

# STREET & SMITH'S SportsBusiness JOURNAL

## Opinion

### Popularity is only the first step for an emerging league

Published April 28, 2008 : Page 25



**SCOTT  
ROSNER**

*Follow my lead and yes, indeed/You will be ... Popular!/You're gonna be popular!"*

Thus goes a key plot line from the hit musical "Wicked." For those who follow the travails of startup leagues, the story line is often the same — an idea for a new sports league that is embraced by investors with unbridled enthusiasm, followed by a public announcement of its arrival, the actual launch and, far too often, failure. While there have been numerous success stories, and others whose stories have not yet been completed, there are five defining characteristics of successful emerging leagues.

**1. The sport must be appealing to an audience.** While it seems obvious that a sport lacking audience appeal is likely to fail, the determination of what makes a sport attractive to an audience is quite unclear. At a minimum, it must be interesting to watch highly skilled participants compete in the sport, which is greatly facilitated by the presence of a transcendent athlete. It also helps if the general population has a significant participation rate in the sport. While the presence of both of these elements does not guarantee success, the absence of either one will ensure long-term failure.

**2. A television presence on cable or broadcast is very important to emerging leagues.** Television provides a league with the exposure needed to grow interest. This exposure drives attendance figures upward. The increased attendance, in turn, can lead to increases in both local and national sponsorship revenue and ancillary, facility-driven revenue. Sponsorship revenue can be increased because a larger audience is reached, making an affiliation with the sport more valuable. Facility-driven revenue can be increased because a larger audience size will lead to increased consumption of concessions and parking spaces.



**The AAFL last month was forced to cancel its inaugural season because of cash flow problems.**

Improvements in technology have led to a dramatic increase in the number of cable television networks; similarly, video's ubiquity on the Web allows for another method of distribution for the entity. The increased size of the cable and Web video universe has created broadcasting opportunities for sports that were previously unavailable, as these networks need programming content. Sports are attractive to them because of the potentially strong demographics, even if the overall audience size is small. Thus, the opportunity for emerging sports leagues to receive broad television and other media exposure is better than ever.

**3. It is important for an emerging league to possess deep-pocketed ownership.** Not unlike other entrepreneurs, owners in emerging leagues must be both willing and able to withstand substantial startup costs and significant operating losses in at least the first several years of business. Unwilling or undercapitalized ownership leads to franchise instability and/or suboptimal management practices, either of which can lead to the ultimate failure of the entire league enterprise. It is important that the league consider this issue when awarding a franchise. It is perhaps better for the league to begin play with a smaller number of well-financed franchises than with a larger number of thinly capitalized ones. In addition, the league must consider the amount of the entrance fee that it will charge to prospective owners. The franchise fee must be sufficient to support league operations yet not lead to owners becoming overleveraged.

**4. The league must be in appropriate markets.** This is dictated by the desire to be located in major markets, the regional popularity of the sport, and ownership preferences. These determinants of franchise location often conflict. Location in major markets historically has been the primary determinant of franchises in emerging sports leagues. The impetus behind this idea is the notion that media outlets would only be interested in broadcasting sports with broad audience appeal. In addition, attendance is potentially greater in larger markets. Location in major markets also allows for increased attention from both the national media and potential advertisers, as it lends a sense of cultural relevance to the sport that makes it worthier. However, there is a hubris associated with locating an emerging league in major markets. Operational costs are likely to be significantly higher and there is increased competition for fan and media attention in the form of other sports franchises. This may render the emerging league irrelevant on the landscape of the large markets.

Location that is driven by the regional popularity of an emerging sport may allow the league to have large attendance revenue and local sponsorship revenue. Operational costs are likely to be lower in smaller markets, and the existing interest will allow the league to avoid many of the costs associated with developing a fan base. And there is likely to be less competition for fan and media attention in the local marketplace. Yet location that is based on a sport's regional popularity will likely place it in smaller markets where it is unattractive to national broadcasters. This could relegate the league to fringe status, with revenue growth limited because of the regional nature of the sport. This could also make the league less appealing to investors.

A final determinant is investor preference. Sports ownership has a high consumption value, and these factors may lead an owner to choose to eschew major markets or regions where a sport is popular in favor of another location. However, an owner's preferences may conflict with the best interests of the league. An emerging league requires investors, but it must consider the long-term impact of its decisions. The short-term investment in the league by a willing and able individual may have negative repercussions in the long term if a franchise is located in an inappropriate market.

**5. An emerging league must have strong leadership.** Its leaders must have vision to guide the long-term direction of the league and the ability to build consensus among the entity's ownership interests while addressing their conflicting agendas, coordinating and negotiating leaguwide broadcasting, marketing, and sponsorships, and generating enthusiasm for the sport.

*Scott Rosner (srosner@wharton.upenn.edu) is the associate director of the Wharton Sports Business Initiative and a lecturer at the Wharton School of the University of Pennsylvania.*