
COMPETITION FOR GAME BROADCAST VIEWERSHIP AMONG MAJOR LEAGUE BASEBALL TEAMS IN SHARED MARKETS

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INTRODUCTION AND LITERATURE REVIEW

A fundamental concept in the economic literature is the assumption most consumers have well-defined preferences. These preferences can become distorted when consumers face daily decisions between substitute goods differing in price and quality (Azar, 2011). However, unlike firms in many other industries, professional sports franchises benefit from favorable antitrust treatment—with relatively limited oversight—protecting a collection of cartel behaviors explicitly limiting the number of teams within a league, allowing franchises to operate with substantially less competition. Most U.S. markets play host to at most only a single team from each of the four main North American leagues. However, some markets—such as large metropolitan areas like New York, or conglomerated areas like Washington, DC and Baltimore—have multiple franchises competing within the same league. Therefore, market definition is pertinent in expansion and talent investment decisions for pro sports teams within the U.S. (Mongeon & Winfree, 2013), as well as in Europe where many markets are shared due to the open league system.

For sport consumers, the substantial increase in the number of televised sporting events over the last decade now provides more viewing options than any time before. Consequently, sports broadcasting stakeholders including sponsors, advertisers, and local, regional, and national networks must consider this increased competition in leveraging media deals, and the implications it may have for the substitution of programming options within and across leagues. While numerous studies have estimated demand models for professional sports, most have ignored the possible impact of available

substitutes included in Rottenberg's (1956) initial definition of the demand function for baseball.

While several professional sports teams enjoy the luxury of having little to no competition with other professional sports franchises within their local market, some teams do share their local market with franchises both within their own league and from other leagues. Fundamentally, the absence or presence of local competitors appears to have both advantages (rivalry, cross-ownership) and disadvantages (fan substitution) that relate to a team's market definition. However, only recently has the literature begun to investigate the propensity for fans to substitute across local sports teams, or whether there exist more complex complementary spillover effects between nearby teams. Therefore, this paper extends the research on substitution within leagues using team-level broadcast ratings in shared Major League Baseball (MLB) markets.

DATA AND METHODS

Our dependent variable is the logged household Nielsen Local People Meter rating of MLB regular season broadcasts from 2010 through 2013 for more than 3,750 games. These ratings represent the average percentage of the market population that tuned into a given game across a number of intervals throughout the broadcast. The data come from six MLB teams in three shared markets: the Orioles and Nationals in the Baltimore/Washington market, the Mets and Yankees in New York, and the Giants and Athletics in the San Francisco/Oakland market.

We employ a panel regression with multiple clustering across game, market, and team, with year and opponent fixed effects. Our primary focus is on the impact of within-market competitor quality on the ratings of the other local team's game broadcasts. For each game, we include variables representing the current number of games back in the divisional race, the win percent over the past 20 games, and a one-season lagged playoff appearance indicator for each the local team, the game opponent, and the market competitor. We adjust games back for the point in the season at which the given game takes place as in Rascher, Brown, Nagel, and McEvoy (2009), and include interactions of the local team and market competitor quality variables to evaluate relative quality impacts in addition to direct own-team and market competitor quality.

RESULTS AND DISCUSSION

We find that fans exhibit nuanced behavior related to the absolute and relative quality of the two local teams. Our estimates imply quality-related substitution of viewership between teams in the face of large disparities in quality and standing in the divisional playoff race. However, this effect is reversed when both teams are of high quality. As both teams improve, viewership is increased beyond what own-team success would predict alone. Additionally, we find that a market competitor's prior year playoff appearance increases the other local team's viewership in the subsequent season. These findings point to spillover effects of team success beyond own-team interest, and bring about an important nuance in the literature on market definition and substitution in sport, with important implications for absolute and relative talent investment levels in

U.S. pro sports leagues. We will expand upon these implications in our presentation.

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