

# 9

## Broadcasting the Olympics

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### **The history of Olympic broadcasting**

Over the past three decades, television has become the engine that has driven the financial growth of the Olympic Movement and raised its profile exponentially (Preuss, 2006). At the start of the second decade of the twenty-first century, communication broadcast rights and sponsorship revenues account for 85 per cent of the Olympic Movement's total income, most of which is distributed among the international sport federations (IFs), national Olympic committees (NOCs) and Olympic Solidarity (Peña, 2009). Of this total financial pool broadcast revenues have become the single largest source.

The situation today, however, is very different from half a century ago. For instance, the 1936 Berlin Games were the first ever Olympic Games to be televised. This viewing only occurred in and around Berlin, with a total of 138 viewing hours and 162,000 viewers. Twelve years later, the 1948 London Olympics were the first to attract Games broadcast rights, with the BBC paying a fee of US\$3000. This broadcast offered 64 total hours of programming and attracted more than 500,000 viewers, all residing within a 50-mile radius of London (Olympic Marketing Fact File, 2008).

Since then, we have seen rapid development. In 1956 the Olympic Winter Games (from Cortina, Italy) were broadcast live for the first time. Two years later, television rights issues were incorporated into the Olympic Charter. The current Olympic Charter (IOC, 2011, p. 90) covers media coverage of the Olympic Games in Rule 48 with the sentence: 'All decisions concerning the coverage of the Olympic Games by the media rest within the competence of the IOC.' In 1964, satellite broadcast coverage was used for the first time to relay images overseas. In 1972,

the Japanese network NHK provided the television feed for broadcasters to choose the coverage they wanted, which represents the model for today's host broadcast organization.

From 1972 to the present, the Olympics has seen continual growth in its television audience to make it one of the most watched television events on the planet today. At the 2000 Sydney Olympic Games, the IOC introduced Total Viewer Hours (TVH), a new method to measure Olympic television audiences. This was mainly because this approach was similar to the way television audiences for the other international sports events, such as the Football World Cup, were measured. The broadcast of the Sydney Games generated 36.1 billion TVH and reached 3.7 billion viewers in 220 countries.

The quantity of programming has increased substantially over the years, as seen in Table 9.1. This table also shows that the Summer Games receive substantially more broadcast hours and more viewers than the winter Games. Table 9.2 indicates that worldwide coverage of the Olympics expanded greatly throughout the 1960s and 1970s, a period in which many sports featured more prominently on television.

In this day and age, however, Olympic broadcasters not only offer programmes on traditional television but have also taken up opportunities created by new media technology, such as offering live programmes through the Internet, mobile phones and multiple television channels. This process started during the first decade of the twenty-first century and developed rapidly. The IOC launched its own Internet channel in 2008, which was available on the YouTube platform for 77 countries in Asia, Africa and the Middle East, where the Olympic Games Internet rights had not been sold.

During the 2008 Beijing Games, the IOC's official website and other related websites drew 105 million unique viewers, while there were more

*Table 9.1* Host broadcast hours of coverage

Olympic Games		Olympic Winter Games	
1988 Seoul	2,572	1992 Albertville	350
1992 Barcelona	2,800	1994 Lillehammer	331
1996 Atlanta	3,000	1998 Nagano	600
2000 Sydney	3,500	2002 Salt Lake City	900
2004 Athens	3,800	2006 Turin	1,000
2008 Beijing	5,000	2010 Vancouver	1,000

*Source:* [http://www.olympic.org/Documents/IOC\\_Marketing/OLYMPIC\\_MARKETING\\_FACT\\_FILE\\_2011.pdf](http://www.olympic.org/Documents/IOC_Marketing/OLYMPIC_MARKETING_FACT_FILE_2011.pdf).

Table 9.2 Countries broadcasting the Olympics

Olympic Summer Games		Olympic Winter Games	
1936 Berlin	1		
1948 London	1		
1952 Helsinki	2		
1956 Melbourne	1	1956 Cortina	22
1960 Rome	21	1960 Squaw Valley	27
1964 Tokyo	40	1964 Innsbruck	30
1968 Mexico City	n/a	1968 Grenoble	32
1972 Munich	98	1972 Sapporo	41
1976 Montreal	124	1976 Innsbruck	38
1980 Moscow	111	1980 Lacey Placid	40
1984 Los Angeles	156	1984 Sarajevo	100
1988 Seoul	160	1988 Calgary	64
1992 Barcelona	193	1992 Albertville	86
1996 Atlanta	214	1994 Lillehammer	120
2000 Sydney	220	1998 Nagano	160
2004 Athens	220	2002 Salt Lake City	160
2008 Beijing	220	2006 Turin	200
		2010 Vancouver	220

Source: [http://www.olympic.org/Documents/IOC\\_Marketing/OLYMPIC\\_MARKETING\\_FACT\\_FILE\\_2011.pdf](http://www.olympic.org/Documents/IOC_Marketing/OLYMPIC_MARKETING_FACT_FILE_2011.pdf).

than 21 million views on the IOC digital channel. Globally, the Beijing Games attracted more than 265 million video views and in excess of 1.2 billion page views on official rights holding Internet and mobile phone platforms. During the 2010 Vancouver Winter Games, total global output across traditional media, free-to-air and pay television, reached 24,000 hours. Internet and mobile communications reached 26,000 hours, which was at least a 100-fold increase from the 2006 Turin Games, when new media rights were exploited in only 23 countries. Mobile video downloads at Vancouver reached two million, more than six times the 301,000 for the 2008 Beijing Games (Pickles, 2010). This underscores the global growth of new media and social media, and successful utilization of these platforms by the IOC and Olympic Games organizers.

The website of the American broadcaster NBC attracted 46 million unique users during the 2010 Winter Games, an increase of 33 million compared with the 2006 Turin Games. The NBC's mobile platform attracted 87.1 million page views, 52 million more than during the Beijing 2008 Games, and provided two million mobile video streams, which was a six-fold increase on the Beijing Games (Pickles, 2010).

In the UK, the BBC delivered 50 million video streams from the 2008 Games, compared to just 2.4 million during Athens 2004. Forty-five per cent of the BBC's online audience engaged with video from its Olympic site. Around 13 per cent of the UK adult population watched video content from the Beijing Games on the Internet, while about 1–2 per cent did it during the 2004 Games.<sup>1</sup>

These figures illustrate that Olympic broadcasting is not only a matter of traditional television broadcasting. Consequently, the figures presented in the tables also involve new media, such as Internet and mobile platforms. Another key factor to consider is that the proportion of people with access to the Internet increased significantly each year, as broadband was made more readily available, and as people accessed online material not only using computer but also via so-called smart phones and tablets.

Table 9.3 shows the Olympic broadcasting rights, while Table 9.4 shows the distribution of the revenues. These figures clearly show that the US market has been the major source of revenue. For many years, NBC has been the main US Olympic network. Since 1976, it has broadcast 50 per cent of the Olympic Games, and in 2009 it acquired the American rights until 2020. Despite this dominance, NBC has fought tough competition from other bidders, which on several occasions has been very fierce. This explains why the rights fees have been substantially more expensive than in other continents. The fact that most of the broadcasting revenues have come from the US market has prompted

*Table 9.3* Olympic TV rights fees (US\$ millions)

1960 Rome	1.2	1960 Squaw Valley	0.05
1964 Tokyo	1.6	1964 Innsbruck	0.94
1968 Mexico City	9.8	1968 Grenoble	2.60
1972 Munich	17.8	1972 Sapporo	8.50
1976 Montreal	34.9	1976 Innsbruck	11.60
1980 Moscow	88.0	1980 Lake Placid	20.70
1984 Los Angeles	286.9	1984 Sarajevo	102.70
1988 Seoul	402.6	1988 Calgary	324.90
1992 Barcelona	636.1	1992 Albertville	291.90
1996 Atlanta	898.3	1994 Lillehammer	352.90
2000 Sydney	1,331.6	1998 Nagano	513.50
2004 Athens	1,494.0	2002 Salt Lake	738.00
2008 Beijing	1,739.0	2006 Turin	831.00
		2010 Vancouver	1,280.00

*Source:* [http://www.olympic.org/Documents/IOC\\_Marketing/OLYMPIC\\_MARKETING\\_FACT\\_FILE\\_2011.pdf](http://www.olympic.org/Documents/IOC_Marketing/OLYMPIC_MARKETING_FACT_FILE_2011.pdf).

Table 9.4 Origin of Olympic broadcast rights fees

	North America	Europe	Asia	Oceania	Other
1998–2000	60.9%	22.9%	11.2%	3.5%	1.5%
2002–2004	62.6%	23.0%	10.4%	2.4%	1.6%
2006–2008	61.4%	22.5%	10.7%	3.1%	2.3%

Note: Others refer to Central America, South America, Caribbean, Middle East and Africa except from North territories. North African territories and Central Asian territories are included as part of the EBU (European Broadcasting Union) agreement.

Source: [http://www.olympic.org/Documents/IOC\\_Marketing/OLYMPIC\\_MARKETING\\_FACT\\_FILE\\_2011.pdf](http://www.olympic.org/Documents/IOC_Marketing/OLYMPIC_MARKETING_FACT_FILE_2011.pdf).

speculation that American candidate cities, or cities on the same time zone, have an advantage when it comes to being chosen to host the Olympic Games (Peña, 2009).

To understand the dynamic forces behind these developments, we now focus on salient elements from economic theory. First, we concentrate on the cost structure of sport broadcasting. Second, we analyse the sale processes, which have predominantly been auctions. Third, we examine the regulations of sport broadcasting that also have affected the sale of the Olympic rights.

### The cost structure of sport broadcasting

The production of TV programmes, as well as their transmission to viewers has *economies of scale advantages* (Gratton and Solberg, 2007). This means that the average cost declines over the entire range of outputs. In general, such advantages apply to processes characterized by *high fixed costs* and relatively *low variable costs*.

These characteristics also apply to Olympic broadcasting. Although TV stations may have to pay expensive fees to receive the signals from the host broadcaster, the most likely reason for this is that the distribution of market power is favourable for the transmission companies and not because of expensive variable costs related to the transmission. Due to the extremely expensive investments, very few companies can afford to establish themselves in these markets. This, however, represents an advantage for those few that can by allowing them to charge prices on their services that are higher than if they operated in a market that was characterized by fierce competition.

The production of live programmes from the sport competitions also involves *economies of scope advantages* (Gratton and Solberg, 2007), which refer to advantages from using the same input in more than one

production process. The joint use of cameras and other equipment open up opportunities for substantial cost saving compared to the situation if all broadcasters produced the live programmes separately. Indeed, if more than 200 TV stations were to send their own cameras and other equipment to produce TV pictures from all the Olympic competition venues, this would be unworkable. However, this is not necessary since a single producer can do the production, and then distribute the signals to the respective national broadcasters.

Originally, the IOC hired a television company within the host nation to do the production. Steps towards changing this procedure were taken in 2001, when the IOC established the Olympic Broadcasting Service (OBS). Its purpose has been to serve as a permanent host broadcast organization for both the summer and winter Games. OBS is now responsible for providing the international television and radio signals from the Games to all rights-holding broadcasters around the world. This eliminated the need to rebuild the broadcast organization for each edition of the Games. This procedure, with OBS operating as the producer of the core programmes, makes it possible to utilize substantial economies of scope advantages. The 2010 Vancouver Winter Olympics were the first Games where the host broadcast was solely an OBS operation.

### **Auctioning the Olympic rights**

In recent times, the auction method has become the most common sale procedure of Olympic broadcast rights. The Oxford Dictionary defines an auction as a 'public sale in which articles are sold to the maker of the highest bid'.

The direct profit from broadcasting the Olympics depends on the gap between the revenues of the programmes, from viewers and advertisers, and the costs of producing and transmitting the programmes to the viewers. In this context, we only refer to revenues and costs related to the broadcasting itself, but not including the rights fees. The reason for this is that rights fees do not necessarily reflect any costs of using inputs. The distribution of this profit, however, can be greatly affected by the sale procedures. Effective auctions can increase rights fees significantly (Solberg, 2006). The best case for the IOC is achieved when bidding wars among television networks develop. The higher the fees, the larger the proportion of profit that falls to the IOC. Additionally, there is also a positive correlation between revenues from sponsors and TV coverage. Sponsors support the Olympics to obtain publicity for themselves and

their products. Hence, the more the viewers that are watching the TV programmes the more the sponsors are willing to pay.

As for rights fees, the most important factor is competition. This becomes evident if we compare the values of Olympic rights in the US and Europe. The US rights have been considerably more expensive, particularly in the years before the 1990s. The main reason for this was differences in the competition level between the two continents. Several networks have submitted bids for the US rights since the 1970s. One episode that illustrated an effective auction was the sale of the 1980 Moscow Summer Olympics rights for the US market, as described by McMillan (1991). At that time, the rights were sold by the Local Organising Committee of the Olympic Games (LOCOG) and not by the IOC as is the current procedure. The Moscow organizing committee was very effective in orchestrating a bidding war between the three main networks – ABC, CBS and NBC. The LOCOG first asked for US\$210 million, which it later admitted was 300 per cent of what they expected. Then the networks were urged to compete in an unending series of bids. At some stage, new sealed bids were submitted every 24 hours. The networks made every effort to keep their bids secret, but without success since the LOCOG leaked details to their rivals. At some stage the networks threatened to boycott the process completely in protest against the broken promises. This, however, did not have any effect, since the LOCOG succeeded in playing one off against the other. In the end, the rights ended up at US\$88 million, which was more than 250 per cent of the value of those at the 1976 Montreal Games.

The approach was different in Europe, where the most popular (and expensive) sports rights were acquired by the European Broadcasting Union (EBU)<sup>2</sup> and distributed subsequently to their member channels at prices based on full cost coverage. Hence, the demand side was characterized by a total lack of competition, despite the fact that some sports programmes attracted very high-rating figures. Signs of a change in this pattern were first observed in connection to the 1992 Barcelona Olympics, where some private channels submitted bids that involved more money than the EBU bid. Despite this, the IOC preferred to sell the rights to the EBU because of its ability to reach more people across Europe (Moragas, Rivenburgh and Larson, 1995). A more serious threat to the EBU's role came four years later, when Rupert Murdoch's News Corporation submitted a bid of \$2 billion for the entire games from 1996 to 2008. Thus, the EBU was forced to increase its bid dramatically compared to what they paid in the past. EBU submitted a bid of \$1.44 billion, which was 0.6 billion less than News Corporation. However, also on

this occasion, the IOC decided to continue with the EBU, for the same reason as four years earlier. These two incidents, and particularly the last one, illustrate how much competition can influence prices. For the Games staged in 1980, 1984 and 1988, when the EBU had no rival, the European rights accounted for 8 per cent, 8 per cent and 10 per cent of the US fees, respectively. For the period from 1996 to 2008, however, the European fees accounted for 50 per cent. If the IOC had accepted Murdoch's bid, the European rights would have cost 93 per cent of the US rights (Solberg, 2002).

This pattern came to an end in 2009, when the IOC rejected the EBU's bid and instead sold the 2014 and 2016 rights for 40 European markets to Sportfive (an international sports rights marketing agency) at a price of \$315 million. This sale did not include Germany, the UK, France, Spain, Italy and Turkey. In these markets, the IOC decided to sell the rights directly to the countries' broadcasters (Pickles, 2009a). For the 2010 and 2012 Games, the total European rights amounted to \$780 million (including value-in-kind services of \$69 million). This was 39 per cent of the value of the US rights. By January 2012, the IOC had secured \$1025 billion for the combined 2014 and 2016 Games from the European market. This, however, did not include the UK rights, which (at the time of writing) had yet to be sold. According to informal sources, the BBC paid \$100 million for the combined 2010 and 2012 Games.<sup>3</sup> If they pay the same for the 2014 and 2016 Games, the total European rights will amount to \$1125 billion. The fact that this accounts for 56 per cent of the US value (up from 39%) indicates that the IOC's strategy, which ended their 56 years relationship with the EBU, was financially successful. The deal with Sportfive requires that a minimum of 200 hours from the Summer Games and 100 hours from the Winter Games must be shown free-to-air in each market. Additionally, several European nation have implemented the Listed Events regulation (see next section), and in these countries the entire Games has to be shown on free-to-air channels.

## **Auction theory**

The television channels that bid for sports rights do not have the precise information about the demand for these programmes at the time of the bidding. Therefore, they have to estimate how much time and money viewers are willing to spend on watching such programmes. They also have to estimate how much advertisers will spend for advertising slots during Olympic broadcasts. The revenues from advertising



are affected by the penetration of the television channels. Additionally, some of them will be subject to regulations. This particularly applies to public service broadcasters. Some of them are non-commercial and do not generate any revenue from sport broadcasts. Others are allowed to sell advertising, but in general they earn less than independent commercial channels (see Gratton and Solberg (2007) for a thorough discussion of this matter).

The procedures that have been most commonly used to sell sports rights are the English auction and Sealed auction (first bid). In an English auction, the process starts with a (low) bid, which is then raised successively until one bid remains. The winner is the one with the highest bid, and who then pays the price for the winning bid. A player's strategy in the series of bids will be a function of their own evaluation of the item, their prior estimate of other bidders' valuations and the past bids of all the players (Rasmussen, 2001). The dominant strategy in this procedure will be to keep bidding just small amounts more than the previous bid until it reaches one's own valuation and then to stop. The bidding process ends when the price reaches just above the valuation of the player with the second-highest valuation.

The IOC, as any other sellers of sports rights, will try to exploit as much as possible of the highest bidder's real evaluation: its reservation price. What is important in an English auction is the gap between the two bidders that have the highest reservation prices. The narrower the gap, the higher the price will be. For any bidders, the dominant strategy will always be to bid slightly above the rival's bid.

Several factors will make the demand, and hence the revenues, uncertain at the time of the bidding. The broadcasters will compete with each other for the attention of the viewers. Nowadays, television viewers are offered a large number of programmes, and this pattern seems likely to continue. The Olympics not only compete with other sports events but also with other genres of television programming. Furthermore, the Games can be hosted in unfavourable time zones, which can reduce audience size. This, in turn, will affect the revenues from advertisers. This has been a particular complaint by the NBC in relation to US television audiences, which as a result has resulted in the rescheduling of some events such as the swimming finals in Beijing. Despite such concerns, some rights, such as the 2018 and 2020 Olympic Games have been sold to US and French networks, even before the host destination has been decided.

These factors illustrate some of the problems of estimating the value of the rights at the time of the bidding. They can also explain why several

sports rights deals have turned out to be unprofitable. NBC is reported to have lost \$223 million on the 2010 Vancouver Winter Games, despite the favourable time zone, and they are also expected to lose money on the 2012 London Games (Horlock, 2011). Such situations refer to the so-called winner's curse, which is a situation where the winner of an auction is worse off as a consequence of overestimating the value of the item and bidding too much. The winner's problem is that they realize this too late. Income turns out to be lower than expected, while it is impossible (or at least extremely difficult) to reduce costs (McAfee and McMillan, 1987).

In a *sealed auction – first bid*, each bidder submits one bid without having any information on the rivals' bids. The highest bidder acquires the rights. A company's bid will be a function of their own valuation and their prior beliefs about the rivals' valuations (Rasmussen, 2001). Since the bids are kept secret risk-averse bidders are not provided with the same information that would enable them to predict the value as in an English auction. For the seller, this can be a major disadvantage if the bidders are risk averse. Nevertheless, the fact that information about the rivals' bids is kept secret can also work to the seller's advantage, given the right circumstances. This is particularly so if there is a wide gap between the highest and the second-highest bid. In that case, the seller will benefit from persuading the bidder with the highest evaluation to believe that the second-highest bidder values the item higher than they actually do.

A bidding channel can make two key mistakes in the case of a *sealed auction – first bid*. First, by being too greedy and bidding too low; the risk is losing out on deals that may have been profitable. Second, by bidding too much it can leave money on the table, that is, paying more than necessary.

One such example occurred when NBCUniversal recently acquired the US rights for the 2014–20 Games at a price of \$4.38 billion. This turned out to be about \$1 billion more than the second-highest bid, which was from Rupert Murdoch's Fox Sports (Horlock, 2011). Hence, NBCUniversal<sup>4</sup> could have won the bid by paying about \$1 billion less. Another example occurred in connection to the 1992 Barcelona Olympics, which were also acquired by NBC. On that occasion, the second-highest bid was \$300 million less than the NBC bid.

Although the main purpose of bidding at auctions is to win, some bidders may enter in order to push up prices. The rationale behind this strategy is to weaken the ability of the winner to submit future bids when sports rights are being auctioned. As a consequence of strong price

growth on the most popular sports rights there have also been incidents where former rival television channels have colluded instead of competing. This can strengthen their position against the sellers of sports rights, such as the IOC, and also against other rival channels. The channels can agree to distribute the events between themselves in order to avoid a bidding war. Such collaboration can be regarded as cartel behaviour.

However, even if the collaboration is successful, this does not guarantee that the agreements will last forever. Cartels are inherently unstable because there is often an incentive for at least one of the members to maximize its own benefits by leaving the cartel. The cartel members will balance out the potential advantages and disadvantages against each other when they decide whether to uphold the collusion or not.

According to informal sources, members of the EBU's panel agreed not to offer the IOC more for the 2014 and 2016 rights than they paid for the 2010 and 2012 rights. This was a reaction against the IOC's decision of selling the rights to Sportfive. If so, the Spanish public service broadcaster, RTVW, did not keep its promise and instead agreed to pay at least \$100 million. This figure could further rise to \$107 million because of an agreement to share revenues through sublicensing deals. RTVE first submitted a bid in the region of \$86–90 million, which was the same as they paid for the 2010 and 2012 Games (Pickles, 2009b).

In Austria, the public service broadcaster, ORF, acquired the rights, but at a price more than 50 per cent higher than they paid for the 2010 and 2012 Games. The reason for this was the competition it faced from a rival broadcaster, namely ATV. In Sweden, the Modern Times Group (MTG) acquired the 2014 and 2016 Games at a price that was 70 per cent higher than the public service broadcasters paid for the 2010 and 2012 Games. A similar development occurred in Norway, where TV2, a commercial public service broadcaster, acquired the 2014 and 2016 rights at a price that was significantly higher than what the Norwegian Broadcasting Corporation paid for the same two Olympic Games (McCullah, 2011). This was different in Germany, where the two public service broadcasters, ARD and ZDF, acquired the 2014 and 2016 Games at a price of \$187 million, which was \$16 million less than the price paid for the 2010 and 2012 Games (Dunne and McCullah, 2011).

These incidents illustrate the problems of upholding collusion agreements where competition is fierce. When a rival channel enters the contest, the alternative to increasing one's bid can be to lose the rights. The IOC will do anything to prevent buyers from colluding. Whether they succeed is influenced by the auction procedure they select. In an English auction, all information about the bids is immediately released.

Hence, if one cartel member breaks from the agreement, the others will discover it immediately. This also creates a disciplinary effect on the bid members.

If the bidders are risk averse, the IOC might benefit from accepting deals where it shares the risk with the winning bidder. One alternative is to agree to a *royalty fee* that ties the price (partly or totally) to the income from broadcasting the programmes. Such clauses were agreed for some of the US Olympic deals late in the 1980s and the 1990s (McMillan, 1991), and also on more recent deals. When NBC sold more than \$615 million in advertising for the 1996 Atlanta Games, a 50–50 revenue-sharing arrangement automatically kicked in, netting the IOC an additional \$36 million (Slater, 1998).

If sports rights buyers are extremely risk averse, this is an argument for increasing the proportion of royalty fees. Risk-averse bidders are willing to bid more in return for being sheltered from the risk, in effect incorporating an insurance premium in their bids. Royalty fees also reduce the inherent differences among the bidders. In that way it strengthens the competitive pressure that bidders with relatively low estimates of the value of winning can put on bidders with high estimates of the value of winning. This can increase the total payments by the winning bidder. The smaller the differences in the valuations of winning between the bidders, the more aggressive the bidding will be. These two effects can work to the IOC's advantage because they raise their share of the revenue. As a rule of thumb, the more risk averse the bidders are, relative to the seller, the higher the optimal royalty rate (McAfee and McMillan, 1987).

On the other hand, revenue-sharing agreements can also cause situations of *asymmetric information*, which in these cases are *moral hazard problems* where the seller cannot control all the actions of the winning bidder afterwards. If the sharing parameter increases, it reduces the channel's motives for any ex-post sales efforts, for example, increasing sales and marketing efforts. In that way, royalty fees can diminish the total income to be shared between the IOC and the winning channel (Solberg, 2006).

A further example of a moral hazard effect relates to the measurement of the fee. Normally, television channels will have more accurate information on these variables than the IOC. This can allow them to manipulate information to their own advantage by under-reporting the income and exaggerating the costs. Although some information will be available to the general public, for instance, rating figures, this does not apply to all of the variables. Information on discounts and special

agreements with advertisers are usually treated with confidentiality. The optimal revenue-sharing rate from the seller's point of view is determined by balancing these three factors, namely increased competition, reduced risk and weakened incentives that revenue-sharing induces.

## Market interventions

Olympic broadcasting can generate *positive externalities*, for example, by generating national pride from the national competitors' successes in international sport competitions. Such externalities, which also have *pure public good* elements, represent a rationale for showing the Olympics on a channel which will maximize the television audience.

Throughout the 1990s, the growth of subscription television channels raised concerns regarding access to watching popular sport for the general public. European politicians were alarmed in 1996, when News Corporation almost won the Olympic rights from the EBU. Their fear received more fuel when FIFA, the same year, sold the 2002 and 2006 World Cup Soccer finals to the German Kirch corporation and the Swiss marketing agency ISL instead of to the EBU as they had done in the past. As outlined earlier, in 2009, the IOC sold the rights for 2012 and 2014 Olympic Games to Sportfive instead of to EBU.<sup>5</sup>

Subscription television broadcasters focus their activity on programmes that attract sufficient viewers willing to pay to watch. This does not necessarily correspond with mass audiences. If some viewers have a very high willingness to pay, it might be profitable to sell programmes on a pay-per-view basis, instead of financing them by selling advertising, even if the latter alternative attracts significantly larger audiences. Subscription television reduces positive externalities.

The development where market forces move such events away from free-to-air to subscription television channels reduces the amount of goods that belong to the *public domain* (Gaustad, 2000). In that way, it represents a cost for society, since welfare is reduced. A consequence of this development is that governments have created regulations that define sports programmes as a part of the public domain. Late in the 1990s, the so-called *Listed Events regulations* were established in several European countries. The UK was first to introduce such legislation and then later the idea was adopted by the European Commission in the 'Television Without Frontiers Directive 97/36'. The principle in the directive is that each member state can draw up a list of events, national or non-national, that it considers to be of major importance for the society. The rights to broadcast these events can only be acquired

by broadcasters with a minimum penetration decided in the respective nations. In addition, Australia, India and South Africa have also implemented similar regulations.

The objective of such regulations is to move sporting events back to the sphere of the public domain. Such policies affect rights fees and hence the owner's ability to make a profit from selling them. A high degree of public domain reduces sellers' freedom to exploit the commercial value of the product. As a rule of thumb, the higher the degree of public domain, the lower the commercial value of the ownership. Contrary to this, a regime of strict legal protection of the broadcasting rights owner's freedom to sell to any bidder improves the owner's ability to make profit from the product, for example, in an auction. This also explains the resistance towards the Listed Events regulations from many sport-governing bodies.

In 1971, the IOC added a paragraph to the Olympic Charter, Article 21, which stipulated that only the IOC could negotiate with television operators, and that it would be this body that decided on the distribution of broadcast rights (Moragas et al., 1995, p.10). The broadcasters acquiring European rights are obliged to show a minimum of 200 hours from the Summer Olympic Games and 100 hours from the Winter Olympic on free-to-air channels. Additionally, nine countries have the Olympic Games on their respective Listed Events, which means that they are allowed only to be broadcast on channels with a minimum penetration, ranging from 75 per cent in Germany to 95 per cent in the UK.

In 2009, the UK government set up an independent review panel to consider the list of events that was included on the UK list. The IOC appeared before the panel and submitted written evidence since the Summer Olympic Games is listed in the UK and is generally shown on the state-owned BBC. The evidence from the IOC provides a clear guide to the current thinking it has with regard to broadcasting the Olympics. The IOC argued that it had always tried to achieve the widest possible dissemination of images of the Olympic Games in line with the Olympic Charter, which requires that the IOC take 'all necessary steps in order to ensure the fullest coverage by the different media and the widest possible audience in the world for the Olympic Games' (IOC written evidence to Panel, June 2009 (DCMS, 2009)).

In general then, this requires the IOC to sell the broadcasting rights to free-to-air broadcasters as it did in 1992, and in the sale of the 1996–2008 rights in Europe as described above. However, although the IOC indicated to the review panel that it was happy for all those parts of

the Olympics to be shown on terrestrial television and even be listed, it objected to the whole of the Olympic Games being given that status. The IOC argument was quite straightforward. At the Beijing Olympics, live Olympic Games content amounted to 5000 hours covering 28 sports. To broadcast all 5000 hours live would require at least 26 channels broadcasting 12 hours a day for the 16 days of the Olympics. In fact the BBC broadcasted 240 hours of live content from Beijing, or just 4.8 per cent of the total. That is, 95 per cent of the Olympic Games content was not broadcast live to the UK viewing public. The IOC argued that the current UK listing arrangements, where the whole of the Olympic Games is listed, is detrimental to many Olympic sports, some of which get no coverage at all by the BBC, and to the host cities and the NOCs. Quite simply, the IOC would like a form of listing that allows the BBC, or any other terrestrial broadcaster, to telecast the content most demanded by the UK viewers, but preserve the right of the IOC to market the remaining live content to other broadcasters. In this way the IOC would get the widest possible coverage but would also allow it to increase its overall income from a diversified sale of the broadcasting rights (see Gratton and Solberg, 2012).

Table 9.5 shows how the broadcasting rights have been distributed between the IOC and the local organizing committees. As the table shows, the IOC has, over the years, increased its slice of total revenues quite dramatically. In 1972, when the summer Olympics were held in Munich, the IOC took only 10 per cent of the broadcasting rights income, with the rest going to the host city. By 2008, in Beijing, the IOC was taking 51 per cent of the broadcasting rights fees with the remaining 49 per cent going to the host city. However, the 90 per cent going to the host city in 1972 would be 90 per cent of \$17.8 million, which was the rights fee for the Munich Summer Olympics, or \$16 million. In 2008,

*Table 9.5* Distribution of revenues from broadcasting rights

	IOC	LOOC
1948–1968	1–4%	99–96%
1972–1980	10%	90%
1984–1992	33%	67%
1996–2004	40%	60%
2006–2010	51%	49%
2010	LOOC receives a guaranteed amount	

*Source:* Peña (2009) and Preuss (2006).

the broadcasting rights fee income was estimated at \$1.74 billion (Peña, 2009). The 49 per cent of this received by Beijing would be \$853 million, or over 53 times the amount received by Munich in 1972. Although the absolute amount of income received by the host city from broadcasting rights has continued to rise, it is clearly the case that the IOC has benefited most from the exponential growth in broadcasting income over the last 20–30 years. If we take the example above, in 1972 the IOC's share of the broadcasting rights fee was \$1.78 million. In 2008 it was \$0.89 billion or 500 times the amount they received in 1972.

## Conclusions

The summer Olympics has become the largest televised event on the planet and it continues to grow. The Beijing Olympics, in total, attracted about 4.7 billion TV viewers worldwide, which equates to over two-thirds of the world's population, surpassing the 3.9 billion who watched the 2004 Athens Games and the 3.7 billion who watched the 2000 Sydney Games. Over recent years the IOC has become much more professional in maximizing the income it earns from the sale of Games broadcasting rights and as a result that income has grown dramatically. Because of the size of the global television audience, sponsors are keen to be associated with events with such global reach. Hence sponsorship income has grown alongside the growth of broadcasting rights fees. The broadcasting of the Olympic Games is now a massive global business.

The commercialization of the Olympic Games has had a dramatic effect on the way the IOC operates. Up until the early 1980s, the IOC made every effort to prevent the games from commercialization. However, in 1983 the IOC voted to accept corporate sponsorship for the first time. The following year the 1984 Los Angeles Olympics produced the first financial surplus in the post-war period. The broadcasting rights for these Games were sold for an unprecedented \$286 million. Corporate sponsorship generated a further \$127 million. The Los Angeles Olympics became the financial model for the future.

As we have seen earlier in this chapter, as the fee for the sale of broadcasting rights continued to rise, the IOC took a greater part in handling the negotiations for the fee and taking a greater part in the management of the broadcasting of the Olympics. Once the IOC had realized the value of their property they maximized the rate of return on that property. As a result, the IOC is now one of the richest international sport organizations in the world and some commentators have criticized it for losing the ideals of the original Olympic Movement in pursuit of financial profit, as the quote below illustrates:



My critical position...is rooted in the distinction between the Olympic Movement and the Olympic Sports Industry (OSI). The latter can be thought of as Olympic sport without Olympism, or stated more precisely, the OSI, as an ideal type, reverses the means/ends relationship between sport and the intercultural, diplomatic and educational meanings characteristic of the Olympic Movement. For the OSI, Olympic symbols, values, social projects and histories are mere instrumentalities available for the expansion of Olympic-style competitions, for the 'growth of the brand' as many of its paid professionals like to put it... my decades of Olympic research had led me to the conviction that the Olympic Movement was in ever-increasing danger of being swallowed up by the OSI.

(MacAloon, 2011)

## Notes

1. [http://www.olympic.org/Documents/Reports/EN/en\\_report\\_1428.pdf](http://www.olympic.org/Documents/Reports/EN/en_report_1428.pdf)
2. EBU represents 65 member broadcasting organizations in 49 countries, mainly across Europe, but also in the Middle East and North Africa.
3. <http://www.telegraph.co.uk/sport/olympics/8430637/London-2012-BBC-cutbacks-cause-alarm-at-the-IOC-over-future-Games-coverage.html>; <http://www.telegraph.co.uk/sport/olympics/8951142/IOC-hopes-London-2012-Olympics-will-force-BBCs-hand-over-television-rights-for-future-Games.html>.
4. NBCUniversal was formed in 2004 by a merger between NBC and Vivendi.
5. <http://mail.newtimes.co.rw/news/index.php?i=13813anda=13544>

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