

Economics Group

Special Commentary

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The Economics of College Football

Challenges and Challengers for the Upcoming Season

With summer winding down a new football season is upon us. The college football season will kick off this week, with a number of major games around the country. The season will actually begin Thursday evening with the University of Connecticut hosting the University of Central Florida, which went undefeated this past year and took partial claim to the national championship. The action picks up considerably over Labor Day Weekend, with several “Kickoff Games” around the country and a handful of other marquee matchups.

The Kickoff Games are a relatively recent addition to college football. The Kickoff Classic was played in Giants Stadium in New Jersey from 1983 until 2002, when the NCAA stopped allowing teams to play 12 regular season games. The Kickoff games restarted in 2008 with the Chick-fil-A Kickoff Game on Labor Day weekend, which is played in Atlanta, first in the Georgia Dome and now in Mercedes-Benz Stadium. The game typically matches up an SEC team with a team from the ACC but has also brought in teams from other conferences. The game has been enormously successful both in terms of attendance and television coverage. Last year’s matchup of Alabama and Florida State drew 76,300 fans and 12.3 million television viewers. Moreover, the Chick-fil-A Kickoff Weekend now often includes two games, the second of which matched Tennessee against Georgia Tech this past year and drew 75,107 fans on a Monday night and a television audience of 5.1 million.

The success of the Chick-fil-A game has helped inspire other Kickoff games in Dallas, Orlando, Houston and Charlotte. It is no coincidence that all of these games are played in the South. College football is enormously popular all over the country but is religiously followed practically year round throughout much of the South. By Labor Day, the South is starving for football and the large crowds, tailgates and positive buzz around the games help get the football season off to a strong start each year. The Kickoff Games are also a potent economic development tool for the host markets. Labor Day weekend is typically a slow weekend for business travel, which means many hotels and restaurants would otherwise see little business.

Figure 1

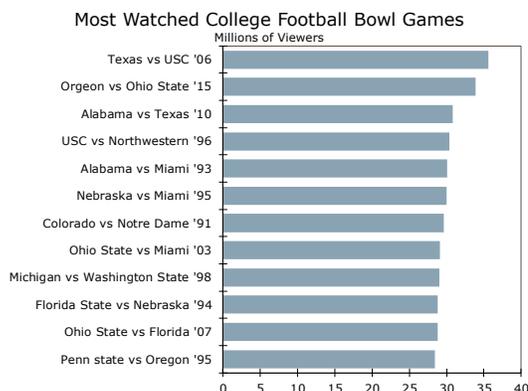
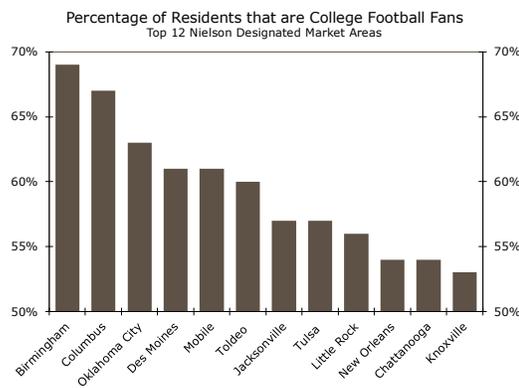


Figure 2



Source: Nielsen and Wells Fargo Securities



College Football is Facing Some Challenges

Like most other sports, college football is facing some challenges. Competition among the sports and within the entertainment industry is intense and new technologies are allowing fans to follow their favorite teams in different ways. Social media provides frequent updates and highlights of virtually every team and every game, which makes it possible for fans to keep up with their favorite team and also partake in other late summer and fall activities. There is also a plethora of college football games on television, with all four major networks and ESPN and Fox Sports 1 broadcasting several games each Saturday. In addition, many more games are being streamed at homes and sports bars across the country, many of which provide their own tailgate atmosphere. The result has been a steady erosion of game attendance, particularly at schools outside the Power 5 conferences (SEC, ACC, Big Ten, Big 12 and Pac-12).

The drop in attendance at smaller football programs creates a significant challenge for many of these schools, which rely more on ticket revenues to fund their athletic budgets. One way schools have tried to cope with this shortfall is to schedule some away games against Power 5 teams, where they receive a large payment. These ‘cupcake’ games create another set of challenges, however, by making the home schedule of the Power 5 schools less appealing and chipping away at attendance.

Another approach smaller schools are utilizing to boost revenues is to shift games to the middle of the week in order to secure television coverage. The midweek games tend to draw fairly good television ratings but have had a hard time filling stadiums. Alumni have a particularly tough time traveling to mid-week games and many students also have other plans for weeknights. The drive to televise big games during weeknights is also likely taking a toll on attendance within the Power 5 conferences, as night games are tougher draws in many college towns that may not have enough hotel rooms to accommodate all those visitors. Fewer alumni coming to campus for football games takes away a valuable touch point for fundraising appeals.

Figure 3

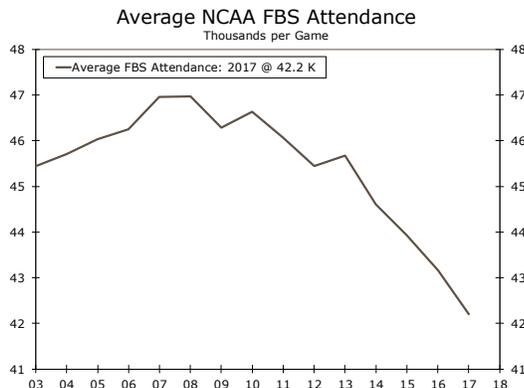
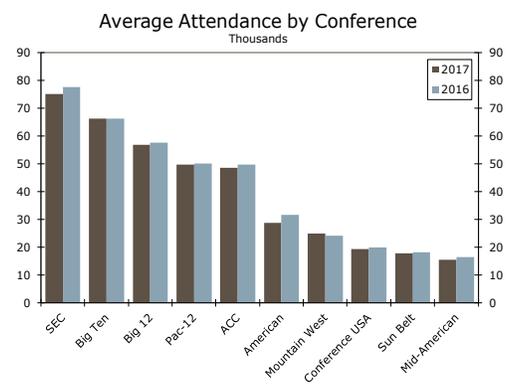


Figure 4



Source: National Collegiate Athletic Association (NCAA) and Wells Fargo Securities

Despite these drawbacks, college football is clearly a winner for the major television networks. Live television programming in general has seen a steady drop in viewership, as more viewers opt to stream or binge-watch their favorite shows. College football has seen much less of a drop than sitcoms or reality programs. Schools also like the attention a nationally televised game can bring and small schools savor the prospect of one day pulling a major upset that will provide years of exposure, similar to Appalachian State University’s huge win over Michigan back in 2007.

While viewership is often fragmented, with several marquee matchups televised simultaneously, the overall viewership of college football on Saturday afternoons and Saturday evenings easily eclipses that of most of the live television programs during the week. Television technology also provides a virtually seamless way to monitor more than one game and, of course, sports bars have built a business around this. Advertisers are as hungry for college football as the fans are.

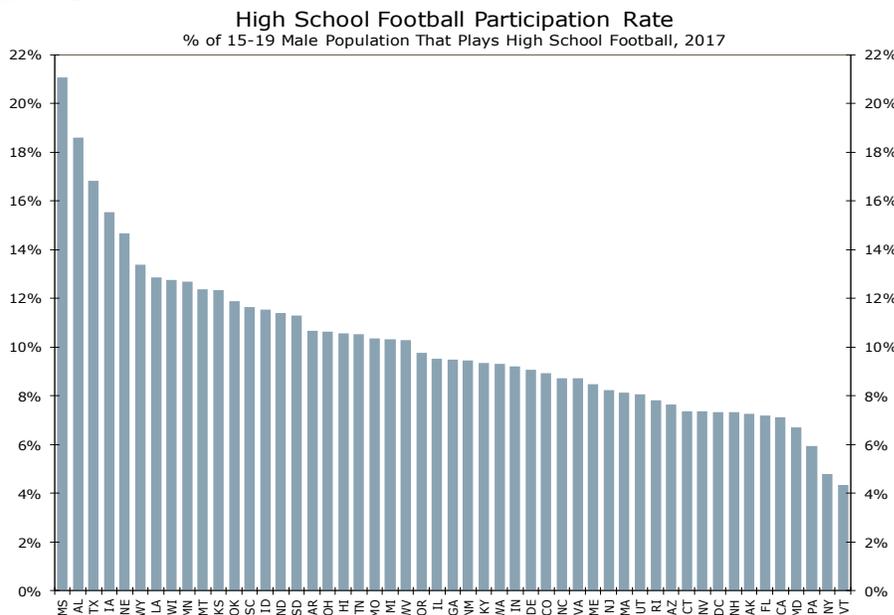
Only a Few Teams Will Emerge As Challengers

Another challenge for college football is that a few elite programs are dominating the sport. This year’s preseason top seven teams do not differ all that much from last year’s preseason rankings (Alabama, Ohio State, Florida State, Southern California, Clemson, Penn State, Oklahoma and Washington). The only additions to that list are Wisconsin and Georgia, which lost in overtime to Alabama in last year’s National Championship game. Success tends to breed success in college football, with winning on the field translating into more television exposure, product endorsements and team merchandise sales. The exposure and revenue allow these schools to hire the best coaches and build top-notch game venues and practice facilities, which help ensure a steady stream of top recruits that turns winning football programs into dynasties.

Alabama is the most dominant program the sport has seen since Notre Dame back in the 1940s. The Crimson Tide has appeared in the past three College Football Playoff National Championships, winning in 2017 and 2015 and losing to Clemson in 2016. Ohio State won the first Championship game in 2014, defeating Oregon. That was the only matchup so far that has not included teams from the South. The region’s dominance extends further back. The BCS Championship, which preceded the current format, featured at least one team from the South every year during its 16-game run and both teams were from the South in half of those championship games.

The dominance of Southern teams in college football in recent years reflects the region’s underlying demographics. Football remains widely popular in rural areas and a large proportion of the South’s population still lives in rural areas. By contrast, rural parts of the Midwest and Northeast have largely been losing population, particularly younger, prime working-age adults. Many of the folks leaving the Northeast and Midwest are headed to the South or to major cities within their region, where relatively fewer young people tend to play football. More people moved to Texas each year than any other state and Florida, Georgia and North Carolina all consistently rank near the top in terms of population growth from net migration. There are a few notable hot spots for population growth outside of the South, most notably Arizona, Colorado, Washington and Utah.

Figure 5



Source: NCAA, National Federation of State High School Associations and Wells Fargo Securities

Alabama’s dominance is somewhat of an anomaly as that state, which has two powerhouse programs – Alabama and Auburn – has only modest population growth. Mississippi and Louisiana are in much the same position, yet Mississippi State and LSU also typically field very competitive teams. While there is plenty of home-grown talent in Alabama, Mississippi and Louisiana, these

programs have overcome their demographics by aggressively recruiting talent from more demographically rich parts of the country. Only about one-third of Alabama's 2018 roster comes from the state of Alabama, with the remainder coming from 22 other states and the District of Columbia. Texas and Florida account for the next largest number of players. By contrast, more than two-thirds of the Georgia Bulldogs, Alabama's opponent in last year's National Championship game, hail from the more demographically rich state of Georgia.

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