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Alabama Is Winning The College Football Business Model

Renee Hopkins

IN THIS ARTICLE

How well a business model is executed matters. Today's highly successful business model gives a company room to experiment with tomorrow's new business models.

Conventional wisdom says profits from a strong college football program stay siloed within the athletic department, while any losses must be absorbed by the college.

A recent *New York Times* article, "[Alabama Is Rolling In Cash, With Tide Lifting All Boats](#)

(http://www.nytimes.com/2015/11/07/sports/ncaafootball/alabama-crimson-tide-football-marketing.html?_r=0)," says things are different at the University of

Alabama and its football team, the Crimson Tide. The university spends a healthy amount of the huge profits from Alabama's wildly successful football program on non-sports items, such as faculty salaries and academic scholarships.

Since 2007, enrollment is up and the university attracts more National Merit Scholars. The graduation rate for football players is now higher than the overall graduation rate, and many Alabama players are drafted by NFL teams. University of Alabama officials interviewed by the *Times* credit these successes to the football program and its successes.

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As far as football itself is concerned, Alabama will play in a College Football Semifinal game on Dec. 31. A win will give Alabama a chance for a 16th national championship — its fourth championship since 2007. (Update: Alabama won.)

Like all profitable businesses, college football has a business model — provide excellent customer value, and deliver it in ways that generate large profits back to the business. The university clearly understands the model; Alabama athletic director Bill Battle told the *Times*: “College football's ultimate goal is to deliver an experience.”

However, dozens of other college football programs also execute the same business model, many of them unsuccessfully. What is Alabama getting so right with the college football business model?



Recruit Excellent Leadership, Aligned With Growth Goals

Alabama hired Nick Saban in 2007 at a \$4 million salary, which was then among the highest in college football. Less often reported was that in the hiring process, Saban negotiated for and won total control of the football program: recruiting, coaching, business administration, and public relations. In 2008, Forbes called Saban [The Most Powerful Coach in Sports](http://www.forbes.com/forbes/2008/0901/092.html) (<http://www.forbes.com/forbes/2008/0901/092.html>), noting that no coach in any professional sports league had Saban's combination of money, control, and influence.

Saban's hire looked to many as though Alabama was just another university gambling millions of dollars on hope and a coach. Now, though, it seems the University of Alabama leaders understood they were hiring Saban not just as a coach who could win, but as the CEO who could breathe new life into an ailing business model. The university's leaders hired a CEO whom they entrusted with enough power that they were willing to aligning not just the college football business model, but the entire university's business model and growth, with this new CEO's leadership. Sports and business publications (rightly) questioned whether Nick Saban as CEO would be able to deliver value equal to or greater than the amount of money and control Alabama gave him. The question has become moot as the University of

Alabama has met and continues to exceed the growth goals they expected football success to bring.

Now: *Forbes* most recently has called Nick Saban well worth his now \$7 million annual salary and “the best bargain in college football” (according to a breakdown of what Alabama takes in per game, based on both financial and other gains the university has made). Saban’s leadership success has also been lauded by *Fortune*, the *Wall Street Journal*, the *Washington Post*, the Disney Institute, and even Morgan Stanley. A *Detroit Free Press* reporter thinks we should have all voted for Saban as a write-in candidate for the 2012 Presidential election. *Inc.* says Saban would make a good CEO. There’s even been a leadership case study: “The Management Ideas of Nick Saban.”



Work The System To Increase Value Capture

The University of Alabama made Nick Saban CEO of a college football program that’s part of an ever-evolving, complex system: the NCAA, the athletic conferences, the colleges, the TV channels and networks, the fantasy sports and gambling empires, the retailers and manufacturers of licensed merchandise, and the sponsors and advertisers. Even the

NFL has a stake in the system, since college football serves as their de facto developmental league.

Simply put: in the last 10 years there are many, many more ways for college football programs to increase revenue. In this system, staying on top of the rankings increases revenue. But it's also necessary to work at maximizing new partnerships, licensing opportunities, technological advances, and political position in the system. Here's what the system looks like now:

- Athletic conferences have increased in size and power over the years. Most have added their own playoff games and now negotiate their own TV deals. These deals make millions of dollars for college football programs by delivering fans an ever-richer football-viewing experience.
- New sports channels and TV networks mean fans can watch their favorite team, regardless of where they actually live, either at home or at a sports bar that will have all games available.
- The fan experience has grown ever richer. Schools like Alabama have enlarged stadiums, including luxury suites once only seen in professional sports. Huge video screens give fans at the game the ability to watch replays. For the TV audience, technological progress has brought the yellow first-down line, instant correlative and historical stats, slow-motion replays from every possible angle, and cameras on player helmets, on the end-zone pylons, and flying over the field on wires.
- College football "packaging," including the schedule itself, has been tinkered with for years. The season is now packaged as a march toward a 4-team playoff, which is a better product than the BCS bowls, which were a better product than the old bowl system. The playoff system creates an extended window for more advertising and marketing opportunities — again, for the teams at the top of the rankings. The playoff rankings and awards such as the Heisman

Trophy are covered on live television like reality shows, as is the NFL draft in the spring.

Finally, more value is captured more easily by two factors colleges and universities don't control: Per NCAA rules, players (the "student-athletes") aren't paid, beyond scholarships and some expenses. And colleges and universities are tax-exempt. Taken together, these two factors result in a 50% profit margin for college football.

Can Alabama Survive College Football Disruption?

No business model last forever, and the college football business model is no exception. Since Alabama's Crimson Tide first stepped on the field in 1891, the university has most often than not been successful at working every aspect of the evolving business model. To continue that success, the university would be well-served to pay attention to several factors that could change the college football business model, and may even disrupt it. Because the football program provides the chief means of value capture at the university, CEO Nick Saban could lead the university toward a redesign of the business model that could accommodate some or all of these changes:

1. **Player rights:** Legal battles being fought on many fronts may well succeed in changes to labor laws that will give student-athletes employee status, and add their salaries to the cost of college football.
2. **Player health:** Raised awareness of the dangers of head injuries has impacted the pro and college games already. The day is coming when callousness about player health — whether perceived or real — will damage the brand of an athletic program and possibly even a college. Besides the issue of human conscience, any school with millions at stake in football program revenue would be foolish to ignore this issue.

3. **Competition:** What if the NFL, or some deep-pocketed individuals, creates a D-league or a minor league for professional football? What if the NCAA lowers its rules about the age of player eligibility for the NFL draft? Either scenario could mean losing the best players. Potentially, game quality could be decreased and fans lost, particularly those who watch college football to see future NFL stars.
4. **Loss of tax-exempt status:** Should multimillion-dollar college football programs pay taxes? Lots of people think so. Any change in tax status will chip away at the 50% margins football programs have grown accustomed to. Especially if programs must start paying players too.

[Roll Tide. \(https://youtu.be/FIHrbixS7Ws\)](https://youtu.be/FIHrbixS7Ws)

Disclaimer: I'm a University of Alabama alumna who has cheered for the Tide since 1979, in both winning and losing seasons. This either biases me or makes me uniquely qualified to write about Alabama college football. Roll Tide anyway.

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