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First the UK, now Greece

‘NOVA’: the First DTV Package

In December 1999 in Greece, pay-TV company Net Med Hellas, a subsidiary of Multichoice, launched the digital satellite package *Nova* within the framework of Law 2644 from 1998. Nova had commenced transmissions experimentally in July 1999, but obtained the official licence to provide digital pay-TV services on the 20th of December of that year. Nova’s original bouquet included the popular movie channels FILMNET and FILMSAT, which broadcast new movies from abroad, the Greek kids channel KTV, the satellite channels BBC WORLD, DISCOVERY, CARTOON NETWORK and CNN, and the sports channel SUPERSPORT, which broadcasts sport events from Greece and abroad. Its main attraction was the live coverage of the football and basketball matches of the respective Greek leagues.

Despite a relatively rich programming offer Nova only managed to attract 80,000 subscribers in end August 2002. This could be attributed to several reasons. First, the small size of the Greek market (around 3 million TV households) was a significant barrier to the creation of a large subscriber base. Earlier predictions of 200-300,000 subscribers in the first two years of operation did not materialise. The offering of sports, movies and children’s programming was not enough to convince Greeks to subscribe to the service. A second significant obstacle to digital Pay-TV market development was the cost of purchasing the necessary reception equipment (i.e. the set-top box and the satellite dish) as well as the monthly subscription fee. The Greek population has, on average, relatively low spending power. Gross Domestic Product (GDP) per head is on average just over 4 million Greek Drachmas or 4,500 Euro (around £7.000). By contrast, GDP in Britain is around £12.000. It was therefore highly unlikely that a large number of Greek consumers would put down a one-off fee of around 150,000 Greek drachmas (450 Euro) to purchase a set-top-box and satellite dish and then spend roughly 50 Euro for a monthly subscription to access services from Nova.

Third, the limited production capacity by national/local audio-visual Greek producers would most certainly hamper the operators’ ability to offer a great deal of high quality domestic programming. It then seemed logical for Nova to focus on acquiring foreign programming. This, however, incurred financial problems, as the cost of acquiring popular programmes has risen dramatically in recent years. In addition, audience ratings show that Greek viewers favour mostly domestic rather than foreign programming. A fourth factor that prevented take-up of digital pay-TV services was the abundance of free-to-air terrestrial channels. Greek viewers have access to a number of commercial channels with national coverage, the most popular of which are Antenna TV, Mega TV, Alpha TV and Star Channel. In addition, there is a wide availability of satellite channels, which are offered free of charge. Public service broadcaster ERT broadcasts for free popular foreign channels such as CNN, MTV and BBC WORLD. The right of free reception of satellite TV in Greece is guaranteed by the Greek legislation, which complies with the respective provisions of the European Union and the European

Council. Viewers may have access to any satellite TV programme that can be picked up by their receivers.

‘ADS’: A Competing DTV Platform

Considering all the above facts, it came as no surprise that Nova failed to create a large subscriber base and thus generate profits in its first three years of operation. The real shock however came when a competing digital platform announced its intention to enter an already saturated market in which viewers could choose between many different channels, terrestrial or satellite, without having to pay extra. In early 2001 *Alpha Digital Synthesis S.A. (ADS)* launched its own digital satellite TV service. The platform’s main shareholders were entrepreneur Mr Tsotsoros with 45% stake, a consortium led by Mr Kontominas with 40% stake and Onassis Foundation, represented by its President Mr Papadimitriou, with 15% stake. ADS had obtained the licence to offer digital television subscription services from the National Radio-Television Council in June 2000.

When ADS entered the market it immediately acquired the rights to broadcast live the home football matches of ten out of sixteen teams competing in the Greek league for two years. The company’s shareholders thought of putting down the astronomical, for the Greek reality at least, fee of 25bn Greek drachmas (around 72m Euros) to persuade Greek football clubs to migrate from Nova to ADS. As a comparison, in 1996 Nova (through NetMed) had put down the fee of 15bn drachmas (44m Euros) to broadcast live the matches of all football clubs of the Greek league for five years. When the contract ended in 2001, the football clubs decided to sell their TV rights individually and not collectively as they did in the past. ADS saw the opportunity of acquiring those rights and build up a large subscriber base by stealing some of Nova’s subscribers and by attracting new ones.

The problem was that the company overpaid for those rights, in the same way as *ITVdigital* did in Britain. It paid more than 70m Euros in total for the live broadcast of the home matches of just 10 out of 16 Greek football clubs competing in the Greek league. Since the early days of its operation there has been speculation that the company would not survive for a number of reasons. First, according to Ernst & Young, the company’s stock value was 1.4bn drachmas (around 10m Euros). It was highly unlikely that a company valued at just 10m Euros could raise 72m Euros to honour the contracts it had signed with the football clubs. Second, the 40,000 subscribers it managed to attract by mid-June 2002 were not enough to cover the initial investment and running costs. It needed ten times that number for a possible break-even. As stated above though, the Greek television market is too small and too saturated to support extra pay-TV channels. The acquisition of exclusive rights to broadcast live football matches was not enough for a building up of a large subscriber base. Football might be a national obsession but there is a limit on how much football fans are prepared to pay to watch their favourite teams. Third, the company used the Videoguard decoder for unscrambling of the TV signal, which was not compatible with that used by Nova subscribers (Irdeto). As a result, Greek viewers had to purchase two different decoders at around 200 Euros each to be able to watch the matches of all (sixteen) football clubs of the Greek league as well as other

services on offer. The cost factor was thus a significant one for the low take-up of DTV services.

On 11 September 2002 ADS announced that it would close down due to economic difficulties. A few days later Nova (through NetMed) announced that, subject to Greek competition Committee and other necessary approvals, agreement had been reached for Fidelity Management S.A., a company ultimately owned by affiliates of the shareholders of ADS, to take up a 22% interest in NetMed. Put it another way, the agreement means that Nova will remain as a sole DTV platform in operation, whereas ADS shareholders will have a 22% stake in the company. ADS's subscribers will be given the option to migrate to Nova if they so wish without having to pay extra. This is because ADS will give its subscribers the necessary software to be able to access Nova's services.

Effects on Clubs

The collapse of ADS is expected to have a devastating effect for Greek football clubs, particularly those ten teams which had signed contracts with ADS for televising their home matches. The three popular Athens-based clubs of "Olympiakos", "AEK" and "Panathinaikos" were to receive 5bn Greek drachmas (15m Euro), 3.5bn drachmas (10.5m Euro) and 2.8bn drachmas (8m Euro) respectively in the next two years. The football club of "PAOK", based in Thessalonika, Northern Greece, was to receive 2bn drachmas (6m Euro), while the other two clubs of "Iraklis" and "Aris", also based in Thessalonika, agreed a sum of 1.2bn drachmas (3.5m Euro) each for two years. The other four less popular clubs that signed contracts with ADS ("Xanthi", "Panionios", "Giannina" and "Panaxaiki" agreed to receive 800m drachmas (2.4m Euro) each.

Most owners of Greek football clubs can be characterised as opportunists. They spotted an undervalued sport asset and when ADS approached them they thought of exploiting it and make real TV money. Most of that money would be used to offset star players' salaries. When the payers realised that more money was available and that they were considered as TV stars, not just football players, they naturally demanded higher wages. These demands were also voiced in other European countries. In fact, since 1999 the increase in wages of star players in the most popular European football clubs was increasing at a rate of between 15%-30% annually. In autumn 2001, just before *Kirch* and *ITVdigital* collapsed, players in Britain were threatening to go on strike if they did not have 5% share of broadcasting rights received by their clubs. In Greece, the majority of the clubs had already pledged a large sum of the new money to players in the form of increased wages. When they decided to move to ADS they were aware that they could not hold on to money from broadcasting rights forever. However, they had not anticipated how risky and short-lived the attempt would be. When the money did not appear due to ADS's closure and its acquisition by Nova the clubs sought an emergency injection of funds from the government. Following government's decline to assist fill the cash hole left by ADS's demise, they were forced to re-negotiate deals with Nova. However, they are aware that they will never get the sums of money originally agreed with ADS.

A lesson can perhaps be drawn that football clubs, especially in small or immature pay-TV markets, should be cautious before deciding to sell their rights individually. Until relatively recently football broadcasting rights were owned and sold by the football league organisations on behalf of their members. Within the predominantly public service broadcasting systems of Europe this was deemed acceptable. However, the advent of competition among commercial free-to-air and pay-TV channels changed the sports rights market in two ways. First, it brought about higher prices for TV rights. Second, it led to appeals on behalf of clubs for greater freedom to negotiate individual deals in the sale of their games with TV channels. In fact, since end 1996 there has been a shift in TV rights ownership away from the leagues to the clubs. The traditional system of collectively owned and collectively sold rights has been under legal challenge across Europe. In the Netherlands in 1996 the Feyenoord football club took the Dutch league to court over the sale of TV rights. It basically wanted to be able to sell its own games. A year later in Spain Barcelona and Real Madrid challenged the right of the league to sell their games on a collective basis. Following similar challenges by other clubs in other countries sports rights are today being unbundled to the benefit of the big clubs.

Clubs selling their own rights may seem an attractive proposition, particularly for the big clubs, but entails serious dangers as the Greek case demonstrated. On the contrary, a collective selling deal is safer and can benefit all clubs. In Britain, the 20 clubs competing in Premier League are committed to a collective selling deal. This, together with the relative strength of the British digital pay-TV market (37% of British households are DTV subscribers), has resulted in healthy competition for sports rights. In the October 2000 deal, the Premiership matches were offered in three packages – live coverage of 66 matches annually (bought by BSkyB for £1.1bn), highlight packages on Saturdays and Sunday night (bought by ITV for £183m) and pay-per-view (bought at the time by cable group NTL for £328m; later though NTL withdrew its bid). In Italy, where clubs sell their rights individually, negotiations do not benefit all clubs and in Germany, where pay-TV market is not so healthy due to proliferation of free-to-air channels, the income of selling TV rights has dried up (see below).

The Aftermath of ADS's Closure

The agreement between Nova and ADS means that only one DTV platform may survive in the market. Digital terrestrial TV is not considered a valid option, while digital cable TV is virtually non-existent as the current infrastructure is very limited. Still, it is doubtful whether Nova can flourish, even after remaining the sole player. The accumulated debt of Nova's parent company NetMed is estimated at 300m Euros. This may affect its financial ability to acquire exclusive rights of premium programming. This may in turn prevent Nova from attracting 350-400,000 subscribers to be able to break-even. Following the collapse of ADS, confidence of Greek viewers in DTV is currently very low. The DTV dream has thus suffered drawbacks for new entrepreneurs, who had invested a lot in a high-risk sector, for viewers, who had anticipated greater programming variety, and for football clubs alike, which had seen real chances to earn large sums of TV money.

The European Experience

The financial problems that most Greek clubs are facing due to ADS closure are not unique. Companies such as *Kirch Media* and *ITVdigital* had vastly overpaid for sports rights properties and their recent collapses should have sent warning signals to new DTV packages launched. New digital pay-TV schemes should have realised that it is difficult to generate sufficient returns to cover their initial investment. Football clubs should have realised that they should not become so dependent on income from a media contract. Income from selling broadcasting rights would decrease sooner or later. In fact, the potential for instability in the sports rights market became apparent in early 2001, when ISL/ISMM, a Swiss marketing and media agency went bankrupt. ISL/ISMM was the main commercial partner of Fifa, the world's football governing body. There followed the insolvency of Kirch, which had acquired the broadcasting rights for the 2002 and 2006 world cups by paying the astronomical fee \$2.36bn. As a comparison, Fifa had sold the broadcasting rights for the 1998 world cup to the European Broadcasting Union, the body representing public broadcasters, for just \$134m. The rise of broadcasting rights can be attributed to the liberalisation of the market, which allowed more channels and generated fierce competition between players with deep pockets. As is it known, revenues from the sale of world cup broadcasting rights were not enough to save the Kirch empire.

The European experience shows that a number of DTV platforms either close down or merge with rivals in an attempt to overcome huge losses. As a result, agreements with football clubs are not honoured and often re-negotiated at a lower figure. The fact that the relationship between TV and football may not be so cosy as originally thought can be demonstrated by the following national experiences.

In 1998 in **Britain**, the broadcasting companies Carlton and Granada created the terrestrial digital joint venture *Ondigital*, later renamed *ITVdigital*, to compete with Murdoch's *Sky Digital*. After four years in operation, the digital terrestrial platform went into bankruptcy, owing mostly to overbidding for football rights. *ITVdigital* signed in 2001 a three-year £315 million deal to show Nationwide League games. That was the largest broadcasting contract in the League's history. The intention was to compete with BskyB, which had previously acquired the rights to show live Premiership matches for three years by putting down £1.1bn. The problem was that ITV attempted to copy Sky's strategy by using less appealing football matches that were bound to attract fewer football fans. In fact, *ITVdigital*'s total number of subscribers by the time of its closure was only 1.3 million, far behind Sky's subscribers at 5.5 million at the time (now over 6 million). Another financial burden was that *ITVdigital* paid £60m annually to BskyB for currying some of its channels, including Sky Sports, which shows most of Premier League matches. An additional problem was that the *ITVdigital* deal was signed before the company hit by a low take-up of services and mounting debts.

In March 2002 the company went into administration and in mid-April warned that it could not afford to pay the remaining £178.5 million it owes the Football League. It finally closed down in end April 2002, leaving in ruins the 72 English football clubs that depended on it for much of their income. A solution offered by Murdoch's BskyB, which

in July 2002 signed a four-year £95 million deal to show Nationwide League games. The deal though is much less lucrative than the original ITVdigital one and is not expected to benefit clubs substantially. To avoid administration some clubs, such as Watford, have already asked players to agree to a wage cut, whereas others sought to sell players to Premier League clubs. However, the softening of the transfer market has hampered clubs' ability to raise funds by selling players.

In **Spain**, the main digital satellite consortia Canal Satellite and Via Digital, controlled by pay-TV company Sogecable and national telecommunications group Telefonica respectively, announced in May 2002 that they were merging their digital satellite TV platforms in order to overcome financial losses. The announcement came one month after the collapse of a smaller digital terrestrial platform *Quiero TV*. The new merged DTV platform warned the football clubs competing in Primera Liga that they should expect to receive less money in future deals for televised sports rights than the 2002 deal at 180m Euros. In fact, the Spanish football clubs had anticipated the grey financial situation of DTV platforms and did not spend huge amounts of money to buy expensive players or substantially increase the wages of their existing stars. During 2002, the football clubs spent around 140m Euro in total for acquiring players (including Ronaldo's move to Real Madrid from Italian Inter Milan at 45m Euro), whereas in 2001 they had spend more than 300m Euro and in the year before that they had spent 450m Euro.

In **Germany**, the collapse of Kirch Group had devastating consequences to the income of football clubs. The sole pay-TV operator Premiere World, which has acquired the exclusive rights to show Bundesliga matches to its 2.4m customers, is having a hard time to capitalise on DTV after the collapse of its parent company Kirch Media. Its difficult financial situation is reflected on the contract it has signed with German football clubs. For the next three years, the clubs competing in Bundesliga, have agreed to receive 290m Euro, almost half of the original figure of 400m Euro.

In **Italy**, the two competing digital satellite consortia Telepiu and Stream agreed to merge in June 2002 in order to overcome huge losses. Losses at Telepiu, the Italian pay-TV subsidiary of Canal Plus, controlled by Vivendi Universal, had long been running at around 1m Euro per day owing mostly to the high costs of TV football rights. Following several months of negotiation, Rupert Murdoch's Stream actually bought the rival platform Telepiu for 893m Euro in early October 2002. Since there will be no competition for football match rights, it is expected that Rupert Murdoch will be in a position to re-negotiate contracts signed with Italy's leading clubs, as part of the restructuring to reverse losses. But there are already signs that the flood of TV money coming into football is falling. During 2001 in Serie A TV payments reached 480m Euros, while in 2002 that amount fell to 400m Euros.

In **France**, football clubs also face the prospect of receiving less money from selling their TV rights. In 1999, and following the winning of the 1998 World Football Cup by the French national team, football clubs managed to sign a contract of 275m Euro with digital pay-TV channel Canal Plus in a five-year deal. They also succeeded in getting extra 100m Euro by signing deals with digital satellite platform TPS (which competes

with Canal Plus) and pan-European channel Eurosport. The clubs have been warned that they should be prepared for thinner contracts when the current deal with Canal Plus comes to an end in 2004.

Conclusion

Undoubtedly football is the world's most popular sport event with a global appeal. It can catch the imagination of hundreds of thousands of spectators and is good at forging bonds between people. Television has helped greatly to broaden the awesome global appeal of football. As the 2002 world football cup showed, TV viewers all over the globe with different cultures, educational backgrounds and beliefs all enjoyed live action and shared the same scenes. However, the close liaison between TV and football has suffered tensions. Recent experience shows that the football game may have entered a period of severe financial turbulence due to its over-dependence on TV revenues. There is little doubt that the sports rights market is in trouble. Football cannot any more command top prices as it had done in the recent past.