

ANY GIVEN SUNDAY

The NFL's Transition to Fast-Cycle Rivalry,
Convergence, and... Profitability?

45-888 Competitive Strategy In The New Economy

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“In the past 40 years, the National Football League (NFL) has been transformed from a series of games between local teams to a modern sports league designed to maximize public appeal for the entire league, rather than the games of a few elite teams. The league was built through legislation, national network contracts, and revenue and talent sharing, all designed to create a stable professional sports environment.”

NFL Commissioner Paul Tagliabue, 1996

Introduction:

Millions of Americans spend countless hours practicing, discussing, playing and watching sports. Despite its constant attention, when society thinks about sports, it often forgets that sports are a business. Professional sports represent a multi-billion dollar worldwide industry. Sports generate massive revenues from ticket sales, advertising, television contracts, and merchandising. One of the biggest and most successful sports is American Football. In this paper, we will examine the competitive dynamics of the National Football League (NFL). We will look at both the success of individual teams, and of the league as a whole. In particular, we will focus on the NFL's transition from slow-cycle monopolistic rivalry to fast-cycle Schumpeterian rivalry, and how that transition has affected the profitability of the league.

Analysis:

Sources of advantage in the NFL:

Traditionally, financial success in the NFL has been a product of winning. Win and you can sell tickets, advertisements, and merchandise. Lose, and you face disinterested fans, who spend less money and turn to other sources of entertainment.

Winning in the NFL is generally a product of two major ingredients. The first ingredient of a winning team is its strategy – the game plan, the coaching and the player development. The second ingredient, the players, is the resource that helps a team implement its strategy. The better the players, the more efficiently and effectively the game plan can be executed. Good players combined with a good game plan equals success. This concept is similar to almost any other industry. Put together a good plan with a good team, and you will score more points than your opponent (or sell more computers, or whatever).

Traditionally, the two key resources required to win were sticky. A game plan could be copied, but that took time, and the acquisition of the right players to execute it. Players were even more sticky. Basically, once a player signed on with one team, he was there for life. In the early years of the NFL, trades were rare, and free-agency (at-will employment) didn't exist. Once the players were acquired and the game plan developed, these advantages could be sustained for long periods of time. Lets look at the last 4+ decades in the NFL...

Slow Cycle Rivalry in the NFL:

From 1960-1969, Vince Lombardi and the Green Bay Packers held the NFL in a stranglehold. Powered by exceptional players and a dominating coach, the Packers captured 5 NFL titles, and amassed a 96 and 37 record, a winning percentage of over 72%. In the 1970's, the Packers passed the torch to the Pittsburgh Steelers, who won nearly 72% of their games between 1972 and 1981, as well as bringing 4 Super Bowl titles back to the Steel City. Nine members of the 1970's Pittsburgh Steelers are enshrined in the Pro Football Hall of Fame. In the 1980's and 1990's, Joe Montana and then Steve Young led the San Francisco Forty-Niners to an astounding 123 and 37 record, a nearly 77% winning percentage over an amazing 18 year stretch. Over that

period, San Francisco won 5 Super Bowls and never finished the regular season with less than 10 wins.

This era of the NFL was very reminiscent of a slow-cycle competitive dynamic. The champions of the league were talented monopolies with exclusive skills and talents. These teams were able to remain cohesive units and actually used a form of “stair casing” where success bred more success. The champions retained talent from within while luring additional talent from other teams in the league.

All of these champions had winning game plans and excellent players that they were able to retain. Other teams were able to gain some measure of success, but were unable to duplicate the success of the dominant teams of each decade. These decade-long dynasties (or monopolies) that dominated the sport would soon fade.

Transition to Fast-Cycle Rivalry:

The end of the 49ers amazing run marked the disappearance of the dynasty from the National football league. Since 1995, 7 teams have won the 8 Super Bowls. The combined 5-year record of the last 4 Super Bowl winners is a mere 183 and 137, a mere 7% over .500. Appendix 3 shows the number of wins that each team had in the year prior to their Super Bowl Championship. This table demonstrates that teams ascend and descend quite rapidly in the latest era of the NFL. As quickly as teams climb to the top, they find themselves back at the bottom of the NFL ladder. The two teams in the 2001 Super Bowl, the New England Patriots and the St. Louis Rams, failed to make the playoffs the very next year.

Why the sudden disappearance of the Football dynasty? Why can no team sustain success? The change can be traced to two major factors, Free Agency, and the Salary Cap.

Free Agency:

Baseball was the first major professional sport in the United States, and in many respects set the precedent for the other major sports. In the early days of the National League, the owners created the Reserve Clause, which prevented players from leaving teams to play on another team unless they were traded. Although this rule was

challenged periodically over time, it remained in effect for almost 100 years (from 1880 until 1975). In 1969, Curt Flood of the St. Louis Cardinals challenged the clause, and his trade to the Philadelphia Phillies. He took his case to the Supreme Court, and although he lost and never played Major League baseball again, his case ushered in the 1975 rule change and the advent of free agency. Free agency soon spread to the other sports, and in 1977, free agency began in the NFL.

Free agency alone was not enough to destroy the NFL dynasty. Teams could still retain their key talent, as long as they could pay their escalating salaries. Profitable, large-market teams could afford to have higher payrolls than other teams, and thus gain more success. It was the 1994 collective-bargaining agreement that finally made one of the two key team resources, the players, decidedly less sticky, and toppled the concept of the dynasty in the NFL.

The 1994 Rule Change:

In 1994, the NFL owners' and players' associations completed a new collective-bargaining agreement. The new agreement added a "salary cap," which essentially set the amount of money that each of the NFL's teams could spend on player salaries for a given year. This cap was designed to help keep rapidly escalating player salaries in check, but also helped to even out the playing field for each team. Larger market teams could no longer spend more money on players than the smaller-market teams. This would help make each team more competitive.

The salary cap, combined with the already prevalent concept of free-agency helps make maintaining a dynasty significantly more difficult if not impossible. Faced with the salary cap and free agency, teams could no longer afford to keep all of their star players. A team that achieves success will eventually develop players it can no longer pay fair market price and still stay under the salary cap. Eventually these players will have to be let go or traded, weakening the strong team and strengthening the others.

The salary cap, combined with free agency has essentially ended the era of the dynasty. The NFL has become a fast-cycle rivalry, from its once dominant slow-cycle characteristics. Every off-season, each team sheds expensive players in order to stay under the salary cap, and the 2003 season is no exception. Before the March 1

deadline, each team must have its 2003 salary under the league limit. This has meant extensive cuts for some teams. At this point, the average team has released just over 2 players, some as many as seven. 22 of 32 teams have released players based for salary cap reasons. Still more will attempt trades and contract restructuring to get under the cap.

Since the rule change, the second resource of a winning team, its players, has become quite slippery. Retaining exceptional players has become much more difficult. A premium has been placed on renewal, and quickly developing new (and inexpensive) talent, because almost inevitably developed talent will become too expensive to afford.

Keys to Success in the Fast-Cycle NFL:

Teams have had to adapt to the new fast-cycle nature of the NFL. Winning in this environment requires new ways of managing and coaching a team. Many of the skills required to succeed in other fast-cycle industries are applicable to the new NFL.

Selection Capabilities and Preplanned Exits:

The ability to scout and critically evaluate talent has become vital to a team's success. Teams spend countless hours preparing for the annual collegiate draft. A misstep in the annual draft can doom a franchise's fortunes for the next few seasons. In 1998 the Indianapolis Colts drafted QB Peyton Manning with the #1 pick. The San Diego Chargers selected QB Ryan Leaf with the very next pick. Over the past five seasons, Manning has been an All-Pro quarterback leading his team to a combined record of 43-38, while making the playoffs 3 times during that span. Ryan Leaf, on the other hand, was a complete disappointment. The Chargers have posted an abysmal record of 27-53 during that same time span and have never made the playoffs. Leaf was released by the Chargers in 2000, and again by the Cowboys in 2001. Leaf retired before the 2002 season, playing in only 25 NFL games.

Just as critical as picking new up-and-coming talent is being able to evaluate the skills of key veteran players. Developing a core nucleus of talented players can form the foundation for success. However, in the new fast cycle NFL, teams must evaluate the skill levels of these key players and be willing and able to cut or trade these veteran players before their skills have diminished too much. This is analogous to a fast cycle

company pre-planning an exit from a market. Timing is critical. Exiting too quickly will leave a team's destiny unfulfilled. Holding on too long can jeopardize a team's future. Star players demand higher salaries and paying a player who is on the downside of his career can tie up a team's resources and fate.

In this fast-cycle environment, teams have to renew their advantage on an annual basis. Sustained advantage is not possible because of salary and free-agent constraints. Teams who do not move quickly enough get left behind.

Incessant Innovation and Absorptive Capacity:

To succeed in today's NFL, teams must relentlessly pursue new methods to outfox their opponents. Coaches work relentlessly, dreaming up new offensive and defensive schemes to leverage their talents and exploit their opponent's weakness. Teams have to constantly improve and adapt in response to this new fast-cycle paradigm. When one team develops a game plan for success, the other 31 teams in the league quickly attempt to counter and neutralize this advantage. In this aspect, absorptive capacity is another key ingredient to achieving success. Coaches must be willing to study other successful teams in the league and incorporate what they find. This does not mean wholesale copying the best franchises, but taking from them best practices and adapting to it to your particular situation.

Popularity and Profitability:

Despite the wild variation in success for each team from year to year, the NFL is as profitable as ever. In the next section, we will examine some measures of profitability for the NFL, and show that if anything, the NFL has become even more profitable as a result of increased competition.

Overall Revenue:

NFL Revenue has continued to grow over the history of the league. Beginning as a relatively small industry, NFL revenues grew from \$335 million to \$975 million between 1979 and 1989, league-wide. Revenue growth continued in the 1990s, hitting the \$2.1 billion mark in 1994. Since 1995, revenues have again doubled, reaching \$4.8 Billion in 2002.

Another interesting statistic for the NFL is the percentage of revenues that are shared equally among teams. 65% of NFL revenues are shared among every team. Contrast this to Major League Baseball that shares only 20% of its \$3.5 Billion 2002 revenues among all teams.

2001 - 2002 Ratings stats:

Out of the top 75 rated televised sports events in 2001-2002, 45 of these were NFL football games (60%) with the Super Bowl occupying its perennial top spot. If you throw out the Winter Olympics (which had a banner TV year due to the US's Hosting of the event and the US athletes' uncharacteristically fine performance), NFL games account for an astounding 76% of the top rated sports events, and 9 of the top 10. Professional Baseball could only manage 6 games in the top 75. Professional basketball posted a meager 3 games in the top 75. Nearly every regular season football game was more popular than all but one of the NBA Finals games.

What lies behind this astounding fact? Do people just enjoy football more than basketball? Possibly. But the fact remains, that on any given Sunday in the NFL, any team can win. In the NBA, the L.A. Lakers were on their way to sweeping the final series for the 3rd straight year. Parity, it would seem, equals popularity.

Advertising Revenue:

A TV ad during the Super Bowl has never been cheap. A thirty-second ad in Super Bowl 1 cost an average of \$42,000 (\$216,000 in 2000 dollars). The cost of advertisements has continued to grow steadily since, and the mid to late nineties were no exception. Ad cost grew steadily in the mid-Nineties and exceptionally in 1999 and 2000. The dot-com burst has hurt ad prices slightly in the last 2 years, but an ad in the 2002 Super Bowl was still up 87% from 1992. The growing parity in the NFL has clearly not hurt the profitability of the year's biggest game.

TV Contracts:

The NFL dwarfs its competition in terms of television contracts. The NFL has contracts with 4 different TV networks, each 8 years in duration for a total of \$17.6 Billion. The NBA and MLB by contrast have contracts totaling \$4.6 Billion and an estimated \$5 Billion respectively. The NFL shares all revenue from TV contracts equally among teams, which account for approximately 50% of team revenues.

| League | Network | Yrs (Ends) | Amount |
|------------------------------------|----------|------------|----------------|
| NFL | ESPN | 8 (2006) | \$4.8 billion |
| | FOX | 8 (2006) | 4.4 billion |
| | ABC | 8 (2006) | 4.4 billion |
| | CBS | 8 (2006) | 4.0 billion |
| NBA | ABC/ESPN | 6 (2008) | \$2.4 billion |
| | TNT | 6 (2008) | 2.2 billion |
| MLB | FOX | 6 (2006) | \$2.5 billion |
| | ESPN | 6 (2005) | undisclosed* |
| NHL | ESPN/ABC | 5 (2004) | \$600 million |
| NCAA Basketball Tournament (Men's) | CBS | 11 (2013) | \$6.0 billion† |

Factors Contributing to the NFL's Profitability:

In conventional industries, the zone at the bottom of the convergence curve is marked by extreme competition and depressed or non-existent profits. We have coined this zone as "Economic Hell." The NFL operates with a high degree of convergence, in a fast-cycle industry where individual teams head up the renewal curve only to quickly slide back into the competitive mix. As we have pointed out the NFL seems to be thriving in this environment. Prices, merchandising and advertising have all strengthened. Several factors have helped contribute to this strong financial performance.

Convergence as a source of strength:

Convergence, increased competition, and fast-cycle dynamics have all contributed to the success of the NFL as a whole. Parity amongst the individual teams has truly benefited the entire league. The MLB and NBA do not seem to understand this relationship. The salary cap in the NBA is a joke that is rarely understood and enforced even less. The rule in Major League Baseball is that if you don't spend money, you can't win. (The Anaheim Angels are the lone exception to this rule in the past decade.) Fan attendance for these two sports is dismal. MLB and NBA teams routinely play to virtually empty stadiums. MLB is even considering contracting two of its lowest performing franchises. In the NFL, where any team can win, virtually every game is a sellout. Fans remain on waiting lists to get season tickets, and even spend thousands of dollars to purchase PSL's (Public Seat Licenses). People who purchase PSL's are spending money just to secure the rights to then spend thousands of additional dollars on season tickets in new stadiums.

Brand Loyalty:

Over the years, each NFL team has built extreme brand loyalties. These loyalties can be made more powerful in the new Schumpeterian rivalry. In the fast-cycle NFL, the fates of teams rise and fall quickly. Teams are unable to sustain advantage over the rest of the league. This would point toward individual franchises struggling to maintain profitability. This, however, is not the case. Individual teams all benefit from the collective good of increased competition. Teams that used to be perennial league doormats can regain competitiveness in a very short amount of time. Fans tune in or go to the game because, on any given Sunday, any team can win.

Appendix 1 – Slow-Cycle Rivalry in the NFL – Early Dynasties:

1960-1969 Green Bay Packers

| Year | Win | Loss | Tie | % | Finish | Championship |
|--------------|-----------|-----------|----------|--------------|--------|--------------|
| 1960 | 8 | 4 | 0 | 66.0% | 1 | |
| 1961 | 11 | 3 | 0 | 78.0% | 1 | * |
| 1962 | 13 | 1 | 0 | 92.0% | 1 | * |
| 1963 | 11 | 2 | 1 | 82.0% | 2 | |
| 1964 | 8 | 5 | 1 | 60.0% | 2 | |
| 1965 | 10 | 3 | 1 | 75.0% | 1 | * |
| 1966 | 12 | 2 | 0 | 85.0% | 1 | * |
| 1967 | 9 | 4 | 1 | 67.0% | 1 | * |
| 1968 | 6 | 7 | 1 | 46.0% | 3 | |
| 1969 | 8 | 6 | 0 | 57.0% | 3 | |
| TOTAL | 96 | 37 | 5 | 72.2% | | 5 |

1972-1981 Pittsburgh Steelers

| Year | Win | Loss | Tie | % | Finish | Championship |
|--------------|------------|-----------|----------|--------------|--------|--------------|
| 1972 | 11 | 3 | 0 | 78.0% | 1 | |
| 1973 | 10 | 4 | 0 | 71.0% | 2 | |
| 1974 | 10 | 3 | 1 | 75.0% | 1 | * |
| 1975 | 12 | 2 | 0 | 85.0% | 1 | * |
| 1976 | 10 | 4 | 0 | 71.0% | 1 | |
| 1977 | 9 | 5 | 0 | 64.0% | 1 | |
| 1978 | 14 | 2 | 0 | 87.0% | 1 | * |
| 1979 | 12 | 4 | 0 | 75.0% | 1 | * |
| 1980 | 9 | 7 | 0 | 56.0% | 3 | |
| 1981 | 8 | 8 | 0 | 50.0% | 2 | |
| TOTAL | 105 | 42 | 1 | 71.4% | | 4 |

1981-1998 San Francisco 49ers

| Year | Win | Loss | Tie | % | Finish | Championship |
|--------------|------------|-----------|----------|--------------|--------|--------------|
| 1981 | 13 | 3 | 0 | 81.0% | 1 | * |
| 1983 | 10 | 6 | 0 | 62.0% | 1 | |
| 1984 | 15 | 1 | 0 | 93.0% | 1 | * |
| 1985 | 10 | 6 | 0 | 62.0% | 2 | |
| 1986 | 10 | 5 | 1 | 65.0% | 1 | |
| 1987 | 13 | 2 | 0 | 86.0% | 1 | |
| 1988 | 10 | 6 | 0 | 62.0% | 1 | * |
| 1989 | 14 | 2 | 0 | 87.0% | 1 | * |
| 1990 | 14 | 2 | 0 | 87.0% | 1 | |
| 1991 | 10 | 6 | 0 | 62.0% | 3 | |
| 1992 | 14 | 2 | 0 | 87.0% | 1 | |
| 1993 | 10 | 6 | 0 | 62.0% | 1 | |
| 1994 | 13 | 3 | 0 | 81.0% | 1 | * |
| 1995 | 11 | 5 | 0 | 68.0% | 1 | |
| 1996 | 12 | 4 | 0 | 75.0% | 2 | |
| 1997 | 13 | 3 | 0 | 81.0% | 1 | |
| 1998 | 12 | 4 | 0 | 75.0% | 2 | |
| TOTAL | 204 | 66 | 1 | 75.6% | | 5 |

Appendix 2 – Cost of a 30-Second Super Bowl TV Advertisement:

| Year | Price (1) | 2000 Dollars (2) | Network | Rating (3) | Viewers |
|------|-------------|------------------|---------|------------|------------|
| 1967 | \$42,000 | \$216,665 | CBS | 23 | N/A |
| 1968 | \$54,000 | \$267,362 | CBS | 36.8 | N/A |
| 1969 | \$67,500 | \$316,901 | NBC | 36 | N/A |
| 1970 | \$78,200 | \$347,264 | CBS | 39.4 | 44,270,000 |
| 1971 | \$72,000 | \$306,311 | NBC | 39.9 | 45,960,000 |
| 1972 | \$86,000 | \$353,493 | CBS | 44.2 | 56,640,000 |
| 1973 | \$103,500 | \$401,645 | NBC | 42.7 | 53,320,000 |
| 1974 | \$107,000 | \$373,957 | CBS | 41.6 | 51,700,000 |
| 1975 | \$110,000 | \$352,286 | NBC | 42.4 | 56,050,000 |
| 1976 | \$125,000 | \$378,515 | CBS | 42.3 | 57,710,000 |
| 1977 | \$162,000 | \$460,604 | NBC | 44.4 | 62,060,000 |
| 1978 | \$185,000 | \$488,888 | CBS | 47.2 | 78,940,000 |
| 1979 | \$222,000 | \$526,868 | NBC | 47.1 | 74,740,000 |
| 1980 | \$275,000 | \$575,030 | CBS | 46.3 | 76,240,000 |
| 1981 | \$324,300 | \$614,707 | NBC | 44.4 | 68,290,000 |
| 1982 | \$345,000 | \$615,995 | CBS | 49.1 | 85,230,000 |
| 1983 | \$400,000 | \$691,968 | NBC | 48.6 | 81,770,000 |
| 1984 | \$450,000 | \$746,246 | CBS | 46.4 | 77,620,000 |
| 1985 | \$500,000 | \$800,651 | ABC | 46.4 | 85,530,000 |
| 1986 | \$550,000 | \$864,644 | NBC | 48.3 | 92,570,000 |
| 1987 | \$575,000 | \$872,117 | CBS | 45.8 | 87,190,000 |
| 1988 | \$600,000 | \$873,880 | ABC | 41.9 | 80,140,000 |
| 1989 | \$675,000 | \$937,923 | NBC | 43.5 | 81,590,000 |
| 1990 | \$700,000 | \$922,800 | CBS | 39 | 73,852,000 |
| 1991 | \$800,000 | \$1,012,041 | ABC | 41.9 | 79,510,000 |
| 1992 | \$800,000 | \$982,466 | CBS | 40.3 | 79,590,000 |
| 1993 | \$850,000 | \$1,013,529 | NBC | 45.1 | 90,990,000 |
| 1994 | \$900,000 | \$1,046,356 | NBC | 45.5 | 90,000,000 |
| 1995 | \$1,000,000 | \$1,130,577 | ABC | 41.3 | 83,420,000 |
| 1996 | \$1,100,000 | \$1,207,967 | NBC | 46 | 94,080,000 |
| 1997 | \$1,200,000 | \$1,288,224 | FOX | 43.3 | 87,870,000 |
| 1998 | \$1,300,000 | \$1,374,172 | NBC | 44.5 | 90,000,000 |
| 1999 | \$1,600,000 | \$1,654,742 | FOX | 40.2 | 83,720,000 |
| 2000 | \$2,100,000 | \$2,100,000 | ABC | 43.3 | 88,465,000 |
| 2001 | \$2,050,000 | \$1,986,550 | CBS | 40.4 | 84,335,000 |
| 2002 | \$1,900,000 | \$1,841,190 | FOX | | |

(1) This chart shows the average price for a 30-second commercial.

(2) Adjusted for inflation in 2000 dollars.

(3) Percentage of U.S. households.

Source: Nielsen Media Research and Advertising Age Research.

Appendix 3 – Super Bowl Champion – Wins in Previous Year:

Note: 1961-1979 Statistics have been normalized to a 16 game season.

| Season | Champion | Wins in Pvs Year |
|----------------|-------------|------------------|
| 2002 | Tampa Bay | 9 |
| 2001 | New England | 5 |
| 2000 | Baltimore | 8 |
| 1999 | St. Louis | 4 |
| Average | | 6.5 |

| | | |
|----------------|-----------------|-------------|
| 1994 | San Francisco | 10 |
| 1993 | Dallas | 13 |
| 1992 | Dallas | 11 |
| 1991 | Washington | 10 |
| 1990 | New York Giants | 12 |
| 1989 | San Francisco | 10 |
| 1988 | San Francisco | 13 |
| 1987 | Washington | 12 |
| 1986 | New York Giants | 10 |
| 1985 | Chicago | 10 |
| 1984 | San Francisco | 10 |
| 1983 | LA Raiders | 8 |
| 1982 | Washington | 8 |
| 1981 | San Francisco | 6 |
| Average | | 10.2 |

| | | |
|----------------|------------|-------------|
| 1979 | Pittsburgh | 14 |
| 1978 | Pittsburgh | 9 |
| 1977 | Dallas | 12.57 |
| 1976 | Oakland | 12.57 |
| 1975 | Pittsburgh | 11.43 |
| 1974 | Pittsburgh | 11.43 |
| Average | | 11.8 |

| | | |
|----------------|-----------|-------------|
| 1967 | Green Bay | 13.71 |
| 1966 | Green Bay | 11.43 |
| 1965 | Green Bay | 9.14 |
| 1964 | Cleveland | 11.43 |
| 1963 | Chicago | 10.29 |
| 1962 | Green Bay | 12.57 |
| 1961 | Green Bay | 9.14 |
| Average | | 11.1 |

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