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CHAPTER 3

MANAGING MARKETS: NASCAR & SOUTHWEST AIRLINES?

Television exposure is so important to our program and so important to this university that we will schedule ourselves to fit the medium. I'll play at midnight, if that's what TV wants.

Bear Bryant, former University of Alabama football coach

During the 1990s, NASCAR's popularity exploded to rival baseball, football, and basketball and to become, arguably, the biggest sports marketing story of the decade. Stock car racing started in the late 1940s and early 1950s on dirt tracks and beaches. By the late 1950s and early 1960s it drew from the infatuation with muscle cars to move into larger venues and become a more structured sport. Still, through the 1960s and 1970s the sport attained little more than novelty attention on programs such as ABC's Wide World of Sports. In terms of car racing on the whole, only the Indianapolis 500 attracted sizable television audiences in the U.S. As late as the early 1980s, NASCAR appeared to face few opportunities to challenge the major players in sports entertainment, operating in out-of-the-way venues such as Talladega, Alabama, Darlington, North Carolina and Martinsville, Virginia. It appeared to be no more of a national sporting influence than Australian Rules Football and little more than one-step up from "tractor pulls" and "mud bogs."

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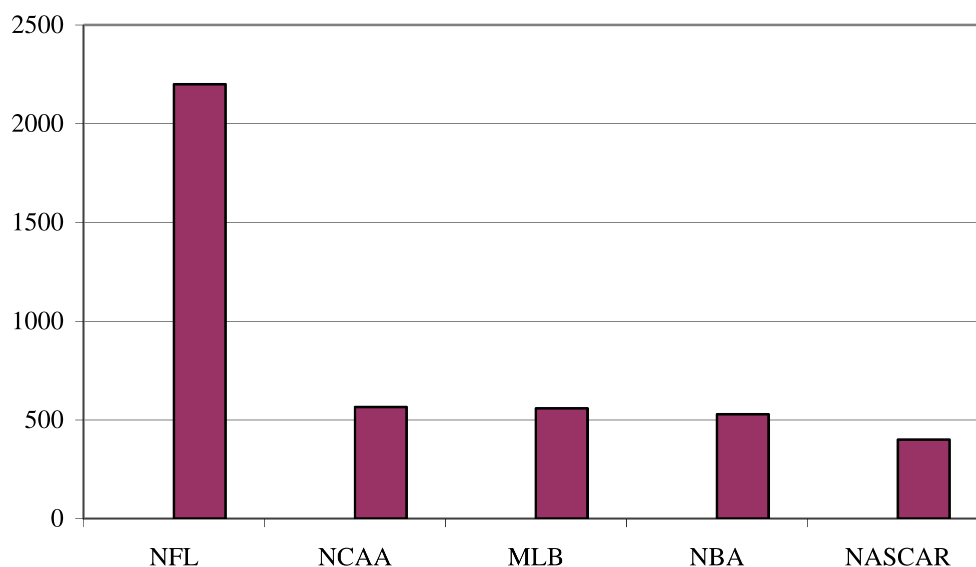
As the eighties merged into the nineties, the world turned upside down. NASCAR attracted new fans in droves.[1] Figure 3.1 indicates that the racing circuit has gained a status on a par with the traditional major sports at least as far as television fees go.



By other measures, the growth of NASCAR is clear – attendance at Winston Cup events which quadrupled from 1980 to 2000 and prize money to the points champion which increased by a multiple of twenty in nominal terms. Even from 1990 to 2002, attendance at NASCAR events roughly doubled. By the late nineties, the "good ole boys" had moved beyond running their races in out-of-the-way places and mid-sized cities in southern states. New tracks and events popped up near major metropolitan areas including Dallas, Chicago, Boston, and Los Angeles. NASCAR's average TV ratings in recent years stands well ahead of MLB's rating and slightly above the NBA's. The 2002 Daytona 500 pulled a TV rating of 10.9 in comparison to 2000 NFL

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regular season shares of 10.7. The sport's most successful drivers such as Dale Earnhardt and Jeff Gordon, became as widely recognized and as wealthy as superstars in any professional sport. Joe Gibbs, an NFL coach with three Super Bowl rings, retired from football and purchased ownership of a racing team – a move that left many fans as well as observers in the sports media dumbfounded and thinking that Gibbs would only use the stock car ownership stint as a brief sabbatical before returning to football. Ten years later and with ownership of the Winston Cup championship team, Gibbs now appears firmly entrenched and few, if any, make mention of a return to coaching professional football.

Whether through NASCAR or other examples, the sports industry provides an open laboratory for examining the relationship between a product and its market including the decisions, accidents, and outcomes that shape this relationship. Names such as Roone Arledge, Bill Veeck, Lamar Hunt, Pete Rozelle, Tex Schramm, and David Stern among others are closely linked to the history and legend of market making of sports teams and leagues. The questions faced by these sports and media owners and managers precisely mirror the questions facing typical business managers. What are we going to make and sell? How broadly or narrowly are we going to define our product? How we are we going to package and distribute our product? What are we going to emphasize in promotions and advertisements? What changes will we consider in order to encourage repeat customers as well as to draw and develop new customers?[2]

WHY DO GAMES MATTER?

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Baseball's 2002 All-Star Game attracted considerable but undesired attention because of an unprecedented tie, where the teams ran out of pitchers. MLB Commissioner Bud Selig displayed obvious frustration in front on the TV cameras as the two league managers explained the situation to him prior to the last inning. The fans went far beyond Selig in voicing their frustration when informed of the decision. The outcome became a public relations fiasco for the league as talking heads on television and writers in newspapers debated the nature of the All-Star classic and possible changes to its structure, ultimately hinging home field advantage in the World Series on the outcome of the game.

In reality, the embarrassment to MLB had been in the works for at least a decade as the "production" of the game lost touch with consumer value. Historically, the game featured elite players from both leagues who played the game as if the outcome really mattered. In the era of Willie Mays and Hank Aaron, star players stayed in the game for several innings if not the entire game. The best pitchers frequently threw for two or three inning stretches. By the early nineties, the game began to play out differently. Star players would start the game, get an at-bat, play a couple of innings, and then exit the ballpark to depart on private jets, if they had not skipped the game altogether due to some minor injury. Lesser known players began to play as many or more innings as the biggest stars. Managers of the game began to be or at least feel pressured to play all of the position players on the roster. Maybe most telling, the players openly referred to the game as an "exhibition" – by which they meant to imply something akin to a softball game at the

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company picnic.

What the players overlooked along with the league executives in twiddling their thumbs while the All-Star Game devolved is the fact that all baseball games – even Game 7 of the World Series – are exhibitions. Baseball games and all sporting events played in large stadiums and televised across the nation exist only for the purpose of entertaining fans who are willing to spend money to see the games or support them by watching the games on television with the attendant advertising revenues. The games attract fans not because war and peace hang in the balance, but because fans root for their teams as if it did, and the players play as if it did. That is the very core of the value that sports provides as an entertainment vehicle whether it is the Super Bowl, the NCAA basketball Final Four, the World Series, or MLB's All-Star Game. Watching players, even elite players, horse-around in an "exhibition" and then decide to go home because the hour is late does not provide much entertainment value to fans. Baseball games do not hang in the air with their value determined by some kind of philosophical debate by the likes of Howard Cosell or Bob Costas. Game 7 of the World Series or the Super Bowl are not intrinsically more valuable than any other game. It is all a matter of the importance that baseball consumers all summed together place on the event. Historically, fans had highly valued baseball's All-Star Game much more than the all-star games from other sports, and the players and managers played it accordingly. Without a change in the basic value that consumers placed on the game, there was no reason for MLB to devalue it, but that is exactly what began to happen during the 1990s.

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The All-Star Game episode is just one example of where the people involved in producing a sporting event lost sight of what it is that they are really doing. Maybe Dick Allen, an All-Star caliber baseball player of the 1960s and 1970s, expressed most clearly the backwards understanding of sports as entertainment when he said that he wished that games could be played with the fans and media locked out of the stadium. Similar attitudes toward those making decisions regarding products and markets are frequently observed in sports. Coaches – the rough equivalent of production and operations managers in non-sports businesses – sometimes openly vent their hostility toward “front office” decision makers. The front office people making decisions about products and markets are somehow greedy money “grubbers” because they mess around with the games in order to try to make more money. Sports traditionalists among fans and media express similar views of the marketing decisions and the people making them, “the suits,” blaming them for steering the attention of fans away from the game itself with gimmicks and sideshows, or worse, by tinkering with the rules of the games in order to try to stir fan interest.

The “jockacracy” inside of sports probably contributes to the tendency for players and coaches to not see themselves as entertainers in the entertainment industry. After all, a growling and sweating middle linebacker hardly presents the same picture as Britney Spears prancing around a video or on stage. Most players would not take well to the comparison. Instead, they frequently see themselves living in their own world where the tackles they make or the home runs that they hit are valuable in and of themselves apart from their entertainment value. It is

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this kind of thinking that leads coaches to go on diatribes about cheerleaders, music, scheduling, and other matters they find bothersome. In their minds, the actions of players and coaches create value independent of consumer reaction. To be fair, many athletes and coaches understand their role as entertainers, but the sports-as-entertainment outlook frequently gets buried beneath macho and personal agendas.

Yet, without fans who highly value the entertainment offered, no sports star would make $10 million per year. No coach would become a celebrity whose advice was sought on leadership, running a business, or any other matter. College coaches are often the worst to express views that seem to view their jobs as existing in a vacuum. They live in a world where the players turnover regularly so the coach becomes the celebrity in an environment that blends education and entertainment. Despite the not for profit organizational setting of college sports, no one can deny that it is a money-driven, entertainment business. The fan who shows up along with 18,000 others to watch a Knicks game attends the game for the same reason that the fan shows up with 30,000 others at the Carrier Dome in Syracuse to watch the Orangemen play. Syracuse's Jim Boeheim's players are providing exactly the same entertainment that the Knicks' players are providing – the difference lies only in how the dollars are distributed. How long would a university such as Indiana would have endured an abrasive figure such as a Bob Knight if college basketball were more like intramural games and attracted only 20 people?

Surprisingly, this disconnection between decisions regarding the product or service being offered and the production of the product or service also occurs in business settings as well as in

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the the study of management decisions. Although widely recognized as part of the business landscape, marketing decisions and personnel are sometimes viewed with suspicion if not outright contempt. In everyday businesses, executives on the operations-production side often belittle marketing personnel, seeing them on occasion as merely sucker fish living off the more substantial efforts of others – after all, marketing executives do not make anything, they just sell what others make or so the thinking goes. In fact, managers often fall in love with their skills in overseeing people, production processes, or financial practices of companies or in hammering out deals with other companies to the point of forgetting where what really drives the wagon – buyers who are willing to shell out money for whatever is being offered. Among academics, faculty in areas such as finance, accounting, and economics occasionally diminish the efforts of marketing faculty because of perceived shallowness and lack of rigor.

Despite these unflattering views of the personnel who make decisions regarding markets or of marketing as a discipline, the very core of successfully managing a business centers on making sound decisions concerning bringing value to consumers through a combination of attributes of the product or service including but not limited to the price.[3] In the big picture, marketing, at least in the best sense of the term, zeroes in on the connection between customers and these product or service attributes, collecting and deciphering information about markets, and the connection (or lack of it) between the product and the consumer. Without proper marketing decisions, the operations side of a business, for all its seeming alleged substance, amounts to little more than the production of unsold goods or unwanted services. Companies

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with great products but marginal operations can still succeed, where those with great operations but marginal products rarely do. This fact holds true whether the business under consideration produces automobiles or provides entertainment in the form of athletic events. Viewed in this light, the discussion of innovating new methods considered in more detail in Chapter 7 is really just an extension of this discussion of the ongoing challenge of matching products and services to markets.

While it might seem that these kinds of points would go without saying, managers inside and outside of sports often lose sight of the central importance of the product or service. As with the All-Star game, the lack of attention to the product sometimes occurs due to a series of events, such as labor bargaining agreements, that steer the focus of both labor and management away from the ultimate source of value to both. In other circumstances, egos of inflated by success, so that they fall in love with their skill and forget to consider consumers. On other occasions, it may stem from nothing more complicated than laziness. Success begins to breed shirking and inattention. In any and all of these cases, managers have failed to give due attention to a continual emphasis on product or service.

TAPPING LATENT MARKETS

Finding ways to offer value to customers sometimes involves big technological leaps or radically new products. NASCAR's emergence as a major player on the U.S. sports scene is

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both interesting and astounding because it involves neither of these. As with many successful enterprises, stock car racing benefited from the missteps of its competitors. NASCAR tapped into consumers who the existing Madison Avenue and Armani-clad league executives of the NBA, MLB, and NFL ignored, even though they were producing similar kinds of entertainment services. It would be mistake to credit all of NASCAR's success to great market-based decision-making. No doubt, NASCAR's growth may owe as much to serendipity as to insight and foresight. In part, they stumbled into their success doing much of what they had been doing before it grew in popularity. Yet, being in right place at the right time is no crime and is frequently part of the story of successful business ventures.

The NASCAR customer has evolved over the years. Even though some might still define the consumer base for NASCAR as solely a bunch of Southern rednecks, the customer base has grown beyond good-ole-boy home-made mechanics from Alabama and North Carolina. While the clientele is not dominated by citizens of the Hamptons, about 40 percent are reported to have college experience, almost 80 percent are under 45 years of age, and nearly 40 percent are female.[4] They are the result of the massive economic expansion in America starting around 1982 and proceeding through the 1990s. Pundits and social critics tended to fixate on how this boom loaded the pockets of corporate executives and affluent suburbanites from large metropolitan areas who sank their growing fortunes into stadium luxury suites, granite counter-tops in their sprawling new homes, trips to The Gap, expensive restaurants, and exotic vacations. These same writers often lamented the supposed stagnation of incomes for the middle class and

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below. However, these writers were much like NASCAR's competitors in that they were missing out on an economic transformation among America's rank and file. By the late 1990s, the stagnation of the middle class began to be exposed as more folklore than fact.[5] The burgeoning economy pumped up incomes in mid-sized cities, working-class suburbs, small towns, and rural locations across the country just as it was enriching those on the upper end of the income spectrum. Just like their wealthier neighbors, these working class consumers searched for entertainment venues to spend their fattening pocketbooks, and NASCAR provided a custom fit.

Counting precisely the number of people and incomes of people comprising this group of middle-class suburbanites, mid-sized and small city dwellers, and rural residents is not easy because Census figures are not broken down along these lines. Still, ballpark estimates are possible. Out of the 280 million people in America, about 60 million people live outside of metropolitan areas -- a sizable number of people itself. More telling, though, only about 100 million people live in the twenty largest metropolitan areas, and of these, only about 20 million live in the core of these cities. Beyond population alone, the working class in America carries substantial clout in terms of income. About four-fifths of U.S. households, comprising about 225 million individuals, make less than $75,000 per year, and three-fifths, covering about 170 million individuals, make less than $50,000 per year.

The bottom line is the size of this group of consumers who reside outside of the largest urban centers and below the most affluent income levels is huge, numbering between 100 million

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to 200 million. Moreover, even though these families may not own time share condominiums on Maui, their economic muscle became considerable during the 1990s. Some of the increased financial wherewithal went into new or larger homes, new cars and pick-up trucks, bigger televisions, and the like. The economic upsurge also began to evidence itself in the leisure expenditures outside of their homes. Almost half of U.S. food expenditures are for food outside the home. Mega-outlet malls began to spring up across the country in locations such as Woodbridge Virginia (near Washington D.C.), Grapevine Texas (near Dallas), Tempe Arizona (near Phoenix) and many others. Vacation destinations for working class families exploded in places such as Orlando, Atlantic City, the panhandle of Florida, near the Smokey Mountains, and many others.

The combination of millions of potential fans with money and time to burn lit the NASCAR fuse. NASCAR offered a ready-made target for these consumers to indulge their sporting preferences and a clear alternative to the traditional big-time sports. Probably no greater contrast could exist than the one between NASCAR and the NBA. NASCAR and its clientele represented nearly everything that the NBA was not. The NBA pushed a slick, ultra-hip, urban, star-powered image both on-the-court and in its promotions. NASCAR fed fans a down-to-earth, driver- mechanic-next-door image. With little doubt, racial composition factored into the consumer equation also. Black players dominated the NBA while NASCAR was very, very white. Yet, race comprises only one part of a broader story. To lean on race alone as the key factor simplifies the story far too much. A league such as the NBA and NASCAR offered

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opposite cultural alternatives -- ultra-urban, celebrity-focused versus working-class suburban, small-town, or rural.

Beyond the cultural differences, the enormous financial success of the NBA and the other traditional "major" sports spawned negative byproducts. In many respects, the leagues became victimized by their own success. Through the 1960s and much of the 1970s, star athletes in professional sports made above average but not astronomical salaries. For instance, in the mid-1960s, two Hall of Fame pitchers, Sandy Koufax and Don Drysdale, held out of spring training until management agreed to salaries in the $100,000 range – a large sum of money but not an amount to place them among the highest-rollers of society. Growth in television audiences, along with live attendance and free agency, vaulted salaries to unprecedented levels. The contrast can be seen by the fact that a solid but not spectacular short stop for the Oakland Athletics, Walt Weiss, made more money in the nineties than the sum of the salaries for the starting eight position players for the Athletics championship teams of the early 1970s. The average salary in MLB by the turn of the century stood close to one million dollars with star-caliber players hauling in tens of millions per year.

As a result of these changes, by the 1990s competitions in the traditionally dominant sports took place between millionaires who stood apart from the common man not just in athletic ability but in behavior and attitude. The heroes among legendary sports figures such as Joe Louis, Babe Ruth, Joe DiMaggio, Willie Mays, Hank Aaron, Mickey Mantle, Wilt Chamberlain, Bill Russell, Michael Jordan, Larry Bird, Magic Johnson, Johnny Unitas, and Jerry

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Rice had been replaced by anti-heroes such as Mike Tyson, Allen Iverson, Barry Bonds, Randy Moss, and Ray Lewis. These star players exalted in petulance and posturing if not outright criminal activity. No doubt, expanded press coverage over athletes' lives alters the public's image of current players relative to some of the earlier players, but nonetheless, many star players in the major sports struck fans as aloof if not altogether spoiled. Beyond the problems of aloof athletes and lack of effort, the financial success of the major sports leagues presented a source of dispute that tarnished the players not tarnished with this kind of image, the on and off disputes between millionaire players and billionaire owners turned off fans. MLB suffered strikes and work stoppages in 1981 and 1994, even canceling the World Series in 1994. The NFL used replacement players for the first part of the 1982 season.

By comparison, NASCAR's heroes came across as the guy-next-door-made-good. They might push and shove each other after the race tactics, but they showed up for work, drove their cars hard, and exhibited interest in and respect for their fans. In contrast, whether out of a sense of privilege or just as a justifiable response to the crush put on them as celebrities, superstar athletes in other sports frequently gave signals indicating that they represented an aristocratic elite with fans as their admiring and subservient peasants.

Ironically, now NASCAR has grown to the point where it may begin to face some of the issues that tarnished other sports. With growth in money, will NASCAR be able to hold on to its guy-next-door image or will its drivers begin to exhibit the spoiled-rich-athlete syndrome? Some would suggest that the emergence of figure such as Tony Stewart as a Winston Cup champion

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may have already signaled a new era. Although drivers such as Richard Petty or Dale Earnhardt may have had a tough-as-nails reputation on the race course, they were endearing to many fans off of the race course. Stewart, in contrast, whether on purpose or as an accident, developed the reputation as temperamental personality on and off the race course, finding himself in scrapes with reporters and other drivers that have brought reprimands and probations from both NASCAR and his primary sponsor – The Home Depot.

Beyond the missteps of other sports entities, NASCAR also benefitted from evolving tastes of American consumers, especially those outside the Harvard Club. Before NASCAR exploded, professional wrestling had already grown out of its sideshow status and blossomed into a television phenomenon during the 1980s. Its growth signaled changes in tastes as well as the growing economic power of non-urban working families and individuals. The WWF and WCW started drawing large audiences by offering a combination of staged violence coupled with realism, athleticism, and ultimately sex. In this context, NASCAR's emergence as an entertainment force tapped into the same sort of extreme-entertainment of professional wrestling by offering the life-on-the-edge appeal of thirty men driving inches from each other at nearly 200 miles per hour.

While the details of the sports share little in common, the growth of the NHL during the 1990s probably owes itself to some of the same forces that have vaulted NASCAR into the spotlight. Until the 1990s, the NHL labored in relative obscurity in the U.S. With several teams in Canada and no teams in the south or southwestern part of the U.S., the sport hardly seemed

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poised for growth. To be sure, it had an avid following in Canada and parts of the northeast, but few people outside these regions followed the sport, knew much of its rules, or could recognize its athletes. The move of the NHL's most prolific and recognizable player, Wayne Gretzky, from the Edmonton Oilers to the Los Angeles Kings in 1988 definitely stirred interest in LA, especially with Gretzky leading the team to the Stanley Cup Finals in 1993. Many NHL insiders and observers credit his move to a major market outside of traditional hockey territory as saving the sport and positioning it to expand. Attributing the NHL's growth in popularity to Gretzky's move to LA exaggerates its importance and overlooks the market dynamics at work. No doubt, Gretzky's relocation attracted a lot more attention to hockey in the mega-media market of LA, but it would be an overstatement to suggest that this made much difference outside of Southern California. Instead, the economic growth of working class mentioned above provided sports fans in many more cities with the financial wherewithal to support hockey in addition to creating millionaires and billionaires who could bid teams away from smaller markets in the U.S. and Canada.

Beyond the income influence, though, the NHL also benefitted from the same heightened interest in "extreme sports" entertainment as did pro wrestling and NASCAR. Although a game with players of great skating and stick handling skill, hockey is a game that has traditionally attracted working-class following. Moreover, while the league has adopted rules to limit bench clearing brawls, it still supports fighting as a means of attracting and entertaining fans. Whereas fighting leads to expulsion and sometimes suspension in basketball, baseball, and even football,

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it generates little more of a penalty in hockey – 4 minutes – than holding a player illegally or interfering with the goalie – 2 minutes. The NHL's limitation vis-a-vis NASCAR, though, is that hockey does not transfer very well to television. In terms of live attendance, hockey holds its own with the other team sports, but the speed of the puck makes viewing on television difficult, so that the fact that NASCAR has left the NHL in its television dust is not surprising in spite of similarities in the demographics of their fan bases. This topic of television and the NHL is discussed more later in the chapter.

The lessons of these sports examples for managers at large is that untapped markets lay ready for someone to meet the needs of consumers in those markets. In a growing economy, people are looking for places to spend their money. Consumers, sometimes millions of them, are overlooked by seemingly well-managed companies. Southwest Airlines might be one of the most obvious cases that parallels a NASCAR. The company was completely off the radar screen of the airline industry when it started flying routes between Dallas, Houston, and San Antonio in 1971 and as it expanded to other Texas cities in the 1970s. Even as it expanded to cities such New Orleans, St. Louis, and Chicago during the 1980s, it was viewed as a minor, regionally-oriented carrier. Much like NASCAR, the company exploded during the 1990s, expanding to serve over fifty cities with 2500-plus flights per day and revenues increasing from $1 billion in 1990 to over $5.5 billion per in 2002.[6]

Much has been made of particular parts of their formula for success – short-haul, point-to-point flights with high frequency, low ticket prices, quick-turnarounds, utilization of many

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"second-tier" airports, casual ambience, and employee recruitment and development. Each of these tactics is interesting by itself, especially the point-to-point route system that flaunted and continues to flaunt the hub-and-spoke system practiced by other major airlines. However, focusing on a single element or two of their operations misses the bigger picture being emphasized in this chapter and what links them with the NASCAR story – that is their ability to find a marketplace full of millions of consumers with money to spend right under the noses of existing producers. Like NASCAR, the product being offered involved no important technological breakthrough or practice that would be admired (at the outset) by the Harvard Business Review. Instead, the success that Southwest found was available to almost any existing airline, but just like NASCAR's competitors, United, American, Delta, and the other major carriers were too busy dividing up an existing pie to develop other parts of the marketplace, to worry themselves with these consumers, or with the operational changes needed to make the product appealing to them.

Yet, consumers are not held by force. Market success can be very transient. Successful companies can quickly lose customers or lose out on potential customers by not managing their success in a way that continues to see consumers as the driving force of value for the company. MLB is a prime example in sports of this problem while business entities such as IBM and The Gap, learned this lesson the hard way in the late 1980s and 1990s. Bill Gates and Microsoft also illustrate the slipperiness of grasping changing market conditions. He accurately anticipated the explosion in micro computing and positioned Microsoft to take advantage of it. Yet, a few years

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later, he underestimated the internet revolution. A mistake Microsoft quickly worked to rectify.[7] Those experiences show that even for forward-looking managers and companies, managing to the marketplace is not all or even mostly about holding the best divining rod or "vision." In the long term, possessing the ability to quickly recognize mistakes and adapt to changing markets is critical – a subject of more attention in Chapter 7.

RISK TAKING

In spite of the success of NASCAR and the NHL, successful marketing requires more than recognizing trends in consumer sentiment. Vince McMahon, owner of professional wrestling's WWF, decided to go after more of the extreme-sports dollar by offering a spiked version of football called the XFL. Most of the basic rules would be the same as the NFL but with a few exceptions intended to increase excitement and entertainment value. The executives at NBC liked the idea and heavily promoted its first season during the spring of 2001. Unfortunately for the XFL and NBC, consumers did not care for the experience very much. After the initial weekend of games, viewership dropped off precipitously and NBC did not renew the league's contract for 2002.

Forty years before the XFL, a group of businessmen pieced together another fledgling football association, calling it the American Football League (AFL). The idea then was also to offer fans a more exciting alternative to the relatively sedate NFL. Like the XFL, the AFL tried

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to market its product primarily in cities that had been ignored by the NFL including Buffalo, Boston, Houston, Dallas and Denver. They did place teams in the mega-market of New York as well as across the bay from San Francisco in Oakland and in Los Angeles. By 1962, the Dallas team moved to Kansas City and the Los Angeles team to San Diego. The league got off to an inauspicious beginning vis-a-vis its older rival. In 1960, the AFL averaged only 16,000 spectators per contest versus the NFL's 40,000. Even by 1963, the numbers had only grown to around 20,000 per game. By 1964, though, the league started to catch on with fans in increasing numbers. By 1965, they averaged more than 31,000 per game and had signed an agreement with the NFL that would lead to the first Super Bowl in January 1967 and a full merger by the 1970 season. During the last season in which the AFL operated as a separate league, it crossed the 40,000 fans per game threshold.

Why did the AFL succeed where so many other sports league ventures after it have failed including the XFL, WFL, USFL? Details of the AFL history have been recorded in books and documentaries. Because the AFL succeeded, it is easy to cast the AFL success into a positive light while discrediting the efforts of McMahon as a ill-conceived venture by a media huckster. Yet, the contemporary evaluations of Lamar Hunt and his co-owners in the AFL were often as scathing as those directed toward McMahon. Like the AFL and unlike the WFL and USFL, McMahon did not start his league by trying to compete for high profile NFL players at NFL level salaries. Instead, he tried to start primarily with marginal NFL players and rejects and instituted strict salary containment measures. In spite of these efforts, the venture failed because it was

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unable to sustain enough of an audience.

This uncertainty about the specific product or service offerings that will spark consumer interest is at the very heart of what makes start-up business ventures risky. In trying to get a handle on the combination of product attributes that builds value among consumers, academic study has laid out only the broad boundaries. Depending on the kind of data used, about 40 to 60 percent of consumer purchases tend to be driven by price of the product itself, prices of closely related products, expectations of these prices in the future, and consumer income. While a good start, a lot of the specific details influencing consumers come from other sources. The trouble is, that once the study of consumer sentiment goes beyond these basic influences, it becomes more difficult to come up with generalities. This does not imply a lack of effort given to the accumulation and analyzing of data. Just the opposite happens – data analysis takes place *ad nauseam*. Businesses highly value the information collected and studied by marketers that tries to make sense of demographic factors as well as psychological nuances. Focus groups, consumer surveys, test markets, and other methods are employed to try to ever refine the level of knowledge about what makes consumers tick.

In spite of an accumulation of data and analysis of it, finding reliable, general conclusions on which to base product and marketing decisions remains the search for the Holy Grail. It is not a lack of data in some cases, but just the fact that consumer responses are not always consistent. While the price of a good, such as a ticket or income changes may exhibit relatively stable effects on purchases over several years, the influence of a particular product attribute or

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characteristic may be more fleeting. As a result, many key marketing decisions boil down to a shot in the dark.

The entrepreneur whose seemingly good idea succeeds may eventually be built into an object of admiration and clairvoyance. His opinions become revered pearls of wisdom appearing on book jackets, periodicals, and on televised interviews. However, the difference between his success and the anonymous entrepreneur whose seemingly good idea flopped may boil down to little more than luck. Both were willing to take risks. Both may have done as much planning and homework as feasible. Both may have been financially responsible and utilized effective production methods, yet one succeeded and one failed, as with the AFL and the XFL. For high-ego, driven people in business or sports, suggesting the difference between a marketing success and failure owes much to luck is heresy. Nevertheless, when choices reflect hunches about consumer appetites in the near and distant future, it would seem that too often the difference between success and failure is over-rationalized. In the end, new business ventures and significant changes in strategy require risk taking, planning, and then plenty of good fortune.

MYOPIA AND MEGALOMANIA

In the 1980s, NBA fortunes turned around. The waning fan interest and TV revenues turned into growing billions. The renewal of the rivalry between the Los Angeles Lakers and the Boston Celtics sparked fan and media interest along with the superstar appeal of Magic Johnson

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from the Lakers and Larry Bird from the Celtics. In 1984 Michael Jordan entered the league and dazzled onlookers with his acrobatic skills and lightning-quick moves. Although his teams did not experience a great deal of success during the 1980s, the league under David Stern began to center its marketing efforts more and more on Jordan and a few other stars. During the 1990s, Jordan's Chicago Bulls won six championships and with no consistent team rival, Jordan became *the* marketing vehicle for the league.

After the 1999 championship series, Jordan retired (for the second but not last time). The league had already been searching for heirs to take over the marketing poster-boy mantle after Jordan such as Shaquille O'Neil of the Lakers or Allen Iverson of the 76ers. However, no one captured the public's fancy to nearly the extent that Jordan had. The league that had lived by Jordan for a decade now was not necessarily dying without him, but it suffered from a bad cold. Without a great rivalry among teams such as the Celtics and Lakers, the marketing of the league as competition between teams had taken a backseat to a star-based marketing strategy. Now without *the* star, the league struggled to retain customers.

The NBA's experience illustrates a fundamental principle discussed back in Chapter 2 and applicable here to marketing strategy – recognizing and effectively managing tradeoffs. The tradeoff faced in this context is between a narrow-focus marketing strategy and a broad-focus strategy. Managers easily become entranced on one side and not recognize the tradeoff. The tendency to become too narrowly focused and not take advantage of broader business opportunities closely related to your original focus was emphasized by Theodore Levitt, former

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Harvard Business Review Editor. He coined the term "Marketing Myopia" for this problem and used it as his book title. He cites examples such as the railroad industry which suffered because it did not recognize that it focused too narrowly on traditional rail service rather than realizing its real service was transportation. Likewise, the movie industry dragged its feet on entering the video market because it also viewed its product too narrowly – insisting it was about in-theater movie making rather than more broadly in the business of entertaining people through all kinds of film and video products. In the sports industry, horse racing tracks fell prey to the same narrow-mindedness in their initial opposition to the simulcasting of races. Rather than seeing simulcasting as a means to widen their market base, they saw it as a threat to live attendance.

Long before the NBA's marketing coup on a league-wide basis, Tex Schramm led the Dallas Cowboys from a winless new franchise in 1960 to a sport entertainment powerhouse by broadening the appeal of the team. The two hard-luck losses to the Green Bay Packers in the 1966 and 1967 NFL Championship games helped to boost the team into the limelight. Schramm paid attention to the essentials of securing a talented coach along with gifted players. Yet, he pursued many angles to set the team apart other than its performance. He adopted sleeker uniforms, scantily-attired cheerleaders, and other attention-grabbing ideas.

The moves by the Cowboys during the 1960s and 1970s as well as the NBA during the 1980s and early 1990s fall in line with ideas promoted by Levitt. He stresses the importance of a business constantly asking itself, "what are we in the business of doing." While sports traditionalists might roll their eyes at modernized uniforms, cheerleaders, halftime rock concerts

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or time-out skits, the evolution of a team or a league from merely a sports competition to broad-based entertainment vehicle seemed to make financial sense. The NBA appeared to gain consumers and David Stern gifted with a golden touch when the league steered toward broadening its appeal beyond merely the competition between teams and into a entertainment based entity emphasizing star players, entertaining half-time and time-out shows and music. During the 2001 championship series between the Lakers and the 76ers, the league took this progression into full-service entertainment one step further by presenting a live concert performance during halftime of one of the games.

The trouble is that executives can go so far in expanding the scope of the products or services offered that they lose sight of the implicit tradeoff in this expansion. As with most any business decision, there is usually a point beyond which further expansion of the scope of the business will reduce value. In fact, short term successes may lead to an overvaluation of the benefits. One might call this “market megalomania.” Sometimes narrowing the business strategy rather than expanding it will build additional value among a customer base. Coca Cola stands out as a prime example. The company had broadened its scope during the 1970s. In the 1980s, the company refocused its efforts around being a worldwide soft drink provider, and the company’s value soared as a result. Using this episode as a template would lead the NBA in the opposite direction that it is currently headed. Rather than trying to duplicate or even broaden what might have been a unique period with Michael Jordan during the 1990s, the league might gain from refocusing its attention and marketing efforts toward its historical core – the

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competition between teams.

In the sports world, success by pursuing a focused strategy has precedent. The NCAA, especially with regard to its basketball tournament, illustrates the benefits of a narrow strategy. Although a not-for-profit entity, the NCAA and its member schools for practical purposes operate much like any professional sports league except for the fact that players are not explicitly paid. As a sports business entity, it has been tremendously successful by developing and focusing on the competition between member basketball teams. The NCAA tournament has grown into a part of national culture – “March Madness.” Between office pools, online contests, and wall-to-wall television coverage, the three-week event generates attention rivaling anything in professional sports by placing emphasis on nothing more than the win-you-advance, lose-you-go-home competition between teams. The tournament began in 1939 with only 8 teams. By the 1970s, the field had expanded to 32 teams, but still the event attracted little attention beyond the Final Four beyond the fans of teams directly involved.

Only from the early 1980s onward has the end-of-season tournament began to grow into a cross-country cultural happening. The growth of cable television provided the technological impetus. Before the 1980s, fans across the country would find only limited coverage of early round games. Cable TV and coverage by ESPN brought the entire tournament into focus for fans regardless of geographic location and “cut-aways” to close games heightened the drama and underdog story lines. The tournament grew in size from to 40 teams in 1979, to 48 teams in 1980, and finally to 64 teams in 1985. The television contracts soon reflected the expanded fan

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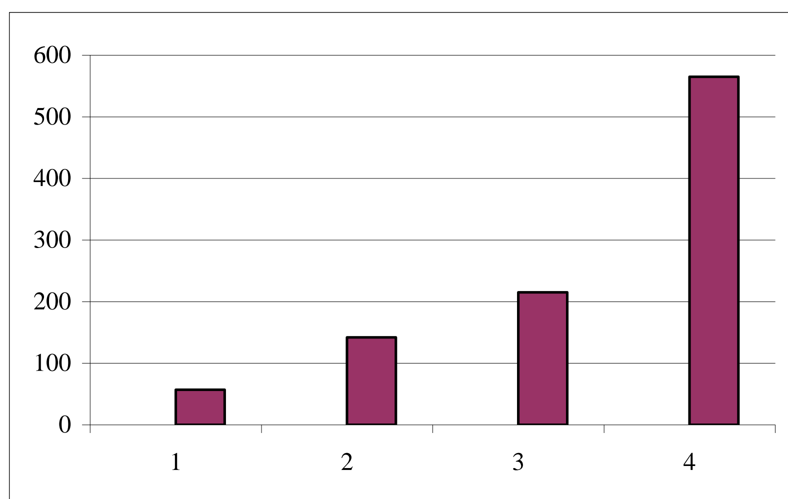
interest. Figure 3.2 shows the growth of the television revenue from the tournament over the last 15 years from less than $60 million per year in the late 1980s to now almost $600 million per year. In terms of the point about marketing being under consideration here, the NCAA and college basketball stands in vivid contrast to the NBA. While the NBA pushed individual stars and non-basketball entertainment, NCAA basketball presented team competition.

Figure 3.2

Annual Television Fees for NCAA Tournament (in millions of $)



For executives, these episodes identify the importance of avoiding extremes. Whether in railroads or football, company strategies can be so near-sighted and narrow-minded that they miss out on developing closely related products and services or fail to make appropriate adjustments in their product as technology changes. In the other direction, executives who taste success by expanding their horizons have often become too far-sighted, imagining synergies at

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every turn where none, in fact, exist. The 1960s, 1970s and the 1990s saw a large number of conglomerate mergers such as General Mills and Parker Brothers in 1968 or Time, Warner Communications, and Turner Broadcasting based on supposed synergies that turned out to be merely illusory.

INCREASING V. DIVIDING THE PIE?

Three decades before the growth of NASCAR, the emergence of the NFL as a major player in entertainment also combined luck with a bit of entrepreneurship to tap huge unfolding markets. Entering the 1950s, the NFL lagged far beyond Major League Baseball in attendance and national interest. The emergence of television set the table for a breakthrough by the league in that the essence of the game translated well on to television as college football had already shown. The nationally televised 1958 NFL championship game between the Colts and Giants that went into overtime is often credited with the birth of the NFL into a new era of popularity and exposure through television.

In spite of standing on the brink of a market breakthrough, the NFL hesitated to capitalize fully by moving into new population centers. This foot-dragging by the NFL opened the door for the American Football League. Rather than seeing the AFL as an entity capable of tapping into the football interests of millions of Americans, NFL owners largely viewed it as a financially unstable kid brother likely to soon fold. The NFL owners were much more

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concerned with dividing their pie than in seeing and grasping the opportunity to increase it. By 1965, though, this kid brother had grown into a major rival. The New York Jets signed University of Alabama quarterback Joe Namath for the seemingly outlandish sum of $425,000. Art Modell, owner of the Cleveland Browns, thought the salary to be only a publicity stunt. Yet, in his first season, Namath's Jets doubled attendance from 20,000 to 40,000 per game, not only providing plenty of money to support Namath's salary but giving the league a permanent foothold versus the NFL. Within a year, the NFL owners agreed to a merger with the AFL that would begin with interleague championship after the 1966 season and culminate in full integration by 1970.

What the NFL owners probably saw as a surrender ultimately accomplished what they had been unwilling to do on their own – expand the league to take advantage of emerging markets. A second team in New York as well as teams in places such as Denver, Oakland, Miami, and Kansas City did not hurt the league. Instead, it brought in a boatload of new consumers. The final step in setting the NFL on the course to the top of sports entertainment was another way to tap untapped markets. Often Roone Arledge of ABC sports is credited with the birth of Monday Night Football. While his production of it broke new ground, NFL Commissioner Pete Rozelle was the one to envision that a Monday Night, primetime telecast of the league would broaden the league's markets. Many owners and the networks had scoffed at the idea. Rozelle was right on the mark, however, in seeing that the future of sports as a revenue generator lay in making it a television presence.

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The NFL's experience reflects a constant challenge for unit managers within a single business entity, parties to business relationship, whether competitors linked in a joint venture, managers of units of an organization, or personnel involved in management-labor relations. The challenge is to try to keep focused on increasing the size of the overall pie rather than just fixating on how the pie is divided. Because leagues usually divide up monopolies over professional competitions in their specific sport in a particular area, owners often cannot resist the urge to become fixated on protecting their wedge of the monopoly pie. Interestingly, even many observers and analysts of sports also get entangled in the obsession with brokering the slices rather than making the pie bigger. Yet, the monopoly power of a specific sports franchise is not broad. Instead, in the marketplace each team faces competition from other sports leagues as well as other forms of entertainment and recreation. Ultimately, even with some flexibility granted by their limited monopolies, teams and leagues must pay attention to customers in order to pad their own pockets.

This is not widely recognized because sports leagues are so often seen as such different creatures from other kinds of business relationships. However, they are really not so different. Many businesses become overly concerned with the breakdown of market share between themselves and their closest competitors so much so that they can lose sight of the effects of their decisions on the market and their competitors more broadly considered. Similarly, a company can become so embroiled in disputes regarding the shares of revenue divided up among management, labor, and ownership that it loses sight of the objective -- increasing revenue for all

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the groups involved.

Probably few matters reflect this fixation on slicing up a given pie more than competitive balance and free agency in MLB. Much has been made of the New York Yankees championship run from 1996 to 2001. Over that time frame, they appeared in 5 World Series, winning four of them. In assessing the "competitive balance" in baseball a "Blue Ribbon Panel" established by Congress determined that such balance was lacking, basing their finding on this recent Yankee run. For some reason, the panel failed to take into account or have any interest in the Yankees experience from 1981 to 1996, when they went without a visit to the World Series and took only one trip to the playoffs. Likewise, from 1982 through 2002, the Los Angeles Dodgers made only one trip to the playoffs and one to the World Series. From 1980-2002, the New York Mets visited the World Series only two times. In contrast, the Oakland Athletics made three trips, the San Diego Padres, Minnesota Twins, Toronto Blue Jays, and Cleveland Indians each made two.[8]

The subtext in these kinds of "competitive balance" discussions is usually player free agency. In the eyes of many fans, media, and owners, free agency is the beast killing the game. Yet before free agency, teams from New York (including Brooklyn) and Los Angeles dominated the World Series. Figure 3.3 shows the history by decade. From the 1920s through the 1960s, teams from the megalopolis' won between 45 and 75 percent of the pennants each decade.

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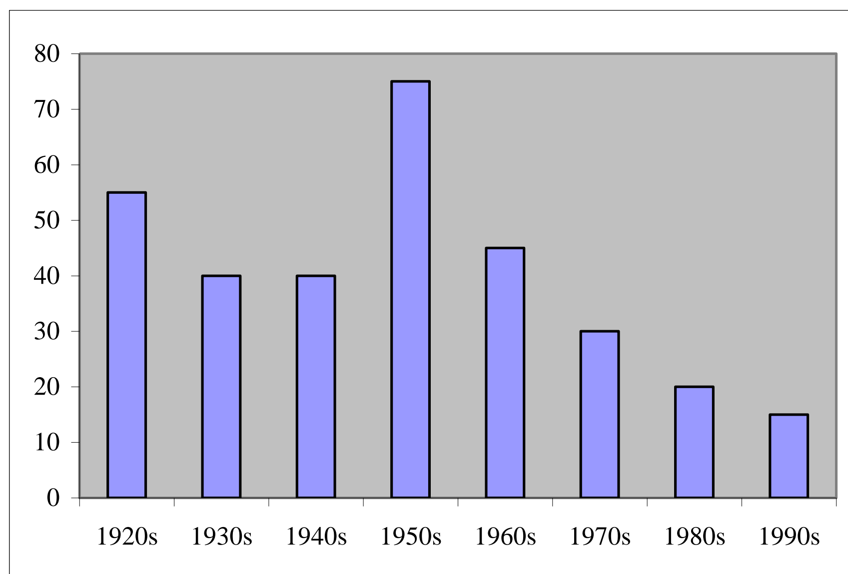
Figure 3.3

Percentage of Pennants Won by Teams from New York or LA by Decade



In contrast, the percentage over the era of free agency has slipped each decade to a low of 15 percent during the 1990s. On the other side, the free agent era has seen MLB attendance explode. Figure 3.4 displays this growth since 1945. It would not be proper to attribute all of this increased interest to free agency since incomes and populations were also increasing. One thing is clear – the advent of free agency, whatever it did to competitive balance, did not lead to dominance by the big market teams or diminish fan interest.

Figure 3.4

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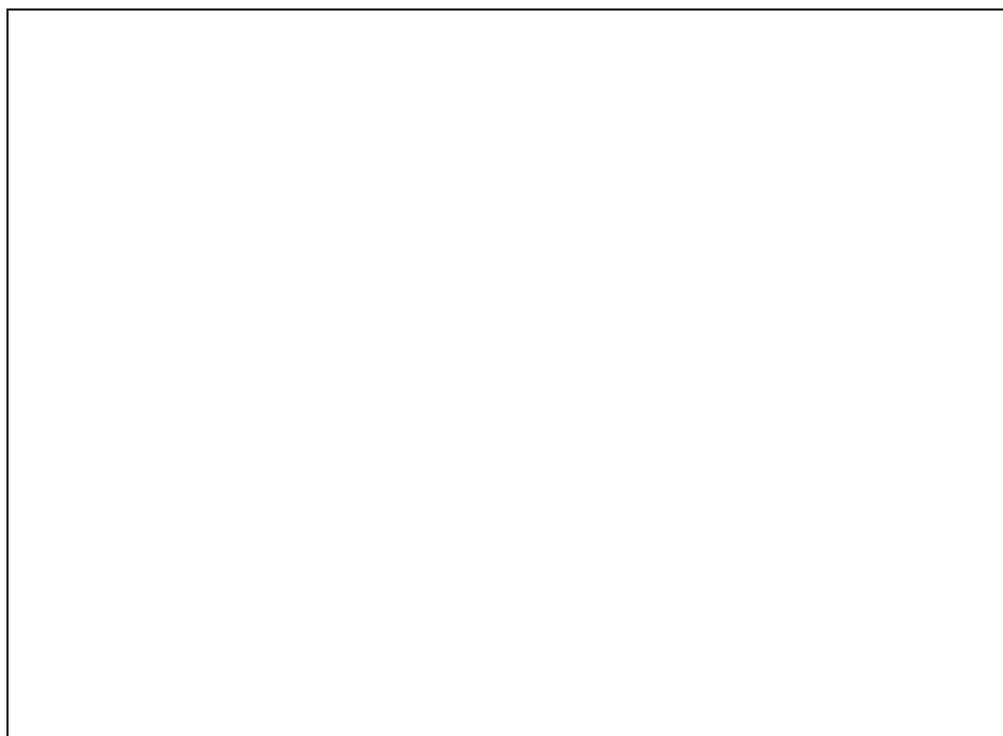
Attendance per MLB Team, 1945-1999



It is indeed possible that even free agency itself may have build fan interest in a sport such as baseball, although no one has really explored this possibility. Up until the 1970s, MLB teams which had players under contract retained the exclusive rights to sign those players in that league even after the contract expired. The only players free to sign with any team, "free agents," were typically marginal players – those unconditionally released by a club or never drafted in the first place. These kinds of systems bound valuable players in all major sports to one team. During the 1970s and 1980s, labor movements in sports won battles that permitted varying degrees of free agency with more generous policies won in baseball, significant gains in

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basketball, and much more restrictive policies in football. Among the majority sports team owners, player free agency is an evil without parallel. To them, the issue is cut and dried – free agency means higher salaries to players, and therefore, less money to owners. Probably no single issue unites owners more than hatred of free agency, leading to the adoption of all kinds of methods to limit its impact such as salary caps. A large number of sports media and fans have bought into this kind of thinking. In contrast to the majority, Bill Veeck liked and supported free agency.[9] Al Davis, the independent-thinking owner of football's Oakland Raiders, also advocated free agency. He declared, "Just cut all the players and make everybody a free agent."[10] Of course, many would write off Veeck's or Davis' support for it as merely another half-baked idea from a maverick. Whether all of Bill Veeck's or Al Davis' ideas were sound or not, on the matter of free agency he understood that it posed an important but often unrecognized tradeoff in marketing strategy for owners.

What the free agency naysayers fail to incorporate is the distinct possibility that free agency may actually build the customer base. Under the Reserve Clause system, owners with income from their teams or greater personal fortunes can and did merely purchase players from other teams. In fact, this was so common that the Kansas City Athletics of the 1950s and early 1960s were on occasion called a "Yankee farm team." As University of Massachusetts Simon Rottemberg noted many years ago, it is not at all clear that the advantage of wealthier owners to use their funds in acquiring better players would be any less under the Reserve system.[11]

Yet, how would free agency ever increase fan interest? One advantage to MLB of free

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agency that even Rottemberg left out of his calculus was the preferences of players and the long term development of fan interest. If players care only about money, then the outcome under free agency will be similar to that under the Reserve Clause as described by Rottemberg. Some players probably do care almost exclusively about the dollars. They would switch teams for the highest offer regardless of other factors. Nonetheless, other players, just as other employees in general, value characteristics of job offers in addition to the salary offered. For example, location of a job is important to many people as is the opportunity to play with a championship team.

A good example from MLB is pitching legend, Nolan Ryan. Between the 1971 and 1972 seasons, Ryan was traded from one large-market team, the New York Mets, to another one, the California Angels, under the Reserve system. After becoming a free agent in 1980, Ryan signed with the Houston Astros and later with the Texas Rangers in 1989. In both of these cases, he received significant sums but not necessarily the highest offer possible. Instead, his choice was influenced by his desire to play for a team in his home state of Texas. Many players, especially those well into their careers, share Ryan's desire to stay with a team near their home. Others highly value the chance to play with a contending team. What this means is that many players such as Nolan Ryan do play in different locations under free agency.

When players such as Nolan Ryan exercise their freedom to play outside of New York and Los Angeles, free agency helps MLB to build a fan base across the country. Star players such as Ryan draw fans for reasons beyond the performance of the team during the course of the

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season. Ryan pitched to sellouts or near-sellouts regardless of the Ranger's record. During the 1998 home run chase by Mark McGwire and Sammy Sosa, neither the St. Louis Cardinals nor the Chicago Cubs were involved in the pennant chase, and yet fans turned out in droves in those cities. When marquee players choose to distribute themselves across a wide number of teams, fans are drawn to the game that would not be otherwise. In contrast, during the Reserve Clause era, the Yankees, Dodgers, and Giants held onto many of the premier names in baseball – DiMaggio, Mantle, Mays, Reese, Robinson, Schneider, and others. Fans in other cities saw these players only during their occasional trips as visiting players.

Free agency is really only the most recent example of this diversion of baseball owners away from the real business of building fan base. In days gone by, owners and analysts reacted much the same way to new ways to market their products such as night baseball, radio and television broadcasts, and cable broadcasts. In each case, the cry went up that this new thing would likely take fans away from one team or another. The common problem in all of these episodes is that owners and analysts sometimes forget that baseball teams not only compete with each other on-the-field but they also compete with other entertainment offerings. Often, the innovation and entrepreneurship spurred on by competition for consumer dollars that makes the biggest differences in owners' profits, players paychecks, and umpire salaries rather particular settlements over how the shares will be divided among these groups. For instance, MLB owners and executives have found themselves at odds with umpires over compensations issues. Possibly much more important to MLB owners and executives in meeting the challenges of the market is

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the definition of the strike zone and who is going to determine it – the league or individual umpires – or issues over the evaluation of umpire performance. Ceding power over the strike zone or over the evaluation of umpires directly influences the product presented to consumers. When management cedes control over the product, it has given up something much more critical than higher salaries.

The fixation on dividing up the pie has even led highly respected economists to forget that all kinds of things go into building fan interest. Financial returns to clubs, individually and in the aggregate, are not just a matter of wins and losses and whether all teams are as likely to win the World Series in a given year. (In fact, complete parity in this regard may diminish fan interest as discussed below). For example, developing hitters who can hit more home runs or longer home runs is valued by consumers, even though this does not change balance of competitiveness within a league. The pursuit of Roger Maris' single season home run record by Mark McGuire and Sammy Sosa in 1998 stimulated tremendous interest for these teams even though the teams were not very successful in those years. Moreover, MLB teams in general gained because these players drew large numbers into stadiums at visiting parks and on television. Nolan Ryan drew fans into Arlington Stadium and into other American League parks even when the Texas Rangers were an average ball club on the chance that fans might see another no-hitter by the all-time strikeout leader.[12] Beyond the performances of star players, fans enjoy seeing high level performances – great defensive plays, long home runs, and the like – that go beyond just winning and losing. It is unlikely most people would pay as much to watch Little

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Leaguers playing in big league parks wearing the big league uniforms.

The location of franchises is another example where MLB may have become overly concerned about dividing up the pie. The Montreal Expos have struggled as a franchise for much of the past 20 years. While the team hovered near and sometimes above average league attendance from the origination of the franchise in 1969 until 1983, they have not equaled average league attendance since that time. After drawing more than 2 million fans in four seasons from 1979 to 1983, the team has averaged less than 1.5 million since with less than 1 million since 1998, even though league averages have risen to about 2.5 million. In spite of this fact and in spite of no MLB team in markets such as the Washington metro area or in Latin American cities, the league made no move until the 2003 season when it began a half-hearted experiment with Expo games in Puerto Rico. In many cases, the obstacle to expansion is another team such as the Baltimore Orioles, who see such a move as dividing up their share of the pie. Whatever the effects on a specific team like the Orioles, the rest of baseball suffers because the concerns about dividing the pie diminishes the total number of new fans likely to be drawn from areas far from Baltimore but closer to the Washington area

Even some degree of competitive "imbalance" may help build the size of the pie and not just how it is divided. The viewpoint and rhetoric by baseball owners on free agency issue has steered all of the attention toward the idea that more balance in competition is always better. What is missing in most of these discussions is a recognition that a league can have too much or too little of either. Correctly seen, competition and cooperation must be balanced. In other

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words, there is an optimal amount of competition-cooperation. While everyone is often worried about the Yankees winning too much, from the standpoint of the league, the Yankees can win too little. After all, the Yankees are the most visible team in what is the largest media market in the country. If some other business, such as retail clothing sales, were under consideration, no one would consider it to be out of line for sales in New York to exceed those in Kansas City.

From the club standpoint, sometimes people think in terms only of complete dominance being in team's interest. They do not realize that there can be parity even from a fan's perspective. Walter O'Malley, longtime Dodger GM, recognized this problem. During the 1990s, the Atlanta Braves began experiencing this very problem. A long run of playoff appearances and National League pennants began to develop fans who took such appearances for granted. By contrast, when the run began in the early 1990s, Brave fans had been so starved for success by the team that they embraced the team with a collegiate-like fervor.

In spite of its ongoing success in drawing fans, the NFL may have put itself in a position of finding too much parity as one writer has suggested.[13] A league where teams bounce from terrible to the Super Bowl and back to terrible over just three or four seasons, as have the Falcons, may not stir the most fan interest. Clearly, there can be too much dominance by a team, but teams such as the Steelers and Cowboys of the 1970s not only spurred interest among their fans, but they provided an infrequent but intense rivalry followed by football fans who loved neither. Genuine rivalries that attract the interest of fans in general only tend to build between teams that are good over an extended period.

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The importance of relative performance to profitability has encouraged some analysts to favor a greater degree of cooperation between teams. Relative performance within a league is measured by winning percentages, conference titles, and championships. If the Yankees perform better, then some team or group of teams must perform worse to offset the Yankees' wins – one Yankees win means one loss for another team. Because winning and losing in leagues has this "zero-sum" characteristic, the spending of money to in the pursuit of better performances offers no net benefits to the league as a whole. In their view, such competitive spending by teams and individuals in the pursuit of better performances merely siphons water out of the well.

This kind of thinking suffers from a fatal flaw – while win-loss standings for teams in leagues, by their very nature, offer no net benefits, the competitive struggle to outperform the other team can increase the overall size of the financial pie. The situation is not so different from common business competition between clear rivals such as GM and Ford. Over a particular year, GM, Ford, and other car manufacturers must divide up a market share pie that remains more or less fixed. In a given year, the amount that consumers spend on new cars may not be entirely fixed, but it is certainly limited. Relative standing among the manufacturers is extremely important over the course of a year. An additional sale by GM is a reduction to Ford – maybe not on precisely a one-for-one basis but there is a close tradeoff. The preface to Red Auerbach's book puts it this way, "If there's more than one company in your business, somebody is winning and somebody is losing, just like in the NBA. Somebody's got a bigger share of the market,

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somebody is making more money, somebody is beating somebody else."[14]

However, most consumers and analysts view (relative) competition between companies as a healthy rather than a disastrous situation because the competition to build better cars for the dollar – increased absolute performance – provides huge benefits to consumers over the long haul. Even more to the point here, the short term gains in market share of one company vis-a-vis a rival company does not tell the whole story about the measurement of organizational performance. Over the long haul, whatever the relative standing of Ford versus GM in terms of market shares, the profits of both companies may well flourish if their battles against each other prompt them both to improve their cars – an increase in absolute performance. When consumers respond favorably to improved automobiles, both GM and Ford gain. Whether one of the companies gains 33 percent of the marketplace to 30 percent for the other is in many ways inconsequential. Both companies as well as their employees and shareholders benefit.

MARKETING FOR THE PRESENT OR FUTURE?

The NCAA basketball tournament provides a stark alternative to the NBA's post-season structure. The NCAA tournament contains six stages with the winner advancing and the losing going home based on single game outcomes at each stage. The NBA setup moves at a snail's pace by contrast. Although there are only four stages, all of the stages are based on the best of seven games – until 2003, the first round was a best of 3 series. The NCAA tournament sets its

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schedule over three weekends while NBA playoffs extend about two months, sometimes with three days in between games. In spite of the lengthier NBA setup, rights paid to telecast the tournament by CBS to the NCAA ($545 million per year) rival those paid by ESPN-ABC to telecast all regular and postseason NBA games ($765) million.[15] Beyond the direct revenues, the NCAA event has become much more of a cultural event involving millions of people involved in office pools and fantasy brackets. The NBA playoffs generate no such widespread cultural impact.

Where does the NCAA tournament draw its market strength? Clearly, the sense of urgency, excitement, and importance for each game strikes a chord with fans. The tournament offers great drama. Aside from matchups of "1 seeds" against "16 seeds," most games produce uncertainty about the ultimate outcome and generate rooting interest for underdogs from people who are not rabid fans of those teams. Seeing "the little guy" like Gonzaga take Arizona to double overtime or North Carolina State defeat the mighty Houston team in 1983 is the stuff of legend. In contrast, the NBA playoff setup of the "best of seven games" accomplishes two tasks. It sharply reduces the likelihood of upsets by weaker teams, generating champions who achieve their result due more to skill and less to luck than in single game tournaments. Also, it strings the playoff sequence out over more games. However, it is not at all clear that as entertainment, it poses nearly as desirable a product. Playing seven game series waters down interest in the early games of a series. Rabid fans may tune in for each game, but more leisurely fans may only tune in once they see that the series is competitive. One could easily imagine the NBA cutting all

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series down to the best of three games to try to generate more of the atmosphere of the NCAA tournament.

Why does the NBA not adapt its postseason product to imitate the NCAA tournament, given the obvious success of that tournament? They may have the sense that the college environment and spirit uniquely contributes to the NCAA tournament's success. The NBA playoffs in a shorter form might have a hard time enjoying the same effect. However, the reluctance to cut the playoffs down may also stem from the dilemma and risk faced by sports leagues and other businesses in trying to adapt products to attract new customers for fear of turning off the old customers. Policies that drive up current revenues must be balanced against policies that build revenue over the long haul. The lure of adopting policies for today is strong. While it is true that the total market value of a business accurately measured includes an estimate of the future profit streams to the business, the more distant those streams are, the more those revenue streams are likely to be difficult to project and heavily discounted. NBA executives' planning horizons may extend beyond the current year, but given their tenures, these horizons likely extend out to a few years.

MLB has faced a similar dilemma. Before night baseball became so popular, the World Series was an afternoon event, attracting attention from school-age children. In recent years, the starting time for many weeknight World Series has been pushed back to 9 P.M. on the east coast so that the games do not end until midnight or well beyond. The reasoning behind these start times is obvious – to maximize television audiences across the country. Earlier starting times

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mean fewer West Coast viewers, at least for the first couple of hours of the game. No doubt, the late-starting time is intended to boost current TV audiences, ratings, advertising dollars, and, ultimately, offers from the networks for the rights to televise the games. Yet, what comes in one pocket of the owners today may be leaving tomorrow. The World Series games start so late on the east coast that many children will not be among those audiences. The bond between these children and baseball is never established to the same degree as their parents or grandparents. As a result, the paying baseball customers and TV audiences of 2015, 2025, and beyond are diminished.

For businesses that are living hand-to-mouth and wondering whether there will be a next year, all decisions must be oriented toward the present. However, for businesses on solid financial footing and a broad customer base in place, long term development of customers is important. This fact is especially true in businesses, such as sports, where the customers frequently develop a life-long relationship with the business. For a business where long term customer relationships are established, such as baseball, the negative consequences of this present orientation may be severe.

This balance of the present and the future abounds in sports. Another example where the right balance is required is in the selection of locations for franchises. The prevailing thought is that it is a great thing for a relatively small city such as Green Bay Wisconsin to host a franchise in the NFL . Probably, the NFL does benefit from having a smaller city rich in tradition and nostalgia such as Green Bay among its members. Yet, some analysts commit the classic “fallacy

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of composition" thinking that if only the league were more like Green Bay, things would be better. In fact, if many or most of the league were made up of Green Bay type cities, not only would the fan base and financial results for the league deteriorate severely, but even Green Bay would lose the unique characteristic that makes it the darling of NFL traditionalists. Similar questions crop up in the question of regular season versus playoffs. The NBA and NHL expanded their playoffs to the point where well over half of the teams made the playoffs. For both leagues the playoffs extend over about two months and do not finish until June. In contrast, only about 40 percent of NFL teams qualify for the playoffs, and these playoffs extend over four weekends. In MLB, only eight teams qualify for the playoffs, which start and finish within the month of October.

In all sports, the playoffs tend to be more heavily watched by television audiences, so expanding them to include more teams and extending them attempts to turn this consumer preference into cash. Also, keeping more teams alive for the playoffs means, at least potentially, keeping fan interest higher in more cities throughout the regular season. This clearly drives the decisions adopted by the NBA and NHL. The other side of the coin, though, is that longer playoff seasons with more teams diminish the importance of regular season games and may reduce fan interest. Although fan interest may be higher for the playoffs, the interest in early round games may be less when more games are played. Even NCAA basketball may have focused so heavily on the end-of-season tournament that interest in the regular season has been diluted. In the major conferences, as many as half or more of the teams are frequently invited to

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the tournament, so that many if not most of the games played by the teams involve little more than a contest for a slightly higher or lower seeding in the tournament. The net result is that while the end-of-season tournament has continued to grow in popularity, regular season games have diminished in importance and popularity.

Professional hockey also presents an interesting example of the potential for alternative marketing strategies that involve a short term versus long term tradeoff. Based on rules and their enforcement, hockey presents varying degrees of scoring, speed, hitting, physical play, and even fighting. While all hockey incorporates these attributes, the balance between them is not constant across all "brands" of the game. Two alternative versions are presented by the NHL which has traditionally marketed the "Canadian" style of hockey versus the "European" style played during the Olympics and World Championships.

Relative to rink sizes for international matches, NHL rinks are narrower with less room in the area behind the net. The NHL game includes a center or "redline" that in conjunction with the two blue lines constrains "two-line passes." As a result of these differences, the NHL product tends to be lower scoring and emphasizes close-checking defense, frequent scrums for the puck along the boards and in the corners of the rink, and neutral zone "traps" – defenses geared to make it difficult to carry or pass the puck through the neutral zone between the blue lines. In contrast, international matches, even when played by NHL players, look different. Players skate the puck up ice more than dumping it into the other end and then chasing it down, passes tend to be longer because of both the increased spacing of players as well as the removal

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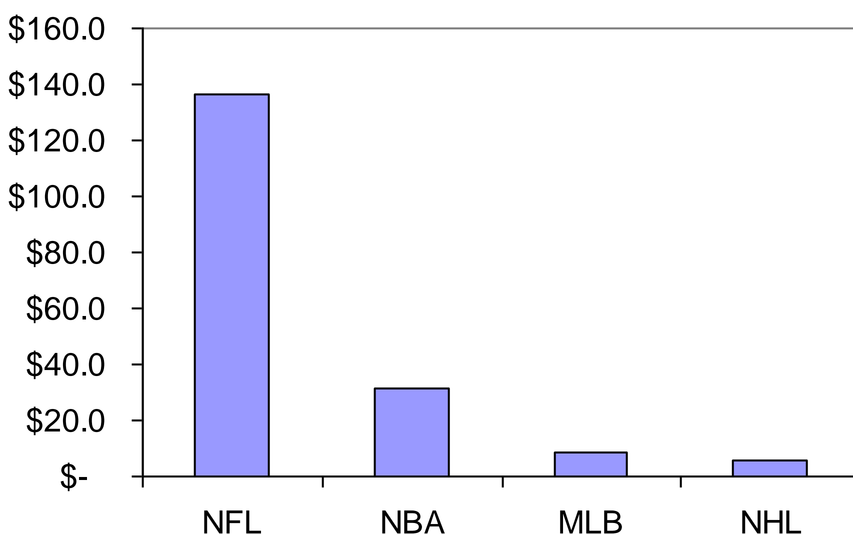
of the centerline restriction on two-line passes.

Over the years, the NHL has tinkered with rule changes to move the balance a little more in the direction of the European style as the fan appeal stagnated. During the late 1990s, the league cracked down on impeding other players through holding and hooking. Earlier, it instigated rules to limit fighting to two people at a time by levying much more severe penalties for other players joining a fight already in progress. However, these changes have been incremental at best. The bigger changes, such as removing the center redline, moving the blue lines closer to each other to open more room behind the net, expanding the width of the ice, or adopting more severe penalties for all fighting have been resisted.

In choosing its current path, the NHL has continued to be very successful in attracting live attendance at games. Yet, it still struggles to find a sizable television market and the advertising megadollars that accompany larger television audiences. Figure 3.5 illustrates this

Figure 3.5 : Television Revenue Per Live Attendee



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very live fan in attendance. By comparison, the NFL pulls in over $100 per live attendee, the NBA over $30, and even MLB with all of its television woes pulls in over $8. The alternative path of the NHL game played under international rules holds the potential to help solve the "doesn't translate to TV" problem that has dogged professional hockey in the U.S. Arguably, the European style translates to TV much better. The action is faster, transitions from offense to defense occur more frequently, less of the play takes place in the neutral zone or with the puck stuck in the corners along the boards, and scoring tends to be higher. Maybe the most important potential for the European style is that with players skating the puck over longer stretches of ice and making longer passes, the puck is easier to follow, helping to diminish one of the biggest complaints of NHL hockey on TV – "I can't see the puck."

Even though moving toward a style of hockey more like the international game might well reap rewards for the NHL, the league faces two obstacles in moving in that direction. These were mentioned in the previous chapter in the context of innovation and make change difficult for many large organizations. First, there is the natural aversion to risk. The NHL currently draws well at the gate, so why place these live attendance revenues at risk to pursue only the chance – not the certainty – of increased television revenues from a different style of hockey? When decisions must be made by a super-majority of owners or directors, those owners who are relatively more risk-averse carry the decisive votes. Second, many "purists" within the game, coaches and players, as well as commentators on the game and some outspoken fans, have strong preferences for the traditional NHL style. Even though they themselves might even enjoy

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watching matches played under international rules more, there is an attachment to the past and a reluctance to change. With these obstacles, the case for moving to international rules has to be supported by a nearly insurmountable amount of evidence to reach the threshold at which the change is made.

The decision making dilemma faced by sports leagues find many analogous situations in everyday business. A business that is attracting customers and turning a profit may well find it wise to keep up the strategies that have granted a degree of success. Certainly, many managers have sunk their businesses by determining to pursue a go-go growth plan that stretches the resources of the firm, alienates existing customers, and fails to produce the newly anticipated markets. By staying its course, the NHL protects what it already has, at least over the next several years. However, if it is the intent of a business to expand and reach broader markets, then the tyranny of the status quo must be overcome and some risks must be undertaken. In the NHL example, if it is to climb up the ladder to reach the same level television exposure as football, baseball, and basketball, a few fundamental changes in the product offered must be considered.

REPLAY

1. A product or service is what makes or breaks a business or sports league. Organizations

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with strong products and average operations often make money. Those with strong operations and weak products do not.

2. Incredibly, the importance of the product is often underappreciated as with the NFL's success versus other sports such as MLB in recent years. Management's role in evaluating and adapting the attributes of their product or service to the interest of the marketplace matters a lot more to long term success than secondary financial issues.

3. Untapped markets almost always exist right under the noses of existing producers as shown by NASCAR. Such opportunities are especially abundant where population and income are growing.

4. There is no general formula regarding how narrowly or widely to define the target market. Sports leagues have gained and lost by going in either direction.

5. Managers must keep competition from other markets at the heart of their decisions. Otherwise, managers will fall into the trap of internal pie divisions rather than development and care of the product as with MLB.

6. Product has value only because of appeal to consumers. Sports leagues with long term

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growth such as the NFL evolve with consumers.

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Notes

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1. Several sources have documented NASCAR's growth. See, for example, "NASCAR's Rise as Our New Pastime," available at www.medialifemagazine.com. Also, an examination of NASCAR's compensation structure is provided in Peter von Allmen, "Is the Reward Structure in NASCAR Efficient?," *Journal of Sports Economics*, 2 (February 2000): 62-79.

2. James Quirk and Rodney Fort, *Paydirt* (Princeton, NJ: Princeton University Press, 1992), provide an extensive discussion of many of the basic economic issues related to sports leagues and their financial situation. Gerald Scully, *The Business of Major League Baseball* (Chicago: University of Chicago Press, 1989) focuses directly on baseball.

3. The points, implicit in basic economics, are explicitly expressed in Shlomo Maital *Executive Economics: Ten Essential Tools for Managers* (New York: Free Press, 1994). Maital is an economist in MIT's Sloan School of Management.

4. These data are from www.hhomotorsports.com/demographics.htm.

5. See Brian Goff, *Spoiled Rotten: Affluence, Anxiety, and Social Decay in America* (Boulder, CO: Westview Press, 1999) for quantitative and anecdotal analysis of the economic growth across all income classes through the eighties and nineties.

6. A brief chronology of Southwest's history is available at www.iflyswa.com. The financial

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data is from biz.yahoo.com.

7. See Robert Heller, *Bill Gates* (London, Dorling Kindersley, 2000), p. 44 for a more detailed discussion of Microsoft and the marketplace.

8. In fact, nearly all serious statistical studies of competitive balance indicate that it has remained unchanged or increased during the era of free agency. See Rodney Fort and James Quirk, *Pay Dirt*, Princeton, NJ: Princeton University Press, 1992, Craig Depken, "Free Agency and the Competitiveness of Major League Baseball," *Review of Industrial Organization* 14(1999), pp. 205-17 and Brad Humphreys, "Alternative Measures of Competitive Balance in Sports Leagues," *Journal of Sports Economics* 3 (July 2002), pp. 133-48.

9. Veeck's perspective on free agency and other matters are detailed in Bill Veeck, *The Hustler's Handbook* (Durham, N.C.: Baseball America Classic Books, 1996).

10. See Michael Leeds and Peter Von Allmen, *The Economics of Sports* (Boston: Addison-Wesley, 2002), p.184.

11. See Simon Rottemberg, "The Baseball Players' Labor Market," *Journal of Political Economy*, 64 (1956), pp. 242-58.

12. Estimates of the dollar value of "star quality" for a number of players is provided in Charles J. Mullin and Lucia F. Dunn, "Using Baseball Card Prices to Measure Star Quality and

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Monopsony," *Economic Inquiry* 40 (October 2002), pp. 620-32.

13. For commentary on this issue, see Mark Kreidler, "Posterity Suffers in NFL Parity," at espn.go.com/nfl/kreidler December 5, 2002.

14. See Red Auerbach (with Ken Dooley), *MBA: Management By Auerbach* (New York: Wellington Press, 1991).

15. The NCAA contract was signed for 11 years in 1999. The NBA contract was signed in 2002. These figures are from money.cnn.com and www.usatoday.com.