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TELEVISION AND THE QUEST FOR GOLD: THE UNOFFICIAL PAPER OF THE 1984 OLYMPICS

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While sitting in front of the tube watching Olympic canoeing (or Greco-Roman water polo, it's all a blur), I began to wonder about why ABC had been granted exclusive rights to televise the Olympics. The owners of the "Olympics" brand name could have sold the television rights in numerous ways. Why did they choose to have a single network provide all the coverage? Further, I mused, how did they get away with it? If the NCAA's football package violates the antitrust laws, how does the Olympic package remain within the law?[1] It struck me that a paper speculating on the motives of the Los Angeles Olympic Organizing Committee (LAOOC) might be in order.[2] A second paper regarding the legality of the contract is also probably in order, but I am not going to write it.

It turns out to be a difficult question, and, confining myself to data easily available to one ensconced in a comfortable arm chair, I am not about to give the definitive answer. I had hoped, however, to shed enough light on the question to have at least a modest influence on the sale of television rights for the 1988 Olympics. Events have proceeded faster than the publication process, however, and a year after this paper was first written, the exclusive rights were awarded to NBC. Having learned about the nature of publication lags, I now somewhat cautiously commend these ruminations to the committee marketing the 1996 Olympic package. Or their children.

I begin with the presumption that the Olympian powers-that-be are eagerly pursuing profits. While this proposition might have been considered shocking a few years ago, the extensive marketing of last year's pageant should make the statement relatively uncontroversial. (Quick, what was the official junk food of the 1984 Olympics?)[3] The question is why

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[1] National Collegiate Athletic Ass'n v. Board of Regents of the University of Oklahoma, 104 S.Ct. 2948 (1984). I have strong doubts as to whether the NCAA agreement should have been held a violation.

[2] There are, I suspect, a number of partial owners of the Olympic brand name. To simplify exposition I will assume hereinafter that the LAOOC is acting as the sole owner.

[3] The Olympic sponsorship program had an extremely complex system of "participation

the LAOOC can expect to make more money by restricting coverage of the Games to a single network rather than unbundling and selling packages of events to a larger number of exhibitors.

The LAOOC has a monopoly, it can be argued, and monopolists restrict their output. If they were to increase output by allowing more events to be televised, the result would be a decrease in the price and, eventually, a decrease in profits. While this seems plausible at first, further reflection suggests some difficulties. What output is the LAOOC selling? Basically, it is selling viewers to advertisers. The question then becomes: under what circumstances would unbundling result in fewer viewers or a lower net revenue per viewer?

If the events are shown on only one channel, people who want to see other events might not watch at all; by decreasing viewer options, coverage by a single network results in a larger audience for that network but in a smaller total audience for the Olympics. If the revenue from the additional viewers would exceed the costs of attracting them, then the LAOOC would be better off by unbundling. This proposition also depends upon the effects of unbundling on the number of viewers and the net revenue per viewer.

The subsequent discussion will be organized around two themes: how might exclusivity increase the number of viewers and how might exclusivity increase the net revenues per viewer. The explanations are not presented in order of plausibility, as should become clear.

I. Audience Size

There are a number of possible reasons why unbundling might result in a smaller number of viewers. One is paternalism: ABC will do a better job than the viewer in choosing what is worth seeing. Left to his own devices the average viewer would expect a lower average payoff from watching any Olympic channel and would therefore be less likely to watch the Olympics. On the "Scale of Credibility," I suspect this explanation lies somewhere between the Easter Bunny and the Tooth Fairy; with non-exclusivity, the individual networks would have an incentive to provide more precise information on the timing of events.

ABC's exclusive coverage might have enabled it to engage in a form of "bait and switch" tactics. It might have attracted viewers for minor events by promising major events "shortly" or "in a while." If unbundling led to more precise scheduling of major events, then the "on-hold" audience might shrink in size.

levels." Different levels permitted the sponsor to use different Olympic logos. Telephone interview with Carla Michelotti, attorney for Leo Burnett, the advertising agency which handled the sponsorship agreements for United Airlines, Allstate Insurance, McDonald's and others (Oct. 1, 1984). For a general description of the scope of some advertising campaigns launched by sponsors of the Olympics, see *Olympic Advertisers: Let the Games Begin*, ADVERTISING AGE, July 26, 1984, at 1.

The Olympics carry a special mystique that might be destroyed by too much coverage or by the competing networks belittling the events with which they are competing. For example, it is amazing that if a volleyball game carries the Olympic brand name it can sweep the prime-time ratings, while if the same game is labelled as the Volleyball World Championships, it would have a hard time beating out roller derby reruns. It is not, however, obvious that the mystique is more likely to be destroyed by spreading coverage over more than one network.

Increased coverage might result in a reduced average quality (in the technical sense) of the televised fare. The potential high ratings justify large expenditures on cameras, special effects, blimps, and so forth. Compare the technical coverage of the Super Bowl with a routine Sunday afternoon game.[4] If a network can count on only average ratings because it is competing with two or three other Olympic events, then it might determine that the costs of providing high technical quality are not worth bearing. The lower quality would have a negative impact on audience size and could, conceivably, result in a decrease in the total television audience for the Games.

If televising the Games diverted revenue from the live gate, the LAOOC might be concerned with the amount of television coverage available. This was, undoubtedly, a legitimate concern of the NCAA.[5] I doubt, however, that this could be of much importance in the Olympian context. It is hard to believe that people would incur the considerable costs of attending the Olympics because they believed that their favorite events would not be televised. Moreover, for the argument to hold, people would have to believe that the probability that the event would be televised under an exclusive contract would be considerably lower than the probability that it would be televised without exclusivity.

Finally, it is possible that the form the unbundling takes could reduce the total audience. Suppose, for example, that one network could show all the Games, but a second network could show only a one-hour highlight show each evening. It seems rather plausible to me that the number of viewer-hours would fall. It also seems more than plausible that the Olympics could come up with far better (for its purposes) packaging of the events. This simple example does show, however, that there are some ways of breaking up the bundle that would clearly result in a smaller audience.

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4 Major events are often chosen for the unveiling of a technological innovation, like Super Slo-Mo, which is then available for routine use on the network (and perhaps other networks depending upon the proprietary nature of the innovation). The causality, however, is unclear. If ABC did not have the Olympics, would it have been less likely to engage in the research that produced super Slo-Mo? Would it have been less likely to adopt the technology? Maybe. But I do not think that a rigorous argument could be developed to show that the availability of an exclusive Olympic package inevitably results in a more rapid introduction of technological innovations by the networks and a willingness on their part to pay a premium to the LAOOC in anticipation of that innovation.

5 *See Board of Regents of the University of Oklahoma*, 104 S.Ct. at 2968-69.

II. REVENUES PER VIEWER

Suppose that the average number of viewers in prime time would increase if the Olympics were unbundled. It is still possible that the LAOOC would receive less revenue by unbundling because the exhibitors would suffer a decline in the net revenue per viewer. This could happen if either their costs per viewer rise or their revenue per viewer falls. First, let's look at revenue per viewer.

If advertising revenues were entirely determined by audience size and if unbundling increased the total audience size in each time slot, then exhibitor revenues would increase. For a number of reasons, however, this might not be the case. Advertising revenue might, for example, be a nonlinear function of audience size. That is, the price per minute might be greater if one network has forty million viewers than if two networks have twenty million viewers each. That should be a relatively easy proposition to test, and if I ever get out of this armchair I just might do so.

If the rights to the Olympics are exclusive, the victorious network might be willing to pay a premium for the large audience, using the exposure from the Olympics to build up an audience for its fall schedule. In such a situation, part of the payment to the LAOOC is for an investment that is expected to pay off in larger advertising revenues for the exhibitors on other shows later in the year.[6] This proposition will be harder to test, but it might be possible to determine whether a network's ratings rise following the Olympics or other unique events (the Super Bowl or World Series), and, if so, whether the carryover effect is significant.

ABC's package appeared, from casual observation, to include the exclusive right to televise the Olympics as news. Other stations could talk about the Games and show still pictures, but if you wanted to see Mary Decker's fall that night you had to see it on an ABC affiliate. In this sense, the bundle privatizes the news, converting it from a common pool asset to a privately owned asset from which the LAOOC could reap the rewards. Actually, this formulation is a bit misleading since the owners of sporting events do own the rights to news clips.[7] Generally, however, it is in the interest of the owners to have the clips shown on news shows, since this provides free advertising for their product. The Olympics apparently do not need that advertising; rather it provides an audience-building service for the television stations which would pay a positive price for the privilege of showing Olympic clips on the news. This should show up in the form of higher ratings for the local news

[6] As a related matter, good coverage of the Olympics might enhance the network's reputation for sports coverage, resulting in higher ratings for its other sports shows.

[7] *See, e.g.*, Pittsburgh Athletic Co. v. KQV Broadcasting Co., 24 F. Supp. 490 (W.D. Pa. 1938) (owner of baseball team who maintains field and pays players has property rights in news value of games played by the team). *See also* H. WARNER, RADIO AND TELEVISION RIGHTS 940 (1953).

shows of ABC's affiliates during the Olympics, with a possible carryover effect afterwards.

It is plausible that the price of a one minute commercial during the Olympics is greater than for another show with an equal rating. The Olympic brand name might have additional value for the sponsor, either because of the demographics of the audience or because of the value of the implied endorsement. If one jock can help sell razor blades, think what a whole herd of them can do. As the number of Olympic commercials increases, the value of the endorsement falls. This is the sense in which the increased quantity implies a movement down a demand curve to a lower price. It would be relatively simple to determine whether the Olympic premium exists. Assuming that it does, however, it is not obvious what impact this has on exclusivity. This effect refers only to the number of commercials, not to how many networks show them. It would be an odd coincidence if it turned out that the optimal number of commercials always happened to be equal to the number that would be carried by a single network regardless of how long the Games last. The decision to extend the 1988 Winter Games in order that a third weekend of coverage could be televised suggests that we have not reached the point at which the fall in the premium would require a curtailment of output.[8]

If Olympic coverage were available on a number of channels, viewers might be induced to change channels at the commercial breaks. This would entail a lower exposure for each commercial and, therefore, a reduction in the price advertisers would be willing to pay per viewer. For this argument to succeed it must be true that a viewer would find switching from a commercial during Olympic coverage more attractive if there existed Olympic programs on the other channels rather than non-Olympic fare. This is at least plausible because channel switching is probably more attractive if the competing attractions are sporting events.[9] We might be able to gather indirect evidence on this from observing what happens when athletic events are broadcast opposite other athletic events. For example, do advertisers pay less per rating point when two NFL games are shown on a Sunday than when only one game is shown?

A standard explanation for block booking, ever since George Stigler presented his analysis of the *Loews* decision,[10] is price discrimination. The block presents the buyer with an all-or-nothing choice and in some circumstances the owner of the goods can obtain a higher total amount by preventing the buyer from picking and choosing. It is a nice argu-

[8] Creamer, *Sports Comeback of the Year: The Olympic Games*, SPORTS ILLUSTRATED, Aug. 27, 1984, at 11.

[9] *See infra* text accompanying note 18.

[10] Stigler, *United States v. Loew's Inc.: A Note on Block Booking*, 1963 SUP. CT. REV. 152.

ment, even if it did not work in explaining *Loews*.[11] I do not think it can work in explaining the LAOOC's policy either. If the packages are put out to bid rather than sold at a fixed price, there is no reason for anyone to benefit by engaging in price discrimination.

A variant on this theme is more compelling. There are a large number of programs available that could produce an audience with modest ratings. Competition between owners of these programs will drive down their price so that the economic rents would accrue to the exhibitors. Programs that can deliver considerably larger audiences will capture a larger share of the rewards. Thus, an Olympic package that yields very high ratings on a single network would enable the LAOOC to capture the rents from generating a large audience. If the Olympics were shown on a number of networks with average ratings for each network, the networks would be unwilling to pay amounts in excess of their next best alternative—namely the price of run-of-the-mill programming.[12]

III. COSTS PER VIEWER

It is plausible, though not inevitable, that the direct costs to the LAOOC of administering multiple contracts would be higher than if they had but one. This is sufficiently obvious that it is not worth pursuing further. I will, therefore, concentrate on the costs of exhibitors and potential exhibitors which can be passed on to the LAOOC, thereby reducing its net revenue.

It could be argued that economies of scale require that a single entity be responsible for providing the video coverage of the Games. The costs of specialized capital can be spread over a larger number of events. Moreover, the special equipment and specialized labor can be used more intensively.

By itself, this explanation does not work. ABC could increase the intensity of its use of the special assets by renting them to other networks covering the Games. Or a single entity could be given the exclusive right to originate signals which could then be used by a large number of exhibitors. Indeed, the scale economy argument should cut the other way. Other things equal, the steeper the decline in marginal production costs, the greater the incentive to carry the Games on more than one channel. Thus, unless there is some reason to believe that the cost curve conveniently bottoms out at a point which happens to coincide with the Games being shown on only one network, the scale economies justification fails.

Pure technical economies are not, therefore, sufficient to determine

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11 And it didn't. *See* Kenney & Klein, *The Economics of Block Booking*, 26 J. L. & ECON. 497 (1983).

12 For evidence on the relationship between program prices and audience size, see R. NOLL, M. PECK, AND J. MCGOWAN, ECONOMIC ASPECTS OF TELEVISION REGULATION (1973); Woodbury, Besen, & Fournier, *The Determinants of Network Television Program Prices: Implicit Contracts, Regulation, and Bargaining Power*, 14 BELL J. ECON. 351 (1983).

whether the exhibitors' costs per viewer are increased by non-exclusivity. The crucial factor is "institution-specific" costs. These sometimes appear so much a natural part of the world that we fail even to notice them. For example, suppose that production costs would be minimized if the Games were shown simultaneously on three networks. One way of achieving that is to give the highest bidder the right to show the Games on three networks and have it rent the air time from the other two. The LAOOC could even require that, as a condition for bidding on the package in the first place, the bidders agree to rent their air time at a preset price or schedule of prices. Alternatively, the winning bidder could provide all the program origination for a fee to the other networks which would then use the feed for their programming. We know, or at least think we know, that these arrangements will not work. But why won't they?

In both cases, the costs that arise specifically from the institutional arrangement make these options appear unattractive (i.e., expensive) even with the substantial economies of scale. In the former, the LAOOC would have to expend resources to assure itself that there would be no collusion by the bidders; determining the rental price of the air time would present some problems as would monitoring the quality of the network transmission. In the latter arrangement, even if the supplier is not a competitor, there are real difficulties. For example, if the rental fee is fixed, the supplier would have no incentive to maintain quality. If the rental fee depends upon the ratings of the *network*, each network must be concerned about the possibility that the supplier might shift viewers to the other channels. If the fee depends upon the ratings of the *Olympics*, then each network has an incentive to reduce its audience-building promotional effort. The difficulties are not dispositive. Indeed, ABC did provide the feed for most of the international Olympic coverage.[13] These problems are exacerbated if the supplier is also a competitor.[14] I would hate to be an NBC executive relying upon an ABC feed when the shows are competing for the same audience.

It is conceivable that the economies of scale in production would be so great as to offset the diseconomies that arise from attempting to coordinate behavior across organizational boundaries. After all, competitors do occasionally cooperate in the production of joint inputs. In the two hypothetical cases, however, regardless of how strong the production economies of scale might be, our instincts (mine anyway) are that the

[13] ABC provided all the feed for international coverage. In fact, ABC was required to provide feed for events which it did not itself intend to broadcast, such as coverage of events which were only of interest to the foreign countries with athletes competing in the events. Telephone interview with Jim Hattendorf, Assistant News Director of ABC News (Sept. 29, 1984).

[14] Why don't these problems exist when one supplier provides the feed for the international market? The international exhibitors are generally not competing with each other for the audience, and, therefore, the costs arising from strategic behavior will be smaller.

costs of coordinating in these particular ways would be too high.[15]

That does not mean that the costs necessarily will be too high for all arrangements in which the origination and distribution of the signals are not under the exclusive control of a single entity. Coordination problems are endemic to networks; ABC and its affiliates face such coordination problems all the time and they have managed to cope. The point is that if we are going to argue that unbundling would result in higher average costs, the source of the increased costs must be problems in contracting across organizational boundaries, not economies of scale.

One possible cost arising from nonexclusivity is wasteful "overfishing" for viewers.[16] If three networks are competing for Olympic customers, they have an incentive to spend resources on building their audience to the point at which the marginal benefits equal their marginal costs.[17] They do not, therefore, take into account the adverse effect their efforts have on the cost curves of the competitors. The LAOOC is in a position to "internalize the externality" by preventing excessive competition in marketing its product. This is analogous to a firm allocating a territory to a single salesman. To complete this argument it would be necessary to show two things, neither of which I am prepared to do. First, if the Olympics are shown exclusively on one network, there would still be an incentive to engage in excessive selling to compete with the non-Olympic fare shown by the competition.[18] The argument requires that the winner spend less on selling than would have been spent had three independent networks carried the Olympics.[19] Second, it would be necessary to show that the extra costs are not outweighed by the benefits of saturation. For example, there must be ten McDonald's franchises located within two miles of my office. To some extent these cannibalize the sales of each other. But, on balance, it is still, apparently, in the interest of McDonald's to have such intensive coverage of the region, in part to take advantage of expenditures that redound to the benefit of the entire group of franchisees.

If the exhibitors' pre-contract costs are lower with exclusivity, then

15 I suspect that both forms of coordination would entail some antitrust problems. A winner-take-all bid would be more likely to withstand antitrust scrutiny than would a system in which the bidders agreed to rent their airwaves to the winner (*"gasp,"* a conspiracy). That seems, at best, odd. Nevertheless, even if the antitrust laws were unequivocally not binding, I would be surprised to see either of these arrangements emerge.

16 The "overfishing" problem is developed more thoroughly in V. Goldberg, *Fishing and Selling*, J. LEGAL STUD. (1986). The problem is further addressed in V. Goldberg, *The Free Rider Problem, Imperfect Pricing, and the Economics of Retailing Services*, 79 NW. U.L. REV. 736 (1984).

17 Note that some of these expenditures can take the form of increasing the technical quality of the product—more cameras, higher-priced announcers, more instant replays, and the like.

18 This argument is analogous to the channel-switching argument. *See supra* text accompanying note 9.

19 The total amount "wasted" with exclusivity might be greater than without it. That might be a concern of the Department of Justice, but it is not one of the LAOOC.

this is a possible source of exclusivity's attractiveness to the LAOOC. To make this argument work, we will need some mechanism that will ensure that at least part of the exhibitors' costs will be borne ultimately by the LAOOC. While it is plausible that some of the costs do adhere to the LAOOC, it is not a simple relationship. If, for example, there are five bidders for an exclusive contract and each spends $X preparing its bid, there is no reason to believe that $5X will come out of the LAOOC's pot. But it is also true that if all five bidders were told in advance that they would have to spend $2X apiece in preparing their bids, the LAOOC should expect the winning bid to be lower.[20] So the LAOOC will have to pay some attention, at least, to the pre-contract costs of the potential exhibitors.

There are a few reasons to believe that pre-contract costs would be reduced by exclusivity. Assume, as seems reasonable, that potential bidders know roughly how popular the Olympics as a whole will be, but are much less certain about individual events. Will the surprise hit of this Olympiad be women's gymnastics, boxing, men's volleyball, or soccer? Will the basketball games be blowouts? Will the hockey team beat the Russians? And so forth. If the Games are unbundled, the potential bidders will have to spend a larger amount in market research determining the probable payoff from the various packages.[21] Exclusivity reduces the variance of outcomes, thereby reducing the rewards of seeking out this special information. This is akin to DeBeers selling packets of diamonds ("sights") to diamond merchants.[22] However, it would seem that most of these benefits could be attained if the LAOOC designed the packages it put up for bidding with an eye toward reducing the incentive to search (that is, by putting together low-variance packages). It is hard to believe that there would be any meaningful gain from this source by reducing the number of exhibitors from two to one.

If the LAOOC attempted to sell, say, three packages, there would be a complicated tradeoff involving how similar the three packages ought to be. On the one hand, if the packages are not very similar, we have the problem of high variance discussed in the previous paragraph. In addition to that, the bidders face a sequential bidding problem. The amount they bid on package one might depend upon whom they expect will have packages two and three, ad nauseum. On the other hand, if the packages are virtually identical, all the bidders have an incentive to "free ride" on the information produced by the winner of the first bid.[23] Consequently,

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20 There is a lot of fancy game theory that can be used to show that this statement is generally correct, but not inevitably so. You don't want to know about it.

21 This "oversearching" argument is developed by Barzel, *Measurement Cost and the Organization of Markets*, 25 J. L. & ECON. 27 (1982); Kenney & Klein, *supra* note 11, at 502-05.

22 For a detailed analysis of DeBeers' selling methods, see Kenney & Klein, *supra* note 11, at 500-16.

23 This is the efficient market paradox. If the stock market is efficient—as the finance theorists

they would spend too little on acquiring information. Disentangling this whole mess is more than I care to do. The upshot is that there would be some upward pressure on costs per viewer from this source.

Finally, it is possible that internal organizational problems of the LAOOC might raise the costs of unbundling. Suppose that it is true that unbundling would increase the size of the pie to be shared by the LAOOC members. However, the form it takes might result in some members receiving less. If it is too expensive to work out a set of side payments to compensate the losers, they might block the unbundling. For example, suppose that if soccer were shown separately, the total LAOOC pie would be bigger. Suppose further that the share going to the soccer federation would be based entirely on revenues from its own television rights—it would receive nothing from the other Olympic package. If this sharing rule resulted in the soccer federation receiving less than it would have by remaining in the exclusive package, then it might oppose unbundling.

In principle, the LAOOC should be able to resolve this problem and achieve a mutually beneficial result. In practice, it is not always so easy. Keeping the coalition members satisfied might require foregoing options that would appear to be Pareto superior.[24] This was undoubtedly a problem confronting the NCAA in determining which games to televise. Part of the payoff to the schools with lesser football programs was televising games of a larger number of schools than the networks would have chosen. The broadcasters were precluded from showing the most profitable slate of games, thereby shrinking the size of the pie going to the member schools. Major league baseball did manage to find a way to avoid the revenue loss that would have resulted from playing day games during the week if the Cubs managed to make it into the 1984 World Series. (The previous solution, Cubbie ineptitude, appears to have broken down.) The owners have not yet managed to devise a solution for a more severe revenue drain—pennant winners from small television markets. But give them time.[25]

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have shown—then why would anyone waste resources trying to produce information? But if no one produces information, then the stock market will not incorporate relevant information in the stock prices. For an elaboration of this theory and a way to reconcile efficient market theory with the production of useful information by market participants, see Kraakman & Gilson, *The Mechanics of Market Efficiency*, 70 VA. L. REV. 549 (1984).

24 For a discussion of the problems in obtaining the benefits of unitizing oil fields, see Libecap & Wiggins, *Contractual Responses to the Common Pool: Prorationing of Crude Oil Production*, 74 AM. ECON. REV. 87 (1984); Wiggins & Libecap, *Oil Field Unitization: Contractual Failure in the Presence of Imperfect Information*, 75 AM. ECON. REV. 368 (1985).

25 Eventually the owners will learn that it is more efficient to sell the pennant to the highest bidder than to engage in bidding wars for free agents, who are just a bunch of ungrateful middlemen anyway.

IV. Concluding Remarks

As I said when we embarked on this journey, it would not be easy. There are many plausible explanations for the LAOOC wanting to confine Olympic coverage to a single exhibitor. On the other hand, there appear to be a number of ways to break up the package which might not be wonderful for the LAOOC, but which would not be disastrous either.

If I had my druthers, I would want to find a way to make unbundling be in the LAOOC's self-interest. Second best (for us, not them) would be for the State to assert its ownership interest more directly.[26] It is not clear to me why the Olympic brand name is a private asset while the United States brand name (from which the Olympic brand name derives a considerable part of its value) is in the public domain. If the LAOOC were required to deal with the owners of the United States' name, (that's us), one of the requirements for its use could be an unbundling of the Olympic television package.

It probably will not happen. Nevertheless, we can at least dream about the possibility of having the 1992 Olympics available on two (or more) channels. Now, if only we could find a way to have the 1988 political conventions available on one channel (or less). . . .

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[26] Others might prefer an indirect attack, using the antitrust laws or television regulation.