The Atlantic Coast Conference and Florida State University: The Economics of College Athletics

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"How do you not look into that option?" Florida State University Board of Trustees Chairman Andy Haggard's comments to Warchant.com (an online news source covering Florida State athletics) reverberated throughout collegiate athletics. “On behalf of the Board of Trustees I can say that unanimously we would be in favor of seeing what the Big 12 might have to offer. We have to do what is in Florida State's best interest” (Williams, 2012).

The words cut like a knife through the heart of the Atlantic Coast Conference’s (ACC) seemingly stable facade. John Swofford, commissioner of one the premier athletic conferences in collegiate sports, was facing a public crisis unlike any he had previously addressed.

By late spring 2012, John Swofford was approaching his fifteenth anniversary as commissioner of one of the most stable collegiate athletic conferences in the country. Before that, he had served eighteen years as athletic director of his alma mater, the University of North Carolina (TheACC.com, 2012). Within the previous year, the ACC had placed two football teams into the premier Bowl Championship Series (BCS) bowl games for the first time (BCS bowls were the most prestigious and selective bowl games). During this time, he had also secured two additional high profile members into his conference. With the addition of these two new members, he had recently announced a revised contract with ESPN to televise ACC sporting events until 2027 that would annually provide each ACC member an average of over $17 million (Wetzel, 2012) a significant increase over the prior contract. Within the previous four years, his conference had also won two men’s basketball national championships. As commissioner of the Atlantic Coast Conference, he appeared in control of a powerful group of twelve – soon to be fourteen – university athletic programs.

On May 12, only three days after announcing the new television contract, however, Haggard’s comments had instantly changed public perceptions of the ACC from stable and powerful to shaky and divided. Swofford faced a public perception crisis just two days before the ACC’s spring meetings of May 14-16.

The NCAA
The National Collegiate Athletic Association (NCAA), the governing body of collegiate athletics, can trace it roots to the time when Theodore Roosevelt was President (National
Collegiate Athletic Association (2012). It was originally founded to increase the safety of sports, especially football and basketball. Its initial charge was to establish a common set of rules and eligibility. By 2012, NCAA rules governed nineteen men’s and 20 women’s sports. To spur interest and rivalries, at the turn of the 20th century, groups of colleges began to band together in conferences. Over the last century more than 120 different athletic conferences have come and gone. The oldest Division 1 conference, begun in 1896, was the Big 10 (Big Ten Conference, 2012). While the NCAA governed thirty-nine sports, football represented the highest single revenue producing sport. By 1998, to facilitate a more equitable system to determine a national football champions and increase television revenues, eleven athletic conferences were designated to compete in collegiate football’s Bowl subdivision (the highest classification for football). Six of these eleven conferences (ACC, Big East, Big Ten, Big Twelve, Southeastern Conference (SEC), and Pacific Ten (Pac Ten)) were each granted a special privilege guaranteeing that one or two of its members would be invited to play in a BCS bowl game each season. These BCS bowl games were the most financially lucrative of the post season games and thus the most sought after. Revenues from football television contracts were the most lucrative of any sport including basketball. Since conference teams divided most television revenues equally, membership in the right conference could have a significant effect on overall football revenues. The NCAA did not play a significant role in the formation or expansion of conferences; but it did mandate that a conference with fewer than twelve members could not have a football playoff game. Playoff games were also highly valuable and there was an active effort to expand conferences to the required twelve schools.

The ACC
When Swofford accepted the role of ACC commissioner in 1997, the ACC included nine universities: Clemson University; Duke University; Florida State University (FSU), Georgia Institute of Technology (GA Tech); University of Maryland; University of North Carolina (UNC); North Carolina State University (NC St); University of Virginia (UVa); and Wake Forest University. The conference was perceived as a basketball powerhouse, with elite men’s basketball programs at UNC and Duke in particular.

Though schools such as FSU, Clemson, and GA Tech seemed to focus more attention on football than on other sports (each had won at least one football national championship over the previous 25 years) the ACC was viewed as being a lesser football conference than other BCS conferences such as the Big 10, the Big 12, and the SEC. None of the ACC member’s national football championships had occurred since the 1990s.

Seeing an opportunity to increase revenues (and increase its football prowess), ACC schools such as Clemson and FSU pushed for additional football-oriented members in 2003. In June 2003, the ACC voted 7-2 to extend Miami University and the Virginia Polytechnic Institute and State University (VA Tech) membership to begin in fall 2004. Miami and VA Tech., were known for their powerful football programs much more so than for their basketball programs. Duke and UNC, who each boasted particularly powerful basketball programs, provided the two “no” votes for offering membership to Miami and to VA Tech. In October 2003, the ACC voted a unanimous 9-0 to extend membership to Boston College (BC) to begin in fall 2005. While respectable in football and in men’s basketball, BC would not have been considered among the elite in either sport. Its large metropolitan area did offer hope for strong television ratings.
Per NCAA guidelines, getting to twelve teams allowed the conference to stage a lucrative conference championship game. Adding new members also allowed the ACC to renegotiate with its television partners, ESPN and Raycom Sports. A renegotiated contract was announced in early 2004 that provided each ACC member approximately $3.3 million until 2010, a 50% increase from its previous deal (Associated Press, 2004). This contract kept the ACC members’ television revenue competitive with members of other BCS conferences, at least until the SEC stunned the collegiate athletic world with a blockbuster deal in 2008.

Conference Revenue Streams
In collegiate athletics, each school generated revenues through a variety of sources including tickets and concessions at sporting events, athletic fees included in student tuition, and donations from athletic boosters. Revenue amounts generated from each of these sources varied for each school.

Each member university also received revenues from postseason events such as football bowl games and/or postseason tournaments in sports such as basketball and baseball. Participating in these post-season events was achieved by invitation only and invitations were based on an individual team’s level of success during the current season. Each year, several ACC teams competed in football bowl games and in the men’s and women’s basketball tournaments.

Each school also received revenues from the conference’s television agreements. Television networks paid the ACC to televise sporting events (primarily football and basketball). Of the ACC’s fourteen members schools (which stretched along the east coast from Miami to Boston) Florida State University (FSU) was arguably the most valuable “brand” because of its high national profile that drew strong television ratings.

Although teams of some schools appeared more often in postseason events and/or participated in more televised events than teams of other schools, all ACC member schools divided each of these revenues equally. The conference’s policy of sharing postseason and television proceeds equally, coupled with its strong history of success in men’s basketball, had allowed each ACC member school to achieve attractive revenues throughout the 1990s and 2000s.

Competing Realignment: “Show Me the Money”
In 2008, the SEC announced a new contract with its television partners, CBS and ESPN, which paid each of its twelve member schools, approximately $17 million per year (roughly triple what each school had been receiving) (Mandell, 2009). The SEC was known for being particularly strong in football and for high football television ratings. With the SEC’s new contract, football became established as the giant of collegiate television revenues – effectively dwarfing revenues for all other collegiate sports (including men’s basketball which was second).

Such an enormous revenue increase could provide SEC members competitive advantages for enhancing their sports programs including facilities upgrades (which also enhanced a school’s efforts in recruiting top talent) and for offering high salaries to hire premier coaches. Four ACC members (Clemson, GA Tech, FSU and Miami), each had an instate rivalry with a team in the SEC and, therefore, faced a significant competitive disadvantage against its rival. Like SEC schools, each of these four ACC members seemed to focus more on football than on other sports such as basketball.
In 2009, the Big 10 created its own television network, the Big Ten Network, to carry both academic and sporting events. After expanding its membership in 2010 to include a former Big 12 member that enjoyed strong football television ratings, the Big 10 (now with 12 members) began playing its own conference championship game in 2011. Between its contract with ESPN and the Big 10 Network, each Big 10 member was generating television revenues well over $25 million per year with the possibility for significantly more (Taylor, 2012). In May 2012, the Big Ten Network announced it would drop all academic programming due to poor ratings. Going forward, its focus would be solely on sports (Wolverton, 2012).

The Pac 10 also expanded in 2010, adding a Big 12 member and a member of the Mountain West (a non-BCS conference). In moving to 12 teams, the Pac 10 announced a conference championship football game and changed its name to the Pac 12 beginning in fall 2011. In 2011, it announced a renegotiated television deal that secured no less than $21 million per team per year (approximately triple the amount of annual television than each member had previously earned). By 2012, the Pac-12 had also secured ownership in multiple regional networks. With the $21 million guaranteed, total annual revenue estimates for each Pac-12 team were as high as $30 million (Berkowitz, 2012).

Also recognizing opportunities for additional television revenues, in 2011 the SEC lured two Big 12 members with attractive television ratings to join the SEC beginning in fall 2012. As of May 2012, the SEC was renegotiating its television contract to allow CBS Sports Tier One rights (they would have first pick of games to televise) and to allow ESPN Tier Two rights (Dosh, 2012). Similar to the Big 10 and Pac 12 contracts, the deal was expected to provide each SEC team approximately $25 million per team for Tier One and Tier Two rights only (Bianchi, 2012; Marcello and Kellenberger, 2012). Each school could earn additional revenue by selling the broadcasting rights of individual home games that were not selected by CBS or ESPN (i.e., each school held its own Tier Three rights). Like the Big 10, the SEC could also have then chosen to create its own network that could offer the Tier Three programming. Such an option could have been very lucrative.

After losing members to rival conferences, the Big 12 had been reduced to eight members by fall 2011. It quickly added a team from the Mountain West and a team from the Big East to reach ten members. Both of these teams offered attractive television ratings. The revised Big 12 was also negotiating a new television deal with its TV partners, ESPN and Fox Sports, that was expected to provide each member over $20 million per year for Tier One and Tier Two rights only (Dosh, 2012). Additional speculation estimated that if the Big 12 were to add two valuable “brands” (universities) from the eastern US, then Big 12 members could receive approximately $25 million per team per school (Sneed, 2012). Doing so would also allow it to stage a lucrative conference football championship game. Member schools would still retain their Tier Three rights.

Haggard and Florida State
"It's mind-boggling and shocking," Haggard said. "How can the ACC give up third tier rights for football but keep them for basketball?” (Williams, 2012)

With FSU’s athletics currently facing a $2.4 million shortfall (Lamar, 2012), Haggard’s comments illustrated his perceived plight of ACC schools that valued football above basketball. FSU and the four other particularly football-oriented schools (Clemson, GA Tech, Miami, VA Tech) enjoyed strong football ratings that likely accounted for the bulk of the ACC’s television
contract. ACC schools with weak football ratings (the majority of ACC members), therefore, gained significant windfalls from FSU’s football brand. Furthermore, ACC members with strong basketball ratings (examples include Duke, North Carolina, NC State, and the two new members, neither of which enjoyed particularly strong football ratings,) could gain greater revenue than FSU by selling their Tier Three basketball rights. Since Tier Three football rights were retained by the ACC and FSU basketball did not offer significantly high ratings, FSU could not similarly cash in on its strong football program. Haggard’s contention was based on this arrangement that permitted these “basketball schools” to use FSU’s football success to gain greater revenues while FSU could not gain from those schools’ added basketball revenues. In effect, FSU held more valuable overall brand than UNC or Duke, but generated less revenue due to the equal sharing of Tier Three football rights but not Tier Three basketball rights.

Haggard’s rant went on. “It continues the perception that the ACC favors the North Carolina schools” (Williams, 2012).

During a time when significantly higher television revenues were driving athletic programs’ success, the ACC could ill afford a shaky reputation. The most effective way to encourage renegotiation of television contracts seemed to be adding new teams. If the ACC were perceived as unstable, then adding valuable teams would be very difficult. Perceived instability and conflict within the conference could also lead other ACC members to explore changing conferences – leaving behind the members with less valuable brands. Even if all member schools were to maintain their allegiance to the ACC, they could endure difficulties in recruiting top athletes as well as in generating athletic donations from boosters if perceptions of the conference’s future remained shaky.

As commissioner of a conference that was accustomed to stability, Swofford’s skills in crisis management and communication now faced an extreme test. With two days before the conference meetings, time was running out. How should Swofford respond?
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