

**THE COLLEGE FOOTBALL ASSOCIATION  
TELEVISION BROADCAST CARTEL**

by

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## I. Introduction

The National Collegiate Athletic Association (NCAA) was organized in 1905 to control game violence in college football. After World War II, the NCAA's activities expanded into economic regulation, including the control of athletic scholarships and the sale of television broadcast rights for college football games.<sup>1</sup> Contracts negotiated by the NCAA as the exclusive selling agent for college football television broadcast rights provided the foundation for the growth in revenues of college and university athletic departments from 1951 through 1984.

## II. The NCAA Enters College Football Television Broadcasting

The first live college football game was broadcast in 1938, albeit to only six viewers.<sup>2</sup> As the number of households with television receivers expanded in the late 1940s, individual universities increasingly arranged to televise their games.<sup>3</sup> These individually negotiated broadcast arrangements inevitably led to conflict among NCAA members.

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<sup>1</sup> N.C.A.A.v. Board of Regents of University of Oklahoma, 104 S. Ct. 1984): 2953-54.

<sup>2</sup> *Id.* at 2454.

<sup>3</sup> Zimbalist, Andrew. Unpaid Professionals: Commercialism and Conflict in Big-Time College Sports, (Princeton, N.J.: Princeton University Press, 1999), at 91.

Several universities contended that when games of other institutions were broadcast into their home territory during one of their games, potential gate receipts evaporated because fans passed up opportunities to attend the live contest in favor of a Saturday afternoon sitting in an easy chair watching a game on their new television receiver. To address the controversy, in 1950 the NCAA commissioned the National Opinion Research Center (NORC) to investigate the extent to which televised games competed directly with live attendance at other games. The NORC report found that live game attendance declined by ten percent in areas where at least 30 percent of homes owned televisions, while attendance actually increased by about ten percent in areas where fewer than five percent of homes had televisions.<sup>4</sup> In the aftermath of this report, the NCAA's television committee concluded that televising college football games into areas where other games were played was detrimental to live attendance and gate receipts, and recommended a moratorium on live broadcasts.<sup>5</sup>

At its 1951 convention, the NCAA revoked its then existing policy allowing each individual institution complete control over the marketing of its athletic events, a first step toward prohibiting broadcasts into areas where another Association member was hosting a game.

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<sup>4</sup> *Id.* at 93.

<sup>5</sup> *N.C.A.A. v. Board of Regents of University of Oklahoma*, 104 S. Ct. (1984) at 2954.

When the University of Pennsylvania challenged the NCAA's authority to control television broadcasts later in 1951, and threatened to continue to broadcast the Quakers' games, the Association declared Penn a "member in bad standing" and orchestrated a group boycott of Penn's football program.<sup>6</sup> After Penn's four visiting opponents cancelled their games at Penn for the 1951 season, Penn capitulated, commencing the NCAA's 33 year reign over the collective sale of college football television broadcasts.<sup>7</sup>

The NCAA signed its first Association-wide college football television contract with a broadcast network in 1952. The one year contract called for NBC to pay the NCAA \$1.14 million, in return for which NBC could select a game to broadcast on Saturday afternoons with assurance that no other NCAA college football broadcast would appear on a competitive network.<sup>8</sup> Exclusivity was the key to the agreement. As would be expected from a revenue maximizing monopolist, the NCAA restricted the games for sale--to only one per week--thus adding scarcity value to the broadcast rights.

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<sup>6</sup> *Id.*, at 2954, and Sperber, Murray. College Sports, Inc. (New York: Henry Holt and Company, 1990): 49.

<sup>7</sup> *Id.* at 49.

<sup>8</sup> Zimbalist, Andrew. Unpaid Professionals: Commercialism and Conflict in Big-Time College Sports (Princeton, N.J.: Princeton University Press, 1999): 94.

Details of the NCAA college football television broadcast controls have varied over the years, but exclusive rights remained the central feature of the arrangement. Four to twelve percent of the revenues were withheld to defray Association costs that otherwise would have been covered by member dues; the bulk of the rights fees were distributed to the institutions that appeared in the games selected by the contracting network.<sup>9</sup> In order to broaden support among the NCAA's members for the centralized sale of the rights, the contracts limited the number of times an individual institution could be selected for the game of the week, thereby expanding the number of different teams appearing.

Beyond appearance limitations, the selection of games to be broadcast was left to the networks in order to maximize the value of the contract to the winning bidder. The result was a concentration of appearances among a limited number of "big-time" football programs. Many teams never appeared on the game of the week. The distribution of the rights revenues created tension among member institutions from the beginning, but more complaints arose from the teams that appeared frequently than came from those that seldom or never appeared. The teams whose games were selected frequently were the ones constrained by the maximum appearance limitations.

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<sup>9</sup> *Id.* at 96.

They argued that they were the attraction of the contract and should receive an even larger proportion of the revenues than was allocated to them.<sup>10</sup>

Over time, appearance limitations were relaxed to appease the institutions with big-time football programs, but not relaxed sufficiently to placate the institutions with popular teams.<sup>11</sup> The numerous smaller and less popular programs coalesced to maintain the appearance limitations in the democratic NCAA. They understood that uncapping appearances would divert almost all of the rights fees to a few popular programs with a large following.

### **III. Formation of the College Football Association**

In 1977 sixty-two of the largest college football programs formed the College Football Association (CFA).<sup>12</sup> All CFA members were also members of the NCAA. The initial purpose of the CFA was to coordinate internal NCAA lobbying efforts on behalf of major college football interests.

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<sup>10</sup> *Id.* at 96-97.

<sup>11</sup> Pacey, Patricia L. "The Courts and College Football: New Playing Rules Off the Field?" American Journal of Economics and Sociology 44 (1985): 148.

<sup>12</sup> Dunnavant, Keith. The Forty-Year Seduction. (Newman, Ga.: Solovox Publishing, 1997): 114.

The CFA included the universities who were members of the Southeastern Conference, Atlantic Coast Conference, Western Athletic Conference, Big Eight Conference, and the Southwest Athletic Conference, as well as many independents. The group thus included Penn State, Pittsburgh, Syracuse, Miami, Nebraska, Oklahoma, Texas, Texas A & M, Arkansas, Louisiana State, Alabama, Auburn, Tennessee, Florida, Florida State and Clemson. Because Big Ten and Pac Ten Conferences did not join, Ohio State, Michigan, Southern California, and UCLA were not in the CFA.<sup>13</sup>

The CFA hoped to increase the demand for college football and to insure that the most popular programs received a larger share of the revenues. It developed an academic eligibility standard that was later adopted as the NCAA's Proposition 48 concerning playing eligibility of freshmen athletes and it produced annual graduation rate surveys.<sup>14</sup> Although the CFA enjoyed some small victories in terms of a modest relaxation in appearance limitations, the NCAA's democratic voting rules frustrated the group's efforts to divert more of the exploding football broadcast revenues to the major programs.

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<sup>13</sup> Neinas, Charles. Personal Interview (June 17, 1989).

<sup>14</sup> Dunnavent, Keith. The Forty-Year Seduction, (Newman, Ga.: Solovox Publishing, 1997): 114.



In 1981 the CFA was offered a four-year \$180 million dollar contract to pull its members' games from the NCAA television package with ABC and sell them independently to NBC.<sup>15</sup> The size of the contract and the fact that the revenue would have to be divided among only 62 institutions tempted the CFA members, but when the NCAA threatened to expel in its entirety any institution that agreed to the NBC offer, CFA members relented.

Expulsion would have ended the CFA institutions' participation in the lucrative men's basketball tournament as well as divorcing their football programs from the NCAA and the bowl games it controlled. The CFA, designed to promote football, did not include enough popular teams to promise a successful basketball tournament independent of the rest of the NCAA. Although the CFA did not sign a football television broadcast rights contract in 1981, the negotiation experience it gained in 1981 would pay dividends three years later, when the broadcast rights market was thrown into turmoil by the U.S. Supreme Court.

#### **IV. CFA Litigation Against the NCAA**

After failing to capture sufficient football television broadcast revenues within the NCAA, and having backed down on its threat to bolt the NCAA football broadcast cartel,

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<sup>15</sup> *Id.* at 132.

the CFA initiated legal action against the NCAA, alleging that the collective sale of football broadcast rights constituted an illegal cartel in restraint of trade.<sup>16</sup> Although the Universities of Oklahoma and Georgia were the named plaintiffs in the suit, their legal expenses were covered by all CFA members.<sup>17</sup>

The plaintiffs asked the court to terminate the NCAA's centralized control of college football television broadcast rights and return those rights to the individual institutions so that the major college football programs could broadcast more games than the NCAA appearance limitations permitted. Obviously, a few more games broadcast at per game rights fees close to the monopoly level negotiated by the NCAA would add considerable revenues to the big-time football programs.<sup>18</sup> Whether a generally more competitive market for college football television broadcasts would increase the major programs' revenues was a different matter, however, since competition would inevitably affect per game rights fees as well as the number of televised games.

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<sup>16</sup> Fleisher, A.A., B.L. Goff, and R.D. Tollison. The National Collegiate Athletic Association: A Study in Cartel Behavior, (Chicago: University of Chicago Press, 1992): 59.

<sup>17</sup> Dunnavant, Keith. The Forty-Year Seduction, (Newman, Ga.: Solovox Publishing, 1997):138.

<sup>18</sup> Sperber, Murray. College Sports, Inc. (New York: Henry Holt and Company, 1990), 50.

Both the District Court and the Court of Appeals concluded that the NCAA's collective sale of individual colleges' television broadcast rights to football games was a per se violation of Section 1 of the Sherman Act. The U.S. Supreme Court, however, saw the situation differently. It concluded that there could be acceptable reasons to permit the NCAA to orchestrate a collective sale of football broadcast rights.<sup>19</sup>

In an effort to take advantage of this opening, the NCAA argued that the collective sale of television broadcast rights helped to protect live attendance at games and was necessary to maintain competitive balance among teams.<sup>20</sup> After examining the rationales for collective action offered by the defense, and balancing the claimed benefits of collective behavior against the costs of cartelization, however, the Supreme Court on June 27, 1984 found the NCAA in violation of the Sherman Act, ending its centralized control of college football television broadcast rights.<sup>21</sup> The decision nullified the NCAA's then existing \$280 million contracts, including arrangements to televise games from the 1984 season.

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<sup>19</sup> N.C.A.A. v. Board of Regents of University of Oklahoma, 104 S. Ct. (1984): 2961.

<sup>20</sup> Pacey, Patricia L. "The Courts and College Football: New Playing Rules off the Field?" American Journal of Economics and Sociology 44(1985): 149.

<sup>21</sup> N.C.A.A. v. Board of Regents of University of Oklahoma, 104 S. Ct. (1984): 2970.

### V. CFA Broadcasting Contracts: 1984 - 1995

With the college football season only two months away, a scramble ensued during late summer of 1984 to arrange broadcasts of approaching games. Syndicators began to sign up teams and started to sell access to independent television stations. It was soon evident that the increased supply of potential games to broadcasters would put downward pressure on rights fees.

The ensuing chaos and falling rights fees threatened the budgeted revenue of athletic departments with big-time football programs. With an organizational structure in place, and some experience with television negotiations, the CFA was a natural rallying point for many of those programs. The two major college football conferences that had not joined the CFA--the Big Ten and the Pac Ten--were left with an obvious joint interest in also organizing a coordinated sale of rights to their games.

In the summer of 1984 the CFA negotiated the first of four successful television deals spanning twelve years. The first was a one-year agreement with ABC for \$12 million.<sup>22</sup> Simultaneously, the Big Ten and Pac Ten signed a one-year agreement with CBS for \$9.6 million. Each contract offered the network exclusivity within its group of universities.

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<sup>22</sup> Asher, Mark. "ABC- CFA After TV Deal in Light of NBC-Notre Dame," Washington Post (February 8, 1990): C12.

Starting in 1984, however, games broadcast by ABC and CBS competed directly with each other in the Saturday afternoon time slot that previously contained only the NCAA's exclusive game of the week.

The CFA's broadcast rights contract was signed in the shadow of the Supreme Court's decision that the collective sale of college football broadcast rights by the NCAA violated the Sherman Act. Of course hundreds of NCAA members were party to neither of the 1984 contracts, but televised football games staged by most of those schools would not have attracted much of a viewing audience. It would be difficult to consider many of them as reasonable substitutes for the big-time CFA or Big Ten/Pac Ten games. Thus, in 1984 a duopoly emerged to replace the monopoly that previously had sold college football television broadcast rights.

To further protect against charges similar to those successfully leveled against the NCAA, in the CFA contract the rights to those games not chosen by the network for the exclusive Saturday afternoon time slot reverted to the host institution, which could sell them to syndicators or cable stations in an earlier time slot. By permitting teams to broadcast their games in the late morning or early afternoon independently of the group contract, the CFA expanded the number of televised college football games, addressing directly a concern of the Supreme Court.<sup>23</sup>

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<sup>23</sup> N.C.A.A. v. Board of Regents of University of Oklahoma, 104 S. Ct., (1984): 2970.

The early afternoon time slot also provided a way for the big-time programs to gain more appearances, at least in limited locations, and to expand their broadcast rights revenues.

Starting in 1985 the CFA contracts also included a Saturday evening game telecast on ESPN. Although it too was exclusive in its time slot, it added yet another college football game to Saturday television programming guides.

The result was that many more college football games were telecast after than before June 1984. Dunnivant estimates that fans typically could view four times as many games after as before the Supreme Court's decision.<sup>24</sup> Because of the abrupt increase in the supply of television broadcast rights to games, the rights fees paid per game plummeted, however. Under the NCAA's proposed contract for 1984, colleges and universities would have received \$74 million; in the wake of the Supreme Court decision, however, aggregate revenues were closer to \$31 million despite the greater number of broadcasts. Rights fees fell because the alternatives for advertisers to reach their target audience expanded. In 1983 a thirty second network advertising spot on the game of the week commanded about \$60,000; by 1984 a similar spot on a game televised during Saturday afternoon sold for \$15,000.

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<sup>24</sup> Dunnivant, Keith. The Forty-Year Seduction, (Newman, Ga.: Solovox Publishing, 1997), 163.

Rights fees for a nationally telecast game fell from about \$1.2 million in 1983 to less than a third of that amount in 1984.<sup>25</sup> Although Southeastern Conference teams enjoyed a 35 percent increase in the number of televised games in 1984, their rights revenues fell from \$11.2 million to \$7.5 million.<sup>26</sup> The precipitous decline in revenues accompanying an increase in quantity implies an inelastic demand for broadcast rights over the range of the price change.

The CFA negotiated three more contracts after 1984: a two-year agreement for 1985 and 1986 with ABC and ESPN, a four-year deal for 1987 through 1990 with CBS and ESPN, and a final five-year pact for 1991-1995 with ABC, which by then owned ESPN. Each contract had two revenue distribution components: a participation fee and an appearance fee. The participation fee was equal for each university that joined the package. It compensated teams for the "right of first refusal" for their games, and constituted 25 percent of the first two contracts (1984, and 1985-86). It fell to 20 percent of the final two contracts.

The participation fee gave each CFA institution about \$50,000 in 1984, about twice that each year from 1985 through 1990, and around \$150,000 annually from 1991 through 1995.

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<sup>25</sup> *Id.*

<sup>26</sup> *Id.* at 164.

In return each university agreed to put its games into the CFA inventory and not to broadcast them on Saturday afternoon in competition with the contract game-of-the-week if they were not selected.<sup>27</sup> A significant participation fee was necessary to hold the agreement together because, unlike the NCAA, the CFA possessed no power to punish defectors with expulsion from other sports tournaments.

The appearance fee component of revenue distribution was an amount paid to an institution when its team was selected for broadcast. Appearance fee revenue thus depended on the number of television appearances. More popular teams appeared more often and earned the vast majority of appearance fee revenues, thus mitigating the type of internal strife that had provoked litigation against the NCAA. To spread the wealth sufficiently to hold the agreement together, the CFA contracts retained appearance limitations, but they were less restrictive than the NCAA limits they replaced. For example, in the 1985-86 contract with ABC and ESPN, each CFA team could appear up to three times annually on ABC during Saturday afternoon and once on ESPN on Saturday evening in contrast to the final NCAA contract that limited teams to three appearances annually.<sup>28</sup> Because the CFA included only 62 institutions, more of its members attained the maximum number of appearances in 1984 than had appeared three times in 1983.

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<sup>27</sup> Kramer, Roy. Personal Interview (November 13, 1998).

<sup>28</sup> Neinas, Charles. Personal Interview (June 17, 1989).



The CFA television contracts did not guarantee a minimum number of exposures to any particular team. Instead, they included guarantees to subgroups within the CFA, mostly conferences that divided the appearance rights revenues equally among conference members. The second CFA contract, for example, guaranteed at least two exposures to each of the four member conferences--Southeastern, Big Eight, Southwest, and Western Athletic--and two to each of a group of northern independents and southern independents. These guarantees insured conference members of more television revenues than their participation fees alone provided, even if individually they did not appear. The distribution of appearance fees disproportionately benefitted independents like Notre Dame and Penn State who did not share their revenues.

Both the NCAA and CFA contracts ceded to the network the authority to select the specific televised games, presumably because television specialists are more adept at maximizing viewer ratings than are football administrators. Higher ratings imply higher advertising rates, which in turn imply a greater marginal revenue product and higher broadcasting rights fees. To minimize intragroup conflict, the appearance fees component of revenue distribution did not vary by game. In 1984, the Supreme Court complained about a similar feature as it invalidated the NCAA contracts. The Court was concerned because it believed if prices do not reflect the value of individual broadcasts, then incentives to broadcast the most popular games are muted. However, the Court overlooked the incentive for the network to maximize its revenues.

Once a rights fee is established, and the quantity of broadcasts on Saturday afternoon is set (at one), a profit maximizing network maximizes its advertising revenue by televising the most popular game.

The participation fee was reduced from 25 to 20 percent of the CFA television contract in 1987 in order to release more revenue for appearance fees. Prior to the CFA signing a four-year contract with CBS beginning in 1987, ABC had offered the Southeastern Conference \$24 million to leave the CFA and sign a separate deal for the same period. The ABC proposal appeared to provide more revenue for each of the ten teams in the SEC at the time than did the proposed CFA contract with CBS. The exact amount earned by the SEC under a CFA contract, however, was difficult to predict because it would depend on the number of appearances by SEC teams. After intense lobbying, and a shift of five percent of the revenues from participation to appearance fees, the SEC decided to remain with the CFA's football plan. Lower profile teams in the CFA sacrificed a portion of their participation fee revenues in order to preserve the agreement, and to avoid facing a third direct competitor in the form of an independent SEC.

In 1991 the CFA returned its television package to ABC and ESPN (both then owned by Capital Cities Broadcasting). Remarkably, the Big Ten/Pac Ten contract was also won by ABC in 1991. Once ABC controlled both contracts, it could broadcast a single game on Saturday afternoon in a particular location, reverting to the "good old days" before 1984. Although ABC eliminated direct competition

in selling advertising time on football games on Saturday afternoon by capturing both coalition's contracts, it did have to bid aggressively to win both contracts. The dual contracts presented ABC with a new problem--how to meet its obligations to broadcast all of the games it had promised to air. The network proposed to do this by airing mostly regional telecasts, capitalizing on the fact that few college football teams have a truly national following.

The regional broadcast format generated concern among CFA members, but the lucrative financial aspects of the offer eventually induced CFA members to sign with ABC. This decision had significant repercussions for the CFA. Notre Dame, the one prominent CFA university located in the middle of Big Ten territory, has a national following. Notre Dame was unhappy with ABC's regional broadcast format and, consequently, resigned from the CFA's football broadcast package in order to sign an independent four-year \$38 million deal with NBC, more than doubling its annual television revenues from football broadcasts. As a result, the CFA lost the most popular independent team from its game inventory.

In February 1995, as part of a strategy to enhance its image as a major television network, Rupert Murdoch's Fox network outbid CBS for the National Conference rights to broadcast Sunday National Football League (NFL) games. This event also had serious repercussions for the CFA. When ABC's contract with the CFA expired later in 1995, a desperate CBS with no football programming made a direct pitch to the SEC, similar to ABC's appeal in 1987.

Only this time the offer was for \$85 million over five years, more than double the average amount per team in the CFA's expiring contract with ABC. Moreover, CBS guaranteed the SEC six national exposures, which conference coaches and athletic directors seemed to think would help recruiting and marketing SEC football. Finally, after several earlier threats, the SEC struck out on its own.

Without Notre Dame and the attractive games of the (by then, twelve team) SEC, the CFA did not have a sufficient inventory of attractive contests to command another network television deal. After negotiating four major broadcast rights contracts spanning twelve years, the CFA's role in televising college football ended in 1996.

#### **VI. The CFA's Cartel Behavior**

Like a classic cartel, the CFA united sellers to coordinate prices and output. It restricted output--broadcasts of live college football contests held on Saturday afternoon--below competitive levels and then auctioned the artificially scarce supply to the highest bidder. Although incentives remained for the networks to broadcast the most popular among the inventory of available CFA games, there is no doubt that the total number of games broadcast on Saturday afternoons was restricted. Indeed, after the CFA dissolved, numerous conferences, as well as Notre Dame, broadcast games simultaneously on Saturday afternoon. The welfare cost of the restricted output manifested itself through the

absence of the second most popular game in the CFA's inventory appearing on Saturday afternoon from 1984 through 1995.

CFA broadcast rights fees substantially exceeded marginal cost. The 1987-1990 contracts with CBS and ESPN, for example, paid the CFA an average of three-quarters of a million dollars per game,<sup>29</sup> although the direct marginal cost of broadcasting a football game that would be played regardless of its television status is typically less than \$50,000.<sup>30</sup> and almost always under \$200,000.<sup>31</sup> In a competitive market, prices would eventually approach marginal cost. But three CFA contracts after the Supreme Court's historic NCAA decision, price remained substantially above marginal cost.

If ticket revenue declines because a game is televised, the incremental cost of broadcasting a game may exceed the direct costs. This is unlikely for CFA broadcasts, however. First, a large proportion of ticket revenue derives from season ticket sales, and would not change as a result of a single game broadcast. The CFA contract provisions prevented all of any team's games from being televised in the prime period, so that a game-by-game approach to reckoning opportunity cost is appropriate.

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<sup>29</sup> Neinas, Charles. Personal Interview (June 17, 1989).

<sup>30</sup> Turner, Todd. Personal Interview (April 27, 1998).

<sup>31</sup> Neinas, Charles. Personal Interview (November 13, 1998).

Season ticket holders knew in advance that they could not see all of their favorite team's games on television. Second, games selected by networks to air on Saturday afternoon are those likely to draw the largest television viewing audience. Ticket demand for such games would also be high. The likelihood of no-shows, which could reduce a team's parking and concession revenues, is also low at popular games. In short, because there are seldom empty seats at a televised game of the week, the marginal cost of broadcasting a game reasonably can be approximated by the direct technical and announcer expenses.

The CFA was able to maintain broadcasting rights fees substantially above marginal cost despite its direct competition with the Big Ten/Pac Ten coalition for the Saturday afternoon game of the week. This implies that actual competition was less than a simple enumeration of the broadcast contracts might suggest.

Everyone would like to join a successful cartel and share the economic rents. The CFA was no exception. Several universities petitioned for membership, but only a few were admitted during the CFA's twelve year reign as a football broadcasting coordinator. A profit-maximizing cartel will admit only those rivals who produce sufficiently close substitutes so that were they excluded, enough customers would switch to the rival to reduce the cartel's profits

by more than a new member's share of profits.<sup>32</sup> This reasoning can be used to infer the extent of the market from cartel membership.

The CFA established entry requirements. Applicants had to be members of NCAA Division 1, "highly committed" to a major college football program, average at least 17,000 paid spectators per game, and play in a stadium with a minimum seating capacity of 30,000. Beyond those requirements, a new applicant had to be approved by the existing membership, which looked toward additional criteria such as strength of schedule and expenditures on the football program as signs of "commitment." The most obvious new members were Big Ten and Pac Ten conference teams. The fact that little effort was devoted to assimilating the two groups implies either that regional parochialism on the part of television viewers provided each coalition with sufficient market power in its own geographic area, or that one or both of the coalitions believed that the independence of the other was necessary to avoid a situation analogous to the illegal NCAA arrangement that they replaced.

## **VII. The Market Structure for College Football Television**

### **Broadcast Rights**

Number of sellers. There was very little overlap among the geographic territories of the two coalitions selling major college football game broadcasts after June 1984.

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<sup>32</sup> Boyer, Kenneth D. "Industry Boundaries." In Terry Calvani and John Siegfried, eds., Economic Analysis and Antitrust Law. Boston: Little Brown and Company, 1988): 77.

The Big Ten dominated an area from Ohio in the east to Iowa in the west. The Pac Ten's territory ranged down the entire Pacific coast and east through Arizona. The CFA dominated the remainder of the country, including the television rich northeast and middle Atlantic states.

To the extent that television viewers in Atlanta or Dallas do not view a football game between Michigan and Wisconsin to be a good substitute for a Tennessee-Florida or Texas-Oklahoma game, respectively, the CFA may have enjoyed a substantial amount of market power in spite of a rival game broadcast on Saturday afternoon. Even before 1984, the network holding the NCAA contract frequently televised regional games, implying that the value of the incremental ratings attracted by showing games with greater local interest exceeded the additional technical and announcing costs that multiple broadcasts required. ABC's strategy of bidding for both the CFA and Big Ten/Pac Ten contracts for 1991-1995 must have been predicated in part on substantially higher anticipated viewer ratings for regional games. Between the greater attraction of viewers to regional games and the monopoly position in Saturday afternoon football advertising time it secured by winning both contracts, ABC had to earn sufficient additional advertising revenues to cover its financial obligations under a second rights contract.

The only significant overlap in territories between the two groups involved Notre Dame, an original CFA member located in Big



Ten territory. Because it is the most athletically prominent Catholic university in the country, Notre Dame's fans are geographically disperse, however. Consequently, Notre Dame attracts viewers when its games are televised anywhere in the country, and especially in northeast metropolitan areas with large Catholic populations.

The effect of regional parochialism among college football fans is to minimize the amount of actual competition among games televised into any particular area. While the duopoly that began broadcasting games simultaneously on Saturday afternoons in September 1984 constituted twice as many competitors as did the NCAA monopoly that preceded it, the games were not perfect substitutes in the eyes of potential viewers, leaving both the network broadcasting CFA games and the network broadcasting Big Ten/Pac Ten games facing a less than perfectly elastic demand for advertising. That circumstance translated into downsloping demand for the broadcast rights to the games that are particularly popular in specific geographic regions. While the post-1984 market for Saturday afternoon college football broadcasts was more competitive than the market it supplanted, it remained far from perfectly competitive.

Inelastic demand. The payoff to cartel orchestration is greater where barriers to entry are high and demand is inelastic. In such circumstances customers exploited by elevated prices have few choices--either in terms of other suppliers of the same product or in terms of substitute products. Price increases in markets

with inelastic demand are destined to elevate profits because revenues must (at least initially) rise while costs fall with lower output.

The demand for broadcast rights is a derived demand, arising from the demand by advertisers for time to tout their products during game telecasts. Television networks are thus intermediaries. They buy broadcast rights from universities that try to get the highest possible price, sell advertising time to firms that desire to communicate with a target audience--primarily young males--and are largely indifferent as to how they reach that audience. The fewer alternatives available to reach the target audience, the more inelastic is demand, and the higher will be the price of advertising time.

The demand for advertising on Saturday afternoon college football games is inelastic because the alternatives are abysmal. The prime-time hits, *Seinfeld* and *Friends*, were not shown on Saturday afternoons. Reruns of *Lassie* and *Leave it to Beaver*, or World War II documentaries are the best alternatives to Saturday afternoon football, and young men do not flock to these classics. At an advertising price reflecting marginal cost for a college football broadcast, advertisers can reach so many target consumers per dollar that their demand is quite inelastic. But in the absence of good substitute programming, the networks push prices above the competitive level, at least to the point that advertisers begin to consider alternatives, thereby providing the networks with rents that, in turn, boost their demand for broadcast rights.

Impediments to entry. With substantial entry barriers, established cartel members do not have to sacrifice short-run profits in order to deter entry. The key impediment to entry into the market for college football games that are attractive to television networks is established brand capital. A tradition of success on the field, membership in a respected conference, and a large number of alumni (or residents in the case of state universities) all help propel the same institutions onto the screen year after year. The accumulated brand capital of Penn State, Nebraska, USC, or Notre Dame can attract more viewers with a mediocre season than Tulane, Northwestern, Brigham Young, or Kansas State can when they are undefeated. Because much of this brand capital was accumulated by pioneers in the early post World War II broadcasting era, it may be more expensive for new entrants to match these respected programs than it was for the established teams to achieve their dominance in the first place.

In addition to a brand capital barrier, new entrants to the mass-appeal, semi-professional collegiate football market face the challenge of constructing a credible schedule. Unlike entry into most other industries, successful entry of individual teams into sports requires the cooperation of incumbents. To gain recognition, a new entrant needs to compete (and win) against high caliber opponents. But strong incumbents have little incentive to schedule upgraded teams. If Michigan or Alabama were to schedule a new entrant, it would forfeit the chance at television broadcast rights revenues for that game. Mismatches do not draw large

viewing audiences. In addition, scheduling weaker opponents, as upgraded programs inevitably are, reduces the strength of an established team's playing schedule, thus diminishing its chances at the financial payday associated with a premier bowl game.

Product homogeneity. Product homogeneity affects both the cost of organizing a cartel and the ease of agreeing on criteria for distributing its proceeds. To permit monitoring, it is essential that cartel members agree on what it is they are restricting. In the case of the CFA, in return for the participation fee, members agreed to withhold the broadcast of their football games on Saturday afternoon. There is little ambiguity about what constitutes the broadcast of a college football game.

On the other hand, differences of opinion about the value of various game telecasts led to the dissension within the NCAA that eventually moved Georgia and Oklahoma to file the lawsuit that culminated in the 1984 Supreme Court decision ending NCAA control of televised college football. Representatives of successful programs argued that their efforts to strengthen and promote college football were not rewarded with commensurate television revenues. Even with the CFA's relaxed appearance limitations, the Southeastern Conference, in particular, continually felt under rewarded. As had occurred in the NCAA, this conflict eventually undermined CFA cohesion.

Because televised games were selected by the network on the basis of viewer appeal, and three-quarters of the contract revenue was distributed on the basis of appearances, the CFA contracts

encouraged expensive quality competition among universities. With a fixed number of appearances, investments in a successful football program were inevitably part of a zero-sum game that dissipated some, if not all, of the rents teams earned from the cartel.

### **VIII. The Rise and Fall of the CFA**

CFA members negotiated a football broadcasting contract cooperatively in 1984 because it made sense for them individually at the time. Few schools had experience with individual television deals in 1984, while the CFA did. The Supreme Court decision that created disequilibrium in the market came only two months before the 1984 season began; the CFA was already in place when the crisis hit. By offering the more popular programs a larger share of broadcast revenues than they had received from the NCAA, the CFA initially avoided the controversy that had undermined the NCAA arrangement. Athletic directors quickly recognized that with scores of established sellers, substantial barriers to entry, inelastic demand, and low variable costs, potentially large economic rents could be dissipated quickly by aggressive competition.

The CFA's television broadcast cartel prospered in 1984 because the key ingredients for success were present: low organization costs, large potential benefits in the form of inelastic demand for broadcast rights at competitive prices, substantial impediments to the erosion of revenues by entry, regional market power caused by parochial fan interests, the

ability to detect cheating on the agreement and punish defectors, and a distribution of proceeds that initially was perceived to be fairer than the NCAA arrangement it replaced.

There was no question that cheating would be detected. After all, how can a football game be broadcast secretly? And cheating could be punished. Even at the high discount rates appropriate to the early 1980s, the expected net present value of a flow of annual \$50,000 participation fees exceeded the most optimistic single game rights fee a defector could expect before retaliatory competition would cause fees to plummet.

It did not take long, however, for controversy about the distribution of revenues to resurface. Starting in 1986, the Southeastern Conference doggedly negotiated an ever larger share of revenues. Other members conceded a portion of their shares to the SEC in order to preserve the agreement. Over time, the balance of benefits and costs to the SEC of remaining loyal to the CFA changed, however. The SEC gained experience with television contracts as it toyed with defecting and as its members sold their games for broadcast in the early Saturday period. As Penn State joined the Big Ten in 1990 and scheduled its withdrawal from the CFA, Notre Dame departed for its own television contract with NBC in 1991, and the SEC added Arkansas and South Carolina in 1991, expanding its annual inventory of games from 35 to 48, SEC teams

perceived themselves more and more to be cash cows for the rest of the CFA.

The expansion of cable television in the 1980s and the entry of Fox as a fourth over-the-air network acted as a catalyst for dissolution. With the rise of ESPN, ESPN2, Fox and Fox Sports, as well as other networks featuring sports, the demand for sports programming skyrocketed, driving up its price. As the price of sports programming increased, the opportunity cost to the SEC of remaining with the CFA rose commensurately, eventually to the point that cooperation with the remaining CFA members no longer made financial sense.

Prior to the arrival of Fox and household penetration of cable sports networks, ABC, CBS, and NBC, were the sole intermediaries between universities producing college football games and advertisers intent on targeting young male viewers on Saturday afternoons. As both buyers of broadcast rights and as sellers of advertising time, the network oligopoly enjoyed market power and corresponding economic rents. With only three networks, and an NFL television contract split between the National and American conferences, each network had some football to offer advertisers. With few attractive programming alternatives available for weekend afternoons, each network was able to base the price of advertising time as much on its value to the advertisers as on cost.

Fox, however, then destabilized broadcasting relationships by outbidding CBS for the NFL's National Conference broadcast rights in December 1995.<sup>33</sup> CBS was left with no football programming, a substantial gap in its advertising menu, and a lot of dissatisfied affiliates just while Fox was recruiting stations.<sup>34</sup> To get back into football broadcasting, CBS offered the SEC the deal it finally couldn't (and didn't) refuse. There was little the remaining CFA members could do to counter the CBS offer to the SEC. By 1995 most of the former vulnerable independents had joined conferences. With a conference organization to fall back on, the once conciliatory independents were unlikely to yield further revenue shares to the SEC. Negotiating room had evaporated.

Over time the conditions that once facilitated the CFA agreement had faded--the inexperience of individual conferences in negotiating their own television deals and the willingness of some (mostly former independent) CFA members to placate the more aggressive programs with revenue concessions were largely history. Moreover, the benefits to the SEC of defecting rose when the conference expanded its membership in 1991, and again when Fox left CBS desperate for football programming.

The demise of the CFA was caused primarily by increased competition for television sports programming.

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<sup>33</sup> Kramer, Roy. Personal Interview (June 24, 1998).

<sup>34</sup> Neinas, Charles. Personal Interview (November 13, 1998).



The entry of Fox and cable sports networks forced college football advertising rates down by providing alternative programming aimed at young male viewers and broadcast rights fees up as the more numerous sports broadcasters scrambled to secure programming. This combination squeezed the once flush margins enjoyed by the sports broadcasting oligopoly. As broadcast rights fees increased, the SEC's opportunity cost of remaining loyal to the CFA eventually became intolerable, and the conference defected.

After the CFA lost its authority to contract with television networks on behalf of its members it temporarily returned to its role as an advocacy group in the NCAA.<sup>35</sup> The CFA sealed its books permanently on June 30, 1997 and distributed its net worth to the member institutions.<sup>36</sup>

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<sup>35</sup> Dienhart, Thomas, and Mike Huguenin. "CFA Bids Farewell After Accomplishing its Goals," Sporting News (June 30, 1997): 62.

<sup>36</sup> Turner, Todd. Personal Interview (April 27, 1998).