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**The role of exclusivity
in football premium
content distribution**
*Economic efficiency and
social welfare.*




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Purpose of the study

- 🌀 Italy has experienced a deep crisis in the last decade that led to a progressive deterioration of the financial sector, undermining its competitiveness in Europe.
- 🌀 The Italian peculiarity is the result of the inability to exploit complementary financial resources, such as commercial revenues from sponsorship and advertising. A radical change is required, involving all the key elements of the system.
- 🌀 While keeping in mind this overall perspective, our study will focus on a single segment (i.e. the sale of broadcasting rights) with the aim to find the best solutions in terms of consumer welfare and efficiency of the industry as a whole.

Focus on exclusivity: Which sales model is preferable in terms of economic efficiency? Which consequences on competition would follow the review of the Italian system towards European best practices?

Outline

-  Background
-  Exclusive distribution theory
-  Main findings

The Italian sales mechanism of sports media rights

- Initially (in 1999) sports broadcasting rights in Italy belonged to each club **individually**
- Later on, following the Commission's 2003 decision, Italy chose to codify the practice of the European Commission by reintroducing the **centralized** sale of TV rights – with the D.lgs. No. 2008-9 of 9 January 2008:
 - The organizer of the competition (Lega Calcio) and the organizer of the event (home team) are now joint owners of sports audiovisual rights
 - The organizer of the competition has the right to identify the competitive procedures for the offer of TV rights

LNP Serie A sale models (live)

2012-2015 Season

Package	Matches	Broadcaster
1 <i>Satellite pay (plus relative rights via IPTV, Web, Mobile)</i>	All match (380)	Sky Italia
3 <i>DTT pay (plus relative rights via IPTV, Web, Mobile)</i>	324 match (12 major teams)	RTI/Mediaset Premium
4 <i>DTT pay (plus relative rights via IPTV, Web, Mobile)</i>	56 match (8 minor teams)	(no one)

2015-2018 Seasons

Package	Matches	Broadcaster
A <i>Satellite pay (plus relative rights via IPTV, Web, Mobile)</i>	248 match	Sky
B <i>DTT pay (plus relative rights via IPTV, Web, Mobile)</i>	248 match	RTI/Mediaset Premium
D Multi-platform exclusivity (12 minor teams)	132 match	RTI/Mediaset Premium (exclusivity sub-licenced to Sky Italia)
E OTT content via Internet, IPTV and / or mobile	114 match	(no one)

The 2015 - 2018 deal

- 🌐 New elements of the 2015-2018 invitation to tender compared to the previous three years:
 - The introduction of a specific package (D) containing the rights on 132 matches to be commercialized on a *multi-platform* exclusivity basis;
 - the introduction of a third platform - "Web, Mobile and IPTV" - on which the licensee of the rights can transmit 114 matches *per* season on an exclusive OTT basis (E package);
 - The introduction of a specific package (C) containing ancillary rights on packages commercialized on a platform exclusivity basis.
- 🌐 With the introduction of the "D" package therefore the Italian model becomes a mixed system, in which single-platform exclusivity dominates:
 - the final allocation of the packages confirms the will of the organizer of the competition to maintain unchanged the status quo
 - the greater degree of product exclusivity applies to a limited number of meetings: 35% of the total matches and less than 15% in audience share

Comparison of sales mechanisms between the major divisions

	<i>La Liga</i>	<i>Premier League</i>	<i>Bundesliga</i>	<i>Ligue 1</i>	<i>Serie A</i>
Ownership	Football Club	Football Club	Football Club	Federation, transferred to clubs	Football Club and Lega
Commercialization	Individual	Collective (Lega)	Collective (Lega)	Collective (Lega)	Collective (Lega)
Duration (last contract)	3 years (2012-2015)	3 years (2013-2016)	4 years (2013-2017)	4 years (2016-2020)	3 years (2015-2018)
No single buyer rule	No	Yes	No	No	Yes
# free-to-air	1 match per day	No	4 matches for season	No	No
Technology-neutrality (for live rights)	No	Yes	Yes (broadcasting platforms)	Yes	No (except limited amount of minor matches)
# live matches	All matches	154 out of 380	All matches	All matches	All matches
# exclusive packages total	-	11	17	6	8
# exclusive packages live rights	-	7	10	4	4

Source: ITMedia Consulting

Comparison of sales mechanisms between the major divisions

Vertical sale: per product (rest of Europe)

	Saturday afternoon	Saturday night	Sunday Lunch	Parallel Sunday Afternoon	Sunday night
DTT	One buyer Exclusive rights	One buyer Exclusive rights	One buyer Exclusive rights	One buyer Exclusive rights	One buyer Exclusive rights
Satellite					
Broadband					

Horizontal sale: per platform (Italy)

DTT	Mediaset: 12 main teams	
Satellite	Sky Italia: all teams	
Broadband	BBTV rights unsold	Extension of the rights to BBTV subscribers of Mediaset and Sky

Source: © 2014 ITMedia Consulting

Broadcasting rights of top division football sales models

🌐 Multi-platform exclusivity (England, France, Germany)

Commercialization is “per product” and it is inspired to a platform neutrality principle, with the aim of fostering inter-platform competition

- provides broadcasters with a strong strategic leverage
- primary tool for differentiating broadcasters offer from the competitors’ one

🌐 Single platform exclusivity (Italy)

Commercialization is per platform with the aim to stimulate intra-platform competition

- **no effective exclusivity** (same relevant matches are available on different platforms)
- effect of **reducing the content value for broadcasters** (including also the possibility of **free riding**) and new players’ incentives to enter the downstream market

(Multi-platform) exclusivity provides positive effects in terms of efficiency, but may raise anticompetitive concerns

Outline

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- 🌀 Exclusive distribution theory
- 🌀 Main findings

References

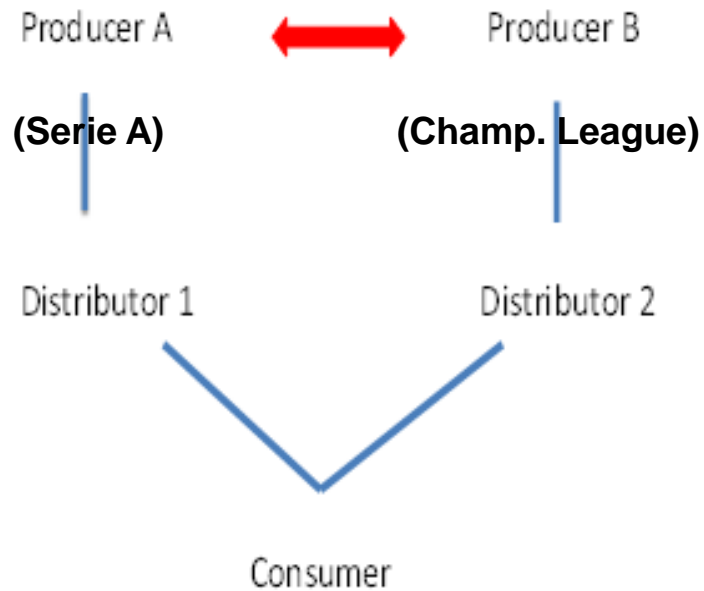
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Territorial exclusivity: efficiency vs *inefficiency* considerations

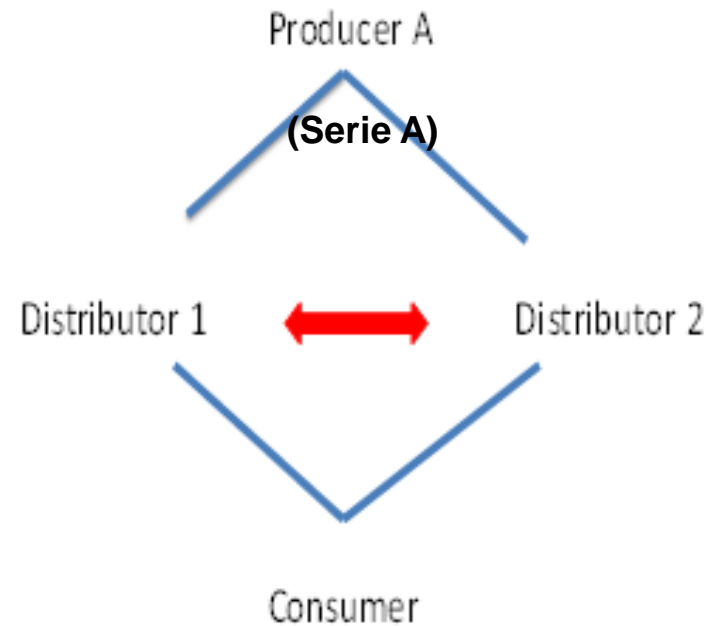
- 🌀 In the **per product** model, multi-platform exclusivity qualifies as a **vertical restraint** or, more precisely, as a ***territorial exclusivity clause***.
- 🌀 ***Positive effects in terms of efficiency – exclusivity increases profits along the vertical chain:***
 - *inter alia*, **Armstrong (1999)**: if a content owner provides the broadcaster with *non-exclusive* rights, the latter will not be able to **differentiate** himself from the competitors, hence the content acquisition will deliver no actual benefits; this implies that broadcasters' willingness-to-pay for premium rights will result to be higher if they are offered on exclusive basis.
 - **Wachtmeister (1998)**: competition organisers would find more profitable in the short term to provide premium rights on exclusive basis in order to extract the highest surplus from the potential purchasers
- 🌀 ***Possible harm to competition*** - A dominant firm exploits its exclusive control as an **input** to **foreclose** the market to its rivals and to reduce competition: **Hart and Tirole (1990)**, **Segal (1999)**, **Fumagalli , Motta (2005)**, **Rey, Tirole (2007)**; **Hovenkamp (1994)**; **Salinger (1998)**; **Irmen (1998)**
- 🌀 Overall, **vertical agreements** are generally evaluated **more favorably** than the horizontal ones: the economic theory highlights the positive effects in terms of efficiency, which balance - in whole or in part – possible harm to competition (rule of reason approach required- case by case).

Vertical restrictions: Interband vs Intra-brand

Interbrand



Intra-brand



Serie A rights and upstream market structure

🌀 Assumption of the work: *no sporting or football competitions are perceived as Serie A's substitutes by consumers*

- the League acts de facto as a monopolist in the upstream market for Serie A media rights
- territorial exclusivity across platforms affects only on **intra-brand** competition

🌀 Too strict definition?

- there exists some competitive pressure on interbrand competition (i.e. different types of premium contents and in particular sporting events such as the World Cup or Formula 1 Motorcycling and, even more, the UEFA Champions League and Europa League)
- ...however, the European Commission itself has highlighted the uniqueness of football events played by national teams
- Even though, the European Commission has identified a single relevant market for UEFA Champions League, UEFA Europe League, Serie A, Serie B and Coppa Italia (the national championships)
- We don't support the last proposition (see following slide)

Serie A rights and upstream market structure (...continues)

Our assumption (intra-brand) is supported by evidence from audience data of Serie A, UCL and UEL (season 2013/2014):

- AMR (average minute rating) of the national championship is four times greater than the total of UEFA competitions, meaning low substitutability between Serie A and UEFA Champions League

	AMR per match (total)	
	Totale	%
UEL	28.343.433	6,50%
UCL	59.508.617	13,64%
Serie A	348.414.302	79,86%

Source: ITMedia Consulting

Anyway, our assumption does not seem to affect the results of our analysis in term of competition, since the outcome would be even more strengthened by including an interbrand competitive dimension:

- a fierce competition between brands mitigates the competition concerns arising from intra-brand restrictions (i.e. the evaluation of the effects generated by the introduction of a “multi-platform exclusivity” would potentially be less problematic in this context)

Pro-competitive effects of exclusive distribution agreements

Protect initial investment by preventing renegotiation:

- [Nicita and Ramello \(2005\)](#): Exclusive distribution agreements prevent **free-riding** and **hold-up problems** when specific, sunk investments are involved (safeguard against renegotiation); minimize transaction costs connected to asymmetric information;

Positive effects on quality:

- [Stennek \(2007\)](#): content owners' investments in product quality are effectively increased with exclusive distribution agreements
- [D'Annunzio \(2013\)](#): a content provider will produce better quality content if covered by exclusive distribution

Retail price discrimination:

- a broadcaster with market power could be able to discriminate in retail prices
- under specific circumstances, price discrimination may enhance total welfare: if the broadcaster is able to discriminate between different groups maximizing the consumer surplus (based on price elasticity), more consumers subscribe the premium contents.

Harm to competition and pro-competitive remedies

🌀 Anti-competitive effects:

- Post Chicago school: Foreclose the market by raising rivals' costs and deter efficient entry, preventing potential entrants to achieve the minimum efficient scale; this impact could be amplified with network effects (Shapiro, 1999).
- Path-dependent: limit the growth of the market
- [Nicita and Ramello \(2005\)](#): the European Pay-TV industry followed a “monopolistic path”, where one or two operators played a “winner-takes-all” game.

🌀 In order to maintain benefits coming from exclusivity – while addressing the problem of input foreclosure – some remedies may be applied. The European Commission and National Authorities have also imposed some of these obligations to the joint selling of premium sports rights

- *limitation of duration* of exclusive contracts (maximum 3/4 years)
- *unbundling of the rights* in separate packages, implying a greater number of packages and therefore, while increasing potential number of competitors, reducing the scope of the exclusivity
- *no single buyer rule* to prevent only one buyer (England)
- *reselling of rights* allowing multiple players (broadcasters) to offer premium contents at the same time

Reselling of premium rights: real incentives on downstream?

🌀 The economic literature on reselling of rights does not reach a unique conclusion of benefits on social welfare:

➤ **Static competition.**

- **Nicita and Rossi (2008):** reselling premium rights to alternative platforms encourages innovation and efficiency of these new operators
- **Harbord and Ottaviani (2001):** the optimal strategy for a broadcaster is reselling the rights to her competitor using a per subscriber (not lump sum) fee.

➤ **Dynamic competition. Weeds (2012):** competitive setting cannot ignore the dynamic perspective of the game

- assuming exclusivity in the upstream market, exclusivity – also in the downstream market – will be the most profitable solution
- exclusive distribution will increase consumer surplus with respect to a “Harbord-Ottaviani” ’s setting

As a consequence Authorities should be cautious before intervening in the market in order to choose the best remedies to remove the feasible bottlenecks

Outline

- 🌐 Background
- 🌐 Exclusive distribution theory
- 🌐 Main findings

Conclusions: main findings

- 🌀 *Exclusive sale* is the better solution in terms of economic efficiency.
- 🌀 *Single platform exclusivity* results in no exclusivity, with the effect of reducing the content value for broadcasters and new players' incentives to enter the downstream market. Instead, *multi-platform exclusivity* provides broadcasters with a strong strategic leverage and a primary tool of differentiation (but raises possible *anticompetitive concerns*)
- 🌀 The *transition* to inter-platform commercialization in first place would allow the 'competition organizer' to *maximize revenues* deriving from the sale of media rights. At the same time, the broadcaster itself would be encouraged to *invest* in the production of valuable contents
- 🌀 *Product partition (with price differentiation) and limitation of duration* represent *the most effective ways* to enhance both the competitiveness of the downstream market and broadcaster's incentives to innovate, with *positive effects on consumer welfare*
- 🌀 *Any further remedies* with the aim to foster competition while not reducing efficiency (es. No Single buyer rule and Wholesale Must Offer), *need to be adapted* to the specific peculiarities of each national market before being implemented.
- 🌀 By applying these insights to the Italian context, our study welcomes *a review* of the actual model in line with the European best practices, based on *multi-platform (per product) exclusivity*.

Thank you for your attention

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