# CHARLOTTE BOBCATS – THINKING OUTSIDE THE (CABLE) BOX

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*The Charlotte Bobcats joined the National Basketball Association (NBA) as an expansion team in the 2004-05 season. This was the second NBA franchise awarded to Charlotte as the original team, the Charlotte Hornets, had relocated to New Orleans, Louisiana after the 2001-02 season. A major complication for the Bobcats was the disintegration of the relationship between Charlotte and its once-beloved Hornets. A market generally welcomes an expansion sports franchise with open arms; the Bobcats received a more indifferent welcome, as many fans remained bitter and detached after the Hornets' departure. To be successful, the Bobcats would have to re-energize the Charlotte market, and executives determined that the team would have to tell its story repeatedly through the media, particularly television, where the largest numbers of potential fans would be reached.*

*Nancy Troy, executive vice-president of media rights and entertainment, was charged with developing options and a recommendation for the regional television network for transmittal of Bobcats programming to Charlotte and surrounding markets. Troy, a practicing attorney before being hired by the Bobcats, realized that this was the first time in her career that she would have to orchestrate an executive decision. During her days practicing law, she was always part of a legal team generating research and information for the ultimate decision maker, that person being the judge, client or chief litigator. She would have the support of her staff, but the ultimate recommendation would have her "signature" on it. She also knew that Bob Johnson, like most highly successful businesspeople, demanded results from his executives, and did not have a lot of patience. She would have to move quickly but carefully, working through this critical piece of the Bobcats puzzle.*

## INTRODUCTION

Nancy Troy looked at the memo and thought, "This is big." It was February 2004, and only a few months had passed since the National Basketball Association (NBA) had awarded Charlotte, NC an expansion team. The NBA then quickly chose a group led by former Black Entertainment Television (BET) owner Robert S. "Bob"

Johnson to receive the ownership rights. The team, subsequently named the "Bobcats," would begin play in the 2004-05 season. This was the second NBA franchise awarded to Charlotte as the original team, the Charlotte Hornets, had relocated to New Orleans, Louisiana after the 2001-02 season. The new ownership group hired its management team over the next few months including former attorney Nancy Troy, who was named executive vice-president of media rights and entertainment. Troy and her staff had been researching the Charlotte market, as well as analyzing the media strategies of other NBA cities.

The memo mapped out the Bobcats short term strategy, and assignments for key personnel in implementing the strategy. Troy was charged with developing options and a recommendation for the regional television network for transmittal of Bobcats programming to Charlotte and surrounding markets. A major complication for the Bobcats was the disintegration of the relationship between Charlotte and its once-beloved Hornets. A market generally welcomes an expansion sports franchise with open arms; the Bobcats received a more indifferent welcome. Charlotte Observer columnist Tom Sorensen wrote, "When the Charlotte Hornets skipped town, there wasn't anger, there was apathy" (Sorenson 2008). The Bobcats would have to win back the Charlotte market, and the memo suggested that in order to do so key personnel, starting with Bob Johnson, would have to be visible in the community, the team's marketing would have to be fresh and clever, and the players would have to be hard-working and of high character. The Bobcats would have to tell their story through the media, particularly television, thus magnifying the importance of Troy's assignment.

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## BACKGROUND

The announcement of a professional sports franchise is typically a time of considerable excitement and enthusiasm within that local market. At its best, professional sports can energize the market, increase civic pride and, however briefly, unify a community as they escape the issues of their lives and rally around their new team.

During the initial "honeymoon" period (the period of excitement surrounding a new team), fans are typically enamored with the team to the point that they support it faithfully, regardless of how it performs on the court. The honeymoon period was particularly useful to an expansion franchise, as their first roster would be relatively weak, comprised of aging veterans or unproven young players. Such players were the ones that established NBA teams would choose to leave available for the expansion team to pick up in the "expansion" draft.

Such a honeymoon period would gradually subside, but over time the team would be in a position to build a more competitive roster through the annual player draft and through free agency, where the team could sign more attractive players whose contracts had expired with other teams. If things went well, the team would be much more competitive on the court as the honeymoon period expired, as wins and losses would typically decide the long-run success of the team. The Charlotte Bobcats had no honeymoon, however, due to the city's disenfranchisement with its previous team, the Hornets. Therefore, the Bobcats needed to quickly build a loyal following for the team which would insure a sufficient gate.

**HORNETS: THE ORIGINAL CHARLOTTE NBA TEAM**

Charlotte had been considered a serious underdog when the NBA was considering adding four teams, two to begin play in the 1988-89 season, the other two to debut the following year. Supporters of Charlotte's effort noted that North Carolina had long been a hotbed for college basketball, particularly the "Big Four" powerhouses North Carolina, Duke, North Carolina State and Wake Forest. Charlotte was also viewed as a dynamic city on the rise. Skeptics felt that the city's population was too small to support a professional team, and that area basketball fans were also too committed to college basketball to support an NBA team.

The NBA awarded Charlotte and Miami franchises to begin began play in the 1988-89 season, with Minnesota and Orlando starting the following year. George Shinn, the team's majority owner, was considered a local hero for bringing professional sports to Charlotte. The love affair with Charlotte and the Hornets was immediate. In their first game, the overmatched Hornets lost by 40 points, but the sellout crowd gave the team a lengthy standing ovation as it left the court. Season tickets sold out quickly, and thousands of disappointed fans signed up as "Hornets Hopefuls," a cue for prospective buyers. The Hornets led the NBA in attendance seven straight seasons, selling out the 24,042-seat Charlotte Coliseum 364 consecutive times. The team also improved steadily, drafting rising stars Larry Johnson and Alonzo Mourning, and making it to the second round of the NBA playoffs in the 1992-93 season. The future seemed limitless for Charlotte and the Hornets.

The first sign of problems for the Hornets began in 1995. On November 3, the Hornets traded Mourning to Miami in a six-player deal, rather than sign the young star to an expensive, long-term contract. This decision represented the beginning of a personnel trend for the Hornets, as they would invariably trade key players, rather than sign them to big contracts. Corporate ownership was becoming more common in the NBA, and fans, as well as the local media, began openly questioning whether Shinn had the resources and the desire to be fully committed to winning.

Shinn's public image took a much greater hit in 1997, when he was accused of sexual assault. The highly publicized trial was aired on Court TV, and Shinn, while acquitted of serious legal charges, did admit during the trial to extramarital affairs, at least one with a Hornets employee. By 1999 Shinn, needing an infusion of cash and some favorable public relations, began looking for a partner, and entered into negotiations with basketball icon (and North Carolina native) Michael Jordan. Fans saw the highly revered Jordan as the Hornets' savior, and even daydreamed that the recently retired superstar might decide to return to action, in a Hornets uniform. The deal fell through, as Jordan, seeing Shinn's weak bargaining position, offered to purchase 50 percent of the team but demanded full decision-making control. Shinn refused the deal, further alienating even more fans. Shinn eventually sold minority ownership to Atlanta businessman Ray Wooldridge, and in light of Shinn's personal problems, Wooldridge became the public face of the Hornets. Wooldridge was not used to the spotlight, and was perceived as being quirky and disingenuous by an increasingly cynical media and fan base. Shinn and Wooldridge threatened to move the team if the city didn't provide a new arena. Protracted negotiations began, and it eventually came out that Shinn and Wooldridge had talked to other cities, even after Wooldridge publicly stated that they wanted to stay in Charlotte and that they had not spoken to representatives from other cities. In a last-ditch effort to keep the team, Charlotte leaders crafted a plan to finance a new arena, but only if the team had new ownership. Fans responded with general indifference; by the 2001-02 season less than 10,000 season tickets were sold, and the actual turnstile count of fans in the arena was typically much lower.

In May 2002, NBA owners voted almost unanimously to let the Hornets move to New Orleans, where they would play the 2002-03 season. No public outcry was heard from Hornets fans, but "good riddance" became the general sentiment toward Shinn and Wooldridge. The NBA did, however, demonstrate their commitment to the Charlotte market, awarding the city an expansion franchise (to begin play in the 2004-05 season) in January 2003, mere months after the Hornets departed for Louisiana. Two ownership groups, one that included former NBA superstar Larry

Bird, and the other one headed by BET founder Robert Johnson, were finalists for control of the new team. Johnson's group also gained ownership of the Charlotte Sting of the Women's National Basketball Association (WNBA). The NBA awarded Bob Johnson's group team ownership, making Johnson the first African American to be majority owner of a professional sports team. Charlotte's City Council also approved funding for a new uptown arena, which would be completed in time for the 2005-06 season and would ultimately be managed by Johnson's group.

This arrangement meant that the team would have to play its first season in the Hornets' previous arena, the Charlotte Coliseum, which had now become old by NBA standards and trends. Bobcats president Ed Tapscott pointed out another problem with the arena situation, as "We (would be) in the old place of the old team. It didn't allow us to start with the type of momentum you get with a new building." The announcement of the new franchise created little initial "buzz" in the Charlotte market; fans acted almost like a jilted suitor, reluctant, or perhaps unwilling, to again lay their collective hearts on the line. The Bobcats would have to somehow recapture the Charlotte market, a challenge perhaps never faced by an expansion franchise.

**NBA: THE BUSINESS OF SPORTS**

The Charlotte Bobcats became the NBA's 30th team, with Johnson's ownership group paying a $300 million franchise fee, funds that were divided evenly among the existing teams. A study by Fortune found that NBA teams were valued from $300 million (the Bobcats) to over $500 million for larger-market teams such as the Los Angeles Lakers or New York Knicks. Operating revenues would typically be about one-third of value, and earnings before interest and taxes (EBIT) can vary greatly, with the team's success on the court being the most important determinant. An extended run in the playoffs can dramatically improve that year's finances, as the team receives additional (well attended) home games, and most playoff games are nationally televised, leading to a spike in revenues. Also, player salaries are based on the regular season; players receive additional "playoff pay," but that money is paid by the league rather than the individual team.

The Fortune study also analyzed revenues, concluding that gate receipts (33%) made up the largest part of the revenue stream, with an additional 28% of revenues coming from network television money, which was split evenly among all teams as part of the NBA's collective bargaining agreement. The remaining revenues would come from local television rights, merchandise sales, concessions and other miscellaneous sales. To be successful in the long run, teams strived to put a quality product on the floor, build attendance and have additional fans wanting to follow the team via radio and television.

## THE LOCAL TELEVISION PACKAGE

Nancy Troy did not have a traditional television background, but she was still well qualified for her position with the Bobcats. Troy grew up in the Washington, D.C. area, the only child of parents who passed along their passion for travel, music and sports. Father and daughter had many outings to sporting events, as Troy recalls, "I spent a lot of time sitting next to him, watching ice skating and boxing. We went to a lot of college basketball games." Troy majored in journalism at a local private university, and graduated from law school in 1993. After completing law school, Troy spent two years with the Federal Communications Commission, and then moved to a law firm which specialized in representation of clients who dealt with mergers and acquisitions of media outlets. The firm had some business relationships with BET, and Troy was offered a position with Johnson's company, becoming BET's chief transactional and property rights attorney. When Viacom bought out BET in 2001, Troy moved to The RJS Cos., Johnson's investment company, before taking her position with the Bobcats. Johnson had clearly demonstrated his confidence in Troy's abilities and she was equally impressed with her boss, describing him as "intensely entrepreneurial" and lauding his quiet leadership. Johnson was looking for a strategy that would maximize his three new assets, the Bobcats, the Sting and the new arena (when completed), and felt television was the primary vehicle to implement that strategy. Troy and her staff were charged with analyzing local television options, and presenting a recommendation to Johnson, Tapscott, and other Bobcats executives.

Nancy Troy researched the media strategies of comparable NBA markets, local television possibilities, and regional cable markets, and determined that the Bobcats had four options for their television package. The first possibility involved partnership with two local stations, one at the lower (VHF) end of the dial, and the other, more predominant partner on one of the higher (UHF) channels. In this scenario, approximately 50 of the Bobcats 82 regular season games would be televised, virtually all of their 41 away games and only 8-10 home games. This approach would be very similar to the package used by the Hornets, with the same broadcast stations being available. The team felt that it was important for the game broadcasts to maintain a particularly high penetration (or "reach") within its greater market area. It seemed important, therefore, to broadcast some games on the VHF channel to make at least some of their games available to all households in the market, even those without cable or satellite service. Steve Hall, a consultant for Signature Sports Group, Inc. suggests that, "…to build fan affinity, you need some games on free TV." Cable and/or satellite penetration in the greater Charlotte market was well above 90 percent of all households; therefore, the vast majority of area households would still receive all televised games through cable (UHF) channel, which was more flexible with scheduling, and which would be used for most of the games. This option was attractive in offering a guaranteed source of additional revenue that also provided significant reach which could enhance fan interest and loyalty.

Many NBA teams were using a similar strategy of broadcasting a small number of home games, the conventional wisdom being that televising too many home games could hurt home attendance (the team's largest source of revenue), as fans might choose to watch the game in the comfort of their own homes rather than going to the arena. The team would handpick a small number of home games to broadcast, typically games featuring popular visiting superstars such as Kobe Bryant or Shaquille O'Neal, to showcase the exciting atmosphere in the arena. A concern for the Bobcats was that expansion teams typically only average about 20 wins during their first season (an NBA season consists of 82 games), with very few of those victories coming on "the road" (i.e., the opponent's home court).

Troy knew that some prospective fans would take a "wait-and-see" approach; they would watch some or all of the televised games, but would be unwilling to come to the arena until they had developed some favorable feelings toward the team. Those relationships would be slower to develop if fans were given only a steady diet of road losses. Thus, a second strategy would be similar to the first, but with ten to fifteen more home games added to the package. Similar to the first option, this option offered a slightly higher guaranteed level of revenue with a similar reach, but an even higher frequency rate. Conversely, the broadcasting of additional home games could backfire, however, if it were to lead to a lowered attendance during those additionally broadcasted home games.

A third option would be to add a regional cable sports network, such as Fox Sports Net (FSN), as an additional broadcast partner. Fox Sports already had a number of commitments in place, and would only be used for 10-12 games, replacing the cable channel for those broadcasts. This option would give the Bobcats a wider geographic distribution of households and, therefore, a chance to develop fans outside the core Charlotte area market. The closest NBA markets to Charlotte were Atlanta, Memphis, and Washington D.C., meaning that Charlotte was the closest venue to most basketball fans living within 150 miles of the city. One issue that the Bobcats would have to consider would be the reality that the greater the number of channels they used to broadcast games, the greater the chances that some fans would not find them for particular games. This option provided the broadest reach, as games broadcast on FSN would reach an additional 1.4 million subscribers. Including FSN on the package would also boost revenue, as a larger subscriber base would lead to increased broadcast rights.

A fourth option intended to take advantage of Bob Johnson's experience within the cable television industry. The Bobcats considered developing their own new regional cable television station, dedicated to sports within the Carolinas. The station would feature Bobcats games, as well as Sting games during the WNBA season. The station would supplement its programming by broadcasting football and basketball games featuring small colleges in the Carolinas, events that Troy felt, "carry a strong fan following but have been unable to find a broadcast home." Large conferences, such as the Atlantic Coast Conference and the Southeastern Conference, already had network television contracts in place, but smaller conferences such as the Big South Conference and Southern Conference would have programming available. While a local school like Davidson College (a Southern Conference member) may not have a large enough alumni base and outside following to justify several broadcasts a year, Troy felt that same group would make the effort to support one or two telecasts annually.
Development of their own cable sports network had considerable appeal to Bobcats management, particularly to an entrepreneurial mind like that of Bob Johnson. The team would still broadcast 8-10 games on the previously mentioned VHF channel, but the cable network would showcase Johnson's main assets, as virtually all of the Bobcats and Sting games would be broadcasted *and* highlighted, rather than just being another program in a time slot. There would be no restrictions on the promotion of the basketball product; a series of player profiles could also be developed to familiarize fans with their new players. Troy felt that "letting people in" to the lives of the players was as important as any marketing the team could do, and as vital as team production. Games could be replayed at odd hours, allowing the product greater reach. The network would be an asset, rather than just a stream of revenue the team would have from selling broadcast rights to other stations. Finally, Troy felt that placing the network on digital cable would position the Bobcats "ahead of the curve." Congress passed a law, stating that by 2009 analog programming would cease, fully replaced by digital transmission. Much of the Bobcats fan base would come from the 25-49 male demographic, a group that is typically early adapters of technology such as digital cable and high-definition television. Troy noted that the presentation of live sports was dramatically improved by high-definition programming. The numbers of digital subscribers was currently low in the Charlotte area, but Troy's research showed that, "65% of new cable subscribers nationwide were selecting digital service."

Creating such a new regional sports network would only be a consideration if it were included in lineup of the local cable providers. The largest such provider, which supplied cable service to the vast majority of homes in the greater Charlotte area, was Time Warner. Getting Time Warner's agreement to air the new network,

therefore, was critical to even considering this option. Time Warner supplied cable service to about 60% of the 2.7 million cable household subscribers in the Carolinas, or approximately 1.62 million homes. In discussing this option with Time Warner to gauge their willingness to air a new regional network, the Bobcats were pleased to discover that Time Warner viewed such a potential channel extremely favorably. So favorably, in fact, that it expressed a desire to air such a new regional sports network entirely on digital cable as a way of attracting new digital cable subscribers. At that time, however, only about 600,000 Time Warner household customers subscribed to digital cable. With this option, the Bobcats would still air a few games on other (non-digital) channels with the rest of the games being aired on this new (digital) channel. Also, this option, unlike the others, would prohibit the Bobcats from using satellite TV vehicles such as Dish Network or Direct TV.
Finally, developing a new regional sports network would require significant direct financial costs – something that the other options did not require. Troy estimated about $15 million in startup costs and a slowly developing revenue stream, as commercial rates would be low until the network was able to demonstrate adequate viewership. Troy felt that the network would breakeven in "five or six years."

Troy decided to review her notes one more time, to make sure she had captured all of the costs and benefits of the four options. The options were quite different in terms of revenues, risk and exposure, making the decision rather complicated. Her recommendation would be the biggest decision she had made as a member of Bobcats management, and she was anxious to see if Bob Johnson and the others would want to move in the same direction.