success of new franchises, the provisions also ensure that teams are not uniformly successful (or unsuccessful) in the

<sup>49</sup> Mike Ozanian, *The Most Valuable NFL Teams*, August 14, 2013, <http://www.forbes.com/sites/mikeozanian/2013/08/14/the-most-valuable-nfl-teams/>.

<sup>50</sup> Carlos Pestana Barros, Muradali Ibrahim and Stefan Szymanski, *Transatlantic Sport* (Edward Elgar Publishing Limited, 2002).

long term, as expressed in the higher standard deviation of win percentages. This helps insulate the NFL from a dip in fan engagement that might result from the perception that any one team is predestined to be unable to be competitive on the field.

*Imitable?* While the NFL's emphasis on parity is virtually unparalleled in the professional sports league industry as it stands today, it would not be unrealistic to assume that an existing league could make changes to emphasize parity on a similar scale, or that a new league could start up with similar provisions in place to ensure parity. However, for the time being, the NFL is so deeply and uniquely invested in its emphasis on competitive and economic parity (the two go hand in hand) that it offers a source of competitive advantage due to the "any given Sunday" ideal that consumers appreciate.

*Durable?* Again, the NFL currently leads when it comes to ensuring competitive parity, and as long as the league continues to commit to the provisions that ensure that parity, it is a durable resource. There are no realistic external threats to the parity of the league, in that each franchise is virtually ensured relatively equal access to the equal talent base distribution encouraged by the league. However, if for whatever reason the powers that be within the league decide to adjust these provisions in such a way that competitive parity is threatened, the NFL could diminish the value of this resource as a source of competitive advantage in the marketplace.

*Appropriable?* The test of appropriability determines who really "owns" the value (in this case, economic and social) that a resource creates. For the NFL, its competitive parity is appropriable only in the sense that external league partners benefit from the value that such parity creates. In other words, the value created by parity in the



NFL does not solely benefit the league, but the external stakeholders that also benefit from this parity generate reciprocal value for the league, especially broadcasters. For example, the entities that partner with the current last-place team in the league, the Jacksonville Jaguars, benefit from the provisions in place that encourage underperforming teams to win more games in the coming years. However, these stakeholders then return that value to the league in the form of increased licensing fees, broadcast fees, etc. if the Jaguars start winning games, selling more tickets, and drawing more viewers. This iterative success is what fuels the NFL's "money machine" – something the final section of this thesis will address later on.

*Substitutable?* The test of substitutability determines whether or not a competing firm can implement another resource to replace the value that a resource creates. In this case, while it might seem that there is no substitute for competitive parity at first glance, there are in fact ways to create value without this resource in place. The most obvious example is in the European professional sports model, where a handful of teams dominate the top few spots of domestic leagues each season. The section on promotion and relegation as a resource leveraged by the EPL will address that example in more thorough detail. In the United States, however, the provisions ensuring competitive parity are fairly steadfast as a non-substitutable resource. The NBA, MLB, and NHL all have similar provisions to some extent or another, but none has established an appropriate substitute for those used by the NFL. The provisions encouraging competitive and economic parity in the NFL are the most valuable resource available to the league.

## ***Resource 2: Season Structure***

Along with the strategic initiatives that the NFL takes to ensure competitive parity, another key resource leveraged by the league is the relatively small number of games in a season. While the violent, physically demanding nature of the game itself necessarily limits the number of games teams can play over the four-month NFL regular season schedule, the 16-game structure still represents an asset for the league to leverage in that the league can capture value on a shorter timeline through higher ticket prices and broadcasting rights fees.

*Imitable?* Competing firms in the professional sports industry are not entirely unable to imitate the limited schedule of the NFL, but many are – baseball, hockey, and basketball each require long seasons due to a combination of historical momentum and fan expectations. Major League Soccer owners recently discussed a reduction in season length from 34 games to 28 games, but the value of the limited schedule does not only lie in the number of games, but also in how consumers perceive the importance of those games.<sup>51</sup> To that end, the NFL has leveraged the “DVR proof” nature of the game as discussed above and combined it with a schedule that keeps fans engaged for each and every game. What follows from this combination is a stranglehold on dominant television ratings that no other entertainment option – much less another professional sports league – can match:

“NFL games on CBS, FOX and NBC averaged 19.3 million viewers – 154 percent higher than the average primetime viewership among the four major

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<sup>51</sup> Steve Davis, *A reduced, 28-game MLS season may be around the corner*, September 3, 2013, <http://prosoccertalk.nbcsports.com/2013/09/03/a-reduced-28-game-mls-season-may-be-around-the-corner/>.

over-the-air networks (7.6 million average on ABC, CBS, FOX, NBC). That NFL advantage is nearly triple the 52 percent edge of a decade ago.”<sup>52</sup>

One might argue that the NFL has backed into the good fortune of being based on a game that can only be played once a week for a few months, but regardless of such luck, how the league *leverages* that schedule is an extremely valuable and virtually inimitable strategic resource.

*Durable?* The NFL has discussed the possibility of an 18-game schedule, but the league has faced resistance from the NFL Players Association and fans. However, for the immediate future, the fact that the nature of the game of football lends itself to a limited schedule and the success that that schedule has drawn would indicate that the league will likely stick to some form of a limited, weekly league schedule that takes place during the fall and winter. As with the resource of competitive and economic parity, the only foreseeable situation in which the strategic value of the NFL’s season structure would become diminished is if the league itself decided to make significant changes that negatively affected consumer preferences toward it.

*Appropriable?* The league and its partners capture the value created by the league’s 16-game schedule. Once again, this iterative success allows the NFL to keep the value it creates “in house”, as the threat of another entity appropriating the value of the NFL’s season structure is prohibitively low.

*Substitutable?* The NBA and MLB have long leveraged an approach opposite the NFL: long, high-volume seasons where consistency surpasses temporary hot streaks

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<sup>52</sup> NFL Communications, *More than 200 million tune in to NFL games in 2011 — NFL TV recap*, January 5, 2012, <http://nflcommunications.com/2012/01/05/more-than-200-million-tune-in-to-nfl-games-in-2011-nfl-tv-recap/>.

in terms of franchise success on the field. Since the sports of baseball and basketball are more suited to a long season and scheduling structure, the NBA and MLB can substitute the short season of the NFL with seasons that involve many more individual games. Therefore, there is a substitute for the NFL's season structure, but there are two caveats: 1) a long season must align with the nature of the actual sport or game being played, and 2) the league must find ways to capture value on a longer timeline. For example, there is simply no chance that an MLB or NBA team could charge prices that are as high as those charged by the NFL for comparable in-stadium experiences. According to the 2010 Fan Cost Index compiled by industry analysts at the Team Marketing Report, the average cost of a family of four attending an MLB game was \$194.98, while the same index measured the cost of attending an NFL game at \$420.54.<sup>5354</sup> An NFL franchise can "justify" these prices because they only operate eight regular season home games per year, as opposed to 81 of MLB and 41 for the NBA. Their margins are higher, and the economic value created by the short schedule supersedes that of a long, high-volume schedule.

### ***Resource 3: Authenticity***

Apart from the tangible organizational aspects of the league, the authenticity of the NFL as an entertainment option offers another valuable strategic resource as the league creates economic and social value. As Michael Oriard puts it:

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<sup>53</sup> Team Marketing Report, "2010 MLB Fan Cost Index," *TeamMarketing.com*, 2010, [https://teammarketing.com/public/files/2010\\_MLB\\_FCI.pdf](https://teammarketing.com/public/files/2010_MLB_FCI.pdf).

<sup>54</sup> Team Marketing Report, "Moneyball: NFL tickets not going down," *TeamMarketing.com*, 2010, [https://teammarketing.com/public/files/2010\\_NFL\\_FCI.pdf](https://teammarketing.com/public/files/2010_NFL_FCI.pdf).

“while the NFL developed strategies for competing in an amped-up and crowded entertainment marketplace, football’s enduring power derived from its authenticity [...] Football players really were as big, fast, strong, and talented – and in constant physical danger – as they seemed.”<sup>55</sup>

Simply put, the NFL has found itself in charge of the nation’s most compelling reality show, and it has leveraged that authenticity at every opportunity to create a competitive advantage.

*Imitable?* The inherent authenticity of the NFL stems mainly from the on-field product: the game of football itself. When the authenticity of a sport is in question, it becomes more difficult for a league to create value. For example, Major League Baseball suffered a widespread steroids scandal starting in the late 1990s, the effects of which are still being felt today. Once the authenticity of the product was compromised, the brand suffered, and so did its ability to create value. The image of the league was tarnished, and fans responded negatively, resulting in an almost unheard-of six percent drop in inflation-adjusted league revenue from 2001 to 2002.<sup>56</sup> However, the league was able to recover from that perceived loss of authenticity, and MLB now owns the second spot behind the NFL in terms of US professional sports league revenue. The NFL has experienced its own individual steroids scandals, but the public backlash has been far less intense, perhaps due to the nature of the game of football as violent and dangerous as opposed to baseball, which is steeped in a tradition of skill and coordination. Authenticity is imitable, but it is also essential.

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<sup>55</sup> Michael Oriard, *Brand NFL: Making and Selling America's Favorite Sport* (Chapel Hill: University of North Carolina Press, 2007).

<sup>56</sup> Maury Brown, *MLB Revenues Grown From \$1.4 Billion in 1995 to \$7 Billion in 2010*, April 14, 2011, [http://www.bizofbaseball.com/index.php?option=com\\_content&view=article&id=5167:mlb-revenues-grown-from-14-billion-in-1995-to-7-billion-in-2010&Itemid=42](http://www.bizofbaseball.com/index.php?option=com_content&view=article&id=5167:mlb-revenues-grown-from-14-billion-in-1995-to-7-billion-in-2010&Itemid=42).

*Durable?* The biggest threat to the authenticity of the product provided by the NFL is how consumers respond to the increasingly publicized negative effects of the game on players. In August of 2013, the league settled for \$765 million with a group of about 4,500 former players who sued the league, “accusing it of concealing the dangers of concussions and rushing injured players back onto the field while glorifying and profiting from the kind of bone-jarring hits that make for spectacular highlight-reel footage.”<sup>57</sup> While this settlement addressed the most pressing legal action facing the league, the public perception of the game seems to be affecting how it creates value, even if only in marginal amounts. For example, according to Rob Lampman, “20,000 less kids are playing football” than last year.<sup>58</sup> The league’s authenticity might become its own worst enemy in the long run if enough talent starts to migrate away from football, allowing the well of spectacular athletes funneling into the NFL to run dry. For now, however, the league still relies on the authenticity of the game to create a competitive advantage.

*Appropriable?* As with the resource of competitive parity, the value created by the NFL via its authenticity tends to filter back to the league in the long run, as opposed to becoming dissipated amongst external partners. This is especially true in the context of corporate partnerships. A league sponsorship is inherently more valuable when consumers view the league as an authentic, trustworthy product because consumers ascribe that trustworthiness to the sponsor’s product. That loyalty can be leveraged by

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<sup>57</sup> Associated Press, *NFL, ex-players agree to \$765M settlement in concussions suit*, August 29, 2013, <http://www.nfl.com/news/story/0ap1000000235494/article/nfl-explayers-agree-to-765m-settlement-in-concussions-suit>.

<sup>58</sup> Rob Lampman, interview by Keagen Edwards, (October 10, 2013).

brands via affect transfer that raises the proverbial tide that floats the boats of both the NFL and the brand in question.

*Substitutable?* Any sport can be authentic – it’s the *presentation* of the sport that determines whether or not that authenticity translates into value creation for the league. The Extreme Football League (XFL) tried to substitute the authenticity of the NFL, to disastrous results, dying a quick death when fans saw right through the superfluous packaging surrounding the league. Created in 2001 by World Wrestling Federation CEO Vince McMahon, the XFL “[gave] football the WWF treatment – more violence, more trash-talking, more sexual titillation on the sidelines [...] the league offered parody [...] of the most popular sport in the United States, which already pushed the boundaries of the body’s physical limits, of acceptable violence, of spectacular display, of media saturation.”<sup>59</sup> The failure of the XFL illustrates how the authenticity of the game of football, combined with a presentation that enhances that authentic quality, represents a strategically valuable resource for the NFL.

### ***RBV Analysis - English Premier League***

#### ***Resource 1: Promotion and Regulation***

The English Premier League follows the European club model, which includes provisions for promotion and relegation of individual clubs between the various divisions of English soccer. Specifically, the bottom three clubs in terms of points are “relegated” to the Championship (formerly “Division One” from the creation of the Premier League in 1992 to 2004, and “Division Two” before then) for the next season,

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<sup>59</sup> Michael Oriard, *Brand NFL: Making and Selling America's Favorite Sport* (Chapel Hill: University of North Carolina Press, 2007).

while the top two teams in the Championship and the winner of a tournament of the next four teams join the Premier League. This model is not unique to English soccer – in fact, most national soccer leagues incorporate some form of promotion and relegation into their organization – but the way the EPL leverages and markets this structure creates unique value.

*Imitable?* As previously mentioned, the actual system of promotion and relegation is relatively easy to imitate. However, the EPL turns this structure into a strategic resource that creates a competitive advantage in the market by leveraging the various interesting situations it creates. While the NFL relies heavily on equal competitive parity, the EPL approaches competitive parity from a different angle: it combines the “any given Sunday” ideal – that any team can beat any other team during any one game – with a set of “mini-competitions”, where the race for the Premier League title, for UEFA Champions League qualification, and to avoid relegation all increase fan interest. Perhaps the most compelling example of how the EPL leverages the promotion and relegation system is “Survival Sunday”, a term coined by British broadcaster Sky Sports to describe the final day of EPL action. On Survival Sunday, every EPL team plays at the same time in ten matches across the UK, and the fight to avoid relegation (bottom three teams), reach the Champions League (top four teams) and even win the title can all come down to this final day of matches. In 2012, Survival Sunday featured Manchester United and Manchester City each playing at home, at the same time, separated by only two points in the league table. Fans of the EPL worldwide were treated to perhaps the most compelling final day of action in league history when City, needing a win after United had edged Sunderland only minutes before, came back



from a goal down in stoppage time to beat relegation-doomed QPR and earn their first Premier League title. This sort of drama raises overall fan interest in the league and keeps supporters of every team interested from the first game to the last, even without a playoff system.

*Durable?* The promotion and relegation system has been in place in English soccer since 1892. As a strategic resource, this system is about as durable as they come, with the potential for value creation running long into the future. As with certain strategic resources leveraged by the NFL, the only foreseeable disruption to the promotion and relegation system of the EPL would likely come from the inside. Though revenue sharing is not as prevalent in the EPL as in the NFL, it is enough to effectively prevent a scenario where the same sets of teams are promoted and relegated so frequently that the system loses its significance.

*Appropriable?* The value created by the promotion and relegation system could theoretically be captured by the lower levels of English soccer, from the Championship down to level 7B of the National League System. However, similar to how the NFL has a vested interest in a strong NCAA, so too does the Premier League have a vested interest in a strong hierarchy of teams below it in the promotion and relegation system. In theory, even lowly Fishburn Park FC of Whitby, North Yorkshire, England (which lists a “Worst Dressed Player” award on the home page of its club website) could rise through the ranks and take on the likes of Manchester United for the EPL title. For a team to rise up from the Championship to the EPL and become competitive represents a unique opportunity for the EPL to create value in that it can draw on a totally new set of consumers when a new team enters the league.

*Substitutable?* The American professional sports model that includes playoffs and a reverse-order draft would be the most obvious substitute to a promotion and relegation system, but the European model is so ingrained in the UK that it is effectively insulated against potential substitutes. While a new league with an American-style structure might be able to carve out a niche in the market based on novelty, it could not compete against traditional European leagues, and especially the EPL, on the basis of economic and social value creation.

### ***Resource 2: Multiple Competitions***

While the National Football League effectively stands alone as a value-creating entity, where franchises only ever play against each other in the context of one competition, the English Premier League benefits from the multiple competitions that occur in international soccer. Clubs can compete with not only other EPL clubs, but also clubs in other domestic leagues as part of other organized competitions, including the UEFA Champions League, UEFA Europa League, and FA Cup on a yearly basis and the UEFA European Championship and FIFA Club World Cup every four years.

*Imitable?* The game of soccer provides a common ground for clubs all over the world to compete – the rules are virtually identical in every professional league, as are the infrastructure and organization requirements. An EPL team like Chelsea can travel to play against Schalke 04 in Germany, FC Basel in Switzerland, and Steaua Bucuresti in Romania in the group stage of the 2013 Champions League alone – without fear of administrative incongruities between countries. Some other sports, like baseball and basketball, lend themselves to international competition (given a certain amount of rules

variations), while sports like American football are effectively isolated to their own market because of the unique nature of the game and the fact that no other countries understand, appreciate, or participate in it on the same level. The multiple competition model is imitable, but only if the sport in question allows it.

*Durable?* The multiple competition model is durable as long as each individual competition maintains a certain level of popularity, prestige, and economic success. The Champions League (gross commercial revenue in 2012/13: €1.3 billion) and FA Cup (gross payouts in 2010/11: £24 million) provide a direct economic stimulus to the EPL, as well as an indirect social value stimulus by allowing EPL clubs opportunities to market internationally.<sup>60</sup> However, if these competitions become less popular, these value creation opportunities become less of a strategic resource for the EPL to leverage.

*Appropriable?* The EPL benefits from multiple competitions in that it can generate economic and social value through its clubs separate from league-specific activities. Though the “rising tide” theory does apply to some extent in that an increase in interest in soccer international benefits each individual domestic league, organizing bodies like UEFA or the FA primarily capture the actual economic and social value created within the context of each of these competitions.

*Substitutable?* Leagues can only substitute an isolated, closed league schedule (e.g. the NFL) for the multiple competition model. While the single competition model has not prevented the NFL, MLB, or NBA from achieving economic success, it may be more difficult for a league looking to compete with the EPL to take on the single

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<sup>60</sup> Deloitte, "The Financial Impact of the FA Cup," January 2012, <http://www.thefa.com/TheFACup/News/2012/Jan/~~/media/421387323A984557A3686BA18D383E6D.aspx>.

competition model given the extent to which the multiple competition model dominates the European sports landscape.

### ***Resource 3: Tradition***

The authenticity of the NFL is a strategically valuable resource, and the EPL benefits from an authentic message as well, but more so from the tradition surrounding the game, the clubs, and the leagues as whole. Though the EPL in its current iteration has only existed since 1992, the twenty clubs that make up the Premier League have operated for an average of 85 years each, which is much longer than the average NFL team (53 years). The EPL leverages this history in the way it presents and promotes itself – at the league level and at the club level.

*Imitable?* The most inimitable resource available to the EPL is the league's tradition. While other leagues might be able to imitate administrative resources like the promotion and relegation system and the multiple competition model, no competitor in the UK market can match the history of the EPL in terms of either sheer age or accrued social momentum, which ensures that tradition as a resource for the EPL (like authenticity for the NFL) is insulated from the threat of a competitor attempting to imitate it. If a new league were to seek to compete with the EPL, it could not do so on the basis of tradition, and would instead have to rely on its novelty to create economic and social value.

*Durable?* The tradition of the EPL can only get stronger as time goes on, but the value that consumers put on that tradition may shift. For now, however, tradition is a durable strategic resource. Any threat to the durability of the tradition of the EPL as a

resource would have to come from the inside, if league management decides to abandon the tradition of the league as the thread that runs through all of its consumer-facing messages.

*Appropriable?* Like with the NFL’s resource of authenticity, the EPL’s resource of tradition can create value that external partners can appropriate, but the EPL can benefit from that reciprocal value. Brands, sponsors, and broadcasting companies that value this tradition can align themselves with the EPL and appropriate some of the value that the league has built up over the years, but it tends to filter back to the league either explicitly (via capital) or implicitly (through increased fan interest).

*Substitutable?* The only potential substitute for the tradition leveraged by the EPL would be a novelty effect of a new league. Either the sport itself or the way the competing league presents itself would have to be so new and enticing to consumers that it would replace tradition as a strategic resource.

<b>NFL Resources</b>	<b>EPL Resources</b>
Parity	Promotion and Relegation
Season Structure	Multiple Competitions
Authenticity	Tradition

### **PART III: A NEW MODEL FOR VALUE CREATION**

The National Football League and English Premier League have clearly established dominant positions in the professional sports industry in their domestic markets. Looking at how they respond to external factors and leverage their own internal resources offers a rich range of insights into how the ideal professional sports league can most effectively create value. The following section of this thesis synthesizes these insights into a concise model to determine how a professional sports league creates economic and social value.

#### ***Fundamental Elements***

The model is built on four elements: the Game, the League, the Consumers, and Partners. These foundational elements represent the four most fundamental aspects of a professional sports league:

The Game is the most basic of the four elements. It includes the sport, activity, or game that a professional league is built on in its purest form. For the NFL, the Game is football; for the EPL, the Game is soccer. The Game can exist without the League, without Consumers, and without Partners. However, the Game itself does not create economic or social value, as value creation can occur only in the context of an organizing body.

The League is the organizing body that regulates the Game into a business enterprise. The League is responsible for franchise formation, game scheduling, stadium funding, and any other administrative requirement necessary to bring the Game to

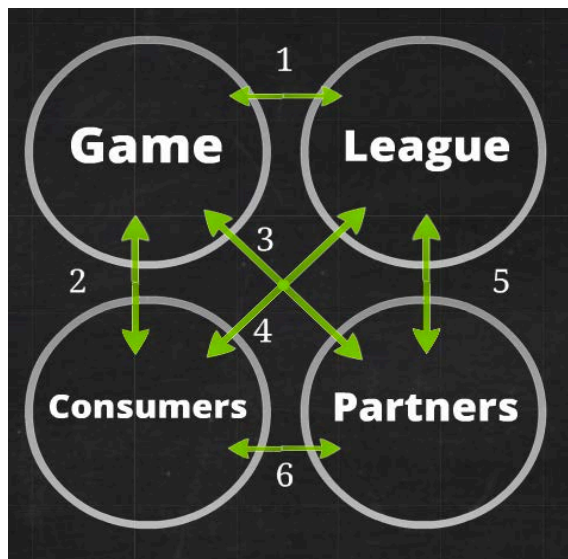
market. It also includes players, coaches, staff, and any employee that works as part of the Game.

Consumers are those who are interested in the Game as it manifests itself in the form of the League. This group includes the most rabid fan all the way down to the most casual observer.

Partners are external entities who align themselves with the League in order to attract Consumers. Examples of Partners include broadcasters, licensees, sponsors, and brands.

### *Interactions Between Elements*

Each interaction between each of these four elements represents a chance for a league to create value.



- 1) Infrastructure**
- 2) Entertainment**
- 3) Growth**
- 4) Affiliation**
- 5) Capital**
- 6) Distribution**

## **1) Game - League: Infrastructure**

Neither the Game nor the League can create value in and of themselves.

However, the combination of the Game and the League in the context of infrastructure forms the basis for a professional sports league to create value. The League's assets provide infrastructure so that the Game can be organized and administered to Consumers. Assets that the League leverages can be tangible or intangible. Tangible assets include physical property and capital owned or raised by league investors. Physical property like stadiums, team facilities, and equipment provide a "place" for the Game to exist in the context of the League. Before the Game can reach Consumers or Partners, the League must first establish an actual location for the Game to take place and provide all the necessary physical requirements. The NFL cannot create value without a field for its players to play on, just as the United States Professional Poolplayers Association cannot create value without tables and cues. Most fans effectively take this for granted – however, the confirmation bias associated with this fact is evident in that no professional sports league has ever existed without the fundamental physical requirements of the Game in place. Even professional online gaming leagues require a certain amount of physical "inputs" to function. As for capital, owner and investor capital effectively funds the infrastructure required to start and maintain a professional sports league.

Intangible assets include legal arrangements such as collective bargaining agreements and political provisions, a strong leadership team, and the cohesiveness that results from coordinating league activities under one "roof". Though the collective bargaining agreement in and of itself is not a requirement for a professional sports



league to succeed (depending on which markets the league intends to compete in), some form of rules dictating how those who play the Game are compensated and how revenue is or is not shared amongst constituents of the League (usually franchises/clubs) must be in place. Other CBA provisions can dictate more nebulous matters (e.g., how much an NBA player is paid for participating in the Three-Point Shootout at the All-Star Weekend), but any contractual arrangement that intends to regulate how a Game is organized and administered by the League represents an asset that the League can leverage to create value, either directly or indirectly. Aside from the regulations involved in creating infrastructure for a professional sports league, the league can benefit from the vision and direction of a strong leader or leadership team. The NFL might not exist as the market leader it is today without the contributions of Bert Bell, Pete Rozelle, and Al Davis.

## **2) Game - Consumers: Entertainment**

On the most fundamental level, Consumers interact with the Game to be entertained. The motivations of fandom are well-studied; Daniel Wann's seminal work from 1995 put forth eight factors that encourage fans (and, by extension, Consumers) to engage in sports fandom: eustress, self-esteem, escape, entertainment, economic factors (mainly in the form of gambling), aesthetics, group affiliation, and family needs.<sup>61</sup> While a professional sports league can consider each of these factors when developing a strategy to create value, the most important interaction that the League can control is the entertainment value of the Game to Consumers. In this context, entertainment includes

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<sup>61</sup> Daniel Wann, "Preliminary Validation of the Sport Fan Motivation Scale," *Journal of Sport and Social Issues* 19, no. 4 (November 1995).

every one of Wann's factors to a certain extent – without entertainment, the other motivations are effectively null and void. For example, a Consumer will not gain any positive group affiliation if he or she is too bored of a Game to associate with it. The Super Bowl offers a prime example of how an organization has leveraged Entertainment to create value – between the music stars leading the halftime show, the high prices for commercials during the game, and the extravagant pregame and postgame ceremonies, the NFL has turned its championship event into more of a cultural spectacle than a football game.

### **3) Game - Partners: Growth**

The interaction between the Game and external Partners is a two-way street, in that each of the two foundational elements in question stands to benefit from growth as a way for a professional sports league to create value. On one hand, the Partners leverage the positive feelings and the communal “language” of a Game to communicate their own messages to Consumers and grow their business. This growth can occur in various ways on differing scales – from a broadcasting partner like Fox trying to capture the record-setting audiences of an NFL Super Bowl, to a simple concession vendor looking to launch a new product at a minor-league baseball stadium. On the other hand, the contributions of Partners to the League in the form of capital encourage the growth of the Game, either directly or indirectly. For example, in Louisiana, Cox Communications and the Louisiana Seafood Board (Partners) sponsored a refurbished basketball court (benefitting the Game of basketball) as part of a joint effort with the New Orleans Pelicans (an NBA franchise and part of a League). This reciprocal growth

is only half of the reason why Partners are so essential to the success of a professional sports league; the other half is described below in the interaction between Partners and Consumers.

#### **4) League - Consumers: Affiliation**

The interaction between the League and Consumers is perhaps the most important opportunity for a professional sports league to create value, but it is also the most difficult to build and maintain, and the easiest to lose if the wrong strategic initiatives are in place. Affiliation works on two levels: first, the League provides a marketplace for Consumers to actually engage the Game in a setting that is organized, efficient, and economically valuable. Usually, this occurs at the franchise, team, or club level – Consumers usually generate economic activity in the context of their team, not directly with the league. For example, licensed apparel with the league logo is dwarfed in popularity (and revenue) by apparel with a specific team’s logo. This ties in with the other angle of affiliation: emotional connection. Consumers most often associate themselves with the League through a franchise, team, or club, and the passion and fanaticism expressed by Consumers, the emotional ties that keep fans coming back year after year regardless of the outcomes on the field, are arguably a league’s most valuable asset. Creating and caring for the connection between the League and the Consumers should be the prime directive for a professional sports league, because without it, every other interaction is virtually a moot point. The section on evolution below will describe this in more detail.

## **5) League - Partners: Capital**

Besides the internal capital contributions of individuals within the League itself, a professional sports league relies on the external capital contributions of Partners to fund its operations. While the extent to which Partners contribute capital varies from league to league, the most successful leagues bring in extensive external capital relative to operational costs. This capital comes in the form of television broadcast rights fees, digital media rights fees, sponsorship fees, licensing fees, naming rights fees, and other sources that involve Partners paying for the right to associate with a League. The amounts of these fees are often directly correlated with the number of Consumers that interact with the League, either at the league or franchise level. This is due to the value of the following interaction, distribution.

## **6) Consumers - Partners: Distribution**

Partners and Consumers interact in the context of distribution – whether Partners are distributing League content (acquired by an agreement with the League that involves the exchange of capital) or they are distributing their own content and marketing messages that exhibit some explicit or implicit association with the League. Partners are the vehicles by which Consumers can take in League content without actually being in the place where the Game is happening, which is a crucial component for a professional sports league looking to make the leap from creating value on a local or regional level to creating value on a national or even global scale.

### *Evolution*

The final and most crucial piece of this model for professional sports league success is the ability for the league to evolve and adapt to changing parameters. Each of the four foundational elements – the Game, the League, Consumers, and Partners – are subject to changes for different reasons, and the interactions between them (as described above) must change as well. Sometimes a league can take proactive control of these changes, and other times the league can do nothing but react to these changes, but in either case, taking the proper action is crucial to either building towards success or maintaining it in both the short and long term.

### *Entertainment*

The most important change that can occur for a professional sports league is a shift in the preferences of the Consumer. Not coincidentally, this is also the change over which a league has the least control. While a league can directly affect how the Game is played, how the League is organized and administrated, and what relationships it has with external Partners, the will of the Consumer puts the league firmly into a reactionary position. In terms of entertainment, the league must do everything it can to ensure that Consumers are engaged with their on-field product (the Game). For example, while the Consumers of today may prefer violent, dangerous sports like football, the Consumers of tomorrow may not feel the same natural motivation to enjoy the NFL. A professional league can approach this shift in two ways: it can change how the Game is played in order to maximize the entertainment value to Consumers, or it can modify the Consumer-facing messages that it issues around the game. As negative news stories (and more importantly, lawsuits) start to mount, the NFL faces the reality

that football is detrimental to the health of its players in the long term. It must weigh the benefits of changing the rules of the Game to decrease these negative health effects with the costs of diluting the very aspects of the game that entertain its consumers. The EPL is benefitting from the reverse of this trend, as Americans who viewed international soccer as low scoring, boring, and slow start to become more exposed to the game through various media channels (even including video games like Electronic Arts' *FIFA* series), understand the game more thoroughly, and consume more of it than in the past. A new sports league or an existing league seeking to gain market share must first understand what drives the entertainment value of the Game in the eyes of Consumers, and then decide how to approach changes in Consumer preferences towards the Game. A Consumer will feel the way he or she feels about a Game, but the Consumers are not buying tickets from, rooting for, or subscribing to the Game on television – they do all of these in the context of the League. This is why the next interaction, affiliation, is the best opportunity for a league to adjust to changing Consumer preferences.

### *Affiliation*

As Consumer preferences towards the Game change, the Consumers' affiliation with the League does too. This delicate balance of making sure the Game still entertains Consumers, while driving both the reach and intensity of fan avidity towards the franchises, teams, or clubs of the League, is the most important way a professional sports league can evolve. Consumers will not affiliate with a franchise that plays a Game that does not offer them any entertainment value, so the Game is the foundation for the Consumer to interact with the League through affiliation. However, just because a Game entertains Consumers does not necessarily mean that they will affiliate with a

League that administrates that Game. Volleyball, tennis, and bowling are all extremely popular Games, but the leagues that organize them professionally create nowhere near as much economic and social value as the NFL, EPL or even action sports or boxing organizations. Even for established leagues, they must constantly invest in efforts to generate and maintain affiliation. For example, fan loyalty programs like the one operated by the NBA's Indiana Pacers provide additional benefits to fans the longer they hold a season ticket. However, such efforts are more rooted in economic interests than in the interest of driving affiliation; the growing American trend towards personal seat licenses (PSLs), which represent a fee paid by a Consumer for the right to buy a ticket to a specific seat, has had a net positive impact on revenues, but has also been met with significant Consumer backlash. The fact that simply offering an entertaining Game does not necessarily result in value creation indicates that the League must offer some value above and beyond the Game itself to generate affiliation from Consumers. This "added value" can be expressed in the way the League interacts with the Game via infrastructure.

### *Infrastructure*

Consumers cannot interact with a professional sports league if the League has not established a certain level of infrastructure. From the actual legal entity of the league down to the physical locations in which players play the Game, the infrastructure that the League creates must evolve and adapt to the preferences of the Consumer. For example, an improvement in the at-home viewing experience (HDTVs, DVRs, fantasy football) has threatened to decrease stadium attendance at NFL games. The League of the NFL accordingly has a vested interest in improving the in-stadium experience, and

some teams are starting to introduce Wi-Fi connectivity and cellular service boosts at their stadiums. In fact, the NFL has recently established new league-wide requirements that “ensure minimum capacity levels for concurrent downloads, uploads or browsing, while setting similar thresholds for phone calls and texting” for the 2014 season.<sup>62</sup> Leagues must take actions such as these to ensure that the value created by the league is not appropriated entirely by external Partners. With that said, leagues must also ensure that their relationships with Partners are providing sufficient value to Consumers in the context of distribution.

### *Distribution*

A professional sports league must be in tune with that the way its Partners are distributing content to Consumers and make the necessary changes to adapt to shifting preferences of Consumers. Major League Baseball is an example of a league that failed to stay ahead of the curve on such changes and is now adjusting its Partner relationships to make up for lost time. In the middle 20<sup>th</sup> century, MLB had established a dominant position in the market as the “sport of radio”, as both the nature of the Game of baseball and the infrastructure put in place by the League supported partnerships with radio broadcasters. However, MLB stood idly by as the NFL made the leap into the top spot in American sports in the 1960s as football became the “sport of television”, surpassing baseball in both viewership and the economic value of its Partner relationships. While MLB could not necessarily help that the violent, fast-paced NFL offered more entertainment on television to a wider range of Consumers, it was slow to abandon its

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<sup>62</sup> Daniel Kaplan, "NFL sets stadium Wi-Fi/cell standards," *SportsBusinessDaily.com*, October 21, 2013, <http://www.sportsbusinessdaily.com/Journal/Issues/2013/10/21/Leagues-and-Governing-Bodies/NFL-WiFi.aspx>.



radio partnerships. This initial failure to evolve due to an over-reliance on traditional media distribution offers a lesson to other professional sports leagues: if distribution changes, so too must the Partners with which a League aligns itself. Major League Baseball has since recovered from losing the distribution battle to the NFL, and was actually the first of the “Big Four” American leagues to offer a comprehensive out-of-market live video streaming service to Consumers in MLB.TV, which launched in 2002 and averaged about 1.1 million live streams per day in 2012.<sup>63</sup> This proactive move on the part of the leadership at MLB shows that perhaps the league learned from its own history and decided not to make the same mistake twice. Even the most “traditional” of leagues can take advantage of new Partner relationships in distributing its content to Consumers. This also represents an opportunity to generate more capital for the League itself.

### *Capital*

Capital, in and of itself, does not evolve – the sources and beneficiaries of capital, on the other hand, can and necessarily should evolve for a professional sports league to be successful. Partnerships have to change as Consumer preferences change. For example, tobacco companies used to be prevalent sponsors of professional sports – Marlboro sponsored the NFL in the 1950s, NASCAR teams plastered tobacco company logos on their cars, and MLB players appeared in cigarette advertisements (including Lou Gehrig, who proudly proclaimed that he smoked Camels because they “didn’t get his wind”). However, as Consumers became more aware of the negative effects of

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<sup>63</sup> MLB.com, "Ten years ago today MLB.TV: Digital Media's most successful live video subscription product debuted - in 'high resolution' 300K broadband video," *MLB.com*, August 26, 2012, [http://losangeles.dodgers.mlb.com/news/article.jsp?ymd=20120826&content\\_id=37372302&vkey=pr\\_mlbc&c\\_id=mlbc](http://losangeles.dodgers.mlb.com/news/article.jsp?ymd=20120826&content_id=37372302&vkey=pr_mlbc&c_id=mlbc).

tobacco and public sentiment towards such sponsorships soured, Leagues turned away from the capital offered by tobacco companies. The NFL dropped Marlboro, MLB barred its players from wearing their uniforms in cigarette advertisements in the 1950s and officially restricted smokeless tobacco use for the first time in 2012, and NASCAR even picked up Nicorette as a sponsor as sponsor in the early 2000s. On the other side of the equation, Leagues have increasingly sought capital from Partners that Consumers have positive opinions of, such as the US Automobile Association and their military appreciation campaign in conjunction with the NFL. A League must take an interest not in just acquiring capital, but in acquiring capital from the right Partners to adjust to changing Consumer preferences. Without these strategically crafted partnerships, the league will be less effective in growing its Game and Partners will see less growth as well.

### *Growth*

As long as a League executes strategic relationships with Partners in a way that keeps pace with the changing preferences of the Consumer, it can grow its Game and offer growth to those same Partners. The value that the League generates in the context of providing entertainment, infrastructure, and affiliation for Consumers, combined with the value that Partners generate in terms of capital and distribution, can offer growth only if those interactions evolve and adapt as described above. If, and only if, these interactions are managed carefully to match Consumer preferences, then the League can expand the Game and Partners can leverage the Game for their own growth. Teams in the EPL can reinvest in their youth club system because the league has created unique value at every other level. The NFL can invest in USA Football and the Play60

campaign because the other pieces of value creation for their consumers are firmly in place. On the Partners side, a broadcasting company or sponsoring brand maximizes its own growth potential by aligning with a league that has the other “pieces of the puzzle” in place. Therefore, a new professional sports league would have to convince Partners that it either has these pieces in place or has a strategically organized plan for getting them in place.

### ***Strategic Decision Points***

Due to the intricate nature of the interplay between external pressures and internal resources, a catch-all blueprint for professional sports value creation that addresses every single strategic choice a professional sports organization might face does not, and necessarily cannot, exist. However, there are several key decision points that any professional sports organization must make in order to establish their strategic positioning in the market. These decision points involve one or more of the interactions between the fundamental elements of the model described above.

#### ***Decision 1: Mass Appeal vs. Core Appeal***

The most basic decision a professional sports organization must make is whether it will attempt to create the maximum possible amount of economic and social value for the widest possible range of Consumers, or whether it will segment and target its strategic initiatives for value creation to a smaller group of “core” Consumers. The National Football League and English Premier League have each made decisions to downplay or even strip away certain controversial aspects of the Game they organize in order to increase their appeal to casual Consumers. The NFL has implemented various

restrictions on players and teams to ensure a certain family-friendly image, including fines for excessive celebrations, suspensions for dangerous hits, and harsh punishments for steroid use and unfair play. As for the EPL, rules allowing increased substitutions, changes in the value of a win relative to that of a tie, and efforts to combat soccer hooliganism have all contributed to a product that appeals to more fans both on and off of the field. These changes in infrastructure affect the entertainment value of the Game by opening up more opportunities for affiliation. In addition, a League appeals to a wider range of Partners when it offers broad appeal to Consumers, which increases opportunities for growth, capital, and distribution.

However, there is another option for a professional sports organization – it can cater to a specific group of core Consumers and focus on creating value in economic and social value with these Consumers in mind. The Pareto Rule, popularized by business management consultant Joseph Juran, stipulates that roughly 80 percent of the revenues (i.e. economic value) of an organization come from 20 percent of the users (i.e. Consumers) of that organization’s product or service. While these are only general figures, the concept holds true in that value creation occurs primarily amongst core consumers. Leagues that implement a strategy that focuses on their core Consumers – like-minded individuals that gain entertainment value from a very specific set of influences and balk at any changes to those influences – essentially forgo the volume of mass appeal in favor of the commitment and avidity of core appeal.

For example, the National Hockey League failed in various attempts at mass appeal, and has reneged on those changes in order to appease their most avid Consumers. Perhaps the most notorious of these changes was FoxTrax, a broadcast

technology that illuminated the puck for TV viewers. While casual fans expressed interest in the technology, the *Hockey News* organized a reader's poll where "90% of the 1,813 respondents voiced disapproval of FOX's puck."<sup>64</sup> FOX vice president of media relations Vince Wladika responded to the results of the poll thusly:

*"Those are the people you don't need to attract. Those are the same people who, while they're your core audience, they've been the same core audience forever...And unless you build upon it, hockey is going to stay at the same level it is."*<sup>65</sup>

Though this was a decision that originated at the Partner level (i.e. FOX), as opposed to the League level, the NHL still faced the repercussions as peak average Nielsen Ratings (the standard industry measure of TV viewership) fell by one third – from 2.1 to 1.4 – between 1996 and 1998. The FoxTrax feature was discontinued in 1998 as Commissioner Gary Bettman distanced himself and the NHL from the project.

The leadership in a professional sports organization must identify the capability of a Game to appeal to a mass audience and weigh that against the value it can create for a core group of Consumers. Some organizations must focus on increasing their reach to the casual fan. Other, more controversial organizations face innate barriers to mass appeal, such as the Ultimate Fighting Championship and its violent, visceral nature. Such organizations must focus their value creation efforts primarily on their core Consumers, because without them, the organization could not survive, much less create unique economic and social value.

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<sup>64</sup> The Hockey News, "No! No! No! Here's what you have to say about FoxTrax: THN Poll," *The Hockey News*, 1996.

<sup>65</sup> M. Brender, "FoxTrax loses 10-1," *The Hockey News*, 1996.

## *Decision 2: Parity vs. Perennial Contenders*

The decision on whether to lean on parity as a strategic tool for value creation, as opposed to rules and regulations that necessarily allow a limited number of franchises/clubs to rise to the top, must be made based on the preferences of the Consumer. Closed leagues, like the NFL, benefit from provisions that enhance parity as discussed in Part II of this thesis because there is only one “competition” (i.e. the NFL season) that franchises can compete in. Open leagues, like the EPL and others that follow the European model of professional sports, can leverage the fact that only a handful of teams settle at the top of the league standings year after year by marketing these top franchises internationally. Accordingly, the leadership of a professional sports organization must be aware of the competitive environment and decide whether to align with accepted models (e.g. a closed league with an emphasis on parity in the US market, an open league with perennial contenders in a European market), or create novelty value by going against the grain. For example, a new closed league in a European market may benefit from parity provisions more than the traditional open leagues, in that clubs might otherwise be stuck at the bottom with no resources to dig their way out of a competitive disadvantage. On the other hand, US leagues like Major League Soccer benefit from an open league relationship with CONCACAF (the Confederation of North, Central American and Caribbean Association Football), as top contenders like the New York Red Bulls and the Los Angeles Galaxy have the opportunity to increase the exposure of the MLS to new groups of Consumers, which attracts a unique set of Partners.

### *Decision 3: Traditional Distribution vs. New Distribution*

Professional sports organizations must decide whether to make the change to take advantage of new distribution models, as opposed to relying on traditional distribution, in accordance with the preferences of the Consumer. The example of Major League Baseball given previously shows both sides of such a decision: if a League moves slowly in capitalizing on new Partners and new distribution when Consumers prefer them over traditional relationships, then the organization forgoes value and loses ground to competitors in the industry. However, the League must also balance how it allocates resources to unproven distribution relationships, because the opportunity cost of enriching its current relationships may outweigh the potential for new sources of value creation. Leagues must embrace the risk of adopting new (and even underdeveloped) distribution platforms in order to establish a first-mover advantage. However, an organization must understand the willingness of Consumers to engage with these platforms before acting on a strategic decision either way.

### ***Understand and Act***

Making the strategic decisions listed above requires a professional sports organization to both know the factors that influence the decision, and then act on that knowledge to adjust its strategy to maximize value creation. To understand the situation, an organization can:

- 1) Engage in market research. Fan surveys, depth interviews with key influencers and Partners, and secondary research compiled by other entities can all offer useful information towards how a league should adjust its strategy.

2) Look at comparable historical situations. For example, a league weighing the decision to commit resources to a new distribution relationship might consider how MLB benefitted from aligning itself with the digital streaming model early on.

3) Create projections that account for the available information and compare the outcomes. If a League knows that it can capture 100,000 more casual Consumers and \$1,000,000 in additional revenue at the expense of 1,000 core Consumers and \$100,000 of revenue from those fans (assuming core Consumers spend ten times as much as casual Consumers), it might be inclined to implement provisions that attract those casual fans, even if it alienates some core fans.

These strategies for understanding the environment in which an organization is making a strategic decision allow the organization to use the most important available information to consider their options. Once that information has been gathered, however, it must adjust strategy accordingly. If the research indicates that Consumers are starting to become indifferent to a League because the same few teams win every year, the League might consider introducing more restrictive parity provisions. For example, the National Basketball Association has enacted a more strict salary cap in its most recent collective bargaining agreement that harshly penalizes repeat violators of the cap, forcing franchises to re-evaluate their spending and (in theory) distributing talent more evenly. This is a strategic response to Consumer preferences that influences entertainment and affiliation value. The National Football League and English Premier League have established their position in the market, but neither can afford to rest on previous successes. They must engage in activities to keep their “fingers on the pulse” of the Consumer, and implement the appropriate changes in strategy in order to ensure



that they remain the most economically and socially successful professional sports leagues in the world.

## **CONCLUSION**

The model outlined above builds on a strategic external and internal analysis of the current market leaders in the professional sports industry: the National Football League and the English Premier League. The only guarantee in this industry is that on a long enough time scale, the environment in which professional sports leagues operate will change. These changes start with the Consumer and filter down through every other aspect of a sports organization, including the League, its Partners, and even the Game itself. How an organization responds, adapts to, and evolves in the context of these changes dictates the ability of that league to maintain successful value creation in both economic and social terms. Only those that are willing to invest in understanding the will of the Consumer and act on that information in bold, strategically valuable ways will be able to sustain competitive success in the professional sports industry.

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