11. Bidding in Olympic Competition

A real-life, high-stakes bidding game from McMillan.

Several years before each Olympic Games the US television networks bid for broadcasting rights.

The creative use of competition is illustrated by the strategies of the Games organisers (the IOC and the local body) against the TV networks, and the networks against each other and the Games organisers.

11.1 Winning Bids

The networks bet huge sums on their ability to make a profit from televising the Games.

The Europeans suppress competition, negotiating through the European Broadcast Union with successive Games organisers. They paid $5.7 million for the Calgary Winter Games, and $28 million for the Seoul Games, or 2% and 9% of the U.S. prices, respectively.

Part of the growth in U.S. prices is the increased size of the TV market itself, but part is due to the increasingly sophisticated selling techniques devised by successive Games organisers.

Bidding for the Summer Olympics

Year (Venue, Network)	Nominal Bid US$ million	Real Bid 1992 US$ million
1960 (Rome, CBS)	0.4	1.8
1964 (Tokyo, ABC)	1.5	6.2
1968 (Mexico D.F., ABC)	4.5	16.9
1972 (Munich, ABC)	7.5	23.6
1976 (Montreal, ABC)	25	58.0
1980 (Moscow, NBC)	87	139.1
1984 (L.A., ABC)	300	382.1
1988 (Seoul, NBC)	300	340.6
1992 (Barcelona, NBC)	401	401
1996 (Atlanta, NBC)	456	408.3
2000 (Sydney, NBC)	715 *	

Bidding for the Winter Olympics

1960 (Squaw Valley, CBS)	0.05	0.22
1964 (Innsbruck, ABC)	0.6	2.7
1968 (Grenoble, ABC)	2.5	9.4
1972 (Sapporo, NBC)	6.4	20.1
1976 (Innsbruck, ABC)	10	23.2
1980 (Lake Placid, ABC)	15.5	25.0
1984 (Sarajevo, ABC)	91.5	116.4
1988 (Calgary, ABC)	309	350.9
1992 (Albertville, CBS)	243	243
1994 (Lillehammer, CBS)	300	282.7

1998 (Nagano, CBS)	378 *
2002 (Salt Lake City, NBC)	555 *

* *New York Times,* August 8, 1995.

11.2 Soviet Capitalists

How did the Soviets achieve almost a threefold increase in bidding for Moscow in 1980 over Montreal in 1976? Corruption? Competition.

In 1976, ABC won the contract without competition and made over $75 million (nominal) in advertising revenues, while the Games were in the red.

The Soviets orchestrated a bidding war among the three networks. They made an ambit claim for $210 million (over three times what they expected to get). Sealed bids, winner announced, and then bids reopened. CBS thought they'd won. "Three scorpions in a bottle." A shill — a phony bidder.

Soviets broke several promises: secret bids, final round. Unethical? Irrational? Credible? A once-off game?

Threatened boycott by networks. Credible? Effective?

11.3 The Bidders' Uncertainty

For 1988 Games, 30 seconds of advertising cost up to $200,000 — big bucks! Sometimes high profits for the winning network. But sometimes they paid too much: forecast revenues and costs three or four years ahead; many imponderables.

Some uncertainty is *common* — advertising revenues, audience size (given the time difference), interest in Olympic sports, numbers of US medals, etc.

New technology. Cable TV can charge per viewer (or per set): revenue additional to advertising. NBC sold the Barcelona cable TV rights for $75 million, a gamble that paid off.

Salaries of technical staff. Inflation over four years. Exchange rate fluctuations over four years. Risk of boycotts reducing viewers' interest (Montreal, Moscow, Los Angeles). But can insure against such contingencies (NBC and Moscow).

Some value is *private*: low-rating network may pull itself up with the Games; one network may be perceived as the "sports" network, with higher skills for sport than the others. High bidder may be the network for which winning is objectively the most profitable.

Think of Australian networks and sports in general, and the Olympics in particular.

11.4 The Winner's Curse

Calgary: a bidding war (and North American venue) led to a threefold increase from Sarajevo. Five rounds of bidding: CBS $265 million, NBC $304 million, ABC $309 million.

But ABC lost $65 million, or 1⁄5 of its bid: over bid. The Albertville high bid was only ⅔ the Calgary bid in real terms. How can knowledgeable executives bid more than the rights are worth? The winner's curse?

Albertville organisers sealed in an envelope a reserve price of $200 million: CBS bid $243 million, NBC $175 million plus 50% of any advertising revenue, ABC didn't bid.

Open bidding reduces fear of the winner's curse by providing information on the other bidders' knowledge in a common-vale auction. In Moscow and Calgary open bidding seemed to result in higher bids than Albertville's closed-bid auction.

CBS (in a single-round closed bid for Albertville) bid $68 million above the nearest bidder, and $43 million above reserve: "They gotta be out of their minds."

11.5 Minimum (Reserve) Prices

L.A. organisers estimated that advertising revenues would be $300 million. Their open reserve was $200 million. Competition pushed bidding up to $225 million (ABC, who also paid $75 million for foreign broadcasters). Bidding made the reserve redundant.

IOC estimated a $300 million worth for Lillehammer, and announced this as reserve. ABC and NBC dropped out, but CBS bid the reserve, since they thought revenues would exceed this. What would the committee have done if CBS had called its bluff by refusing to bid $300 million? Was the reserve credible?

11.6 Revenue Sharing

Seoul used the Soviets' ploy of "open sealed bids", plus revenue sharing. NBC won with a bid of $300 million plus royalty payments depending on revenues, ⅔ of any revenues above $600 million, to a limit of $200 million (at $900 million revenues).

Three separate effects of such a scheme:

- ➢ royalties tend to induce high ultimate payments, for they strengthen the competitive pressure that bidders with relatively low estimates of the value of winning can put on bidders with high estimates of the value of winning. Revenue sharing reduces the inherent differences among the bidders. Narrower differences leads to fiercer bidding leads to higher final bids.
- ➢ revenue sharing shifts some of the risk of low advertising revenues from the network onto the organisers, which may result in risk-averse bidders bidding higher than in a fixed-bid case.

Both these are to the organisers' advantage, but

- ➢ revenue sharing alters the winner's incentives, ex post: if the network bears the full cost of any campaign to sell extra advertising time, but retains only ⅓ of the revenues, then it may sell time with less enthusiasm. This may result in lower total revenues for sharing.

The optimal royalty rate (from the organisers' viewpoint) balances these three effects: as a general rule, the third doesn't dominate the first two, and some revenue sharing is best.

NBC spread rumours that it had done badly in Seoul, which made the others cautious and allowed NBC to win Barcelona. Seoul had yielded NBC $40 to $50 million on its $400 million investment. Knowledge is power in strategic situations.

For Barcelona, the IOC rejected revenue-sharing bids, such as NBC's winning bid in Seoul, and demanded fixed-price bidding. A mistake? Revenue-sharing bids would have reduced NBC's informational advantage, which would have resulted in more aggressive bidding and ultimately more revenue.

11.7 Preëmptive Bid

NBC fired a remarkable preëmptive strike at rival networks on Monday, August 7, 1995, by agreeing to pay US$1.27 billion for the television rights to the 2000 Summer Olympics in Sydney and the 2002 Winter Olympics in Salt Lake City.

NBC executed a triple gambit:

- ➢ it shut out ex-Australian Rupert Murdoch's News Corporation (which owns the Fox Network) from acquiring the Sydney Olympics;
- ➢ it prevented the Walt Disney Company—which had only a week previously agreed to acquire the ABC network—from making a quick splash in sports television; and
- ➢ it ended CBS's run as the home of the Winter Olympics at three.

By striking a deal with such speed, NBC short-circuited the traditional competitive bidding process, expected to begin in September, and its bid for the SLC Olympics was the earliest ever. The bid had a confidentiality clause, which prevented Olympic officials from seeking counter offers, and a take-it-or-leave-it weekend time limit.

It later came out that on Monday, July 30, two days before NBC's contact with the IOC, a US$701 million offer by Fox Sports had been summarily dismissed, apparently because the IOC did not judge Fox to be a fully qualified bidder, or see its offer as a starting point for talks.

11.8 Summary

For competitive bidders:

- ➢ estimate the value of winning, taking account of the winner's curse;
- ➢ in an open auction, stay in the bidding until the price just reaches your estimate of the value;
- ➢ in a sealed-bid auction, set your bid by weighing the possibility of bidding too high (if your bid is not the highest but also much higher than your nearest competitor's, if you have left money on the table) against the possibility of bidding too low (if you bid too much profit, you may bid lower than a rival bidder and lose a profitable opportunity).

For organisers of bidding competitions:

- ➢ use open bidding rather than sealed bidding, for this encourages open bids;
- ➢ set a minimum price, high enough to force a high bid but not so high that no one is likely to bid;
- ➢ use revenue sharing to make the bidding more competitive, but be wary of its negative effects on the winner's post-auction incentives.