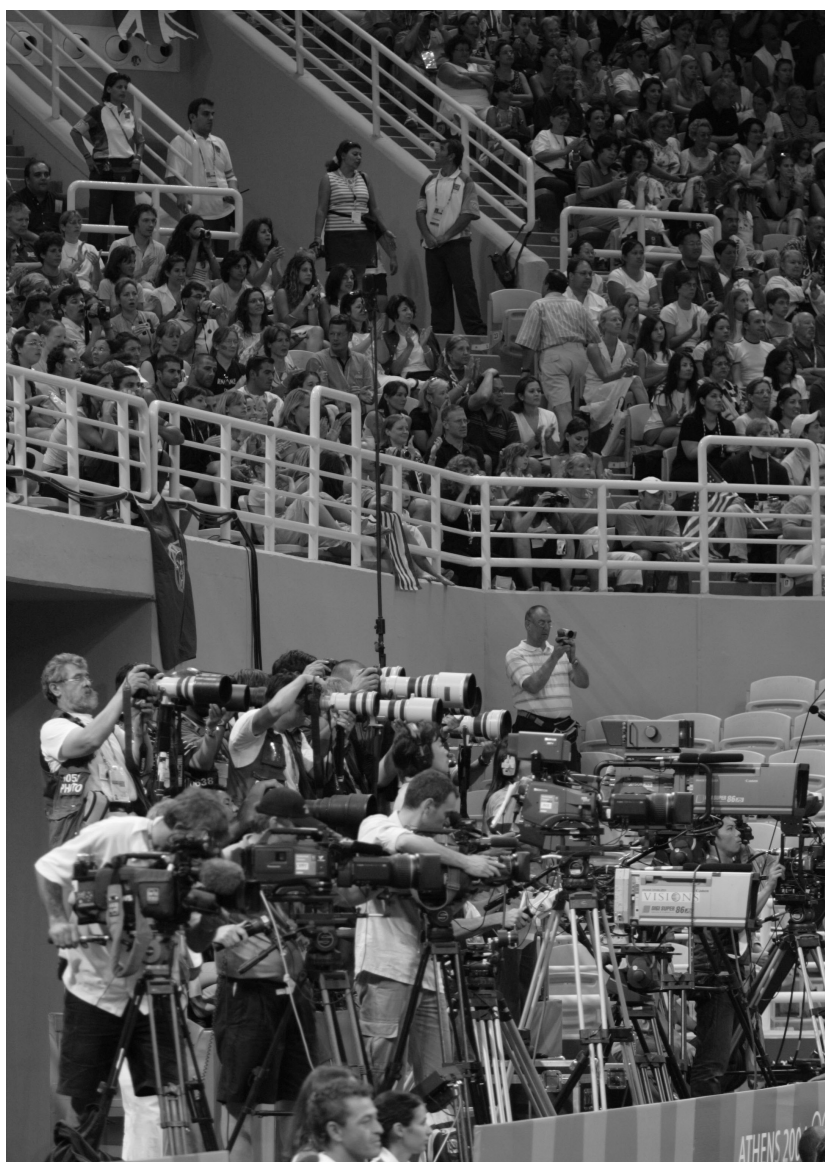


Chapter 2

SCORPION WARS



© Getty Images

Lausanne, January 23rd, 1984

For the first US broadcast negotiations of the Samaranch Presidency, negotiating teams from the three US TV networks, ABC, NBC and CBS, are in their suites at the 120-year old Lausanne Palace Hotel on the shores of Lake Geneva. The prize on offer is the US rights for the 1988 Winter Olympics, in Calgary, Canada.

The process is straightforward: sealed bids are to be submitted by each of the networks to the IOC. It is the first major test of Samaranch's strategy to make the IOC financially independent. He has devoted the previous three years to creating an environment that can produce a deal to launch his vision for a new broadcast-led marketing strategy. The gloom surrounding the broadcast rights after Moscow has dissipated, as changes within the broadcast industry promise more lucrative deals. Broadcasters are just beginning to truly realise the power of sport.

But the IOC is leaving nothing to chance. Samaranch has decided it is time for the IOC to take direct control of the bidding procedure. Dick Pound leads the process. The decision to hold the negotiations in Lausanne is a deliberate attempt to get the networks off their home turf. This, the IOC hopes, will cut the umbilical cord connecting the bidders with their New York head offices. Crucially, the negotiators will be isolated from financial executives in New York who might try to limit an escalation in bidding.

The stakes are so high that the hotel lobby includes network staff charged with spotting and then trailing executives from rival networks to ensure fair play. There is to be no trading of inside messages with the IOC, even if it means following negotiators to the bathroom.

Around the negotiating table are some of the biggest names in American broadcasting. First is the colourful Rooney Arledge. Among many other things, he is the creator of the instant replay and is now ABC's Sports and News Network president. Arledge is renowned as one of the sports world's most fearsome negotiators. 'Beneath his Howdy Doody face lurks one of the most ruthless opportunistic guys in the business,' an associate says of him. His competitors say much more.

Arledge's legend precedes him. He has successfully bid for the US rights to virtually every Olympic Games since Mexico in 1968.¹ His tactic of avoiding a formal auction of rights with the organisers has earned ABC the nickname – 'the Olympic network'.

For Arledge and his team there is even more pressure than usual. If ABC loses there could be a knock-on effect on its Sarajevo Winter Games coverage, just over three weeks away. Arledge has grave misgivings about the bidding process, fearing what he calls 'a bid to the death'. ABC's concerns are such that it has already launched a formal protest to the IOC about the sealed bidding procedure.

Representing NBC is the network's sports president, Robert Mulholland. The final member of the negotiating triad is the CBS Sports president, Neal Pilson. Also present are the Calgary Games president Frank King, his legal counsel Bill Warren, and their consultant Barry Frank – the TV rights expert from Mark McCormack's IMG – TWI organisation.

Samaranch and Pound are anxious to ensure that the process is seen to be fair. For years there have been rumours of an ABC mole inside the IOC helping the network win. One of the suspects is the IOC's director, Monique Berlioux who is in the meeting room. Berlioux, a former Olympic swimmer, was first hired at the IOC as a press officer. With a succession of largely absentee presidents, she quickly consolidated her power. Many regarded her as the *de facto* IOC president. In the 1970s, she ran the IOC like the headmistress of a Swiss finishing school. When Samaranch was elected, she observed that Lausanne wasn't big enough for both of them. She was right.

The other networks are, perhaps understandably, wary of ABC's position. Executives at CBS had bid \$90 million for the rights to Sarajevo in 1980. Then, in a pre-emptive strike, ABC came in with a winning offer of \$91.5 million. On such moves legends are made and doubts raised.

Samaranch is equally determined to get the best financial deal possible for the Olympic Movement. The IOC has already met with the Calgary organisers to discuss the ideal procedure for the negotiations and how to maximise the value of the rights for the TV networks. It has been decided to extend the Games from 14 to 16 days. This provides an extra weekend of coverage and ensures several more hours of valuable prime time advertising.² The dates of the Games have also been brought forward a week to coincide with the US television ratings sweeps – the critical reference point that establishes the advertising rate card for the networks for the next few months.³

This raises the stakes still higher. The network that wins the Olympic contract is almost guaranteed to win the broadcast ratings battle over

the Games period by a large margin. As Arledge later observes: 'There is nothing more anxiety provoking than going into a bidding war feeling you somehow have to win.'

In the morning, each of the networks presents its bid in a sealed envelope to the joint IOC–Calgary negotiating team. This is the signal for the negotiating to begin in earnest. ABC's Roone Arledge likens it to 'placing three scorpions fighting in a bottle, and when it is all over, two will be dead and the winner will be exhausted'.

Scorpions don't give up easily. After five rounds of bidding, it is a two-way fight between ABC and NBC. They have submitted equal bids of \$300 million. CBS has dropped out at \$195 million. The drama intensifies as Dick Pound summons the two networks to Salon 2 in the Palace Hotel. He tells them that their bids are identical and they, not the committee, will have to break the stalemate.

Without their mole to help, the ABC team seriously consider withdrawing. Jim Spence, a senior vice president at ABC, and right hand to Arledge says that it feels like trying to swim the English Channel and then, a mile or so from Calais, encountering a school of hungry sharks. It seems dangerous to continue, but they are so close that it would be tragic to quit.⁴

Coining it

Dick Pound candidly informs NBC's Mulholland and ABC's Roone Arledge that: 'The \$300 million bid is much more than we expected, more than the Games are probably worth, but one of you is going to have to eliminate the other.'

To the amazement of both TV men, Pound continues: 'We are going to have to toss a coin, and one network is going to make the call. Then whichever of you wins the coin toss can decide whether to bid first or second. Whoever goes first can then make a bid and the other network will have 15 minutes to make its bid. And that bid, gentlemen, must exceed the other by at least one million dollars.'

A flip of a coin? Spence is shocked. He feels that the entire process has become a carnival. The ABC team believe their past successes are now being used against them and that greed has taken over. Amid the frenzy of doubt and suspicion, NBC's Arthur Watson elects to make the call, but he is so

nervous that he forgets that he is supposed to call. Dick Pound flips a second time. NBC wins and elects to go first. Its team leave to ponder their bid.

As the minutes tick away, Arledge and Spence retire to their suite upstairs to consult with ABC network president Fred Pierce, back in New York. Barry Frank, the TV rights expert from TWI, speaks to Arledge and Spence. He is met with a barrage of abuse. 'This is crazy, it has to stop,' Spence screams, 'It is sheer insanity.' The ABC team claim that Frank promised them that this sort of thing couldn't possibly happen. Yet, it seems the impossible is now a reality: they are in a wild bidding session in sedate Switzerland.

Minutes later, the NBC delegation comes back and presents its bid: \$304 million is now on the table. This means that ABC will have to bid \$305 million to win. Roone Arledge is tired of the brinkmanship and decides to send a clear message. ABC is not about to be bluffed in this high stakes poker game. The ABC executives decide on a bid of \$309 million.

The NBC negotiating team blinks and withdraws into the night. After more than 11 hours of high drama, ABC has won in the sixth round. There is only one scorpion left. The Olympic TV bidding process will never be the same again.

ABC's offer represents a \$217.5 million increase over the sum it is paying for Sarajevo – a 337 per cent hike. It is the most money ever paid for a single event – sports or otherwise – in the history of television. It will be the last of the quantum leaps in sports TV rights fees until Rupert Murdoch's Fox Network strides onto the scene more than a decade later.

Though they have won the day, members of the ABC team are in no mood to celebrate. Spence is embittered, describing the process as 'the most demanding, frustrating, infuriating, nonsensical and historic negotiation in the saga of American television sports.' Roone Arledge is so furious that he refuses to come back down again from his suite to join Samaranch for the celebratory dinner or even to shake hands.

Both IOC and Calgary executives are aware that things have got out of hand. The bidding has clearly gone way beyond expectations. They are worried that it might create problems in the future. Dick Pound is concerned about the huge financial commitment. He believes it is potentially unhealthy for the IOC, as well as for the network, and could negatively impact future deals. Frank King, the president of the Calgary Organising

Committee, worries that ABC will feel it has paid too much and become resentful, leading to operating difficulties down the road.

The long and sometimes fraught relationship between the Olympics and television had taken another turn.

The TV deal

The evolution of the Olympics and television are closely connected. The Games have given television some of its most thrilling broadcast moments, regularly setting new records for audience numbers. From the tragic to the truly sublime, the Olympics continue to give us outstanding and inspiring images.

Part of the magic is how each country has its own special moment, and each has a different appeal: from gymnasts Olga Korb in Munich through to Kerri Strug with her broken ankle in Atlanta; from skiers Franz Klammer in Innsbruck to Hermann Maier and his bone-crushing fall, amazing recovery and two gold medals, in Nagano.

These moments translate into huge audience figures – and massive television advertising sales. The Games are regarded by most broadcasters as signature programming, by which all other sports programming is judged.

Over the years, television has been the engine that has powered the growth of the Olympic Movement. It has been an agent of change. Sport and television have been good for each other. Samaranch liked to describe it 'as a match made in heaven'.

Today, it is estimated that close to four billion people watch the Olympic Games. The Games are unique in their ability to deliver a truly global audience, far exceeding anything gained by the soccer World Cup or the Super Bowl.⁵ Around 90 per cent of the world's potential TV audience watches some part of the Games. And, normally, they watch a lot, setting their social and work schedules around Olympic programming. In the US, every person watches on average close to 20 hours, rising to nearly 37 hours in Japan. But even that level of saturation viewing is not enough to win the gold medal for Olympic viewing. In Sydney in 2000, the average Australian watched an astonishing 49 hours.

The ability of the Olympic Games to deliver such global audiences and reach gives it immense marketing muscle. It provides a guarantee to effectively control access to a national audience, something that is becoming increasingly difficult in an ever more fragmented media market. At the Salt Lake City Winter Games in 2002, audience shares for broadcasters at times reached over 90 per cent, whether it was for the 12.5km biathlon in Germany or ice hockey in Canada.

Broadcast interest in the Olympics is still growing. At the 2004 Athens Games, NBC broadcast 1,210 hours, nearly triple the coverage of Sydney and more hours than the previous five summer Games put together.

The Olympics is also unique in its ability to pull in female viewers – who advertisers will pay a healthy premium to reach. Robert Apatoff, chief marketing officer of AllState Insurance, captured the prevailing attitude of advertisers when he said that: ‘The Olympics gets you an association with the premier event, not just in sports, but in entertainment. It’s also a more attractive buy for advertisers looking to target women.’

The global reach of the Games, with their broad demographic appeal and their ability to engage the whole population, makes the Games a uniquely attractive proposition to advertisers. According to David Hill, chairman of the Fox Network: ‘Sport is the last frontier of reality on television ... about the only thing that can guarantee an audience, because of its ability to offer viewers around the globe a shared communications experience.’

Television has allowed the Olympic Movement to survive and prosper. Yet, as the events of January 1984 in Lausanne indicate, the relationship has not always been a comfortable one.

Sting in the tail

The negotiations for the Olympic broadcast rights have long been a cocktail of international intrigue and high stakes poker. Yet, the outcomes have often defined both the future of the Olympic Movement and of the individual broadcasters. The bidding frenzy surrounding Calgary was a critical point for the Olympic Movement. The Calgary rights were the first to be sold during the Samaranch presidency. The first key element in his turnaround strategy was to sort out the IOC’s financial situation so that it became self-sufficient. Two sources of income needed to be max-

imised: TV revenues and income from sponsorship. Central to both was the need for the IOC to take greater control of managing the commercial affairs of the Olympic Games.

But the IOC's attempts to put pressure on the networks through the bidding process backfired. From ABC's perspective it was disastrous. The broadcaster eventually lost around \$65 million on the Calgary Olympics – the first time the network recorded a loss on its Olympic coverage.⁶ It took years for ABC to forgive the IOC for the manner in which the Calgary negotiations had been conducted, and to return to the Olympic rights market as an active bidder.

The Calgary bid was also a turning point for the IOC. For all Samaranch's intent to take control, the IOC was still not in the driving seat. The US broadcasters were angry, suspicious and poorer. The result was that the US TV rights for the Seoul Olympics of 1988 generated less revenue than Calgary. The lessons learned from the Calgary rights negotiation and the nadir of Seoul – the first Summer Olympics to generate less revenue than a Winter Olympics – had a major impact on the direction and manner in which Olympic broadcast rights were sold over the following two decades. The previously symbiotic and vital relationship between the Olympic Games and television was put in jeopardy.

To fully understand how the scorpion wars of Calgary came about, you need to look back over the history of TV negotiations from the previous 50 years.

How the television companies came to pay for rights to the Olympics, when all other forms of media – including print photographers – continue to have free access is a story in its own right (recounted in the Appendix). Throughout the 1950s there were bitter battles between organisers and broadcasters, both wanting to establish the precedent to pay or not to pay. In the process, the Olympic Games of Helsinki 1952 and Melbourne 1956 were boycotted by US and other broadcasters. In the end, the sports movement won and the broadcasters began to pay. But it is interesting to ponder what would have happened to the sports and broadcast movements if the result had gone the other way.

The IOC itself was far from sure what this new medium might offer. But Olympic coverage brought a succession of broadcast innovations. Dick Ebersol, who went on to conceive the groundbreaking comedy show

Saturday Night Live in the 1970s, first made his mark on the 1968 Grenoble Winter Games. Aged 19 at the time, Ebersol had taken leave from his studies at Yale to become a researcher for ABC Sports president Roone Arledge.

Ebersol went on to lead NBC's Olympic division and later reflected how, 'Roone had become determined that there had to be somebody whose only job was to know all the stories about the great athletes and the great events ... before they happened. I got to know all the top world class athletes well enough to write mini biographies on each of them, so that when the announcers covered their events, they [the audience] really had a sense of these athletes as people.'

In personalising the athletes, Ebersol helped make the television viewer more of a participant in the events. For the first time, viewers at home were given the human interest stories—the struggle, determination and endeavour—that are the hallmarks of Olympians. They felt a personal connection.

By the 1970s, audiences had grown dramatically. The resulting increase in advertising revenues meant that rights negotiations were becoming a serious business. At times this introduced an element of farce. Set against the Cold War backdrop, for example, bidding for the rights to the 1980 Moscow Games offered all the intrigue of a spy thriller.

Each of the networks embarked on a series of initiatives to win over and impress the Soviet organisers. ABC used its morning programming to court the Moscow leadership with a 10-hour series on life in the Soviet Union. Some of its news team winced as ABC compromised its much vaunted editorial independence and standards in the quest for Olympic rights. One ABC official ruefully concluded that they 'had made Moscow look like Cypress Gardens without the skiers'.

Not to be left out, CBS aired a documentary on Soviet delights, including a TV special on the renowned Bolshoi Ballet, hosted by US TV icon Mary Tyler Moore. According to Arledge, it could easily have been mistaken for a politburo production. NBC concluded an agreement to purchase a series of Soviet films depicting the heroic efforts of farm labourers, new production quotas at lumber mills and the glories of life on the collective farm. These enticing epics cost \$1.2 million but were never aired.

The various attempts to curry favour and influence the Soviets had little effect on the overall process. According to one report, the Moscow organisers considered 'the whole episode as a chance to tweak the Americans a

bit, watch them squirm and dump on them a bunch of worthless productions gathering dust in some Ministry of Culture Film library.'

Throughout their history, too, Olympic rights negotiations have been fraught with a number of recurring themes. Initially, disputes focused on whether rights fees should be paid at all. More recent times have seen recurring pleas from broadcasters that they are paying too much, and that it is impossible for rights fees to continue to increase. This has been set against the dynamic tension between the IOC and organising committees over control of the negotiation process and the precarious balance between the principle of free-to-air coverage for all, against the commercial dynamic of funding the Games. And never underestimate the Machiavellian games played by bidders to outwit each other.

Since the early negotiations, broadcasters have pleaded abject poverty, arguing that the amount paid for rights cannot continue to rise. In 1980, global broadcast rights for the Winter and Summer Games were worth \$121 million. By 2012, the rights for a quadrennial are expected to be in excess of \$3.5 billion.

There has been repeated concern over the bidding process, and especially the fight between the US networks. The disparity in rights fees between the US and the rest of the world has proved a lightning rod for a variety of US politicians who have argued that America bears a disproportionate share of the cost. Over the past two decades, the IOC actually succeeded in significantly reducing the gap. The US rights for the Summer Games used to account for over 85 per cent of global broadcast revenue – a figure that for the Summer Games had been reduced to around 50 per cent by 1996.

More often than not, the IOC has not only had to negotiate with the various TV networks, but also with the organising committee for the chosen venue. Often the organising committee challenged the IOC's strategy, questioning why the IOC was so focused on maximising the audience and protecting the free-to-air broadcast principle, rather than maximising revenues. Access for all is at the heart of the Olympic Movement. It would have been a fatal error for the IOC to have ever compromised on this issue.

Over the years, various private networks have made significantly higher offers for the Olympic rights. But they could not guarantee free-to-air coverage and maximum reach, a governing principle of the IOC's broadcast policy. Local politicians and organisers in the host country, faced with

their own challenges and caring more about balancing the books than the global promotion of the Olympic Movement, have repeatedly tried to undermine the IOC's efforts and control of the broadcast rights negotiation process.

Samaranch viewed the negotiations with organising committees over the granting of broadcast rights as some of the most challenging and disagreeable of his presidency. The continuing conflicts became one of the key reasons for the IOC adopting a strategy of long-term agreements. Whenever possible, it has tried to award broadcast rights before a city's election and the formation of the organising committee.

Sucked dry

Before securing the rights to the Calgary Games, ABC paid a then record of \$225 million in rights fees for the 1984 Games in Los Angeles (plus a further \$75 million for host broadcast costs). Again, it wasn't a smooth ride. By early 1984, ABC's financial leaders were running scared about a potential ratings collapse due to the Soviet-led boycott, and attempted to renegotiate terms.⁷ Arledge argued that the Soviets had done them all a favour, as the boycott would only allow Americans to win even more gold medals. 'They would not lose viewers, they would gain them.'

Arledge was right, ABC's coverage of Los Angeles set new ratings records. From Los Angeles in 1984 onwards, the Olympic Games began to have a dramatic effect on the US advertising market. More than half of the advertising available for all sports for all networks for the entire year was spent on the Olympics over two weeks. 'We'd not only captured the market, we'd sucked it dry,' Roone Arledge observed.

After the scorpion war negotiations for Calgary in January 1984, the IOC turned its attention to the Seoul Summer Games in 1988. The IOC again decided to hold the negotiations and bidding in Lausanne, and a large delegation from the Seoul Organising Committee (SLOC) descended on Olympic headquarters. The Koreans hired IMG's Barry Frank as their consultant, in part because he somehow convinced them their US rights could be worth up to \$1 billion. This was totally unrealistic.

And Frank's forecast represented a 400 per cent increase over Los Angeles bore no relationship to the potential of the advertising market.

It totally ignored the challenges of an Asian Games, with unfriendly time zones for US prime-time viewing. The Korean organisers were deluded into thinking that there was an unlimited supply of cash on offer from the US networks. This misplaced advice raised expectations way beyond anything that was remotely feasible.

A side effect of this was that it contributed greatly to Samaranch's subsequent refusal to have anything to do with TV agents and consultants. Samaranch believed that agents would stop at nothing to get the contract. To do so they were inclined to misrepresent the value of the market in order to attract the interest of the organising committee. The committee would then refuse to follow the direction of the IOC, mistakenly believing that there was more money to be had. Samaranch also saw no reason why agents should be paid millions of dollars in commission when he and the IOC team were perfectly capable of doing the deals, and were now gaining the experience to run the show themselves.

With their advisors talking up the possibilities, the Koreans entered the negotiating room of the Palace Hotel with high hopes. But when the networks began to submit their offers, the Korean team got a rude awakening. After the Calgary affair, apathy ruled. ABC came in with a token bid of \$225 million, the same as it had paid for Los Angeles – and down \$84 million on Calgary. CBS offered slightly more. NBC placed the highest bid at \$325 million. But even this was a mere third of what the Seoul organisers had been expecting. The Korean delegation was dumbfounded. No one dared take responsibility to call the organising committee president, and future Korean president, General Roh Tae Woo, to give him the news.⁸

Un Yong Kim, a vice president of the organising committee, was probably the only member of the Korean negotiating team with any real experience of the international sports scene.⁹ He later recalled how he felt 'caught between Korea's national pride and the cold reality of a maximum market price'.

With General Roh expecting a phone call, the Korean delegation looked on frozen. They were more concerned about public opinion back home and face-saving than the real market situation. As no other network was going in or out of the conference room, the NBC team slowly began to realise that its offer was the only serious one on the table. The Koreans refused to budge. Samaranch and Dick Pound, as chairman of the IOC TV Rights

Negotiating Committee, desperately tried to get the Koreans to accept and even called General Roh directly. Eventually the bidding was brought to a halt with an agreement to meet again a few weeks later in New York.

Things did not get any better when the teams reconvened in the US. NBC, realising that they were the only show in town, dropped their offer by \$25 million to \$300 million – some \$9 million less than ABC had paid for the 1988 Winter Games. It was clear to the IOC that each day the Olympic parties delayed in accepting NBC's offer, there was a very real risk that it would drop even further.

Pound eventually persuaded the Korean negotiating team to accept, but only after NBC had agreed to a face-saving additional formula, which provided for a profit sharing component if advertising revenues suddenly took off. The likelihood of this happening was exceedingly slim, but it allowed the SLOC delegation to finally return home with a proposal that could conceivably bring the rights up to \$500 million. In fact ad revenues did not exceed even the preliminary forecasts, and the profit sharing formula was never activated.

Sports Illustrated wrote after the conclusion of the bidding process that 'the days of astronomical bidding wars and open cheque books are apparently over.' So it seemed, albeit not for long.

Although the basic financial terms were agreed, the real negotiating work was only just beginning. Over the next six months, legal teams from the IOC, the Seoul organisers and NBC laboriously worked through every issue from TV programming schedules, through to Korea's policy and ban on US meat imports. The latter was a cause of serious concern to the NBC negotiators who did not fancy explaining to their 2,000 strong engineering and production team that they could not have their American hamburgers and might have to eat the local delicacies of dog and snake.¹⁰

The traditional request for a letter of credit from the government of the host country to cover NBC's advance payments was also seen as an insult in Seoul. It provoked government and popular rage in Korea when news of it leaked. Un Yong Kim wrote in his memoirs on the Seoul Games how senior leaders felt 'that Korea did not need the \$300 million and that Korea should make an international signal and broadcast on its own'.

As the negotiation process dragged on, some of the lawyers, even those who billed by the hour, grew tired of the process. Betsy Goff, one of the

advisors from IMG's broadcast division, TWI, reflected how she was still 'uncertain of the value of anyone having to spend two days negotiating how many parking places would be allocated to NBC in Seoul'. While the Calgary contract had taken less than six weeks to conclude, the Seoul US rights contract took over six months. Even then many issues were left open and unresolved.

Lessons learned

The Calgary and Seoul broadcast negotiations taught the IOC many lessons. They underlined the need for the IOC to take more direct management control over the bidding and negotiating processes for television rights.

The IOC decided to hold a special broadcast workshop to take stock of the situation and review its policies. A cross-section of broadcasters from around the world was invited to Lausanne in April 1987 to review the Olympic rights negotiations process and comment on the future outlook. The US networks turned up in force. Each came with a similar message – broadcast rights could not continue to escalate.

Arthur Watson, who had now become NBC's Sport's president, opened the debate recalling that 'the negotiations for the 1988 Summer Olympic Games presaged the most important development in the business of sports television in the US: the end of wildly escalating rights fees for sports events.' 'Rights fees', he said, 'were increasing at a compound rate of 32 per cent.'¹¹

The overall outlook was far from promising. The networks' audience share had dropped from around 94 per cent in 1955 to around 50 per cent;¹² cable television was starting to seriously eat into the networks' audience share.

Dick Pound, in his concluding remarks as conference chairman, pointedly told the 1992 Olympic organisers, in an attempt to manage their future expectations, that they should not expect any increase in rights fees for their Games and that the amounts paid for the 1988 Games should be seen as an aberration.

When the 1992 Albertville Winter Games were taken to market, there was, for the first time, a dramatic reduction in rights fees. CBS gained the US rights with a \$243 million offer – a reduction of over \$66 million from

what ABC had paid for Calgary. NBC moguls still nevertheless elected to blast CBS for paying an 'absurdly high sum ...You always want to be a winner. But you do not want to commit suicide at the same time.'

Barcelona 1992: NBC's triple jump

The negotiations for US rights to the 1992 Barcelona Games fared slightly better. NBC submitted an offer of \$401 million, a 33 per cent increase over Seoul. NBC also came up with a novel proposal to create a triple-cast pay-per-view proposal to supplement its network coverage to help finance the increased rights fee.

NBC's Barcelona coverage pulled in 192 million unique viewers and earned a 17.5 average rating according to Nielsen Media Research. NBC defied the experts on New York's Madison Avenue and eventually sold virtually all of the advertising time on its network schedule for the Games. The triple-cast experiment, however, was not so successful and was slammed by critics. Clearly ahead of its time, it was poorly marketed and, with scepticism within NBC's own ranks, it was doomed to failure.

NBC billed the triple-cast as a 'way to stretch the boundaries of sports programming'. In terms of broadcast coverage, it did succeed in dramatically increasing the sports coverage available to the US fan. NBC planned 161 hours of Olympic coverage on its network, with a further 1,080 hours on its three pay-per-view channels. Subscribers were invited to pay \$125 to receive commercial-free, round-the-clock coverage on three cable channels.

The actual programming received solid reviews. But, from a commercial perspective, the experiment was a total failure, attracting only 250,000 subscribers against a target of 2.5 million. Total losses were forecast at \$150 million, split between NBC and its partner Cablevision, although it is unlikely that anyone will ever know the real figure.

Business Week asked: 'How could supposedly media savvy executives be so far off the mark?' In hindsight, the answer is simple. Although awareness of the service was high, NBC soon discovered that there were simply limits to the number of fans with the time and desire to pay significant money to view the Games beyond what is offered for free. The service was just too expensive for all but the most addicted armchair sports fan.¹³

The failure put back the multi-channel approach to Olympic and sports telecasting by several years.

Europe becomes competitive

Although the IOC's primary focus in broadcast negotiations was towards the US market, the growing gap and disparity in rights fees across the rest of the world began to create problems during the 1980s.

After the success of the negotiations with ABC for the Los Angeles 1984 US rights, Peter Ueberroth turned his attention to Europe. He proposed that the European Broadcasting Union (EBU) pay \$1 per TV set. This worked out to the attractively round sum of \$100 million. Albert Scharf, the president of the EBU, responded with the low offer of \$8.33 million, a 30 per cent increase on the fee for Moscow.

Ueberroth's number did not seem so far fetched when Silvio Berlusconi's private Italian Channel 5 offered \$10 million – more than all of Europe combined – just for Italy. There was only one problem: Berlusconi's Channel 5 had only limited reach, and the majority of Italians would not have been able to watch the Games.

Samaranch intervened to protect the basic right of everyone to be able to watch the Olympic Games free of charge. After months of negotiations, the EBU eventually increased its offer to \$22 million, less than 10 per cent of what the US was paying, but a three-fold increase over Moscow.¹⁴

The IOC stepped in many more times over the next twenty years to protect the EBU's position and to drag its rights fee up to a level in keeping with the economic position of the continent. Along the way, the IOC stood accused by US politicians of being protectionist by keeping the rights artificially low. They had a point. The European rights increased by just \$1 million to \$7 million for the 1988 Calgary Games, whereas the US rights increased by over 300 per cent to \$309 million. Europe represented around 2.5 per cent of the US fees for the Winter Games and not that much more for the Summer.

Samaranch realised early on that it was not going to be possible to bring the EBU up to a realistic level through 'normal negotiations'. He began to entertain approaches from non-EBU members, even if this potentially meant a limitation on the overall coverage.

Among the increasingly interested observers was Rupert Murdoch who had spent 35 years amassing a global media empire covering both print (including the *New York Post*, the *London Times*, the *News of the World*, *The Sun*, *The Australian*), television (WNEW-TV, New York; KTTV-TV, Los Angeles; Channel 10, Melbourne), film (20th Century Fox) and, with the launch of Sky TV in 1983, satellite television.

Murdoch made his first approach to the IOC at the end of 1987. He expressed interest in acquiring rights to the 1992 Barcelona Games for a range of territories from the US, through to the UK, across Asia and down to Australia. Within 12 months, a second player expressed interest in European rights: Bertelsmann, Europe's largest media group, threw its hat into the ring for the Barcelona rights.¹⁵

Leading European broadcast officials started to seriously wonder whether the IOC might switch channels. It dawned on Paul Fox, managing director of BBC Network Television, that it might just be possible for the big satellite broadcasters – Rupert Murdoch, Silvio Berlusconi in Italy and the Bertelsmann Group in West Germany – to get together and eventually outbid the EBU. 'After all,' Fox noted, 'the EBU thought they had European rights to Wimbledon last year, but then they were outbid by Bertelsmann.'

Unlikely as it was that the IOC would ever compromise on its free-to-air principles for the Games, the IOC was not about to correct Paul Fox or anyone else's view that EBU's monopoly was at risk. The EBU and others had to understand that such low levels of rights fees could not continue. The IOC eventually succeeded in persuading the EBU to increase its offer from \$30 million for Seoul to \$99 million for Barcelona, only after it realised that there were other credible alternative offers.

By early 1992, the European Commission was starting to take a serious look at the EBU's monopoly over exclusive sports rights. It was concerned about the manner in which a network like Eurosport could acquire Olympic rights, while non-EBU members like Screensport were blocked. The EC warned the EBU that it would issue emergency rulings, with the potential of huge fines, if the EBU kept refusing to allow private channels access to coverage of the Barcelona Games. The stage was set for a long and drawn-out battle. More than a decade later and that battle is still being fought, with threats of lawsuits by the European Commission, and appeals and

counter appeals as the EBU tries to protect its exclusive rights position and the Commission tries to force the market open.

Bertelsmann kept the pressure on. Bernd Schiphorst, president of Bertelsmann's own agency, UFA, travelled to Lillehammer, site of the 1994 Winter Games, telling the local organisers that he would double whatever the EBU offered for European rights. Samaranch, though, remained nervous at the risk of compromising national coverage. He saw how Wimbledon had lost some of its prestige across Europe without coverage from national broadcasters.

The increased focus, and potential threat from the European Commission, only served to reinforce the EBU's desire to keep the Olympic rights. Bertelsmann increased its offer to a level that it felt would make the IOC think seriously. Schiphorst, along with Manfred Lahnstein, the president of Bertelsmann's Electronic Media Division, and former German Federal Minister, came to Lausanne to table a \$300 million offer for the rights to Atlanta in 1996. Their proposed web of networks remained still very much on the drawing board, and they could not guarantee true pan-European in-depth coverage. But their offer was enough to force the EBU to quickly raise its bid to \$250 million – a three-fold increase over what it paid for Barcelona – and an 800 per cent increase over the rights for Seoul, eight years earlier. The EBU became the first broadcast group to conclude any rights agreement for the 1996 Centennial Games in Atlanta.

Taking on the world

Other regions also saw significant increases in TV revenues, albeit again from very, very low thresholds. Japan jumped nearly 500 per cent to \$19 million and Australia from \$1 million in Moscow to \$11 million. Competition within the broadcast community was starting to gain momentum, and the IOC began to take full advantage of the opportunity.

Japan, fearing a competitive bidding war between the different Japanese commercial networks and state broadcaster NHK, decided to form a pool and to keep bidding collectively for the rights. This is what the IOC had always feared the US networks would finally get together and do. The Korean organisers successfully leveraged their position and 'special' history with Japan to force through an important hike in Japanese rights for Seoul. They persuaded

the pool (in any other language it would be known as a cartel) to pay \$50 million for the 1988 Games. The Japanese paid \$62 million for Barcelona – still proportionately well below what the Americans were paying, but they were starting to become an important contributor to the overall budget.

The impact of all this was substantial. The growth in broadcast revenues began to have a dramatic impact on the overall workings of the Olympic Movement.

Until 1992, the IOC allocated the majority, around 70 per cent of the rights fee, to the organising committee as the body with the greatest financial outlay. But with revenues increasing faster than the costs of staging the Games, and each organising committee starting to declare a profit on their hosting of the Games, Samaranch decided that a larger share of the revenues should be allocated to the International Sports Federations and the National Olympic Committees. The idea was to channel more money into supporting athletes 365 days a year, rather than into capital bricks and mortar projects in the host city and profits for the organisers.

The revenue distribution formula was changed to 60 per cent for the organisers, and 40 per cent for the Olympic family.¹⁶ The funds allocated to the local organisers were still more than sufficient to attract a growing list of cities wanting to bid for the Games.¹⁷

Split decision

It would be wrong to think that the TV broadcasters were simply one-dimensional providers of money. Relationships between the IOC and the major broadcasters, once rights negotiations had been concluded, were generally not adversarial. On occasions, the networks were important partners with the IOC in supporting the Olympic Movement.

One example of this was the decision in 1987 to split the Winter and Summer Games. This came about after ABC Sports president, Denis Swanson, lunched with Samaranch. Swanson pointed out that for the US networks it was just not possible to finance two Olympics in the same year. The drain that the Olympics placed on the advertising market was too great. He asked Samaranch whether there was any formal reason why both Games had to be held in the same year.

Within a few weeks Samaranch tabled to the IOC Executive Board, and then the IOC Session, to split the Games. He later reflected that 'this was one of the best decisions of my presidency'. The Winter Games had grown dramatically and the IOC was starting to struggle with some of the operational complexities of staging both events so close together. Having two Games in the same year was not easy for some NOCs; finding sponsors for two teams, while negotiating TV rights in the same year was demanding. There was the impression of a Big Games and a Small Games.

In 1994, the Winter Games moved to a new alternate cycle with the Summer Games. But not everyone going to the Winter Games in Lillehammer was convinced that the IOC had made the right decision. Didn't the Winter Games need the kudos of Olympic year to provide them with the promotional platform? Could the Winter Games really stand on their own? The eventual ratings results and the overall success of these Games, silenced the critics. CBS, the US rights holder, produced the two highest sports rated shows in US broadcast history – higher even than the Super Bowl.

One of the key factors was the huge publicity surrounding the attack on American figure skater Nancy Kerrigan before the Games. This was classic sporting soap opera. Kerrigan was clubbed across the knee at a practice session in Detroit. Tonya Harding, Kerrigan's Olympic team mate and rival, was implicated in the plot. It was a tabloid dream: Snow White (Kerrigan) versus the Wicked Witch (Harding).

Harding was allowed to compete in Lillehammer by the United States Olympic Committee, under threat of legal action. She was subsequently sentenced to three years probation for her role in the incident, 500 hours of community service and paid a \$100,000 fine, as well as being stripped of her national figure skating title. Kerrigan went on to win the silver medal, and many millions in endorsements.

The joke at the time was just how much CBS promotion executives had paid Jeff Gillooly, Tonya Harding's husband, to do the deed and guarantee their ratings success. There were many other factors ranging from the bad weather keeping people at home, through to the recent dominance of Olympic broadcasting that had finally stopped other networks from counter programming. Advertising giant Saatchi and Saatchi succinctly summed it up, writing in its monthly media bulletin: 'How do you plan a TV programming schedule to compete against the Olympics? The answer is you don't!'

Similar record-breaking TV audiences were gained by other broadcasters around the world. In the UK, the BBC set a new record for Torvill and Dean's ice dancing routine, with the highest single channel television sports audience ever in UK broadcasting history.¹⁸ The Japanese broadcaster NHK regularly enjoyed peak audiences of more than double the average for the soccer World Cup.

Building a dream

While the Lillehammer Winter Games in 1994 were a huge commercial success, the Atlanta Summer Games of 1996 struggled to put a US broadcast deal in place.

The man under pressure was Billy Payne (no relation), president of the organising committee. Payne was an Atlanta real estate lawyer who woke up one morning, after having completed the latest fund-raising drive for the local church, with the unlikely dream of bringing the Olympics to Atlanta. Against all the odds, he succeeded in convincing the IOC to award Atlanta the right to host the Centennial Games in 1996. By mid-1993 Payne was feeling the heat from banks to lock in the largest single revenue source for the Games. They refused to allow him to proceed with construction of the main stadium unless a deal was in place.

So desperate was the financial situation that the IOC had even suggested to the Atlanta organisers that they scrap plans for a permanent stadium, and explore options for a temporary one. The advertising market and outlook at the time were not strong, and the IOC wanted to wait until market confidence returned.

In the end, the IOC had to agree to proceed with negotiations or risk placing the Centennial Games in jeopardy. The longer term, broader Olympic agenda being compromised by Atlanta's challenging financial plan was a recurring theme. The situation was made worse by the lack of formal government or city support. The IOC and Atlanta negotiating teams convened in New York on 27 July, 1993 to meet with the US networks. It didn't help that the meeting coincided with the very bottom of the US advertising market.

The expectations were that ABC would be the strongest bidder. CBS executives were focused on the Winter Games and NBC was still uneasy

after its triple-cast losses in Barcelona. NBC submitted the first offer of \$456 million. ABC's offer was sufficiently close for Dick Pound to call a second round of bidding.

NBC's Dick Ebersol, playing high stakes poker, came back with his second offer.¹⁹ Dick Pound opened the envelope as the IOC and the Atlanta Organisers nervously looked on. The single sheet of paper spelt out the same number again – \$456 million. NBC had not raised its offer by a single dollar, judging that ABC would not step up to the mark. Ebersol did not blink and locked up the rights to the Centennial Games for a price that was subsequently shown to be an excellent deal.

For ABC the timing of the negotiations could not have been worse. Bob Iger, who had been a member of ABC's production team in Calgary, had just been appointed president of the network.²⁰ However, on the day of the Olympic negotiations, Capital Cities acquired ABC, and neither the network's new owners, nor its new president were willing to take risks – at least not on the first day in the job. If only Atlanta had been able to wait a few months, ABC would have been a much stronger bidder.

Implausibly live

Atlanta was the most watched event in US broadcast history, with Ebersol maintaining tight control over the production. Many people in the US later questioned why the rest of the world was so negative in their remarks towards the Olympics in Atlanta, for they had seen a fabulous Games on NBC: they had.

But Ebersol was so dismayed at what the City of Atlanta had done in destroying the image and magic of the Olympics by allowing downtown to be turned into a commercial feeding frenzy, that he minimised the city's exposure. He was reported to have told his producers and cameramen that the first person who produced a shot of downtown Atlanta would be fired, on the spot.

Another controversial element of NBC's coverage was what were labelled 'plausibly live broadcasts'. Perhaps the most conspicuous example of NBC's plausibly live strategy centred on Keri Strug's final vault in the women's gymnastic team competition. The vault actually took place in the late afternoon, but it was not shown on NBC until approaching mid-

night Eastern time. Endeavouring to capture the emotive narrative offered up by the exploits of the injured Strug, NBC's prime-time programming was used to gradually intensify the drama surrounding the admittedly heroic, triumphant, yet ultimately irrelevant vault (the US had already won the gold medal prior to the vault). The result was NBC's highest, most emotional, most poignant moment which garnered their highest rating of the Games a phenomenal 27.2 Neilsen rating – the highest rating for an event at the Summer Games, since Montreal 1976.

Whether you see this as manipulative jingoism or powerful drama, the simple reality cannot be denied: the Olympics put people in front of their TVs – and keep them there. For the networks, outmanoeuvring their rivals to secure the next Games became a priority. The stakes were about to be raised again.

NOTES

- 1 ABC held the rights to the Summer Games in Mexico (1968); Munich (1972); Montreal (1976); and Los Angeles (1984); and to the Winter Games in Innsbruck (1976); Lake Placid (1980); and Sarajevo (1984).
- 2 The extension ultimately saved the Calgary Games after adverse weather conditions forced the rescheduling of 33 events. Over the Games the temperatures ranged from a low of -28°C to a high of $+22^{\circ}\text{C}$. To further challenge the organisers, the winds were the strongest seen in Calgary in 25 years, blowing gravel dust onto the bob track and threatening to make the event inoperable. The ever changing nature of Calgary's weather fulfilled the long held local view that if you do not like the weather in Calgary, just wait five minutes.
- 3 The Games ran from 13–28 February 1988. AC Neilsen samples audience figures from the networks four times a year – February, May, July and November – the sweep weeks. The results are used to set local advertising rates. National advertising rates are based on Neilsen rating figures across the year. Needless to say the networks are keen to pull in the viewers during the sweep weeks.
- 4 Jim Spence later admitted that ABC did indeed have its own deep throat in prior Olympic rights negotiations and expected its contact to still be active for the Calgary negotiations. The knowledge that it could expect

inside information lessened some of ABC's concerns about the bid process. Spence received a tip-off during the Sarajevo negotiations, allowing ABC to trump the CBS bid.

- 5 The world's population is estimated at 6.5 billion, of whom around 4 billion have access to a television set – although the number is growing rapidly as audiences in China and India start to dramatically increase. The total host broadcast coverage for the Summer Games is around 3,800 hours, and 800 hours for the Winter Games. Over the years, there has been considerable debate over the scope and size of audiences for major sports events, with reports of 30 billion people watching. The media have dutifully reported these numbers, failing to recognise that there are simply not that many people on the planet. The cumulative audience viewing measurement counts each viewer multiple times. As such, it does not provide any insight into the actual percentage of the population watching, and how much they watch – which is the true benchmark of an event's impact. There was little point in an organiser claiming to be the number one event in the world, if over half of the audience was coming from China, and hardly anyone in North America was watching. In Sydney, the IOC finally succeeded in getting the sports marketing industry to look at a new measurement basis for calculating global viewing audiences. It proposed that a new measurement – television viewing hours – be used, which would detail how much was watched in each market – and what percentage of the overall population was viewing. This allowed for proper comparisons between different events.
- 6 When network promotion and revenues from owned and operated stations were factored in, along with the benefit of winning the ratings sweeps, the loss was considerably less.
- 7 At the time the boycott was announced, ABC still owed the Los Angeles organisers and the IOC \$90 million in rights fees. The contract included a boycott clause, and Ueberroth was faced with the unpleasant dilemma of potentially having to renegotiate the overall terms of the agreement, placing the financing of the Games back in jeopardy.
- 8 General Roh Tae Woo went on to become the first democratically elected President of Korea in 1988.

- 9 Un Yong Kim was president of the General Assembly of International Sports Federations (GAISF) and an experienced international sports official. He was co-opted onto the IOC, and served two subsequent terms as IOC vice president, as well as running for the IOC presidency in 2001. A Korean court later found him guilty of embezzlement – a decision against which he is appealing. In February 2005 the IOC Executive Board recommended that he be expelled.
- 10 The food entitlements of the production team even prompted the legal teams to come up with new definitions of what might cause a works stoppage – the wrong diet and food being one of them. Twelve years later, it was reported that NBC bought in 7,264 kilograms of Starbucks coffee to the Sydney Games to keep its staff caffeinated in the American style.
- 11 ABC president, Denis Swanson, continued the theme noting: 'It is apparent that American television business is undergoing unprecedented changes – new ownership, declining market share, fierce competition. These elements must be understood and their impact should not be dismissed lightly.' In case anyone missed the point, Neal Pilson, CBS president hit home with his final remarks: 'We still have a real concern that major sports packages may build their economic model for the future with the expectation that network television will continue to fund the enterprise through the payment of rights fees escalating far beyond audience potential and advertiser growth.'
- 12 Network audience share in the US dropped even further – down to around 43 per cent by 2003.
- 13 From a technical standpoint, there were just not enough households which could receive the pay channels – less than 20 million of the 100 million homes in the US market. Management also failed to realise that both network affiliates and cable channels would regard the triple-cast more as a threat than as an opportunity, and therefore set about undermining the new venture by failing to promote it. NBC infuriated its affiliate partners even more when it started to scramble for triple-cast subscribers, adding sports like basketball and gymnastics, which it had previously agreed with affiliates would only be shown on the network; and by dropping the daily subscription rate of \$29.95 to \$19.95. 'NBC

was attempting to walk a tightrope. They slipped and fell into an alligator pit', said John C Severino, president of Prime Ticket.

- 14 Considering the 1982 soccer World Cup generated \$5.27 million in rights fee from Europe, the Los Angeles result was a major success.
- 15 Bertelsmann owned 39 per cent of Germany's premier private Channel – RTL – the maximum shareholding permitted at the time under German law. In order to gain access to prime sports programming for RTL, Bertelsmann established its own sports rights agency, UEFA, to bid against EBU, who were unwilling at the time to sub-license rights to non-members. UEFA quickly shook up the European rights market by acquiring the European rights (excluding the UK) to Wimbledon for four years for DM 60 million, and to the German football league for five years for DM 150 million.
- 16 The IOC made a further adjustment in the revenue distribution formulas for Athens 2004 onwards, allocating 49 per cent to the Organising Committee and 51 per cent to the Olympic Family. IOC president Jacques Rogge changed the formula again for the 2010 Games onwards, no longer guaranteeing any percentage, just acknowledging that a sum will be allocated to each organising committee, probably in line with the previous Games, index linked, and that any further upside in revenues would no longer automatically be passed through, but be kept for distribution to the NOCs and International Federations. The risk here is that the IOC could revert back to the days of ongoing negotiations and conflict with each organising committee, by not having a clear-cut financial model.
- 17 No sooner had Samaranch got this rule through than he began lobbying for a further change to 51/49 in favour of the IOC, NOCs and Federations.
- 18 The BBC rating was 45, a new record for a single channel television sports audience, even topping Britain's most popular programme, *Coronation Street*.
- 19 Dick Ebersol succeeded Arthur Watson as president of NBC Sports on 1 May 1989.
- 20 Bob Iger became president of Disney and number two to Michael Eisner when Capital Cities sold ABC to Disney in 1995, and succeeded Eisner in 2005.