

Factors That Go Into Television Network Contracts

by Anthony Caruso on August 19, 2013

Many sports analysts are watching the ascent of Fox Sports 1 as it makes multi-year television network contracts with several sports leagues, most recently the United States Golf Association and NASCAR. However, some of these deals - particularly the agreement with NASCAR - seem ill-advised on the surface, and do not appear to financially favor the television sports network, leaving some to question why these deals were made.

For example, NASCAR recently announced a hefty \$8.2 billion, 10-year television deal with NBC and Fox, despite the fact that NASCAR's ratings and audience level have experienced significant declines over the years. So why enter into a multibillion-dollar contract with flailing sports? Several reasons. The industry is a lucrative one, and many networks dominate and gain a greater market share than others. For example, Fox Sports 1 is still in its infancy and NBC is still emerging as a sports network, and entering into a number of agreements with popular sports leagues allow them to compete with mega-networks, such as ESPN.

"All it takes is two bidders to drive up the price ... If NBC hadn't been there and didn't have an agenda building a sports network, then the financial outcome might not have been as great," said Zak Brown, president of Just Marketing.

In addition, the networks and the leagues often avoid "cookie-cutter" type legal agreements, and establish terms that help advance their unique goals. For instance, Fox and NBC, in an effort to attract NASCAR and other sports leagues, wrote out large checks and avoided dropping rights fees that other large-scale networks refused to consider, Sporting News reported of the transaction. However, the two new networks may earn more in subscriptions by offering viewers a more comprehensive sports package. Networks such as ESPN are already engaged with viewers and established as popular channels, meaning they have more leverage when negotiating contracts and may be less willing to make concessions.