



the conference *shuffle*

*The Atlantic Coast
Conference set off a*

wave of league swaps.

Despite the outcry,

it shouldn't have

surprised anyone

BY DOUG CAMPBELL

In the fall of 2001 it was George Nemhauser's turn to serve as president of the Atlantic Coast Conference. Ordinarily this would be no big deal. The position of ACC president unceremoniously rotates each year among league faculty representatives. They tend to brand their terms with lackluster pet projects like sportsmanship or raising academic standards.

But Nemhauser, a professor at Georgia Tech's industrial and systems engineering department, had a gut feeling that the nine-school ACC was at a crossroads. So when ACC Commissioner John Swofford asked the question — "What's on your agenda?" — Nemhauser didn't hesitate: "We need to think about expansion."

And thus was set in motion the events that led to a seismic shift in athletic conference memberships across the National Collegiate Athletic Association (NCAA). By the fall of 2003, the ACC's historic and sometimes tumultuous march to expansion was complete. Ultimately accepting invitations to join the ACC were three schools: University of Miami, Virginia Tech, and Boston College. The three jumped from the Big East, setting off a nationwide chain reaction of conference swaps. In all, 19 schools switched leagues during the second half of 2003, and some analysts believe more shuffling is to come.

In the aftermath, ACC leaders were giddy. "We have landed at a superb

From Top to Bottom:

- 1) 2004 Atlantic Coast Conference Logo
- 2) John Swofford, ACC Commissioner
- 3) Miami vs. VA Tech, 12/4/04
- 4) Duke vs. UNC, 2/5/04
- 5) Jessica Trainor (Virginia) and Anne Morrell (North Carolina) at the 2004 ACC Women's Soccer Game

PHOTOGRAPHY: TOP TWO IMAGES COURTESY OF ACC; BOTTOM THREE IMAGES BY JEFF CAMARATI/GETTY IMAGES

place,” Swofford said during a June 2003 press conference to announce the first phase of expansion. In short order, the ACC had enhanced its revenue-generating prowess in football while at the same time preserving its reputation as the premier men’s basketball conference. Television contracts were quickly renegotiated to reflect the addition of the Boston and Miami markets, Nos. 6 and 17, respectively in the nation, adding millions of dollars to the ACC’s take. This fall the ACC will hold its first-ever football championship, worth an estimated \$7 million. And it stands a far stronger chance of placing two schools in the coveted Bowl Championship Series (BCS), whose title game is worth as much as \$14 million and lesser matchups not far behind.

Meanwhile, the Big East was in crisis, reeling from what Commissioner Mike Tranghese had called “the most disastrous blow to intercollegiate athletics in my lifetime.” In the space of a few months the Big East became the Medium East, having lost three of its highest-profile schools. Suddenly, it was scrambling to survive with only six teams playing football.

The media portrayed the story in multiple ways. Some said it was a case of brilliant strategy by the ACC contrasted by the flat-footedness of the Big East. Others saw it as an example of greed overtaking amateur sports.

Neither turned out to be a fair characterization. Interviews with economists and NCAA observers suggest that conference realignment was going to happen, whether or not the ACC led the charge. Powerful market forces were at work, creating incentives for athletic leagues to grow membership.

What’s more, the Big East was hardly asleep at the wheel. Big East leaders in the late 1990s and in May 2003 approached the ACC about merging their football leagues. On both occasions it was the ACC that said ‘no,’ in the end deciding to cherry-pick some of the Big East’s marquee schools without having to take on the risks of operating the proposed 18-team league.

In hindsight, it all makes perfect sense. The ACC’s and the Big East’s

actions are in keeping with microeconomic models of how competitive industries work.

“You can’t hold back these market forces,” says Raymond Sauer, an economist at ACC member Clemson University and keeper of the Web-log www.sportseconomist.com.

Why It Happened

Pop quiz: The ACC is expanding from nine member schools to 12 because:

a) Miami couldn’t fathom hosting a home football game against lightweight Big East foe Rutgers.

b) Newly struck television contracts will bring the ACC an estimated extra \$16 million each year.

c) ACC leaders feared that Florida State would leave if Miami was gobbled up by the Southeast Conference (SEC).

Answer: All of the above.

At one time, all the ACC’s schools called the Fifth District home. Established in 1953 with eight schools, the Greensboro-based ACC lost charter-member University of South Carolina in 1971 to the SEC but added Georgia Tech in 1978 and Florida State in 1991. In Georgia Tech, the ACC laid claim to the valuable Atlanta TV market; in Florida State, it finally claimed a top-tier football team.

The 1990s and beyond have been good years to the ACC. Basketball powerhouses Duke University, University of North Carolina, and University of Maryland won championships, earning the league a deserved distinction as the best in hoops. And Florida State took home the No. 1 football ranking for the 1999 season.

Nemhauser’s hunch — shared by observers across the country — was that time was running short for conferences to shore up membership and protect their goodies. But if it were to go through with enlargement, the ACC would be making a huge bet. The league annually pays out about \$9 million to \$10 million each to its member schools, according to tax filings. Adding three more would mean having to come up with an additional \$30 million in annual revenue to make sure incumbents weren’t giving up anything.

The ACC hired sports-business consultant Dean Bonham to conduct an analysis of expansion’s pros and cons. Bonham’s answer, contained in a report that was a year in the making, was a robust recommendation for adding three schools. In Bonham’s analysis, short-term monetary gains were secondary to the pressing task of durability.

“The bottom line came down not to money but survival,” Bonham says. “The ground underneath the collegiate world was moving at a pretty rapid rate. We foresaw there was going to be a lot of alignment and realignment. If the ACC didn’t expand, some of their competitors or other conferences would.”

The collegiate map that Bonham and ACC managers analyzed in 2002 laid bare the need for action. Out of 11 Division I-A conferences, the ACC ranked fifth in total revenue-per-school, according to an NCAA study (see table on page 22). On an average, per-school basis, the league was losing money, albeit just a bit. Additionally, the ACC relied heavily on men’s basketball for revenues, which would have been fine except that football generally pays a lot more. The bigger conferences, especially the SEC and the Big 12, gained much more from their football programs. While the ACC took in an average \$8.1 million per school for men’s basketball and \$11.8 million for football, the SEC generated \$5.7 million from men’s basketball and a whopping \$26.9 million from football.

Where does all that cash come from? TV and radio revenues from contracts negotiated by the schools themselves account for 7 percent of Division I-A athletic program support. Another 9 percent is from NCAA and conference distributions. Most of that money — an estimated 90 percent — comes from broadcast agreements negotiated by the NCAA and the athletic conferences, such as the \$6 billion, 11-year pact allowing CBS to broadcast the NCAA basketball tournament. But the bulk of collegiate athletic funds derive from ticket sales — 26 percent. Schools with 80,000- to 100,000-seat football stadiums, packed seven times

a year, reap even larger shares from ticket sales. Larger still are alumni and booster contributions at 18 percent and direct institutional support at 10 percent.

Tipping the scales in favor of conference enlargement was a relatively new post-season feature of the NCAA — the Bowl Championship Series.

The BCS was set up in 1998 for the purpose of declaring a bona fide national championship in football. At the same time, it preserved the traditional, and itself highly profitable, bowl game system. Six Division I-A conferences are guaranteed bids to the four BCS games — the Orange, Rose, Sugar, and Fiesta bowls — with the top two ranked teams in the country squaring off for the so-called national title. (A fifth BCS bowl game may be added soon.) The ACC is one of those with guaranteed bids. The payoff for a national title entry is up to \$14 million. Even the lesser bowls are worth as much as \$11 million.

The conferences that get automatic berths are known as BCS members, and membership has its privileges. Non-BCS conferences get a cut of the bowl game spoils, but it amounts to between \$300,000 and \$800,000, or as little as \$74,000 per school. By comparison, BCS conference schools take in about \$2 million each in bowl game payouts. That means in any given year, Wake Forest University can expect a big BCS payout even though it historically hasn't sent a single team to a BCS game.

For the ACC, it was financially imperative to keep a seat at the table at the lucrative BCS. On average in 2002, conference schools were losing money on their athletic programs. That's in part because athletic revenues must be spread around to fund a typical school's less visible sports, ranging from soccer to field hockey. But those at the top of the food chain — schools in the biggest conferences, all in the

Conference Shuffle

Since the summer of 2003, 19 schools have announced changes in conference affiliations. The ACC's plucking of three Big East schools got the ball rolling.

To the ACC (all from Big East)

Miami
Virginia Tech
Boston College

To the Atlantic 10 (both from C-USA)

UNC-Charlotte
Saint Louis

To the WAC (all from Sun Belt)

New Mexico State
Utah State
Idaho

SOURCE: NCAA; Conferences

To the Big East (all from C-USA)

Cincinnati
Louisville
Marquette
DePaul
South Florida

To Conference USA

Rice (from WAC)
Southern Methodist (from WAC)
Tulsa (from WAC)
Marshall (from MAC)
Central Florida (from MAC)
Texas-El Paso (from WAC)

moting stability, only seldom reaching out to swipe each other's schools.

University of Chicago economist Allen Sanderson likens collegiate athletic conferences to a cartel. When everybody obeys the unwritten rules, everybody profits. "But there's always the incentive to cheat, whether it's OPEC or the NCAA," Sanderson says.

The ACC wasn't cheating, but it was moved to take action after observing several eyebrow-raising developments. One risk that several ACC managers cited was that Miami — crowned football National Champion in 2001 — would join the SEC if not courted by the ACC. In their worst nightmares, ACC officers saw Florida State deciding to follow, thus depleting the conference of its

foremost football draw. At the same time, the opportunity to widen its TV audience from New England down to the southern tip of Florida was too good to pass up. They wouldn't even have to change the conference's "Atlantic" name.

Thus, the key to making money in college athletics is strongly tied to conference membership. With the introduction of the BCS, schools had a new incentive to consider changing allegiances.

Dan Fulks, an accounting professor at Transylvania University in Kentucky and an NCAA consultant, recalls a conversation with a BCS commissioner about the widening gap between "have" and "have-not" conferences. The commissioner replied, "Look, don't blame me. My job as commissioner is to make as much money as I can for the schools in my conference, and that's what I'm going to do."

Conference Rivalries Heat Up

To be sure, conference realignments are nothing new (see sidebar). The reason they happen relatively infrequently has to do with the "industry" structure. Think of athletic conferences as rivals in an industry where the schools are the suppliers and fans and the TV broadcasters are the buyers. The conferences are mainly differentiated by their school membership. They maximize their profits by pro-

foremost football draw. At the same time, the opportunity to widen its TV audience from New England down to the southern tip of Florida was too good to pass up. They wouldn't even have to change the conference's "Atlantic" name.

"It was our belief that a number of changes would be coming anyway," ACC Commissioner Swofford says. "If we were proactive, then we were in a much better position to effect change that would impact us positively rather than having to react."

Acquiring schools from the Big East wasn't the ACC's only option, however. After the BCS system was announced, Big East leaders laid out their strategic options. They realized that being No. 6 in revenue in an 11-conference system was a precarious position.

In 1997 and 1999, the Big East approached the ACC about joining the two leagues' football programs into a single "federated football conference," according to parties familiar with the talks. The thinking was that such a coalition would upgrade the conferences' negotiating position with TV networks. Together, the Big East and the ACC would command an 18-team

football league that could deliver the entire East Coast broadcast market.

But the ACC was cool to the idea in the 1990s. And when Big East managers pitched the idea anew in the summer of 2003 in an effort to fend off the ACC's expansion, the answer again was 'no.' Neither Swofford nor Big East officials would comment about the ACC-Big East merger talks. Analysts interviewed for this story said the ACC was probably turned off by a merger for several reasons, including an unwillingness to adopt separate football and basketball memberships and the logistical concerns of operating an unwieldy 18-school league.

"The Big East is a cobbled together conference in the first place, and their next move is trying to cobble the ACC into their mix," says Sauer, the Clemson economist. "It makes good strategic sense for them to do that but they're not really taking the ACC up a peg with that proposal. It was [the

ACC's] opportunity to choose between alternatives and they clearly chose one that made them better off."

The ACC's Competitive Advantage

How come the ACC was in position to make such a choice? A crucial advantage the ACC held over the Big East was organization. The ACC has nine member schools that participate in all sports and distribute conference revenues equally.

By contrast, the Big East, based in Providence, R.I., created its basketball and football programs separately. It kept nine schools for football purposes only and 14 for basketball. Georgetown University, for example, participates in Big East basketball but doesn't field a Division I-A football team. West Virginia University, however, plays both. Conference revenues were not handed out equally, and Big East members didn't give Commissioner Tranchese the same leeway that

ACC schools did Swofford.

"The way it was structured, it didn't allow the commissioner to go out and get things done," Sauer says. "It's not that John Swofford was any more capable than Tranchese up in the Big East. It's just that his organization enabled Swofford to effectively move in the direction that the economic forces dictated the football conference would move."

If there's a downside to expansion, it's the deterioration of some longtime rivalries. Every fan wants Duke to come to his school at least once a year for hoops, but that's no guarantee under an expanded league. Swofford, who played football at North Carolina before rising to the league's commissioner office, says he understands the importance of fan sentiments in the ACC's culture and revenue stream. At the same time, "The feeling was that the collective gain far outweighs the things we would give up."

Conference Came Undone

Conferences do collapse. Rewind to 1996 for the final incarnation of the once-proud Southwest Conference (SWC). An 82-year-old league, marquee members included the University of Texas, Texas A&M, and Baylor University. Adorning member trophy cases were seven national football championships, five Heisman Trophies, and two women's basketball titles.

But talk about regional: After the University of Arkansas left in 1992 for the Southeastern Conference, all eight members were from Texas. That was fine when cross-state rivalries provided all the revenue a conference needed to thrive, but it was a huge liability at the dawn of the 1990s when national TV contracts became the norm.

Texas is big, but it could deliver only 7 percent of the nation's TV markets. Nearing its deathbed, the SWC talked with the then-Big Eight about a merger. Instead, four SWC schools — Texas, Texas A&M, Texas Tech, and Baylor — simply up and left for the soon-to-be

Big 12. The Western Athletic Conference (WAC) swallowed three of the remaining schools, Southern Methodist University, Rice University, and Texas Christian University, while the University of Houston hopped to the newly founded Conference USA.

The mid- and late-1990s, then, saw nearly as much conference shuffling as in 2003, bolstering the NCAA's assertion that conferences have long been "adding new members, casting off those that no longer fit and changing their geographic landscapes." Witness the near-unraveling of the WAC in 1999, when eight schools, including four charter members, withdrew to found the Mountain West Conference.

The WAC soon picked up Boise State University and Louisiana Tech University, giving it 11 members — until former SWC member Texas Christian switched conferences again, leaving for Conference USA at the end of the 2000-2001 season. Idaho, New Mexico State, and Utah State have agreed to join the WAC in 2005. But, at the same time, the conference

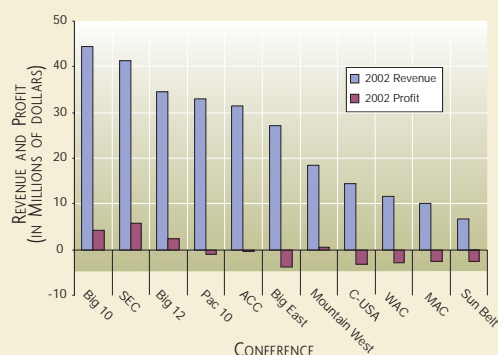
will lose Rice, Southern Methodist, the University of Texas at El Paso, and the University of Tulsa.

After all that, has the conference shuffling reached its limit? "I believe that conference realignment will occur when it is economically feasible to do so," says Patrick Rishe, an economist at Webster University in St. Louis. But even Rishe believes it will be a while before more conferences fold, expand, or otherwise realign in significant fashion.

"I think that we've just about stretched our limits. Perhaps the Big 10 [which, despite its name, actually has 11 members since Penn State joined in 1993] will add another team soon to reach the magical number of '12' that's necessary for a football championship. And perhaps the Pac 10 will do the same soon," Rishe says. "When the Pac 10 does this, it will cause a mini-domino effect as the lesser West Coast conferences scramble to try to replace teams that shift to other conferences, but nothing like what we recently saw." —DOUG CAMPBELL

Athletic Conference Cash

In 2002 the ACC was the fifth-largest NCAA conference by revenues.



NOTE: Figures are per-school averages.
SOURCE: NCAA

The Payoff

After some stumbles and lawsuits, in which at first only Miami and Virginia Tech were asked to join, the ACC completed its growth spurt in October 2003 when Boston College signed up. With B.C. on board, the ACC had achieved the magic number 12, qualifying under NCAA rules to hold a conference football championship game.

The collective gain was almost instant. TV contracts were quickly renegotiated, and even incumbent ACC schools are to take in an estimated \$800,000 more annually under newly inked deals with ABC and ESPN. Also, new contracts were struck with Charlotte-based Jefferson Pilot Sports (JP Sports), which has top distribution and broadcast rights to ACC basketball and regional rights to ACC football. (JP Sports also has rights to SEC regional football games.) Jimmy Rayburn, vice president of operations with JP Sports, thinks the loss of round-robin-style matchups in basketball will hurt but agrees with Swofford's overarching view that the conference improved itself.

"It's not a perfect world. But did they improve themselves? Yes. They did in terms of financially improving themselves and in terms of having a seat at the table in the future of any big football talks, whether that's playoffs or an expanded BCS," Rayburn says.

The Big East wasted little time once all the ACC pieces fell into place. By November 2003, it had picked up five new schools to replace the three departed. But in the process, the conference pegged its future on basketball and, according to some observers, may lose its automatic bid to the economically rewarding BCS. The five new schools are Cincinnati, Louisville, DePaul, Marquette, and the University of South Florida. Only the first two of those schools have Division I-A football teams, and neither is a perennial standout. When all the league switching is done, the Big East will have eight "full" members that play both football and basketball and another eight that play just basketball.

Strategically, it may have been the Big East's best, and only, option. "The Big East, realizing its status in football took a hit; they had to ask themselves a question," says Patrick Rishe, an economist at Webster University in St. Louis. "Based on the landscape in the short-term all we can do is stay floating. So why not go ahead and become the strongest basketball conference?"

John Marinatto, a Big East associate commissioner who was closely involved in the expansion process, says the new members accomplished the conference's goal of growing TV revenues. He describes Cincinnati and Louisville as significant broadcast markets for football. Noting that the past two basketball championships have been won by member schools

Syracuse and Connecticut, he argues that the Big East is now even more so "the strongest basketball conference in the country." As for the Big East's participation in the BCS, Marinatto believes the league's spot is secure for "the foreseeable future."

What's Next?

The view from the ACC today is especially bright. The league placed six teams in bowl games, but only mustered one — new addition Virginia Tech — in the BCS. ACC men's basketball retains its pre-expansion cache, with national broadcasts of pairings a commonplace. Between the new television contracts, the possibility of an extra BCS game and a football championship, the ACC already has topped the necessary \$120 million annually to provide all its schools more money than before expansion.

"I think the ACC is done (expanding) for the time being, but it's not clear to me what the national scene will look like," says Prof. Nemhauser, who started it all.

Conference realignment is a game with no clock. The BCS came under fire — again — this year for failing to produce an undisputed national champion, as undefeated Auburn was left out of the title game. Additionally, there was evidence that the Big East's recent departures have already weakened the conference to the point where it should no longer get an automatic BCS bid: Big East champion University of Pittsburgh went to the Fiesta Bowl despite its middling 8-3 record. Whether the BCS expands or shrinks membership, whether broadcasters recalibrate how much they're willing to pay for airing rights — these will be the main factors in determining if the conference earthquake of 2003 has run out of aftershocks. **RF**

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