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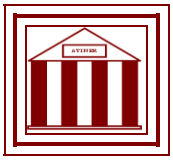

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Outsourcing and Vertical Integration: FIFA's Strategy of Promoting the World Cup Broadcasting Rights

Dr. Jan Pieper
Research and teaching associate
University of Zurich
Department of Business Administration
Chair of Strategic Management and Business Policy
Switzerland

Dr. Erwin Verbeek
Research and teaching associate
University of Zurich
Department of Business Administration
Chair of Strategic Management and Business Policy
Switzerland

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Athens Institute for Education and Research
8 Valaoritou Street, Kolonaki, 10671 Athens, Greece
Tel: + 30 210 3634210 Fax: + 30 210 3634209
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Dr. Jan Pieper
Research and teaching associate
University of Zurich
Department of Business Administration
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Dr. Erwin Verbeek
Research and teaching associate
University of Zurich
Department of Business Administration
Chair of Strategic Management and Business Policy
Switzerland

Abstract

We analyse the economic rationale of FIFA's mixed strategy to partly sell the World Cup broadcasting rights in packages to specialized intermediate agencies who resell the rights to broadcasting stations in the respective territories and to partly negotiate directly with broadcasters. We provide an in-depth discussion on the comparative advantages and disadvantages of vertical integration and outsourcing, respectively. Specifically, we discuss the substantial potential for synergies that a horizontally integrated intermediate agency can exploit by promoting several sports events while FIFA's operations are restricted to promoting football. We outline how FIFA tries to appropriate the rent that stems from the agencies' synergetic advantages and how FIFA copes with associated agency problems and market transaction costs. Moreover, we address a probably less intuitive, yet compelling argument for vertical integration. In repeated auctions for FIFA's broadcasting rights, informational asymmetry among intermediate agencies weakens the competition and lower's FIFA expected selling price. Drawing on Milgrom and Weber (1982), we conclude that FIFA can mitigate this problem by partial vertical integration to acquire the experienced agency's private information and making it public.

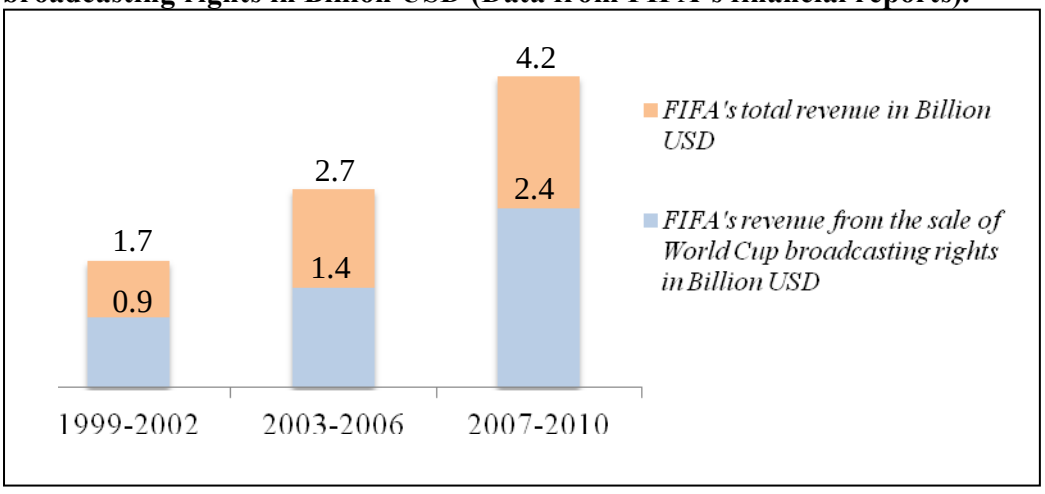
Contact Information of Corresponding author:

Introduction

FIFA (Fédération Internationale de Football Association) is a crucial global sports organization not only because soccer is the most global of commercial team sports but also because FIFA has enormous formal and informal participation at the grass roots level. For all its competitions, FIFA has a monopoly on its broadcasting rights and guarantees exclusivity to the national broadcasters. These rights cover TV, IPTV, Internet, mobile and radio transmissions. FIFA organizes 4 to 5 World Cups a year and also the 'smaller' events' audience figures dwarf many other main sport events – for example the FIFA Women's World Cup, FIFA U-20 World Cup and the FIFA Confederations World Cup. The FIFA World Cup, contested by the senior men's national teams of the members of the sports global governing body, however, is clearly FIFA's flagship competition. It is the world's most widely viewed sporting event - even surpassing the Olympics. The in-home television coverage of the 2010 FIFA World Cup in South Africa reached over 2.2 billion viewers around the world, based on viewers watching a minimum of 20 consecutive minutes of coverage. Indeed, these figures do not include online and out-of-home consumption in public viewing venues, pubs, bars, restaurants, clubs, hotels, and via mobile phones.

The sale of broadcasting rights is evidently a 'big business'. In terms of FIFA's total revenue of USD 4,189 million in the four-year 2007-2010 period, the lion share of USD 2,408 million was attributable to the sale of broadcasting rights for the 2010 FIFA World Cup. Figure 1 illustrates the substantial increases in FIFA's revenues throughout the last decade. Broadcasting-related revenue consistently accounts for at least half of the total revenue.

Figure 1. FIFA's total revenue and revenue for the sale of World Cup broadcasting rights in Billion USD (Data from FIFA's financial reports).



Interestingly, FIFA follows a mixed strategy in selling its regionally exclusive broadcasting rights, which can be considered an intermediate good within the 'World Cup value chain'. FIFA partly negotiates directly with

broadcasters and partly sells the rights in packages to specialized intermediate agencies who resell the rights to broadcasting stations in the respective territories. For the 2010 and 2014 tournaments, for example, FIFA sold the broadcasting rights in the European key markets (England, France, Germany, Italy, and Spain) directly to broadcasters. The broadcasting rights in other European regions, in large parts of Africa and in key Asian territories were sold in cooperation with intermediate agencies. Our goal is to analyse the underlying economic intuition of FIFA's make-or-sell decision.

A question of transaction costs

Any company's decision as to whether or not to carry out functional activities must be subject to a comparison of the performance of intermediate processes within the firm to outside market alternatives. Companies should take on only those activities that the company can perform relatively better than market alternatives (Spulber, 2003).

In his famous paper, 'The Nature of the Firm', Ronald Coase (1937) first described the concept of transaction costs. He investigated why so much economic activity takes place within firms in which market transaction costs are replaced by central direction despite the efficiencies of the competitive market mechanism emphasized in economic theory. He concluded, '…a firm will tend to expand until the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm.' These costs, now commonly known as transaction costs, include the time and expense of negotiating, writing, and enforcing contracts. They arise when one or more parties to a transaction can behave opportunistically (i.e., seek private gain at the expense of the greater good). If the transaction relationship is sufficiently complex, the ability to write and enforce complete contracts that safeguards each party is limited. Transaction costs include the adverse consequences of opportunistic behaviour, as well as the cost of its prevention.

Theoretically, FIFA should choose to serve the national broadcasting markets directly with its existing resources, competencies and organizational structure if the transactions it offers not only generate positive rents but also create greater rents than the alternative cooperation with an intermediate agency. In other words, FIFA's cooperation with an intermediate agency must reduce the transaction costs of the national broadcasters and the agency relative to the costs of direct exchange between FIFA and the national broadcasters, because otherwise FIFA would have reason the bypass the intermediate agency's services and deal directly with the national broadcasters.

Comparative advantages of an intermediary agency

FIFA's operations are restricted to promoting football by its legal status as an association. Thus, FIFA cannot engage in non-football sports events, even if that would be profitable. The promotion of sports broadcasting rights, however, provides large potential for synergies, which a horizontally integrated agency can better exploit by promoting several sports events.

The promotion of the broadcasting rights of a mega event like the FIFA World Cup requires heavy set up investments – particularly in specialized human capital, like juridical and media expertise. These input factors are not flexibly and spontaneously available on the labour market. It takes time to develop the required expertise and employment contracts are rather long term. To recoup the substantial block of set-up costs, intermediate agencies can be spread their costs across several sporting events. They face a larger aggregate and more continuous demand. For example, Infront, an international sports agency based in Switzerland, which has promoted the broadcasting rights for the 2002 and 2006 World Cup, handles the broadcasting rights for many large, international sports events in football, basketball, handball, motorcycling, volleyball, triathlon, skiing, bobsleigh, skeleton, and curling.[1] FIFA would need similar capacities, but there is only this one big event every four years to use them.[2]

Moreover, intermediate agencies benefit from frequently dealing with many buyers and sellers not only in terms of returns to scale and scope but also in terms of learning economies. An intermediate agency is likely to have a cost advantage because it can learn from similar projects in the past. The agency gains idiosyncratic knowledge about the specificities of the national media landscape and thereby improves its ability to accurately estimate the value of specific projects. Of course, FIFA can also learn from directly promoting their broadcasting rights, but there are simply fewer opportunities for FIFA than for an intermediate agency to gain experience. Similarly, an intermediate agency that repeatedly deals with the same national broadcasters can build a reputation for quality and reliability to reduce the transaction costs of future interactions and potential market entries.

Another comparative advantage of an intermediate agency refers to its superior ability of risk pooling. The promotion of broadcasting rights is subject to substantial risks because several factors that affect the value of the project are hard to predict. The willingness to pay of a national broadcasting station, for example, largely depends on whether the respective national team actually qualifies for the tournament, which may be uncertain at the time of negotiation. A horizontally integrated intermediate agency can diversify the associated risks across several sport events.

[1] See http://www.infrontsports.com/.

[2] Of course, there are also the other FIFA events, but in comparison to the men's World Cup their scale is very small.

FIFA's selling mechanism

The extent to which FIFA can appropriate the rent stemming from the intermediate agency's advantage depends on the obtainable price the agency pays for the broadcasting rights. As the seller, FIFA could unilaterally set a price, but FIFA's information about the individual agency's willingness-to-pay is limited. Given that reliable accounting data is not publicly available, FIFA may possibly estimate an agency's expected revenues in a sufficiently accurate way, but FIFA can hardly estimate the costs an intermediate agency incurs. At best, FIFA can estimate its own costs in case of vertical integration. The size of an agency's advantage and thus how much profit the agency can make from the promotion is even more difficult to estimate for FIFA.

A price unilaterally set by FIFA is likely to be either too high or too low because an intermediate agency enjoys an informational advantage over FIFA concerning the agency's estimated value of the broadcasting rights. If the price set by FIFA is too low, FIFA cedes part of the potential rent to the intermediary agency. If the price is too high, FIFA finds no adequate buyer for its broadcasting rights.

The minimum price FIFA has to charge corresponds to the expected revenue if FIFA vertically integrated the promotion of its broadcasting rights. At this minimum price, FIFA is indifferent whether to promote the broadcasting rights directly or to outsource the promotion. Below the minimum price, the option to outsource the promotion becomes irrelevant for FIFA.

For any particular sporting event, the bidding contest is effectively an auction.[1] As competition increases bidders are forced to place bid closer to their maximum willingness-to-pay. In case of perfect competition, each bidder must place a bid, which corresponds exactly to his maximum willingness-to-pay and the seller can appropriate the entire rent stemming from the agency's synergetic advantages. Open bid auctions seem to have been the most common procedure to sell sports broadcasting rights (Solberg, 2002), but FIFA's specific solution to find a price is a first-price auction with sealed bids.[2]

FIFA publishes an invitation for tender for its broadcasting rights in a number of selected territories for the next FIFA World Cup(s) and every bidder places one bid, which the other bidders cannot observe. The highest bid wins the auction and the successful bidder pays its bid. 'This tender is designed to help FIFA identify and select the media entity in each territory that is able to operationally secure the transmission commitments required by FIFA, as well as achieve FIFA's overall objectives of reaching the widest possible audience

[1] For a survey of the economic theory of auctions, see for example, McAfee and McMillan (1987).

[2] Each bidder simultaneously makes a single "best and final" offer. As a result, bidders are unable to retaliate against other bidders who fail to cooperate with them, so collusion is much harder than in an ascending auction. Tacit collusion is particularly difficult as bidders are unable to use the bidding to signal (Klemperer, 2002).

and financial targets.' explained Niclas Ericson, Director of FIFA's TV Division, which is overseeing the tender procedure.[1]

A first-price auction creates a tendency to bid below the full valuation, trading off a higher surplus if it wins against a lower probability of winning. The price paid is determined more by the (estimated) valuation of the second highest bidder than by the valuation of the highest bidder. Thus the price paid is (just above) the second highest valuation, and the profit of the winner equals the difference between the winner's valuation and the second highest valuation (Klemperer, 1999).[2] If there is significant uncertainty about rivals' valuations (and hence likely bids) and if bidders are risk-averse about not obtaining the object, sealed bid auctions tend to generate more revenue than open bid auctions, in which successively higher bids are invited until only one bidder remains.

In case of FIFA's tender, an agency i's bid B_i represents the guaranteed minimum price if the agency's revenue R_i from the sale of the broadcasting rights is less than or equal to the bid B_i. If the agency's revenue R_i exceeds the bid B_i, FIFA claims a share s_{FIFA} of the revenue (typically about 50%). Thus, agency i's bidding condition is that its bid B_i is smaller than the expected revenue ($E(R_i)$) minus the expected costs ($E(C_i)$) minus FIFA's share of the revenue if agency i's revenues exceeds its bid B_i:

$$B_i \leq E(R_i) - E(C_i) - (1 - s_{FIFA})E(R_i) \qquad \text{if } R_i > B_i.$$

Comparative disadvantages of an intermediary agency

A successful bidder's costs for promoting a major global sports event will involve the expense incurred in securing the broadcasting rights plus a heavy investment in people, accommodation, travel, and equipment. Thus, it is not surprising that a media company will endeavour to exercise considerable control over the event. The FIFA World Cup competition is an example of a particularly large-scale and well-established sport event, but it is still not immune from media preferences. Indeed, loss of control needs to be considered whenever a sports organization, however local and small, gets involved with the media.

If FIFA outsources the promotion to an intermediate agency, FIFA delegates several decisions to the agency, which may affect the interest of both the FIFA and the agency. These interests are not necessarily aligned. In the absence of some mechanism for FIFA to control the intermediate agency, the latter likely does not care about the value generated for FIFA. Instead, the agency is

[1] See http://www.rapidtvnews.com/index.php/2011121518014/fifa-kicks-off-european-world-cup-tv-rights-bid-process.html.

[2] In a second-price auction, on the contrary, one's bid determines only whether the bidder wins the auction. What price is paid if it wins is determined by the bid of the highest unsuccessful bidder. The bidder therefore submits its true valuation (Klemperer, 1999).

concerned with the value it receives from participating in the transaction, minus any costs incurred by doing so. FIFA's challenge is to control that the final product reflects FIFA's unbiased objectives as the owner of the intangible product.

One plausible aspect where interests are likely not to be aligned refers to the cooperation with marketing partners. FIFA might grant selected marketing partners pre-emption rights for buying preferential slots in commercial breaks to increase the attractiveness and price of their contracts. The intermediate agency has no incentives to engage in such special regulations because it does not benefit from more valuable marketing contracts while it probably incurs additional negotiation costs.

Among other aspects of concern, such as the broadcasting design, overall editorial guidelines, the probably most important aspect refers to the optimal degree of coverage[1]. It is reasonable to assume that an intermediate agency tries to maximize its profit from the promotion of the broadcasting rights. The degree of coverage, for example, is no goal to pursue by itself for the agency – only as long as it is instrumental to increase profits. FIFA, on the contrary, rather trades off between maximizing profit and maximizing coverage.

The media organization concerned may be a quasi-governmental body, like the European Broadcasting Union (EBU), or multinational companies, like BSkyB or Infront. National, monopolistic public broadcasters created the EBU as a response to the growing cartelization of sporting supply (e.g., FIFA, IOC, et al.) in order to use collective bargaining power for obtaining lower rights fees. This demand-side cartel has been threatened by the liberalization of European audio-visual markets and the emergence of networks and agencies that are not EBU members.[2]

While in the past, public broadcasting institutions carried sporting events and, as monopolists, paid relatively small rights fees, the proliferation of commercial free-to-air and pay TV channels has substantially increased the demand and fees for these rights (Noll, 2007). Although these contracts are not necessarily profitable, broadcasters remain extremely interested in sports rights because of their promotional opportunities, branding power, and audience building effects (Horne, 2006).

Interestingly, FIFA and other global sports bodies, such as the IOC, have resisted approaches from private media companies on the grounds that a satellite-based broadcaster did not offer access to the highest possible audience. In many smaller European countries, public broadcasters still have a firm grip on the FIFA World Cup. In Africa, the African Union of Broadcasters (AUB)

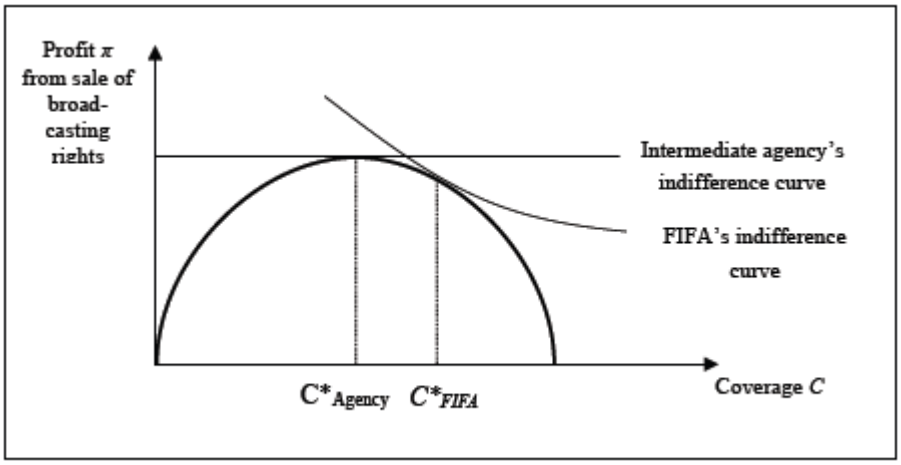
[1] We understand coverage as the sum of the individual consumption c of viewer $i \in \{1,...,n\}$, thus $\sum_{i=0}^{n} c_i$

[2] For example, not the EBU but SPORTFIVE, one of the largest sports agencies worldwide, was awarded with the Olympic broadcast rights (2014-2016) and can now exploit these rights across 40 countries in Europe for the first time in history.

won FIFA's tender for the FIFA World Cup 2010, providing viewers with free access to all the World Cup matches across much of sub-Saharan Africa. Only in some parts of North Africa and the Middle East, football fans have to pay up; Al Jazeera, which owns the rights across much of the region, made the games of the 2010 FIFA World Cup available only on pay TV channels in a number of countries.

Figure 2 illustrates the inverted-u-shaped relationship between coverage *C* and profit π from the sale of broadcasting rights. Profits initially increase with coverage at a decreasing rate up to a profit maximum. Beyond this maximum, the marginal costs of increasing coverage exceed the marginal profit at an increasing rate. The indifference curves reflect the set of coverage-profit combinations that yields the same utility to FIFA and an exemplary profit-maximizing intermediate agency, respectively. The intermediate agency's indifference curve is horizontal because its utility is indifferent to the degree of coverage *C*. The decrease in FIFA's indifference curve indicates the trade-off between maximizing profit and maximizing coverage. Consequently, FIFA's optimal degree of coverage C^*_{FIFA} is exceeds the agency's optimal degree of coverage C^*_{Agency}.

Figure 2: The optimal degree of coverage.



To discipline the agency and enforce its interests, FIFA contractually specifies certain minimum requirements, which are tied to the auctioned broadcasting rights. These so-called 'Distribution Practices' define, among others, the minimum degree of coverage and the specific conditions for cooperation with pay TV stations.

FIFA can relatively simply monitor whether the agency fulfils the requirements, e.g. by viewing figures. Moreover, FIFA can credibly threat with sanctions if the agency does not stick to the minimum requirements. For example, FIFA can make an agency's deviant behaviour public and thereby

damage its reputation or FIFA can exclude the agency from future tournaments.
Thus, from efficiency considerations, outsourcing the promotion of broadcasting rights to an intermediate agency seems recommendable for three reasons. First, a horizontally integrated intermediate has a significant synergetic advantage over FIFA's alternative to vertically integrate the promotion of its broadcasting rights. Second, agency problems and market transaction costs are unlikely to eliminate this advantage because FIFA can sufficiently effectively enforce its minimum requirements. Third, FIFA can appropriate at least part of the rent that stems from the synergetic advantage by means of a first-price auction. If there is sufficient competition among bidders, the profit FIFA expects to extract from the auction are likely to exceed FIFA's opportunity costs of vertical integration (i.e., FIFA's expected profit from direct exchange with the national broadcasters). However, outsourcing is evidently not consistently FIFA's first choice. In the following we will illustrate a compelling argument for FIFA's vertical integration.

Information asymmetry among bidders as a rationale for vertical integration

Suppose at least two intermediate agencies, which bid non-cooperatively for the broadcasting rights of the FIFA World Cup. To a first approximation, the auctioned broadcasting rights have the same value V to all bidders, that is, the auction is what is called a 'common value auction'. Further, each bidding agency tries to determine the true value V of the project (i.e., $E(V)$), trading off an increased probability to win the auction ($P(b_i > b_{j\neq i})$) and a decrease in expected profits as bids increase ($E(V) - b_i$). Thus, bidder i faces the following maximization problem when placing his bid b_i:

$$\max_{b_i} P\left(b_i > b_{j\neq i}\right) \times \left(E[V] - b_i\right).$$

Given the difficulty of estimating, none of the bidders is likely to get the value V exactly right. Some will be wrong by a little, some by a lot. Some will undervalue the project, while others will overvalue it. Further, suppose that all bidders obtain unbiased estimates of the value of the auctioned broadcasting rights and that bids are an increasing function of these estimates. The winning bidder then tends to be the one with the most optimistic estimate of the rights' value and is thus most likely to overvalue the project. This phenomenon is called 'winner's curse'. The winner is likely overpay or be 'cursed' either because the winning bid exceeds the value of the auctioned asset such that the winner is worse off in absolute terms, or because the value of the asset is less than the bidder anticipated, so the bidder may still have a net gain but will be worse off than anticipated (Thaler, 1988). In either version the winner is unhappy about the outcome, so both definitions seem appropriate. However, an

actual overpayment will generally occur only if the winner fails to account for the 'winner's curse' when bidding. Rational bidders should anticipate the 'winner's curse' and place systematically lower bids than their estimated value of the project (Cox and Isaac, 1984; Bulow, Huang, and Klemperer, 1999).

In practice, such strategic discounting in common value auctions is difficult because it requires first distinguishing between the expected value of the object for sale, conditioned only on the prior information available, and the expected value conditioned on winning the auction. Even if a bidder grasps the basic concept, the value of the asset is still likely to be less than the bidder anticipated if the bidder underestimates the magnitude of the adjustment necessary to compensate for the presence of other bidders.[1] Oil companies claim they fell prey to the winner's curse in offshore oil drilling lease sales (Capen, Clapp, and Campbell, 1971). Similar claims have been made in auctions for book publication rights (Dessauer, 1981) in professional baseball's free agency market (Cassing and Douglas, 1980) and in corporate takeover battles (Roll, 1986).

An aspect which systematically influences the relevance of the 'winner's curse' and thereby the associated bidding behaviour and eventually the outcome of the auction refers to the information asymmetry among bidders. Also for FIFA's evaluation of the advantageousness of its outsourcing decision, the consideration of information asymmetries among bidders may be crucial.

Milgrom and Weber (1982) formally show that in a first-price common value auction with sealed bids and two bidders *A* and *B*, the less-informed bidder *B*, who knows that his rival *A* is better informed, makes no profit in equilibrium, while bidder A with private information generally makes positive profits.

The intuition behind this result is as follows. As *A* is better informed than *B*, *B* must worry that his bid will win only if his rival holds a low estimate of the project value (i.e., B is subject to the 'winner's curse'). If the better-informed *A* acquires additional private information and B knows about his increasing information disadvantage, *B* must bid still more defensively to avoid losing money. This reduction in *B*'s bids benefits the better-informed *A* as he can anticipate B's response and adjust his own bidding behaviour as well. Thus, the information asymmetry weakens the competition among the bidders because both *A* and *B* place more defensive bids. While the weakened competition is at the detriment of the auctioneer who obtains a smaller price, *A* can extract a so-called information monopoly rent (in terms of expected profits), which increases with *A*'s information advantage.

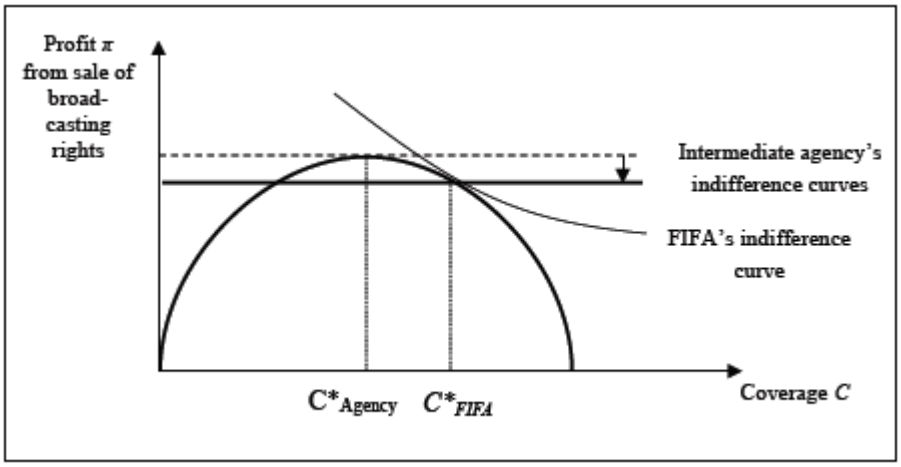
The same logic is applicable to FIFA's outsourcing decision. The monopoly to promote the broadcasting rights is auctioned for one or at most two World

[1] An increase in the number of bidders implies more aggressive bidding behaviour to win the auction, but their presence also increases the chance that the winning bidder will have overestimated the value of the object for sale - suggesting that he should have bid less aggressively. Theoretically, the net effect of these two conflicting forces is for bids to remain constant or to decrease in the presence of additional rivals (Kagel and Levin, 1986).

Cups.[1] As the tournament with its 64 matches, the broadcasting rights, and the minimum requirements stay largely the same from tournament to tournament, it seems reasonable to denote FIFA's selling mechanism a repeated auction for a good of unvarying quality. Although ex post, all bidding intermediate agencies would attribute the same value *V* to the broadcasting rights, they differ considerably in their ex ante information about the value of this good. Specifically, the incumbent intermediate agency gains private information about the specificities of the national media landscape and thus about the true value of the broadcasting rights as well as the promotion costs and the costs of fulfilling FIFA's minimum requirements.

Figure 3 exemplarily illustrates the loss of the agency's potential profits from the sale of the broadcasting rights (as reflected by the downward shift of the agency's indifference curve) induced by FIFA's enforcement of its minimum requirement concerning FIFA's optimal degree of coverage C^*_{FIFA}. The size of the agency's corresponding costs is difficult, if not impossible to quantify for another inexperienced intermediate agency.

Figure 3. FIFA's enforcement of its optimal degree of coverage.



To the extent that competitors can neither publicly observe the incumbent's idiosyncratic information nor derive it from similar projects in their portfolios, the incumbent's information advantage will be valuable in the following tender process as it helps to better evaluate the value and the cost of the promoting the broadcasting rights in the same or in structurally similar territories.

The information asymmetry among experienced and inexperienced bidders will further increase if experienced bidders also win the following auction and their information monopoly rent (in terms of expected profits) will rise accordingly.

[1] For example, for coverage of the 2018 and 2022 World Cups, FIFA also awarded the sales representation for 26 territories in Asia, including China and India, to Football Media Services (FMS), following an international tender process.

Less-experienced bidders must bid even more cautiously because they must recognize that they are only likely to win when they have overestimated the value by even more than usual. The better-informed bidder can be even less cautious because beating very cautious opponents need not imply one has overestimated the broadcasting right's value. The 'winner's curse' affects less-informed bidders much more than better-informed bidders, and the effect is self-reinforcing. Consequently, the better-informed bidder is likely to outbid the increasingly cautious rivals most of the time (Klemperer, 1999).

As the winning bidder's profit plus the seller's revenues generally add up to the project value, the experienced agency's information monopoly rent corresponds to an equally sized loss of FIFA's potential revenue. In other words, the initial effectiveness of the auction mechanism for FIFA to appropriate at least part of the rent that stems for the agency's synergetic advantages, erodes as the information asymmetry among competing bidders increases.

However, the implication of this argument is not necessarily that FIFA should refrain from auctioning its broadcasting rights to intermediate agencies as soon as the information asymmetry among the bidding agencies becomes too large. In an extension of their basic model, Milgrom and Weber (1982) show that if the auctioneer has access to some of the better-informed bidder's private information, of if the auctioneer has private information of his own, he can increase the expected price by adopting a policy of making that information public to reduce item valuation uncertainty. More specifically, the public information signal will raise the average expected value of the item. This will induce an upward revision of the bids, which in turn puts pressure on the bidder with the highest private information signal to bid more out of strategic considerations. Thus, the release of public information diminishes the exclusivity of bidder's private information, dissipating his information monopoly rents and leading to higher revenues for the auctioneer.

To the extent that the magnitude of the anticipated 'winner's curse' and the corresponding conservative bidding behaviour decrease as the uncertainty concerning the value of the item decreases, public information will result in a discounting of the most optimistic bidder's valuation of the item. Publishing private information introduces a potentially powerful offset to any strategic forces tending to raise bids. It is therefore in FIFA's interest to reduce the better-informed bidders information advantage to reduce his profit and raise the selling price.

Summary and Conclusion

Economic textbook arguments suggest that a horizontally integrated intermediate agency has a significant advantage over FIFA's alternative to vertically integrate the promotion of its broadcasting rights because an intermediate agency can exploit synergies stemming from economies of scale and scope, learning economies, reputation building and risk pooling by

promoting a portfolio of several sporting events. FIFA cannot exploit similar synergies because its operations are restricted to promoting football by its legal status as an association.

Outsourcing-induced agency problems and market transaction costs are unlikely to eliminate the intermediate agency's synergetic advantage because FIFA can sufficiently effectively enforce its minimum requirements concerning broadcasting design, overall editorial guidelines, cooperation with marketing partners, and probably most importantly the degree of coverage.

From this perspective, outsourcing seems to be recommendable for FIFA if the profit FIFA expects to extract from its auction first-price auction exceeds FIFA's opportunity costs of vertical integration (i.e., FIFA's expected profit from direct exchange with the national broadcasters). Otherwise FIFA would have reason the bypass the intermediate agency's services.

In repeated auctions for FIFA's broadcasting rights, however, experienced intermediate agencies are likely to have a competitive advantage over their inexperienced rivals because only experienced dispose of private information about the specificities of the respective national media landscape and thereby about the true value of the broadcasting rights as well as the promotion costs and the costs of fulfilling the FIFA's minimum requirements. To the extent that competitors can neither publicly observe the incumbents idiosyncratic information nor derive it from similar projects in their portfolios, this information asymmetry weakens the competition among the bidders as they place systematically more defensive bids at the detriment of the FIFA, which eventually obtains a smaller price. As FIFA expected profits decrease, FIFA's alternative to vertically integrate the promotion of its broadcasting rights becomes more attractive. Despite intuitive appeal, the illustrated drawback of FIFA's repeated auction does not explain yet why FIFA follow a mixed strategy in promoting its World Cup broadcasting rights.

Assuming that the cost of promoting the broadcasting rights in a specific territory are not proportional to the expected revenue, the profit margin will tend to be higher in bigger than in smaller national markets. An intermediate agency's synergetic advantage becomes less relevant and FIFA's opportunity costs of vertical integration decrease. This logic may explain why FIFA sold the broadcasting rights for the 2010 and 2014 World Cup in the lucrative European key markets (England, France, Germany, Italy, and Spain) directly to broadcasters.

Partial vertical integration also allows FIFA to gain private information about the specificities of national media landscapes and not least about the costs of fulfilling its own minimum requirements. With this knowledge, FIFA's threat to vertically integrate the promotion of the broadcasting rights also for the next World Cup in the same country in other structurally similar territories becomes more credible. Consequently, FIFA can enforce the competition among bidders and establish a higher minimum price for the broadcasting rights.

But probably more importantly, FIFA's own experience from directly promoting the broadcasting rights provides a potentially powerful offset to anticompetitive information asymmetry among bidding intermediate agencies.

FIFA can publish its private information, which is valuable in the next tender process as it helps to better evaluate the value and the cost of the promoting the broadcasting rights in the same region for the subsequent tournament. In line with Milgrom and Weber's conclusions (1982), FIFA can increase the expected price by adopting a policy of making its private information public to reduce the general uncertainty concerning the value of the broadcasting rights. The release of the respective information (e.g., in FIFA's financial reports) will tend to raise the average expected value of the broadcasting and diminish the exclusivity of experienced intermediate agencies' private information, dissipating their information monopoly rents and leading to higher revenues for FIFA.

To conclude, FIFA's mixed strategy of partly negotiating directly with broadcasters and partly selling the rights in packages to specialized intermediate agencies, who resell the rights to broadcasting stations in the respective territories, seems to give FIFA sufficient control over the exploitation of its broadcasting rights. Even if the flexibility of choosing between both options may reduce FIFA's potential profits in the short-run, FIFA's increased bargaining power towards intermediate agencies seems to justify this approach in the long-run.

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