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Insights with Professor Tim Derdenger: Looming Legal Battles Between PGA and LIV Golf Present Opportunity for Unique Economic Analysis

Following the buzz in the antitrust community about the potential legal battles looming between the PGA and the LIV tour golfers, Vega is thrilled to gain insight on this hot topic from Dr. Tim Derdenger, Associate Professor of Marketing and Strategy at Carnegie Mellon's Tepper School of Business.

Professor Derdenger is an IO economist, whose research focuses on technology and sports markets. More specifically, his research is centered around golf celebrity endorsements in and how to optimize their impact on product sales. In this interview, Professor Derdenger discusses how economic analysis may play a role in potential litigation between the PGA and LIV Golf players.

Can you tell us a little bit about what you are seeing play out between the PGA and the LIV Golf players and the potential antitrust issues it may bring up?

The PGA tour and LIV Golf are competing for top ranked professional golfers. However, each tour has used different strategies to attract talent. LIV Golf is competing with sizeable tournament purses, tournament appearance fees for top golfers, and signing bonuses whereas the PGA tour (until recently) was competing through banning golfers from the PGA tournaments for any player who leaves to play on the LIV tour. On June 21, the PGA tour announced they will offer 8 no cut tournaments for golfers in the top 50 of the FedEx standings with purses in the $20million plus range. With this announcement, the PGA tour appears to be partially replicating the LIV tour strategy to attract talent. Potential Antitrust issues arise due to the banning of PGA tour players who leave for LIV as such a step has the potential to limit competition and suppress income.

How will economic analysis be crucial for studying antitrust impact and damages?

Economics will play a key role in determining several important aspects of any potential case. Economists and marketers will develop models to identify effects from such alleged anticompetitive behavior on LIV golfers. Questions of importance are: Does the PGA tour hold monopoly power for professional golfers? How much power? Are other tour relevant substitutes for the best golfers in the world? What impact does the alleged anticompetitive behavior from the PGA tour have on player income from tournament earnings to off course earnings such as endorsements from existing and future sponsors. The importance of this latter question should not be overlooked as endorsements compose a sizeable fraction of a top 50 PGA tour golfer's total income. Answering these questions require the building of economic models to ascertain the impact or effects of the PGA tour behavior.

What data facts would economists need to consider in this type of analysis?

Economists will need to understand the institutional setting. There are unique features in this market which differ from a traditional product market. For one, a player's income is dependent upon how others do in that tournament and who those other players are in each tournament. Additionally, the purse size of each tournament is partially dictated by the quality of players in each event, which complicates the matter further. Lastly, the details and terms of the recent media rights contracts with NBC, CBS and ESPN potentially worth 6 billion over the next 9 years may play an important aspect in the case--if terms are determined by the number of viewers any loss of quality golfers will impact current and future revenue for the PGA tour.

You have researched the specific issue of celebrity golfers' endorsements and impact of product sales. Can you discuss how this issue will be relevant to a damages analysis?

As mentioned previously, endorsements compose a sizeable fraction of a top 50 PGA tour golfer's total income. Any behavior from the PGA tour that impacts such (current or future) income will likely be a part of a suit brought by the golfers. A player brings two things to the table for an endorsement, prestige and information. The first is best understood by restating the iconic Gatorade ad slogan with Michael Jordan "be like Mike." Here Gatorade was focused on capturing the prestige that Michael Jordan brought by capturing consumers who would like to use the same product as Michael Jordan. The second aspect is that of the informational kind. Take Tiger Woods, during the height of his career, his endorsement of a product delivered information to consumers, especially if it was a product he played with in tournaments, as it signaled to consumers the product was high quality since the number one player in the world was using such a product to earn tournament winnings.

Currently, the potential concern for the PGA tour around player endorsement value is the banning of LIV golfers from the PGA tour events and therefore limiting their exposure to consumers through TV. In doing so, player's potential for exploiting his prestige has been limited. That said, if the PGA tour continues to encourage the "Majors" to ban LIV players or colludes with them to do so or leverages its proximity to the Official World Golf Ranking by voting to not offer OWGR points to LIV events, then such behavior may impact the signaling effect of endorsements as LIV golfers will not be ranked (as well as their prestige effect by being eliminated from the "Majors").

Are there any other unique economic issues that you anticipate arising in an analysis like this?

There are current talks that the DP World tour (formerly the European Golf Tour) may further integrate with the PGA tour or strike a partnership with LIV Golf. The decision by Keith Pelley (CEO of the DP World Tour) of which path to take may play an influential role in the outcome of any antitrust case--a path which further integrates with the PGA tour may be viewed as a merger of the number 1 and 2 tours by market share and with that comes with concerns of greater market power or conversely a partnership with LIV Golf would indicate a credible substitute for players and thus lessens the monopsony case against the PGA tour. Finally, there may also be potential litigation looming between the PGA and the LIV tour itself which will present its own a unique set challenges that will need to be addressed by economic analysis.

For more information about retaining Dr. Derdenger as an expert, or for questions about this interview, please email experts@vegaeconomics.com.

Tim Derdenger is an Associate Professor of Marketing and Strategy at Carnegie Mellon's Tepper School of Business and was the Frank and Helen Risch Faculty Development Professor in Business for AYs 2014-2016. His research interests are divided into two areas: the study of technology and sports markets. Within technology, his research focuses on platform markets with emphasis on bundling, tying and exclusive arrangements in dynamic environments as well as empirical methodologies to estimate dynamic demand models for technology products using aggregate sales data. With sports markets, his research is centered around celebrity endorsements and how to optimize their impact on product sales. He has publications in *Journal of Marketing Research*, *Marketing Science*, *Management Science*, *Quantitative Marketing and Economics*, *Marketing Letters*, and *Customer Needs and Solutions*. He is also an Associate Editor for Management Science (Marketing) and a member of the editorial review board for Marketing Science. Finally, he is an avid golfer (+1 handicap) and a former four-year collegiate golf scholarship recipient.

For additional inquiries, please contact experts@vegaeconomics.com.