



NEW ZEALAND RUGBY UNION

COMPETITIONS REVIEW

FINAL REPORT



FOREWORD

This report represents a significant step in delivering the strategic direction to be adopted by the NZRU Board and the way the game and the competitions will be administered. The report also represents the outcome of an extensive consultation process.

The Board recognises that elements of the decisions will challenge the experiences and preferences of many people who administer, support and participate in the game. That is unavoidable if we are to remain competitive on the field and off the field. To achieve our goal of being a competitive and economically sustainable rugby nation will require the acceptance of change. The focus must be on delivering on what is in the best interests of the game in New Zealand. The game and its people face many challenges. However, through the foresight and perseverance of those who have gone before, we have a substantial legacy to build from.

This report has involved the efforts of many people, including Provincial Union chairs, executives and staff, sponsors, broadcasters, representatives of the media, overseas sports administrators and others. There has been considerable effort from the executive and staff of the NZRU and the Review team members, Brian Roche and Bruce Wattie.

To each and every one of you, the Board acknowledges your efforts and records its appreciation of your input.





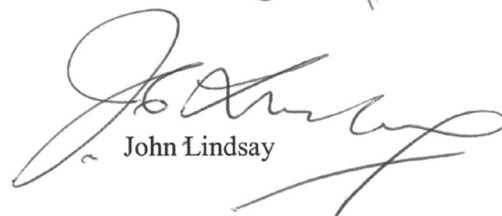
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GLOSSARY

Amateur players	Rugby players who are not paid to play rugby
The Board	The Board of the New Zealand Rugby Union
Community rugby	Amateur (non-paid) rugby played in clubs, schools, universities, church groups and other community organisations
IRB	International Rugby Board
JAB	Junior Advisory Board
NZRU	New Zealand Rugby Union
Professional players	Rugby players who are paid to play rugby as a full-time job
PU	Provincial Union
RWC	Rugby World Cup
SANZAR	South Africa, New Zealand and Australia Rugby
Semi-professional players	Rugby players who are paid to play rugby for part of the year. Money earned in playing rugby is not their primary source of income
SPARC	Sport and Recreation New Zealand
Tier 1 nations	Argentina, Australia, England, France, Ireland, Italy, Scotland, South Africa and Wales



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1. EXECUTIVE SUMMARY

INTRODUCTION

- 1.1 New Zealand rugby has, over many years, faced a number of issues affecting its sustainability and winning traditions — the current position is no different. Hence the Board's commitment to a review of the competitions.
- 1.2 The objective of the Competitions Review, determined as a result of a strategic review undertaken by the Board in 2003, was:—

“to conduct a comprehensive review of all NZRU competitions (including New Zealand's involvement in international competitions) to ensure they provide the best possible platform for sustaining a winning All Blacks team and maintaining rugby as a game accessible and attractive to all New Zealanders”.
- 1.3 This report clearly demonstrates that many of the foundations upon which rugby in New Zealand is based are vulnerable. While it is recognised that there is no immediate crisis, there is ample evidence to suggest that action is required. Failure to act now will compromise the options moving forward and would, in the view of the Board, be both imprudent and irresponsible. The Board's accountability as governor and custodian of the game requires it to take action.
- 1.4 The Board fully recognises the magnitude of the recommendations set out in this report — they will materially affect the competitions and their associated infrastructure. Elements of the decisions will challenge the experiences and preferences of many people who administer, support and participate in the game.
- 1.5 It would be easy to do nothing. However, change is inevitable if New Zealand rugby is to remain competitive on and off the field and is to be economically sustainable. The focus now must be on delivering what is in the best interests of the game in New Zealand.
- 1.6 The Board is unanimous in its intent to respond to the current situation prudently and responsibly. It proposes to take the opportunity to plan the future and, in doing so, to redefine and establish the principles and structure of the competitions in the near and medium term.



PARAMETERS

PROCESS ADOPTED FOR THE REVIEW

- 1.7 The approach comprised two phases, being:
- The preparation and delivery of a report in November 2003 (“the November Report”); and
 - Further feedback, consultation and analysis in the period November 2003 to June 2004 relating to the November Report, culminating in this final report.

- 1.8 The key components of each of the phases were as follows:

Pre November 2003

- Face-to-face meetings with all Provincial Unions (PUs), Super 12 franchises and a cross-section of broadcasters, sponsors, media, players and other key stakeholders. The objectives of the meetings were to obtain input to and perspectives on the matters set out in the Terms of Reference.
- The opportunity for stakeholders to make written submissions on the original Terms of Reference and to highlight issues of concern.
- Desk-based research of sports competitions in other countries and meetings with professional sports organisations in Australia and the United States to identify key issues and lessons to be learnt on the management and operation of competitions and professional sport more generally.
- Analysis of a range of financial and non-financial data to identify and substantiate the key influences on the operating environment within which rugby has been and is likely to be operating.
- Regular discussion and debate by both the Rugby Committee and the full NZRU Board.
- Production of the November Report including presentations to PU and Super 12 franchise Chairs/CEOs together with media and NZRU sponsors.

Post November 2003

- Written submissions from those stakeholders who wished to comment on the November Report.
- Analysis of the submissions and reports to the NZRU Board.
- Meetings with NZRU advisers and representatives of the PUs and Super 12 franchises who sought further clarification and or information on the November Report. Ten meetings took place.
- Meetings involving those parties who wished to meet directly with and make their submission to the Rugby Committee of the NZRU Board. Twelve parties made submissions in person to the Rugby Committee.
- Production of the final report.

- 1.9 There were meetings with the Players Association during both phases of the Review to receive their input and perspective on the issues and options available.

- 1.10 Extensive consultation has been a critical element of the Review. It has been an invaluable input into the analysis and the decision-making process.

- 1.11 Both phases of the process identified overwhelming support for the need to change. There was majority support for the general direction of the Review and the decisions taken in the November Report.



- 1.12 There was a range of views and opinions among PUs and the Super 12 franchises on the nature of the change needed and the timing of that change. For every view and or opinion expressed, there were individual variants or points of view. In general, the variation of perspectives was a function of issues or factors specific to each Super 12 franchise or PU. Many of the opinions expressed were contradictory.
- 1.13 The second phase of consultation confirmed that despite the lack of unanimity referred to above, there is clear support for the direction and principles signalled in the decisions set out in this report.
- 1.14 It is important to recognise that judgements have had to be made in arriving at the decisions set out below. Such judgements are inevitable given the nature of the issues confronting New Zealand rugby and the recognition that the Board does not have perfect information or foresight as to what will happen in the future. The Board does, however, have the benefit of assessing the key trends.

TERMS OF REFERENCE

- 1.15 Terms of Reference were fully outlined to and discussed with PU Chairmen and Chief Executives at their meeting in April 2003.
- 1.16 The Terms of Reference set the 'ground rules' for the study. They recognised the tensions and conflicts inherent within rugby. They also recognised that balance and judgement would be required to reflect the need to achieve economic sustainability while maintaining a game accessible for all.
- 1.17 The key constraint on the design of the future competitions set out in the Terms of Reference was the need for them to be "affordable, workable and acceptable to the majority of NZRU stakeholders". The Board is confident that this has been achieved.
- 1.18 The Terms of Reference also contained some exclusions. The most significant exclusion was that the Competitions Review should not consider reconfiguration of or changes to PU boundaries.

GUIDING PRINCIPLES

- 1.19 Much of the discussion and feedback from stakeholders following the release of the November Report has concentrated on the key factors and principles that underpinned the Board's decisions. The key principles that influenced and guided the Board's approach to the Review and the decisions that flowed from its deliberations were the need to:
- Maintain and enhance the winning tradition of the All Blacks.
 - Maintain rugby as a game for all New Zealanders.
 - Strengthen the game as a professional, amateur and recreational option.
 - Ensure New Zealand rugby lives within its means and is financially sustainable.
 - Ensure the competitions are:
 - competitive
 - economically sustainable
 - attractive and enjoyable to players, fans, broadcasters
 - a base to reinforce the quality and durability of the All Blacks
 - Ensure the best play the best. Players must be continually challenged and tested against their peers in New Zealand and internationally.
 - Maintain a balance between franchise and provincial autonomy and central coordination. In striking the balance, the following factors were seen as being important:



- the roles and responsibilities of PUs and the NZRU
 - financial sustainability
 - provincialism and the strength drawn from provincial rivalry
 - achievement and innovation at the PU level
 - the need to continually raise the quality of performance on and off the field.
- 1.20 In approaching its decision-making responsibilities, the NZRU has used its judgement in determining the weighting applied to each of the principles. The Board has been mindful to ensure:
- An improvement in the quality of the competitions and the administrative institutions.
 - Unnecessary central decision-making and control is avoided.
 - Those best able to make judgements about the value of resources do so.
 - The tradition of individual PUs, their history and the ‘brand equity’ that they have built up over time is not compromised.
 - Innovation within individual PUs and or franchises is encouraged.
 - Player development is enhanced.
- 1.21 The Board also recognised that the decisions arising from this Review should be principle-based. That is, the decisions should establish the principles and framework to guide the implementation. Much of the detail to inform and develop those principles will occur through the implementation process.

STRATEGIC CONTEXT

- 1.22 It is important to recognise that the work on the Competitions Review forms part of several critical work streams being undertaken by the NZRU. Of particular importance are the renewal of the broadcasting contract, the renegotiation of the Players’ Collective and the development of the Community Rugby Plan.
- 1.23 Neither the results of the Review nor its implementation can or should be seen in isolation of these other pieces of work. They are all interdependent and inextricably linked.
- 1.24 The suggestion was made that the Competitions Review should be put to one side pending the outcome of the other pieces of work. It is fully recognised that it is a challenge for any organisation to undergo within one time period the renegotiation of both its major revenue and expenditure categories. Be that as it may, New Zealand rugby does not have the luxury of doing nothing.
- 1.25 Rather than put things to one side, the Board is of the view that it is necessary to progress all of the issues contemporaneously. In fact, it can be argued that completion of the Competitions Review is a necessary prerequisite for the broadcasting negotiations, especially given the impact the Review has on the product offering. In addition, it is a critical input to the Collective negotiations from the employer’s perspective.
- 1.26 The Board does, however, recognise that the implementation process for this Review must take into account the outcomes of the other pieces of work currently being undertaken.



OVERVIEW OF ANALYSIS

- 1.27 In reaching its decision, the Board has been influenced by a range of factors and analysis. These are set out in summary form below.
- 1.28 Rugby operates in an environment that:
- Is increasingly influenced by global trends in work and leisure.
 - Is increasingly international in its outlook. The NZRU is an exporter. A substantial component of its revenue is exposed to movements in foreign exchange rates and is subject to international competition for the attention of sports fans, from other sports and entertainment activities.
 - Requires, and will continue to require, significant ongoing financial resources to operate and prosper. The current financial performance of New Zealand rugby will be difficult to sustain in the absence of new revenue sources and/or cost reductions.
 - Consistently challenges the concept of the status quo, particularly with respect to the relationships between professional and amateur sport.
 - Increasingly relies on the proceeds of broadcasting rights and sponsorship to remain competitive and attractive to players, coaches, referees, administrators and fans.
 - Has to recognise that a number of New Zealand's traditional international competitors have a larger base of players and more financial resources and infrastructure at their disposal.
- 1.29 These external factors and drivers are constantly changing. They are, if anything, becoming more dynamic. They now form part of the reality within which rugby operates. New Zealand rugby must recognise these issues and use both its limited resources and proud heritage to best effect and take every opportunity to lift the standard of performance on-field and off-field.
- 1.30 The key question facing the Board has been whether the form and structure of the competitions need to be changed.
- 1.31 The Board concluded that change was required now for the following reasons:
- New Zealand rugby cannot maintain its pre-eminent position in international competitions and in New Zealand society without change to drive competitive innovation. Our historical advantages have been eroded.
 - The current financial position of New Zealand rugby is not sustainable in the absence of new revenue sources or cost reductions. Under prudent financial modelling scenarios, New Zealand rugby revenues over the medium term will remain static or could decline. Conversely, costs have been increasing at a significant rate.
 - The NPC (particularly the 1st Division) is not sufficiently competitive. Many of the outcomes across the competition are too predictable for its long-term benefit.
 - In the absence of change, the outlook for New Zealand rugby is not positive. There is a risk the sport will decline and it will be increasingly hard to maintain fan support, and therefore sponsor and broadcaster interest.
 - Professional competitions have been a commercial success but there are elements of their integration with, and impacts on, the semi-professional and amateur components of the game that are causing problems.



- 1.32 Change must occur. Delaying change will reduce the number of available options and make implementation more difficult.
- 1.33 Reference was made to overseas professional sport competitions to provide some guidance on the form of alternative competitions and the mechanisms adopted to manage the competitions. However, although there was much to learn from the overseas bodies, there are important factors that make the NZRU different to other professional bodies, especially with respect to the level of responsibility the NZRU has for:
- Player development.
 - Convening national teams for participation in international tournaments and competitions.
 - Development of the sport more generally.
- 1.34 This has meant that while learning from other models, it has been necessary to develop a 'fit for purpose' approach to competitions that reflects the uniqueness of New Zealand rugby. There is no off-the-shelf model that can be replicated in the New Zealand environment. As a result, the decisions in this report reflect mechanisms that both deliver on the requirements of the Terms of Reference and best meet the needs of New Zealand rugby.
- 1.35 The challenge is now to recognise and build on the new and constantly changing operating environment. Many of the attributes and successes of New Zealand rugby provide an excellent base on which to move forward — they, together with many other aspects of history, should be used to guide the future, not to predetermine it.



OVERVIEW OF FINDINGS

- 1.36 This section sets out the philosophy and options considered by the Board during this Review, together with an overview of the decisions taken by the Board. Each of these factors influenced the overall direction of the Review and created the framework within which the decisions are based.

MANAGING COMPETITIONS

- 1.37 International research has identified two broad approaches to the philosophical operation of competitions: free market or managed. The free market approach relies primarily on business and commercial drivers, together with the economics of supply and demand, to determine the allocation of resources — in this case, players and teams. The alternative is a managed approach where a governing body or owners intervene in ‘the market’ to achieve preferred outcomes.
- 1.38 The NZRU has decided to adopt a managed approach to the domestic competitions (i.e. not Super 12). It has done so on the basis that such an approach will produce the best outcome, having regard to the need to maintain a national game accessible to all, together with creating a more financially sustainable and competitive competition within the domestic environment. Unlike the corporate environment, where businesses strive to eliminate competition, a prerequisite of sport is that there is meaningful competition, otherwise over time there is no one to play with and no one watching.
- 1.39 The decision to take a managed approach to the competitions has not been taken lightly. The Board is fully aware of the risks and challenges involved. It understands that managing the competitions might impact the finances of individual PUs, will be challenging to monitor and enforce and may impact on player movements.
- 1.40 The Board believes that these issues, while challenging, can and will be addressed appropriately. The considerable escalation in costs in recent years resulting from unconstrained bidding for players and the concentration of top players in a small number of PUs is of considerable concern to the Board and requires a response.
- 1.41 The objective set by the Board was to select a mechanism for managing the competitions that would:
- Minimise compliance costs.
 - Maximise incentives for innovation.
 - Minimise restrictions on freedom of choice and freedom of action.
 - Be equitable between teams.
- 1.42 The key mechanisms reviewed were:
- Salary Caps: to establish a limit on expenditure for each PU.
 - Player Drafts: whereby players are seeded and allocated across PUs.
 - Revenue Sharing: whereby revenue flows are equalised between PUs.
 - Transfer Regulations: to facilitate the transfer of players.
- 1.43 Each of these mechanisms have been or are used in whole or in part by international professional sports bodies. Recognising the need to create a fit-for-purpose New Zealand model, the Board assessed each of the mechanisms against the criteria listed earlier in this report.



- 1.44 Assessing the management mechanisms against the criteria requires judgement. It is not a linear process. The Board was concerned to ensure that the mechanism adopted best meets the criteria and reflects the needs of New Zealand rugby moving forward.
- 1.45 On that basis, the Board has identified salary caps as being the preferred option, given that once established, they address two key factors, being:
- Managing cost control.
 - Creating an environment where decisions are left in the hands of individual PUs.
- 1.46 It is also recognised that the salary cap will, over time, contribute to a spread of players and, in doing so, create greater competitive balance within the domestic competitions.
- 1.47 The challenge in the implementation phase is to design a salary cap that creates the least distortion and meets the objectives of cost control and encouraging wider dispersion of players among teams.
- 1.48 Three further important elements of the package of measures to manage competitions are:
- Players will be eligible for selection for Super 12 squads only if they have been part of a Premier or Modified Division 1 senior team squad during the most recent domestic season and have played a specified number of games.
 - The movement of players among Premier competition teams as a consequence of the operation of a salary cap will be by way of either a loan system or transfer. Details will be worked through as part of the implementation process.
 - Loan players and overseas players will not be eligible for inclusion in Modified Division 1 teams.

COMPETITIONS

- 1.49 The analysis of the competitions has been carried out taking into account the following attributes that are seen as being necessary to secure successful and sustainable competitions. The attributes have been determined after consideration of the purpose of competitions and the requirements of the many and varied stakeholders in New Zealand rugby. Information from desk-based research and visits to international professional sports bodies has influenced the development of the attributes.
- *Competitiveness of teams* — Lack of predictability in the round robin, finals participants and of the ultimate winner.
 - *Quality* — Standards should continually improve and enhance player development opportunities.
 - *Aspirational appeal* — Players and all other stakeholders, including broadcasters and sponsors, should aspire to be involved with or associated with the competition.
 - *Economic sustainability* — Optimise revenue and costs.
 - *Fan, sponsor and broadcaster loyalty* — Should be at least maintained but preferably increased.
 - *Continuity* — Scheduling must optimise fan interest.
 - *Competitiveness of New Zealand rugby* — Enhance and not detract from our international competitiveness.
 - *Safety* — Minimise injuries.
 - *Enjoyment and support* — Competitions should be enjoyed by those who participate directly and by the administrators, volunteers and fans who support them.



1.50 The competitions that have been reviewed are as follows:

- International programme, including
 - All Blacks
 - Inbound and outbound tours
- Super 12
- Domestic provincial competition

1.51 Each is considered below.

International Programme — All Blacks

1.52 The All Blacks and the All Blacks brand have a number of key attributes:

- The All Blacks are an integral part of the image of rugby in New Zealand. They are very important in fostering the aspirations of players and maintaining rugby as New Zealand's pre-eminent sport.
- The All Blacks brand is the most widely recognised brand in world rugby.
- The All Blacks brand is one of the most widely recognised New Zealand brands outside of New Zealand.
- The All Blacks are New Zealand rugby's single most important revenue generator. They provide potential for significant additional revenue generation in the future.

1.53 The Board recognises that any expansion of the international programme will mean that the All Blacks will not be available to play in the domestic provincial competition when the international programme clashes with the schedule for the domestic competition. However, there is considerable financial value in having the All Blacks play the best teams in the world. More high-quality games mean more exposure of the All Blacks and the All Blacks brand and more revenue for the game in New Zealand.

1.54 The Board has decided that the All Blacks should play more Tests against Tier 1 countries. Having made that decision, the Board has established as a necessary and critical precursor that bilateral arrangements leading to a satisfactory commercial return to the NZRU must be secured before there is an increase in the number of Tests. The Board is confident that the commercial benefits from additional Tests will be persuasive and that satisfactory arrangements can be put in place.

1.55 The number of additional Tests to be played by the All Blacks has to be carefully managed from the perspective of commercial interests, negotiations with the IRB, player welfare issues and the impact on the domestic competition.

1.56 Any decision to remove the All Blacks from the domestic competition will not be taken lightly. The Board understands the importance of the 'stars' playing in the competition with respect to the factors associated with game quality and the need to maintain the interest of fans and sponsors. Removing the All Blacks from the domestic competition because of an expanded international schedule will only occur when the Board considers it is in the best interest of New Zealand rugby to do so.

1.57 A range of factors will need to be addressed in relation to the All Blacks and the domestic competition during the implementation phase, including:

- The number of All Blacks not available to play in the competition because of the expanded international schedule. This will be tightly controlled.
- The basis in which All Blacks will 're-enter' the competition, for example where there is a gap in the playing schedule or for reasons of regaining form. There will need to be criteria that governs the removal or inclusion of All Blacks from the domestic competition.



- The implications for the salary cap of the All Blacks playing or not playing in the domestic competition.
- 1.58 One important criteria will be player welfare. The availability of All Blacks for the domestic competition will need to be considered in the context of the appropriate rest and conditioning periods for players as well as the international schedule.
- 1.59 The net benefits and costs of the All Blacks not playing in the domestic competition cannot be determined with certainty but the Board is confident that:
- The benefits of the All Blacks playing more high-value games against quality competition is substantial.
 - The domestic competition will be a competitive and high quality competition. It will be attractive to players, fans and sponsors.
 - The increase in the number of games from the expanded and reformatted domestic competition will be beneficial to individual PUs, fans and sponsors.
- 1.60 It is understandable that the prospect of the All Blacks not playing in the domestic competition creates a degree of uncertainty about the competition. However, the domestic competition has been designed as an exciting competition in its own right that will retain the commitment of key stakeholders, notwithstanding the absence of the All Blacks.

International Programme — Inbound and Outbound Tours

- 1.61 There was almost universal agreement during the first consultation phase of the Review that longer inbound tours would be of considerable 'value' to rugby. A touring team playing a Test 'series' and matches against PUs would not only provide more revenue-generating opportunities but would add to the profile of rugby¹.
- 1.62 The quid pro quo for longer inbound tours will be longer outbound tours for the All Blacks, with a commensurate increase in costs.
- 1.63 Longer tours, whether inbound or outbound, will have to take into account the playing calendar, both domestic and international, player welfare and the objective noted above of generating more revenue and profile from increasing the number of Tests.
- 1.64 Subject to satisfactory commercial arrangements, resolution of player welfare issues, and negotiations with the IRB, the Board has decided that there will be an increase in the number of inbound tours by Tier 1 countries and outbound tours by the All Blacks to Tier 1 countries.

Super 12

- 1.65 The Super 12 is a successful competition. It has strong fan support, players enjoy it and it generates significant revenue.
- 1.66 The future of the Super 12 is bound up with the debate on separation of the professional and semi-professional/amateur games. All Blacks aside, debate on the professional/amateur split is really about whether or not Super 12 players, all of whom are professionals, should play in the NPC.



¹ Many PUs were adamant that the club window should be left clear of national team commitments. However, they were generally willing to compromise this position to accommodate games against touring teams.

- 1.67 The Super 12 is central to the sustainability of broadcasting revenue. There is a high level of interdependency between the future shape of the Super 12 and what broadcasters are prepared to pay for content.
- 1.68 Various options were reviewed for the configuration of the Super 12 or, more broadly, an expanded professional competition. The key options considered were:
- Status quo.
 - Modified status quo: expansion of the existing competition within SANZAR by 1–3 teams.
 - International expansion: expansion of the existing competition by up to six teams, some coming from nations outside of SANZAR.
 - A global competition: a new full-time professional competition including ‘franchises’ from UK and Europe.
- 1.69 Assessment of the merits of the options took into account that the existing Super 12 competition is generally regarded as a success. It also considered the player development benefits of having the Super 12 professionals playing with and against semi-professionals in the domestic competition (currently the NPC).
- 1.70 The assessment of the options came down to a trade-off between the revenue-earning potential of various expansion options and the implications of removing the Super 12 players from the domestic competition where an enlarged professional competition encroaches on the domestic competition playing window.
- 1.71 The conclusions reached were that, subject to costs, the highest revenue-generating configuration for a professional competition would be global, involving franchises from the northern hemisphere (UK and Europe) and SANZAR. If this were to occur then a separation of the professional and semi-professional/amateur games would be inevitable. However, it is unlikely that such a competition will emerge in the medium term.
- 1.72 Other options reviewed involve expanding the competition within SANZAR or to new markets. The ability of such expansions to generate a substantial commercial advantage for New Zealand is uncertain, in addition to which there are concerns that an expansion for the sake of expansion will compromise the quality of the competition.
- 1.73 The decision made by the Board on the Super 12 is that the NZRU will support expansion of the Super 12, subject to a number of conditions. Two of the most important of these are that the expansion must not make the professional players unavailable for the domestic provincial competition and it must provide New Zealand with a direct or indirect commercial benefit.

Domestic Competition

- 1.74 The NPC is a successful competition. However, the 1st Division is not competitive. The final outcome is not necessarily predictable, but there is a high degree of certainty about which teams are going to be at the top of the table at the end of the round robin and make the semifinals. The pattern over recent years is undeniable.
- 1.75 One of the key factors contributing to the lack of competitive balance is the significantly different financial resources available to different PUs. There is a strong relationship between financial resources and on-field success.
- 1.76 The PUs based in regions with large concentrations of population generally have substantially more financial resource than other PUs. This allows them to pay players more and provide significant development and support



facilities. The close relationship between the five Super 12 franchises and their host PUs was raised by many during the consultation process as further benefiting those PUs.

- 1.77 It is acknowledged that the concentration of financial resources in a small number of PUs is a reflection of demographic and economic factors, particularly increasing urbanisation and the consequential concentration of people and economic activity in cities. However, the Review objectives include a requirement to maintain accessibility and attractiveness of the game to all New Zealanders. Therefore, the competitions themselves must not accentuate the concentration of resources in the major PUs. In addition, the competitions must at the same time provide PUs with the incentive to continue to drive player development and enhance community rugby.
- 1.78 Against this background, a number of options were analysed and reviewed. A summary of the options, together with factors considered, is set out below.

1. Creating a Premier competition

- 1.79 The Board has decided to establish a Premier competition of up to 12 teams. The factors that influenced this decision related to the need to:
- Create a clear marketing differentiation between the Super 12 and the national domestic competition.
 - Increase the depth and diversity of the player pool in New Zealand.
 - Create more opportunities for players to develop through to the fully professional game.
 - Mitigate the negative effects of the concentration of top-level rugby in a limited number of PUs and maintain rugby as accessible to a wider cross section of New Zealand.
 - Recognise and build on the history, passion and tradition of a strong and relevant national provincial championship.
- 1.80 In arriving at its decision on the structure of the Premier competition, the Board reviewed and dismissed the following options:
- Status Quo: 10 teams
 - Competition involving 5–6 teams
 - Competition of 8–9 teams (including Australia)
- 1.81 These options were dismissed on the basis of not satisfactorily addressing the issues of:
- Sustainability, cost and competitiveness.
 - Alignment with population, player and economic activity indicators.
 - Consolidation of ‘rugby power’ into a limited number of PUs.
 - Maintaining rugby as a game accessible and attractive for all New Zealanders.
 - Differentiation of rugby product, especially with respect to the Super 12.

2. Creating a competition for non-Premier teams

- 1.82 The Board is committed to having a meaningful and high-quality competition for those PUs not eligible for the Premier competition. The following options were reviewed for the remaining 15 teams:
- Single national competition.
 - National seeded pools.
 - Regional competitions with national playoffs.
 - A mix of the above.



Decisions on the Structure and Operation of the Domestic Competitions

1.83 Having considered these options, and having regard to the key objectives sought for New Zealand rugby, the following decisions have been taken:

- The domestic competition will be subject to a degree of management to address both issues of sustainability of costs and the competitiveness of the competitions.
- The key mechanism to manage costs and competitiveness will be a salary cap.
- There will be two domestic competitions: a Premier competition and a Modified Division 1 competition.
- Participation by PUs in the domestic competitions will be criteria-based.
- The Premier and Modified Division 1 competitions will commence no later than the 2006 season. The NPC will continue in its existing format until the new competitions start.

Premier competition

- The Premier competition will be a professional/semi-professional competition.
- The Premier competition will be comprised of up to 12 teams.
- The composition of the competition will be fixed for the first three years. At the end of three years, all teams will be reassessed against the criteria.
- The format of the Premier competition will comprise a national round robin, semifinals and final.

Modified Division 1

- The Modified Division 1 competition will be an amateur competition. Modified Division 1 players will not be paid to play. They will be reimbursed for costs.
- The composition of the Modified Division 1 competition will be reviewed regularly. Ability to meet the entry criteria on an ongoing basis will determine whether teams will be eligible to continue to participate in the Modified Division 1 competition.
- The Modified Division 1 competition will be a national competition. It will operate as either a single national pool or as two seeded national pools with inter-pool semifinals and final. The number of teams participating in the competition will determine the form that the competition takes. In any event the competition will operate to provide participating teams with not fewer than eight games per season.
- The Lochore and Meads Cups will be incorporated into the Modified Division 1 competition.

1.84 The format of the Ranfurly Shield will remain unchanged.

Governance

1.85 The relationship between the Super 12 franchises and the host unions is considered by many PUs to be a major contribution to the lack of competitiveness within the NPC. The location of the 'best' players in host unions and the support and development that the franchises provide were often quoted during the consultation process as major obstacles to the competitiveness of the domestic competition.

1.86 Analysis shows that the five host unions are certainly dominant on the field — they also have the greatest financial resources and high-quality administration structures. However, that dominance cannot all be attributed to the situation



of being a host. As demonstrated within the report, the population and economic shifts within New Zealand have, over recent years, been dramatic — each of the host unions has benefited from that phenomena.

- 1.87 It is an open question as to whether the dominance of the five host unions would have been as great, had they not been franchise hosts. In theory, the joint administration and management of a franchise and a PU gives rise to a risk that actions and decisions could be made by the franchise for the benefit of the PU. Whether this happens or not in practice is a moot point. If the separation between franchises and host PUs is not adequate and transparent, the perception of abuse of the relationship will always exist.
- 1.88 Two options for dealing with this issue are to separate the management of the franchises and the PUs or to ensure there are adequate governance arrangements in place. A third option would be to do both.
- 1.89 Separation of management could involve:
- Complete separation of all management and administration functions.
 - Separation of the chief executive position.
- 1.90 Having carefully considered the matter, the Board is of the view that rather than fundamentally change the existing management, a better approach in the first instance would be to concentrate on the practices and procedures adopted with respect to the governance practices of each franchise.
- 1.91 Consistent with best practice, the Board is of the view that all transactions and relationships between the franchise and the host union must reflect the following principles, namely to be:
- At arm's length
 - On normal commercial terms
 - Transparent and auditable
 - Subject to contract
- 1.92 Having established the principles to guide and manage the arrangements, the role of the governors themselves was considered. Independence is seen as a critical element of good governance. As a consequence, the NZRU Board has agreed that:
- Franchise boards will be comprised of seven directors:
 - Two directors appointed by the host PU
 - Two directors appointed by other PUs within the franchise
 - Three independent directors.
 - The independent directors will be appointed by the NZRU, after consultation with the franchise PUs.
 - The chairman will be appointed by the franchise board on the basis of the best person for the role. However, the chairman of the franchise board must not be the chairman of the host PU.
- 1.93 These changes will be further monitored and reported on when a review of the franchise agreements is undertaken at the time the broadcasting contract is being finalised.

Provincial Unions

- 1.94 Review of PU boundaries was explicitly excluded from the Terms of Reference for the Competitions Review.
- 1.95 The current PU and franchise boundaries are a construct of history. The analysis in this report clearly demonstrates significant and ongoing changes



in regional and national demographic and economic factors that impact directly on PUs and franchises, in terms of their ability to generate revenue and the pool of players from which they can select competition teams.

- 1.96 Given the nature of the changes and the likelihood of those trends continuing (if not accelerating), there is a need for a more proactive approach to the management of PU and franchise boundaries. The Board considers that the objective should be to have PUs of sufficient critical mass to participate credibly in a competition, and to ensure that the administration and infrastructure costs associated with the operation of the PUs are focussed on game development. The Board recognises that it will be necessary to address these issues at some time in the future.

Community Rugby

- 1.97 The focus of this Review has been on national and international competition structures and scheduling. Securing a club window of not less than 20 weeks was confirmed in the Terms of Reference. All of the decisions of this report have been reached with this in mind. The Board is confident that none of the decisions will adversely impact on community rugby.
- 1.98 The consultation process and analysis has highlighted a number of issues and trends that signal the need for decisive action to ensure the overall health of community rugby is maintained and enhanced. The need to have community rugby performing and well supported (on the field and off the field) is critical to New Zealand rugby, the future of competitions and ultimately the All Blacks. The actions to address these issues form part of the NZRU community rugby strategy.

Other Issues

- 1.99 The Terms of Reference required the Review to address a number of issues relating to the length of season, aspirational pathways, talent identification and player development. There are no material decisions arising on these matters at this stage as further work is required. This will be undertaken and reported on separately as part of the ongoing work programme being undertaken by the NZRU.



IMPLEMENTATION PROCESS

- 1.100 The decisions within the report represent a framework within which implementation will occur. They also represent a package that collectively achieves a set of outcomes. Given their interdependency, it is important they are implemented as a package. A change in one area could impact on other areas. A successful implementation process will require:
- Trust in the integrity and competency of the people tasked with the job.
 - Strong leadership and accountability.
 - A robust and thorough process, including working groups.
 - Flexibility to modify and adapt as new and improved information becomes available.
 - Clear sequencing of decisions.
- 1.101 The Board is committed to ensuring that the implementation is undertaken according to the following principles:
- An open and transparent process.
 - Full involvement of working groups as outlined above.
 - The implementation will be carried out in a business-like manner.
 - To recognise and be coordinated with the renegotiation of the broadcasting contract rights, the Players' Collective and Community Rugby Plan.
- 1.102 Implementation of the decisions will be worked through collectively with appropriate PU and Super 12 franchise representatives.
- 1.103 Working groups will be formed to assist on all issues related to:
- Managing competitions particularly with respect to–
 - the level of the salary cap
 - the detailed workings of the salary cap
 - transition issues
 - grandfathering and special cases, if any
 - The eligibility criteria for participation in the domestic competition
- 1.104 Other work groups will be convened to cover other issues as and when they are required.
- 1.105 As noted previously, the operating environment within which rugby operates is dynamic. The Board does not have perfect information or foresight. Nor does the Board control all the key variables that impact on our future. In recognition of this, the Board is committed to ensuring that the decisions outlined in this report are able to be revisited by the Board if either:
- The implementation process identifies a key and or material factor that affects the framework; or
 - Influences outside the control of the NZRU/PUs affect the framework, its assumptions or the implementation.



CONCLUSION

- 1.106 The decisions from this Review, together with the analysis and judgements that support them, represent a significant step to achieving a more sustainable economic base for the game while at the same time achieving more competitive domestic competitions.
- 1.107 Considerable time and effort has been spent on this process — that is unavoidable and, in the view of the Board, time well spent given the significance of issues covered. There has been ample time for those interested to familiarise themselves with the issues, the options and the interdependencies.
- 1.108 It is now time to move forward. The implementation process and its associated principles have been clearly established and set out. The Board is committed to advancing the issues in a collaborative manner.
- 1.109 Failure to act now will be detrimental to the game in New Zealand. There is no option but to move forward collectively, acting as always in the best interests of the game.
- 1.110 Implementation of the findings of the Review will now proceed immediately, with full implementation scheduled for commencement in 2006.
- 1.111 New Zealand is fortunate with respect to the history, heritage and position of rugby. The Board is committed to building on those foundations through the outcomes established by this Review.





2. INTRODUCTION

- 2.1 This report sets out the findings of the Competitions Review. It addresses each of the questions asked in the Terms of Reference.
- 2.2 The purpose of this section of the report is to provide:
- The context for the Competitions Review
 - The parameters within which the report was conducted
 - Key influences affecting rugby
 - The approach adopted
 - The need for change.

CONTEXT

- 2.3 Rugby operates in an environment that:
- Is increasingly influenced by global trends in work and leisure.
 - Is increasingly international in its outlook. NZRU is an exporter². A substantial component of its revenue is exposed to movements in foreign exchange rates and is subject to international competition for the attention of fans from other sports and entertainment activities.
 - Requires, and will continue to require, significant ongoing financial resources to operate and prosper.
 - Consistently challenges the concept of the status quo, particularly with respect to the relationships between professional and amateur sport.
 - Increasingly relies on the proceeds of broadcasting rights and sponsorship to remain competitive and attractive to players, coaches, referees, administrators and fans.
- 2.4 Rugby is no different to society generally. In fact in many ways it is a microcosm of society. It faces many challenges and opportunities. Judgement and leadership is required to determine the actions required to meet the changes and take advantage of the opportunities.
- 2.5 The changes in recent years in the game and its organisation and focus at both international and domestic levels are profound. Rugby in New Zealand has successfully adapted to, and leveraged off, the challenges and changes – it continues to occupy a pre-eminent position within New Zealand sport and society. The challenge is to maintain that position, value and relevance without compromising the rich and proud history of the game.
- 2.6 Within this context the Board of the NZRU undertook a strategic review of the NZRU and rugby in New Zealand. A key work stream arising from that process was to undertake a review of the competitions.
- 2.7 The objective of the Competitions Review was “to conduct a comprehensive review of all NZRU competitions (including New Zealand’s involvement in international competitions) to ensure they provide the best possible platform for sustaining a winning All Blacks team and maintaining rugby as a game accessible and attractive to all New Zealanders”.

² Broadcasting rights are effectively sold on a global market.



PARAMETERS FOR THE REVIEW

- 2.8 A number of parameters were set at the start of the Review. These have guided the process and provided a framework against which decisions could be assessed. In many respects the parameters are a matter of reality and reflect either matters of fundamental principles or commitments entered into by the NZRU.
- 2.9 The parameters, as presented to PUs, were:
- The winning tradition of the All Blacks must be sustained. The Review must ensure the All Blacks have the ability to maintain or enhance the team's very proud but demanding winning record.
 - The All Blacks will participate in an IRB-governed international programme, which includes a four-yearly Rugby World Cup tournament.
 - Rugby in New Zealand is a game for all and it is the responsibility of the NZRU to ensure the competitive advantage provided by the broad base of club, school and provincial rugby is sustained.
 - The NZRU will enter into a new broadcasting contract after the current arrangement expires at the end of 2005. The value derived from that contract will be driven to a large extent by the value broadcasters ascribe to the competitions that the NZRU manages.
 - There will be a level of rugby that will be fully professional.
 - There will continue to be a significant section of rugby that will be amateur, but aspirational as well as recreational.
 - Club and school competitions will occur during a period of approximately 20 consecutive weeks each year starting no sooner than late March or the beginning of April. Saturday afternoons during that period will, as far as practical, be kept clear of representative fixtures. Club competitions were not part of the Review.
 - All competitions must be economically sustainable from both the NZRU and PU perspective.
 - For competitions to remain commercially and popularly attractive they will need to consist of competitive contests.
 - The Review has to take into account the strength and history of existing competitions and the teams in those competitions.
- 2.10 The only constraint on the design of the future competitions was the need for them to be affordable, workable and acceptable to the majority of NZRU stakeholders.
- 2.11 In addition, although not explicit at the commencement of the Review, it was confirmed that New Zealand will continue as a member of SANZAR.
- 2.12 Each of these points was actively considered throughout the process and reflected in the final decisions. Any divergence from these parameters has been made explicit in the report.

KEY INFLUENCES



- 2.13 A range of factors has influenced the analysis undertaken and the decisions made. The key factors include:
- The introduction of professionalism into what had been, for over 100 years, an amateur game.

- A perception that the inclusion of professionals in a semi-professional domestic competition (NPC) has highlighted, if not in the view of some, created competitive imbalance³.
 - The financial issues facing New Zealand rugby. Both revenue and costs have risen significantly since the advent of professionalism. However, the current outlook for a substantial portion of NZRU revenue is uncertain. Consequently, it is questionable whether the current level of total New Zealand rugby costs can be supported in the future and it is almost certain that the recent rate of cost increases cannot be sustained.
 - The pending renegotiation of the broadcasting contract.
 - The need to ensure that the game and its competitions are positioned for the optimal benefit of players, administrators, fans and sponsors.
 - The pending renegotiation of the Players' Collective agreement.
 - A need to ensure that the game is sustainable both from a rugby perspective and economically.
 - The recognition that society and the context within which rugby has operated have changed and are going to continue to change. These changes are beyond the direct control of the NZRU.
 - The need to maintain the linkages and interdependencies between the 'two pillars' of the game, being community rugby and professional rugby. Professional rugby provides the money needed to fund community rugby. The sustainability of professional rugby is therefore critical to the ongoing welfare of the game. Community rugby contributes to the broad-based support that gives the game a pre-eminent position in New Zealand.
- 2.14 These key influences are to an extent, interdependent. At the same time, some are in conflict with others. The key reference points for addressing and resolving these interdependencies and conflicts are:
- Economic sustainability.
 - Maintaining rugby as a national game.
 - Building on the history of the All Blacks and the provincial entities and competitions that underpin the All Blacks' winning tradition.

APPROACH TO THE REVIEW

- 2.15 The approach to the Competitions Review comprised two phases, being:
- The preparation and delivery of a report in November 2003 ("the November Report"); and
 - Further feedback, consultation and analysis in the period November 2003 to June 2004 relating to the November Report, culminating in this final report.
- 2.16 The key components of each of the phases were as follows:

Pre November 2003

- Face to face meetings with all Provincial Unions, Super 12 franchises and a cross-section of broadcasters, sponsors, media, players and other key stakeholders. The objectives of the meetings were to obtain input to and perspectives on the matters set out in the Terms of Reference.
- The opportunity for stakeholders to make written submissions on the original Terms of Reference and to highlight issues of concern.

³ Teams winning more games than would be expected in a competition where teams are competitive.



- Desk-based research of sports competitions in other countries and meetings with professional sports organisations in Australia and the United States to identify key issues and lessons to be learnt on the management and operation of competitions and professional sport more generally.
- Analysis of a range of financial and non-financial data to identify and substantiate the key influences on the operating environment within which rugby has been and is likely to be operating.
- Regular discussion and debate by both the Rugby Committee and the full NZRU Board.
- Production of the November Report including presentations to PU and Super 12 franchise Chairs/CEOs together with media and NZRU sponsors.

Post November 2003

- Written submissions from those stakeholders who wished to comment on the November Report.
 - Analysis of the submissions and reports to the NZRU Board.
 - Meetings with NZRU advisers and representatives of the PUs and Super 12 franchises who sought further clarification and or information on the November report. Ten meetings took place.
 - Meetings involving those parties who wished to meet directly with and make their submission to the Rugby Committee of the NZRU Board. Twelve parties made submissions in person to the Rugby Committee.
 - Production of the final report.
- 2.17 There were meetings with the Players Association during both phases of the Review to receive their input and perspective on the issues and options available.
- 2.18 Extensive consultation has been a critical element of the Review. It has been an invaluable input into the analysis and the decision-making process.
- 2.19 Both phases of the process identified overwhelming support for the need to change. There was majority support for the general direction of the Review and the decisions taken in the November Report.
- 2.20 The output from these processes formed the basis for a range of discussions by the Board on the options available to discharge the requirements of the Terms of Reference.
- 2.21 The review of international competitions focussed on the key attributes of the competitions and the mechanisms adopted to manage the competitions. It was clear from this review that, although there was much to learn from the international bodies, there are clear differentiators that make the NZRU different to other professional bodies, especially with respect to the level of responsibility the NZRU has for:
- Player development.
 - Convening national teams for participation in international tournaments and competitions.
 - Development of community rugby and the sport more generally.
- 2.22 This has meant that while learning from other models, it has been necessary to develop a fit-for-purpose approach to competitions that reflects the uniqueness of New Zealand rugby.
- 2.23 There is no off-the-shelf model that can be replicated in the New Zealand environment. As a result, the decisions in this report reflect mechanisms that both deliver on the requirements of the Terms of Reference and best meet the needs of New Zealand rugby.



THE NEED FOR CHANGE

- 2.24 The Review has focussed on identifying the nature and form of competitions that best build on and enhance the winning tradition of the All Blacks over the medium to long term, while meeting the needs and aspirations of New Zealand players, fans, sponsors, administrators and volunteers.
- 2.25 The key parameters, drivers and influences on the Review were identified earlier. Embodied in each of these are the implied questions:
- Can we remain the same?
 - Should we change?
 - If so, how?
- 2.26 Three factors have influenced the Board's view on the need for change:

Competitive Advantage

- 2.27 Rugby, like many other activities (commercial and non-commercial) operates in a competitive environment both on-field and off-field. There is a need to constantly innovate to maintain competitive advantages.
- 2.28 In terms of the competitions, the Review assessed and questioned the current competitions to determine whether they are:
- Contributing sufficiently to the development of rugby talent. In particular, are the current competitions providing the platform for sustaining the winning tradition of the All Blacks?
 - Providing the product demanded by the fans, whether they are spectators or viewers, or by sponsors and broadcasters. This relates to the competitiveness of the rugby 'product' relative to other entertainment and leisure options.
 - Encouraging broad-based participation at all levels of the game to maintain, if not enhance, the breadth and depth of the player, coach, referee and administrator 'pool'.

Economic Sustainability

- 2.29 The need for economic sustainability is a given. Many stakeholders raised doubts throughout this review about the economic sustainability of the current competitions. The current competitions have been reviewed to determine:
- Whether a continuation of recent trends in growth in costs would allow continuation of the status quo.
 - Whether the current competitions can deliver the revenue required to sustain the growing cost base.
 - What mechanisms would be required to address the financial trends experienced and projected within rugby.
- 2.30 The revenue outlook serves to provide further impetus to review the current competitions. Refreshing or renewing the 'product' derived from the competitions is important to provide NZRU with the value proposition required to extract maximum revenue from sponsors and broadcasters. It is also important to provide stakeholders with an opportunity to review costs and identify whether the existing competition structure is providing value for money, given the substantial costs involved.

Competitiveness of Competitions

- 2.31 The competitiveness of teams in the NPC 1st Division is highly variable. Lack of competition can be detrimental to both the financial well-being of



the game and participation at all levels, whether it be players, spectators or sponsors. In this context, the current competitions and other international competitions have been assessed to determine:

- The factors that affect competitions, such as access to and availability of resources (money, players, administrators and support structures).
- Whether they are uncompetitive in an empirical sense (as opposed to intuitively or anecdotally).

CURRENT POSITION

- 2.32 The Review has been conducted in an environment where there is not an obvious major crisis. However, there are a number of issues and trends outlined later in this report which give rise to concern. It is clear that failure to proactively review, and where necessary address these issues would be both imprudent and could undermine the many positive aspects of New Zealand rugby and the potential to grow, enhance and leverage all aspects of the game. Failure to act compromises the availability of options. Experience shows that if action is deferred, the number of options will reduce and the nature of the change required will become more dramatic.
- 2.33 In summary, there is a case for change that is a function of:
- Trends and changes over time.
 - The increasing complexities resulting from the move to professionalism and the need to keep one step ahead of the competition. In this regard New Zealand rugby is no different to any other sector or business.
 - The need to continually innovate and change to grow and enhance performance is universal and it is ongoing. It is imprudent to ignore the changes. To do so will not be in the long-term interests of the game.
- 2.34 The Review highlights the dynamic nature of professional sport, leisure, society and consumerism – the balance between commercial and non-commercial interests is constantly changing. New Zealand rugby must be more proactive than it has been in the past in modifying and adapting its competitions to the changing environment. The fact that the NPC has remained largely unaltered for so long is remarkable. Similarly, it is of significance to this Review that the existing PU boundaries have and continue to remain unaltered notwithstanding significant demographic and economic changes.
- 2.35 A more proactive approach to anticipating change will ensure that New Zealand rugby keeps pace with the changing environment within which it operates, rather than be over-taken and left behind. It is incumbent on management in a professional environment to maintain and enhance stakeholder value – the NZRU is no different.

COMPETITION INTERDEPENDENCIES

- 2.36 Elements of the NZRU's competitions have been considered separately, being the:
- International programme.
 - Super 12.
 - Domestic competition.
 - Regulation.
- 2.37 While being separated for the purposes of presentation, each element must also be considered as a total package.



- 2.38 It is important to recognise the interdependencies between the elements and the point at which the interdependencies become mutually exclusive. For example, if Super 12 were to be expanded significantly then the structure, timing and participants in the domestic competition would alter.
- 2.39 Ultimately a lot of the key issues affecting the game are related directly or indirectly to the need to produce content, games or competitions, to sell to broadcasters and sponsors. This has a significant impact on the nature and timing of the competitions. The decisions outlined in this report attempt to reflect the reality and uncertainty of that issue.

QUANTITATIVE ANALYSIS

- 2.40 The financial and other quantitative analysis presented in this report is generally the same as presented in the November report. Most of the analysis is based on 2002 data and has not been updated to include 2003 data. However, the 2003 data will not alter the trends exhibited by the analysis or change the messages and conclusions to be drawn from the analysis.





3. THE CASE FOR CHANGE

BACKGROUND

- 3.1 A feature of the Review has been extensive consultation with stakeholders. One of the common themes through the consultation was that despite its successes, the game faces problems and change is required. The nature of the problems were not always articulated clearly, but there was a general mood of “time for a change”.
- 3.2 Notwithstanding the feedback from stakeholders, which has been invaluable, the Review has not been predicated on an assumption that change is required. Rather, a neutral position was taken at the outset and the following principles were applied.
- Successful aspects of the existing competitions should be retained and built on.
 - Change should only be made where competitions are not meeting key objectives.
- 3.3 This Section presents an assessment of the factors that have influenced, and will continue to influence, the environment within which rugby operates. The objective is to prove the case for changes to be made to the competitions.
- 3.4 The following factors are reviewed in this Section:
- Societal changes that have and will continue to influence all aspects of participation in rugby and rugby’s place in New Zealand sport and society.
 - Changes to rugby within New Zealand.
 - Competitive balance in the NPC.
 - The financial performance of the NZRU and PUs.
- 3.5 Taken together, the trends in these factors determine whether or not there is a need for change. It is important to recognise that many of the trends identified are now permanent – they will not, without proactive management and interventions go away. They cannot be ignored. The issue moving forward is how should they be recognised and accommodated in the future structure and focus of the competitions.
- 3.6 In 2001, a Ministerial Taskforce was established to define the vision for sport, fitness, and leisure in New Zealand for the next 25 years. A number of aspects of that review are relevant to the assessment of the current position of rugby in New Zealand society and its positioning in the future:

“Sport has become a major consideration in the social and economic life of New Zealand. It has, arguably, become justified less on grounds of social and moral values than as the domain of fitness, commercial imperatives and branding.

“In 2000 AD recreation and sport may be viewed significantly through the lens of the media, vested commercial interests, the amateur-professional debate, or bound up with international competition, politics, funding, national prestige or the subtle forces of symbolism”⁴.

⁴ *Getting Set for an Active Nation*, Report of the Sport, Fitness & Leisure Ministerial Taskforce, 2001.



SOCIETAL CHANGES

- 3.7 A healthy and well-functioning rugby community is critical to the depth and breadth of the game. New Zealand rugby has historically relied upon and leveraged off strong community participation in the game.
- 3.8 There are many trends in society that have influenced and are influencing the nature and form of the base of the game. Major changes include a population that is increasingly urban, an economy that is less dependent on agriculture as its base, a society:
- That has a substantial range of options for recreation and entertainment.
 - Where the nature of the employment market has fundamentally changed.
 - Where issues of regulation such as occupational health and safety are having an impact on attitude to contact sports, especially in schools.
- 3.9 Some of these changes have been occurring for over 100 years. Some have become more evident over the last 40 years. Many are becoming more prevalent.
- 3.10 New Zealand is increasingly a country where economic and social disparity is a reality. The larger cities are getting bigger, infrastructure and technology are making the country more mobile, and the income spread is becoming more pronounced.
- 3.11 The nature of New Zealanders' consumerism has also changed. Expectations have increased, disposable income for many has increased; for others, purchasing power has reduced. New Zealanders value choice and options. For many, payment of money is preferable to commitment of time: people are "cash rich, time poor".
- 3.12 Presented below is an overview of trends in:
- Population
 - Ethnic mix
 - Family
 - Labour force
 - Changing role of females
 - Economic factors
 - Recreation and entertainment.

POPULATION

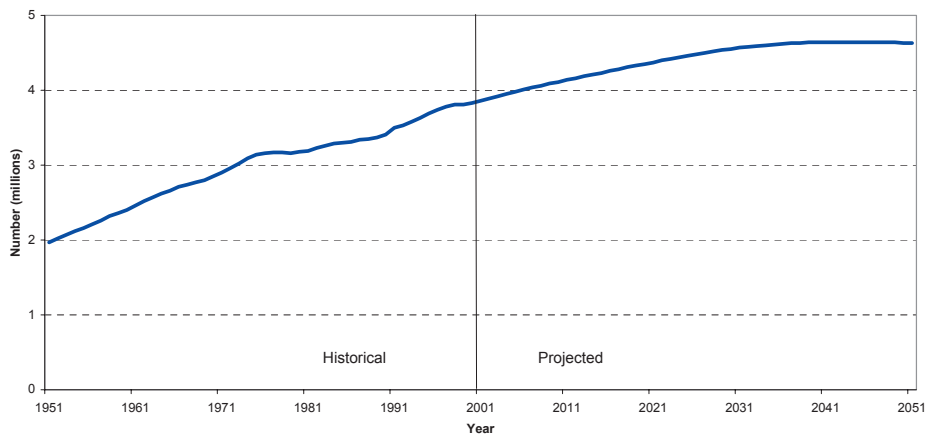
- 3.13 Set out below is New Zealand's historical and projected population for the period 1951 to 2051.

Growth

- 3.14 The level of population, its growth, location, age and ethnicity need to be recognised when thinking about rugby.
- 3.15 New Zealand's population is growing, albeit slowly. The ability of rugby to increase participation rates is therefore limited.
- 3.16 The population of the North Island continues to grow at a faster rate than the South Island. The North Island is home to 76.0% of New Zealand residents as at 30 June 2003, up from 75.3% at 30 June 1996. At a macro level, this creates issues in terms of the number of PUs that can creditably participate in the competitions and the nature of the infrastructure required to support rugby.



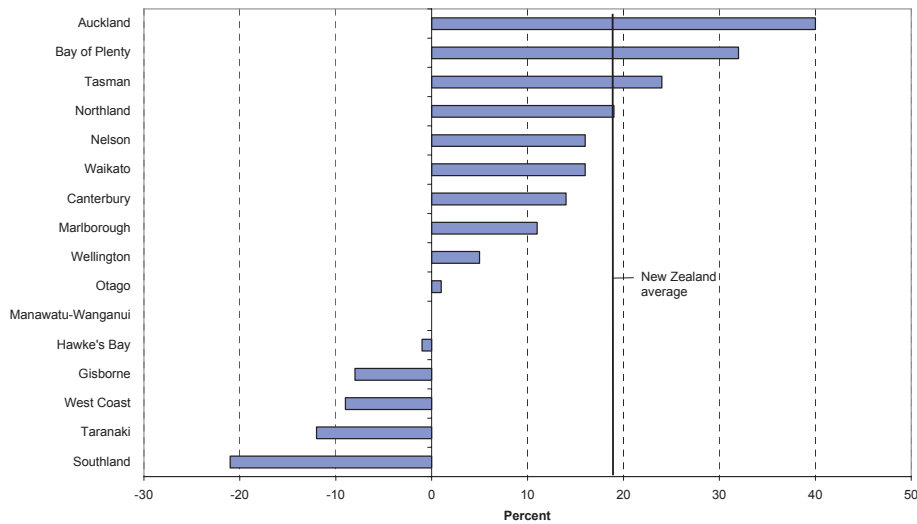
Figure 1. New Zealand Population Growth Rate⁵ 1951–2001



Source: Statistics New Zealand

Regional Population Growth

Figure 2. Projected Growth of Regions 1996–2021



Source: Statistics New Zealand

3.17 The projected population growth for regions is important to New Zealand rugby and the competitions for the following reasons:

- Acceleration in the number of people living in cities. This has placed and will continue to place pressure on the historical foundations of the game in rural areas. In 1901, 54% of the population lived in rural area. By 2001 this had declined to 14% (532,740 people).
- An increasing disparity between regions. On current trends 10 of New Zealand's 16 regions are expected to grow in population size. Of those 10, four (Auckland, Bay of Plenty, Tasman and Northland) are expected to grow at or faster than the national average.
- The four northern-most regions (Northland, Auckland, Waikato and Bay of Plenty) contain just over half (51.6%) of NZ resident population.
- The Canterbury region is home to 53 out of every 100 South Island residents.

⁵ Projections based on medium term fertility and mortality and an annual net migration gain of 5000.



- 3.18 These forecasts further challenge the historical boundaries of PUs and create issues to be managed with respect to the infrastructure and management mechanisms to maintain and enhance participation and competitiveness.

Auckland

- 3.19 The Auckland region dominates growth with currently one in three New Zealanders in the region. This ‘concentration’ is critical in terms of the competitions, aspirational and development pathways for rugby players and the sustainability and equity of maintaining one representative team for such a large proportion of New Zealand’s population.

Population Profile

- 3.20 New Zealand has a population that is ageing. In 1991, the median age was 31 years; in 2001 it was 35 years and by 2021 it is projected to be 40 years. This is all within the context of a projected population growth (based on current trends) of 4,375,000 by 2021.
- 3.21 The number of children (0–14 years) is projected to decrease from 880,000 in 2001 to 750,000 in 2051, representing 16% of the population as compared to 23% currently.
- 3.22 Rugby will need to respond and secure participation rates in an environment of ageing population, fewer children and, as seen later in this Section, greater options for recreation and leisure.

Population by PU

- 3.23 The following charts present the total population in 2001 and the cumulative annual growth rate over the period 1986 to 2001 by PU. These are sorted by NPC Divisions. The data is derived from a specific model developed by the NZRU to map national census information to PUs.

Figure 3. 2001 Population by PU

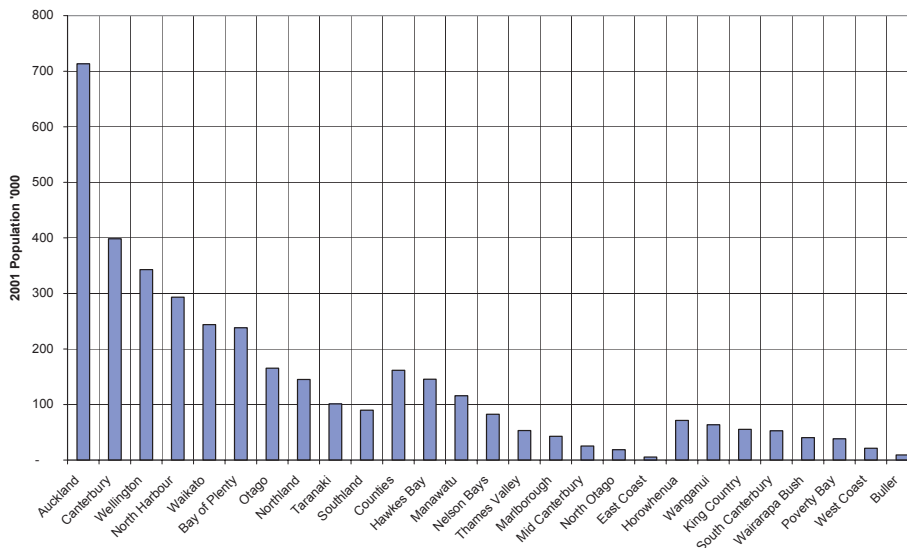
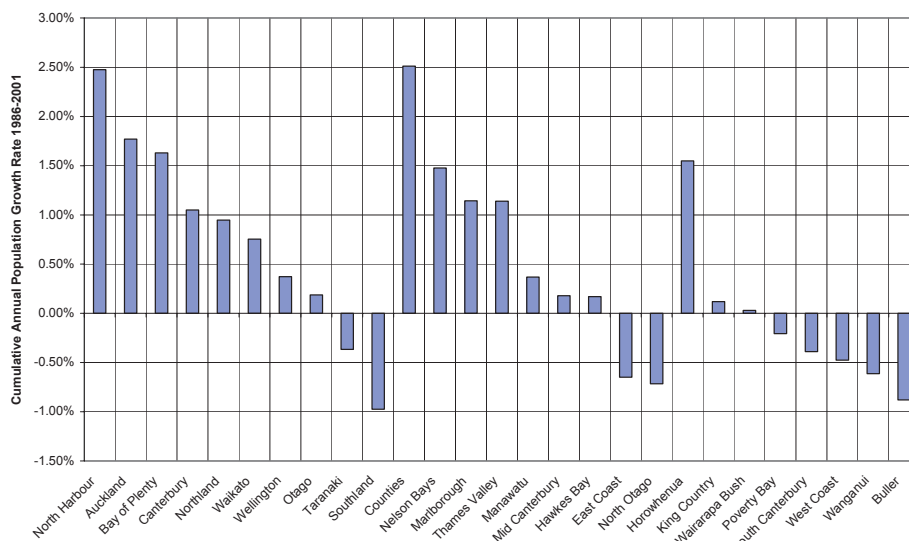


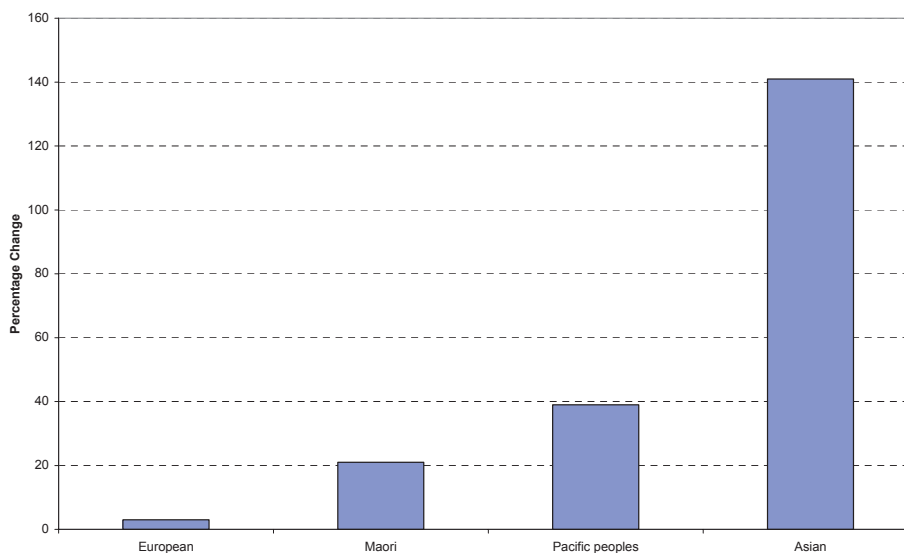
Figure 4. Cumulative Annual Growth Rate 1986–2001 by PU



3.24 This data reinforces the disparity in population and growth rates between regions (or PUs). Of particular relevance to the Review is the difference in population between PUs in the same NPC competition. For example, Auckland has a population of over 700,000, Southland just under 100,000 and Taranaki just on 100,000, yet they all have one team each in the NPC 1st Division.

ETHNIC MIX

Figure 5. Changing Ethnic Groups 1991–2001



Source: Statistics New Zealand

3.25 New Zealand is becoming more ethnically diverse. People of European ethnicity have declined in population from 83% in 1991 to 80% in 2001. Key facts include:

- As at 1996 the indigenous Maori population make up the next largest group (approximately 14.5%) after Europeans followed by Pacific peoples at 5.6%.
- A change occurred in the 2001 Census wherein more people of Asian ethnicity were recorded than Pacific peoples. The number of people of Asian



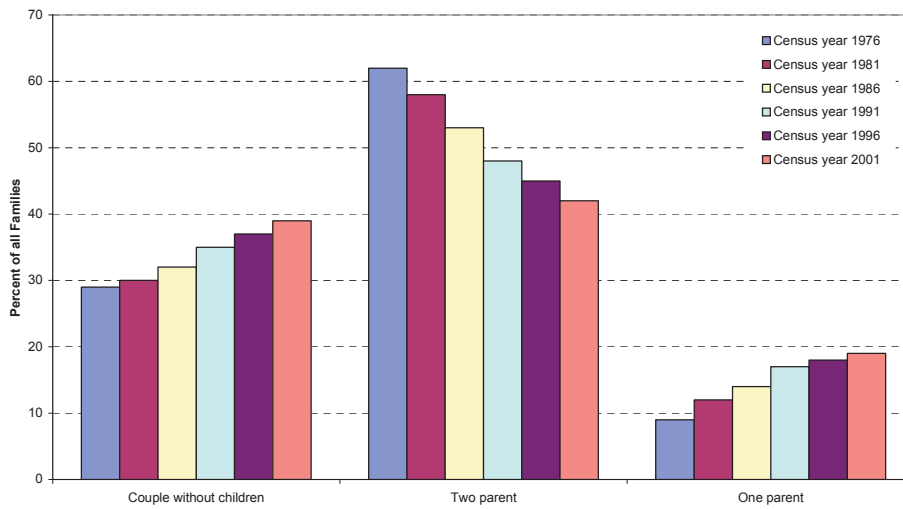
ethnicity has more than doubled between 1991 and 2001. This compares with an increase of approximately 40% in Pacific peoples.

- The percentage of Maori increased by 20% in the same period. In addition Maori have a higher percentage of younger people (aged 15–29) than non-Maori – 45.7% compared to 24% for the total resident population.
- Almost one in five New Zealand residents were born overseas according to the 2001 Census. In the Auckland region one in three people were born overseas.

3.26 These trends pose challenges for rugby in terms of participation levels, positioning the game to be attractive to a differing consumer base and the mix of people who will participate in the game.

FAMILY

Figure 6. Family Types 1976–2001



Source: Statistics New Zealand

3.27 The last 25 years has seen the percentage of two parent families decrease by almost a third, from 62% of all families to 42%.

3.28 The percentage of one-parent families has more than doubled from 9% of all families in 1976 to 19% in 2001.

3.29 Traditionally the New Zealand family has involved two parents. This has changed with many households now reliant on a single parent (primarily female) to run and manage the household. From a rugby perspective this raises the risk of less familiarity with and support for the participation of children in rugby plus less available time when demands on single parents are recognised.

LABOUR FORCE

3.30 The nature of the New Zealand labour force has changed significantly. The labour force grew by 20% between December 1985 and December 2001 to reach nearly 2 million.

3.31 The number of women in the labour force increased by almost one-third between 1984 and 2001. In comparison men increased by 5.4%.

3.32 Part-time employment grew by 62%. In 1985 part-time employees made up 16.6% of total employed. In 2001, that proportion had risen to 22.7%.

3.33 The changes in work pattern affect participation rates, and the availability of people to support and administer rugby at community level.



CHANGING ROLE OF FEMALES

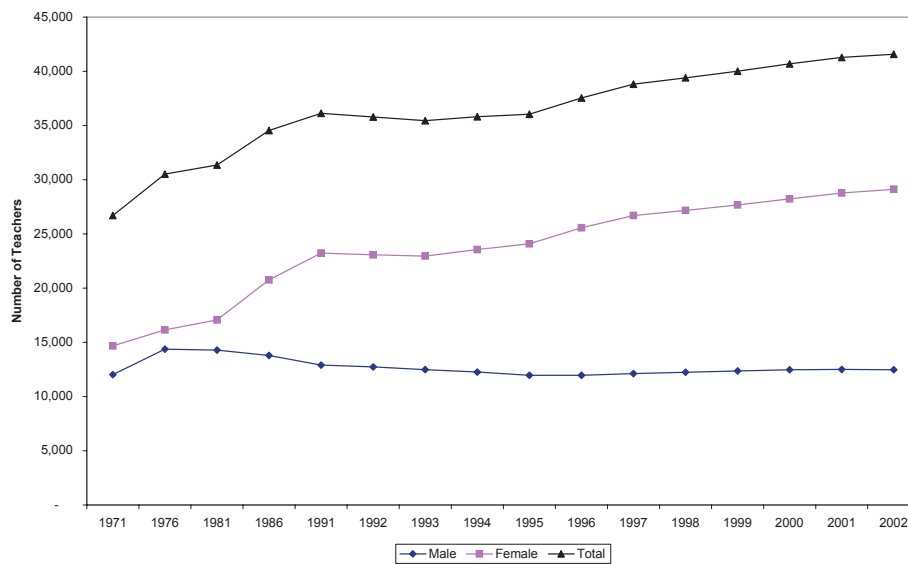
3.34 The preceding statistics clearly demonstrate a changing role for females within New Zealand society relative to what used to occur, especially in the areas of:

- Family types.
- Participation in the labour force.

3.35 Each of these has significant consequences for rugby. Further changes have occurred in the education sector – traditionally a key foundation of the game. Teachers are an important influence on the behaviour and attitude of children. Also, traditionally they have filled a multiplicity of support roles for rugby in coaching and administration.

3.36 Set out below are the changing trends in the mix of males and females in the education sector.

Figure 7. Total State Schools Full-Time Teachers



3.37 These issues will need to be addressed within the Community Rugby Plan.

ECONOMIC

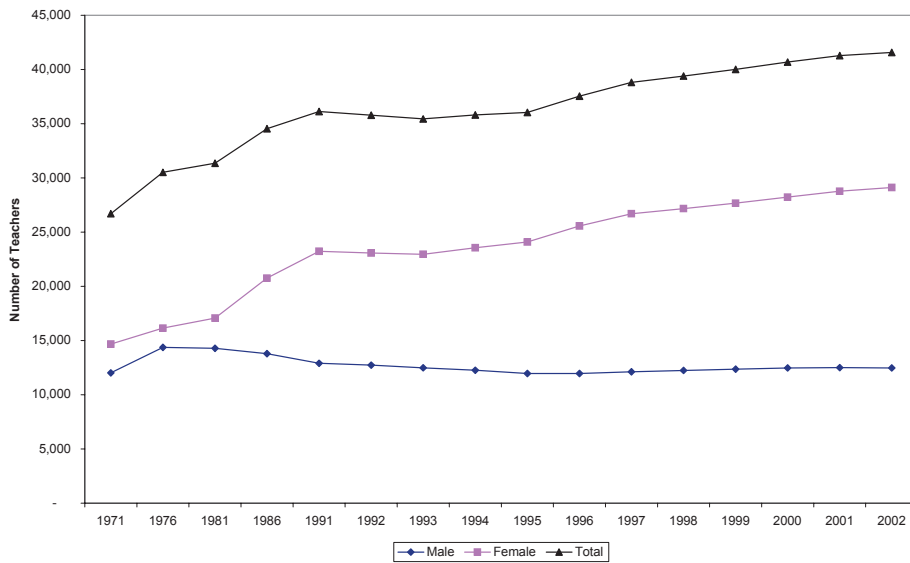
3.38 New Zealand continues to have an agriculture-based economy albeit with an increasing manufacturing and service sector base. The economy is strongly trade-orientated with dairy and meat exports continuing to make a large contribution. Forestry and manufacturing exports are increasingly important.

3.39 Despite agriculture production and efficiency increasing, the mix between capital and labour has changed significantly. For instance the use of and need for labour has reduced – this has meant that there are fewer people ‘available’ in the rural areas to participate in and support rugby.

3.40 As noted earlier, there is an increasing concentration of people in the cities and urban areas. Economic activity is similarly concentrated in regions with major urban areas, as demonstrated in the following analysis of 2002 nominal GDP by region (the regions cover the whole of the country). The use of 12 regions in the figure, as opposed to any other number is a function of data availability.



Figure 8. 2002 Nominal GDP by Region



Source: NZIER

3.41 Although the regions do not align with the PU boundaries, the chart serves to reinforce the point made earlier in relation to populations that there are significant disparities between PUs. It is self-evident that the Auckland, Canterbury, Wellington and Waikato PUs are located in regions with larger economic bases than other PUs. This gives them access to resources that far exceed those available to other PUs.



RECREATION AND ENTERTAINMENT

- 3.42 New Zealanders today have significantly more recreation and entertainment options than were available 10 years ago, let alone 30 years. Similarly the amount of time and resources the population devotes to such activities has changed. At the same time, patterns of work have changed and this has impacted on the hours available to devote to recreation activities.
- 3.43 Essentially, entertainment options have increased while the time available for recreation has decreased. Also, the nature of the regulatory and social environment has changed. For instance, the drink-driving rules have had an impact on the way people recreate. These factors, coupled with general changes in New Zealand consumer patterns and expectations, have resulted in a significantly different operating environment for rugby.
- 3.44 Set out below is an analysis resulting from a study undertaken of Masterton that demonstrates the changes in and consumption of recreation and entertainment. The analysis captures very effectively the nature of the changes that have occurred and are continuing to occur within regional New Zealand.

Table 1. Recreation and Entertainment in Masterton

	1983	2000		1983	2000
Employment			Social and Leisure Habits		
Agricultural Workers	3,300	1,500	Cafes and Restaurants	15	33
<i>Major Employers</i>			Closing Time	11pm	3am
Freezing Works	800	0	Drinking Age	20 yrs	18 yrs
JNL Plywood Plant	0	400	Saturday Trading	FDA ⁶	All
Trains to Wellington	2	4	Sunday Trading	D	50%
Under 19 involved in part-time work	7.5%	29%	Friday Night Trading	All	FDA
School Rolls			Swimming Pool	Open	Covered
Wairarapa College	980	1,100	Rock Climbing Centre	0	1
Rathkeale College	395	270	Skate Bowl/Roller Blade	0	2
Chanel College	575	270	Picture Theatre	1	3
<i>3 out of 7 town primary schools are set to close</i>			Art Gallery	0	1
<i>3 country primary schools are set to close</i>			Theatre	2	2
			Wairarapa College		
			Co-curricular Options	6	34
			Indoor Sports Centre Teams	0	80

- 3.45 The information has been drawn from a variety of sources. Judgements were made in compiling the data and it should be viewed as being indicative without necessarily being absolute or exact.
- 3.46 The analysis is an indication of the fundamental changes that have occurred and are continuing to occur within regional New Zealand:
- The nature of the employment and employers has changed.

⁶ Food, Dairy and Alcohol.

- The options available to people are more diverse.
 - Our social and leisure activities have altered.
- 3.47 This example, though based on provincial New Zealand, is indicative of what has occurred across all society. In other regions in New Zealand the speed of change may differ but the outcome will be the same.
- 3.48 For metropolitan New Zealand, many of the factors and trends are the same, although the concentration of resources and people into the larger towns has influenced the nature of the available infrastructure.
- 3.49 The Ministerial Taskforce on Sports, Fitness and Leisure reviewed the factors that have influenced changes in sport, fitness and leisure through the 1970s, 1980s and 1990s. The Taskforce identified the following influencing factors⁷:
- Shifts in societal attitudes.
 - The impact of international media.
 - Sport organisations with variable management capabilities.
 - Variable numbers of volunteer participation.
 - Individual sport and leisure pursuits.
 - The rise of technology.
 - Professional sport.
 - Commercialisation of sport and the subsequent corporate–sport linkages.
 - Car ownership coupled with the availability of beaches and non-mass activity venues.
 - An increased local government involvement in sport and recreation.
 - Intense public debate and civil unrest generated by sport and politics.
 - A rise in sport tourism and adventure focused leisure activities.
 - Free-market economic policies with a ‘user pays’ perspective.
 - Global markets.
 - Media shaping of recreation and sport.
 - The evolution of national and international leagues.
 - Sponsorship from international, national and local commercial ventures.
 - An imbalance in genders and races administering sport.
 - A more marked focus on coaches but inconsistent support for them.
 - A diverse interplay of sport and leisure with all sectors of New Zealand life.
- 3.50 Two quotes from the Ministerial Taskforce emphasise the impact of changes in recreation and leisure on sport:

“[F]aced with difficult economic times and demographic changes, such as people living longer and having fewer children, it is likely the provision of meaningful and healthy leisure activities will take on greater significance. Leisure is predicted to be a major growth industry of the twenty-first century. This could cause notable changes in the way New Zealanders recreate and sports New Zealanders play and enjoy. New and modified fields are developing such as: many indoor sports; sports in which participation is relatively quick and easy; less aerobic sport as the population ages; and spectator sports changing to meet television expectations and demands.”



⁷ *Getting Set for an Active Nation*, Report of the Sport, Fitness & Leisure Ministerial Taskforce, 2001.

There is some evidence to suggest New Zealanders are moving away from organised sport, citing a lack of time, increasing cost, loss of interest and injury concerns. They are taking up what they perceive as more attractive and less organised recreational activities. This may lead to a reduction in the elite talent pool. The tension between traditional sporting bodies and new entrepreneurial sports agents is also forcing a process of adaptation to new social and economic circumstances. Some sporting organisations are now at a crossroads where they must determine how to progress without ceding control to commercial third parties.”

...

“Volunteers have been the backbone of New Zealand recreation and sport. Their involvement and support are under threat. Supporting and strengthening this asset is critical. A decrease in volunteer numbers places the provision of local and regional recreation and sport in jeopardy. The impact of social changes is acknowledged in influences such as weekend work, changing family structures, unemployment and women in the workforce. Professional sport has also impacted upon volunteer willingness and commitment as unpaid workers.”⁸

⁸ Ibid.



RUGBY WITHIN NEW ZEALAND

- 3.51 Rugby continues to maintain a pre-eminent place in New Zealand sport and culture. The All Blacks continue to maintain the highest win ratio over time. New Zealand continues to develop rugby players of exceptional ability with approximately 600 players involved as professional rugby players internationally. The level of public and sponsorship support is encouraging.
- 3.52 However, there are emerging trends that give rise to concern. Community rugby, the traditional base from which the position of New Zealand rugby has leveraged, has a number of issues.

CLUB RUGBY

- 3.53 Set out below in Table 2 is information on the trends currently being experienced within rugby. The analysis concentrates on community rugby, which, for the purposes of this report, is defined as amateur rugby at school or club level.

Table 2. Rugby in Waikato, Wairarapa and Wellington

Factual Context		1983	2000
Average playing numbers in Provincial Unions by division are:			
1st division	8482		
2nd division	2839		
3rd division	1565		
European and Asian participation rates are lower than their % of total population. Maori and Pacific Island participation rates are higher than their % of total population			
Waikato Rugby			
Clubs		38	35
Senior teams		Not avail.	123
Secondary school teams		Not avail.	101
Saturday morning JAB teams		89	102
Primary School mid week teams		8	Nil
Under 19 club teams		19	12
Under 21 club teams		12	14
Waikato Soccer			
Clubs		22	24
Senior teams		52	75
Secondary school teams		68	126
Junior teams		199	353
Wellington Rugby		1983	2000
Clubs		20	18
Senior teams		156	138
Secondary school teams		155	143
Saturday morning JAB teams		250	305
Primary School mid week teams		Nil	116
Under 19 club teams		25	Nil
Under 21 club teams		26	15
Wellington Soccer			
Clubs		38	25
Senior teams		238	145
Secondary school teams		159	146
Junior teams		437	581
Wairarapa Rugby		1983	2000
Clubs		17	12
Senior teams		25	22
Secondary school teams		24	18
Saturday morning JAB teams		49	42
Primary School mid week teams		Nil	Nil
Under 19 club teams		Nil	4
Under 21 club teams		13	Nil
Wairarapa Soccer			
Senior teams		15	14
Junior teams		51	60

- 3.54 The information is presented for Waikato, Wairarapa Bush and Wellington. These are taken as representative of all PUs. The objective of the information is to highlight a mix of trends, being:

- A reduction in club, senior, Under 19, Under 21 and secondary school teams.
- An increase in two of the three areas (both metropolitan) in the Saturday JAB and primary school teams (and therefore a positive impact on participation).

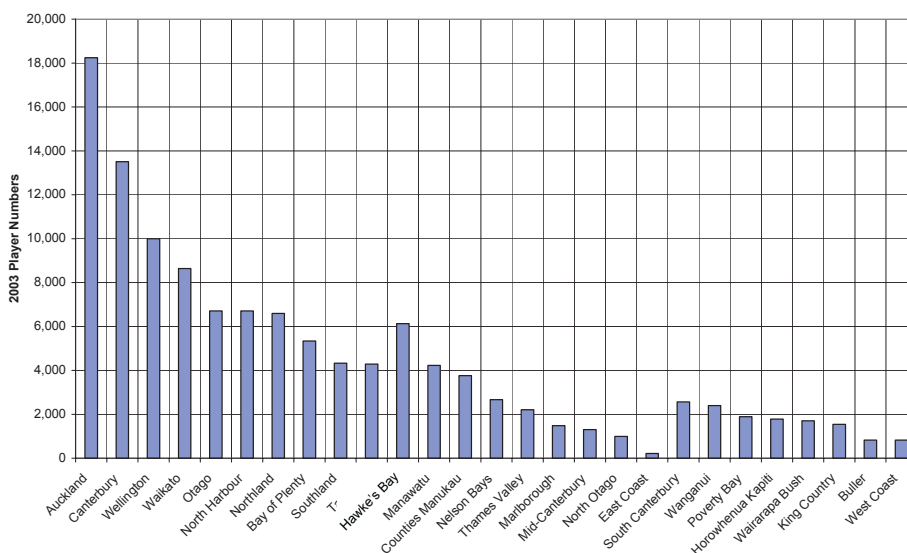


- A reduction in soccer at club, senior team and secondary school levels but strong growth in junior teams.
- 3.55 From the perspective of rugby, the trends from this limited sample are supported at a national level in the:
- Number of clubs, with a reduction from 550 in 1997 to 520 in 2002.
 - Number of senior players, with a survey undertaken by the Provincial Boundaries Commission showing an overall loss of senior players of 36.3% over the period 1986–1996.
 - Variability of participation rates in rugby across the grades with JABs generally being strong but evidence of variability within schools, Under 19, Under 21 and senior players, with some increasing and some decreasing.
- 3.56 These trends are symptomatic of those experienced elsewhere. While there may be individual variations, the outcomes remain the same.

PLAYER NUMBERS

- 3.57 On a national basis, rugby continues to maintain a pre-eminent position. It continues to rank in the top five sports identified by a survey of children aged 5–17 years undertaken by Sport and Recreation New Zealand⁹.
- 3.58 Player numbers are largely stagnant, with a decline in males being masked by a rise in female players. In addition, there are higher participation rates in rural areas than urban areas – Auckland has the lowest participation rate (players as a percentage of population). In 2003, New Zealand has approximately 122,000 registered players (2002: 121,500 players; 2001: 120,000).
- 3.59 Players by PU for 2003 are as follows:

Figure 9. 2003 Player Numbers



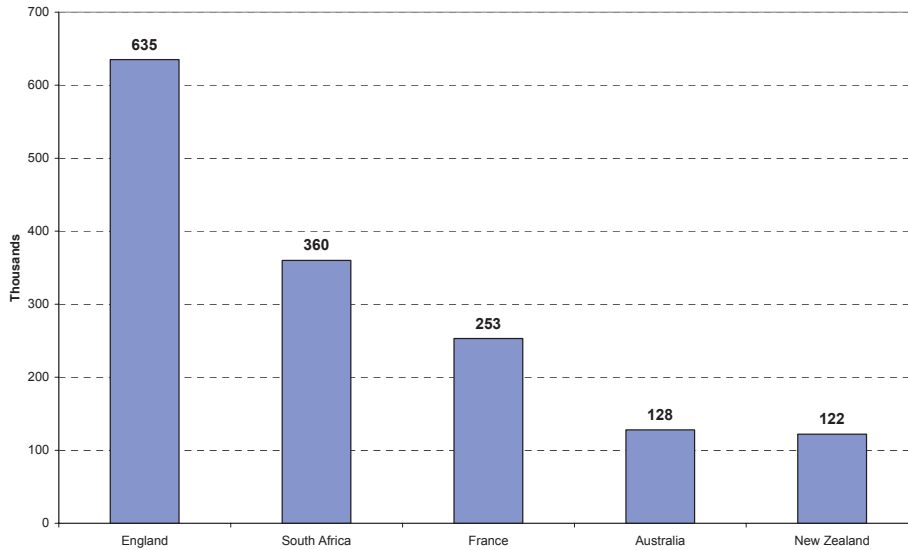
3.60 Figure 10 presents player numbers and participation rates for the major rugby-playing nations. New Zealand has the lowest absolute number of players but the highest participation rate. The high participation rate is a reflection of the depth of community rugby. The low absolute number of players reflects our very small size as a country.

⁹ New Zealand Sport & Physical Activity Survey SPARC Facts 1997–2001.



3.61 There is an enormous challenge evident in these numbers. If the other nations raised their participation rates to levels approaching ours, their pool of players would be enormous. Even if they cannot raise their participation rates to our level, incremental increases in participation will generate significant increases in their player pools relative to ours. On the other hand, our ability to increase player numbers is limited. This has implications for our ongoing competitiveness.

Figure 10. International Player Numbers 2003



3.62 Player numbers expressed as a percentage of population are as follows:

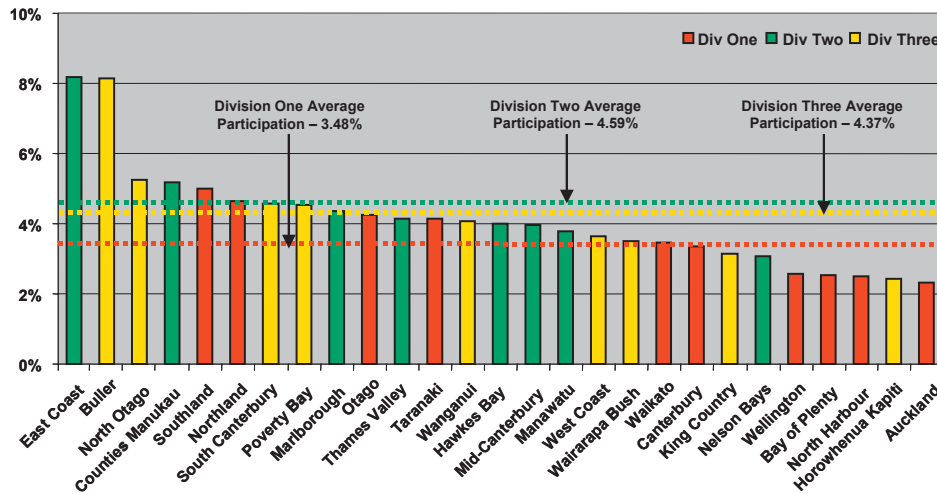
Table 3. Players as a Percentage of Population

Country	Players as a % of Population
England	1.30
South Africa	0.84
France	0.42
Australia	0.66
New Zealand	3.40

3.63 Figure 11 shows population participation rate by PU. It also highlights the average participation rate categorised by NPC division. The participation rate is determined by the number of male players expressed as a percentage of the total male population.



Figure 11. 2002 Provincial Population Participation Rates



ADMINISTRATION

3.64 The scale of administrative structures and the size of the financial transaction flows relating to rugby are significant.

Table 4. Administration in Waikato, Wairarapa and Wellington

	1983	2002
Wellington RFU		
Paid staff	3	23
Revenue	\$493,869	\$8,913,698
Super 12 revenue	Nil	\$454,161
Pokie income	Nil	\$83,236
Sponsorship	\$25,000	\$1,122,848
NZRU	Nil	\$599,284

	1983	2002
Wairarapa Bush RFU		
Paid staff	Nil	2
Revenue	\$107,823	\$442,214
Super 12 revenue	Nil	\$64,789
Pokie income	Nil	\$36,305
Sponsorship	\$9,247	\$73,316
NZRU	Nil	\$150,000

	1983	2002
Waikato RFU		
Paid staff	Nil	21
Revenue	\$395,000	\$5,619,691
Super 12 revenue	Nil	\$168,270
Pokie income	Nil	\$524,429
Sponsorship	\$69,171	\$654,014
NZRU	Nil	\$469,000

	1983	2002
NZRU		
Paid staff	5	62
Revenue	\$710,515	\$91,195,430
Pokie income	Nil	Nil
Sponsorship (incl broadcasting)	Not avail.	\$82,901,108

3.65 Professionalism has created the need for a wider set of administrative skills and commercial expertise in the management of the game. It has also introduced to the game a significant challenge with respect to labour market issues. As discussed further below, a key feature of the success and sustainability of the professional game is the interface and balance between the rights and interests of the owners or administrators and players.



ASSESSMENT OF COMPETITIVE ADVANTAGE

3.66 The assessment of New Zealand's competitive advantage involved two perspectives:

- On-field, relating to the results and win records of the All Blacks and the Super 12 competitions – what is our competitiveness relative to others?
- Off-field, relating to crowd numbers, sponsorship and participation rates – what is rugby's competitiveness relative to other sports and options?

ON-FIELD

3.67 The All Blacks have the highest winning ratio of games played by any Test nation at 72%.

Table 5. Tests Played and Won

	Played	Won	% ¹⁰
South Africa	290	182	62.7
France	563	302	53.6
England	537	283	52.7
Australia	413	198	47.9
New Zealand	367	264	71.9

3.68 When the number of Tests won and played is analysed further to focus on the win ratios for the All Blacks since 1990, a different trend emerges. In particular, the data in the following table indicates that win ratios against Australia, England and France have deteriorated:

Table 6. All Blacks Win Ratios

Opposition	All Tests			Tests 1990–2002		
	Played	Won	% ¹⁰	Played	Won	% ¹⁰
Australia	116	76	65.5	28	15	53.6
England	24	18	75.0	9	6	66.7
France	38	27	71.1	10	4	40.0
South Africa	60	31	51.7	23	16	69.6
	238	152	63.9	70	41	58.6
Argentina, Ireland, Scotland and Wales	70	63	90.0	27	27	100.0
All others	59	49	83.1	23	21	91.3
Total	367	264	71.9	120	89	74.2

3.69 In addition, before the game turned professional in 1996, the All Blacks had won 68% of their tests against Australia. Since professionalism, the two countries have played 19 tests with New Zealand winning 10 and Australia nine – a reduction in the win ratio from 68% to 52%.



¹⁰ Wins as a percentage of games played.

- 3.70 It is also relevant to note that of the five Rugby World Cup competitions held to date, New Zealand has appeared in the finals twice only.
- 3.71 This analysis indicates that the historical competitive advantage enjoyed by New Zealand, particularly against Australia, England and France is being eroded, further reinforcing the need for change.
- 3.72 Since the introduction of the Super 12 in 1996, New Zealand franchises have performed well, having won the competition seven times. There have been one or more New Zealand teams in the semis and finals in every year except for 2001.

OFF-FIELD

- 3.73 Rugby continues to perform well relative to other sports and leisure activities. Research into New Zealand's sport and physical activities published by SPARC in July 2003 shows that rugby union:
- Ranks in the top five of sports and active leisure activities for the 5–17 year age group.
 - Is the top sports activity for boys aged 5–17 years.
 - Ranks in the top five sports for all ethnic groups, with Maori ranking highest.
 - Is in the top five sports for New Zealand adults.
- 3.74 Trends in viewers, sponsors and crowd numbers are mixed with support for test matches and Super 12 being strong. The NPC 1st Division enjoys strong support at the semis and finals. Also, games involving traditional rivalries, particularly matches of the major metropolitans against one another draw strong support. The other divisions attract audiences for the semis and finals but by and large, their numbers are falling. Similarly for club rugby. The Ranfurly Shield enjoys strong support.
- 3.75 There will always be an exception to a trend for a particular game or contest, depending on unique characteristics for that event. That is recognised but the exceptions are less frequent and it is the medium term trends that need to influence thinking and behaviours.



COMPETITIVE BALANCE IN THE NPC

3.76 The current format of the NPC involves:

- 1st Division of 10 teams
- 2nd Division of 9 teams
- 3rd Division of 8 teams.

3.77 Promotion/relegation to/from the 1st Division is based on a play-off between the bottom placed team in the 1st Division and the champions of the 2nd Division. Promotion to the 2nd Division is automatic for the winner of the 3rd Division with the bottom-placed team in the 2nd Division going down automatically¹¹.

3.78 The consultation process highlighted a range of concerns about the competitive balance in the NPC 1st Division. These can be summarised as:

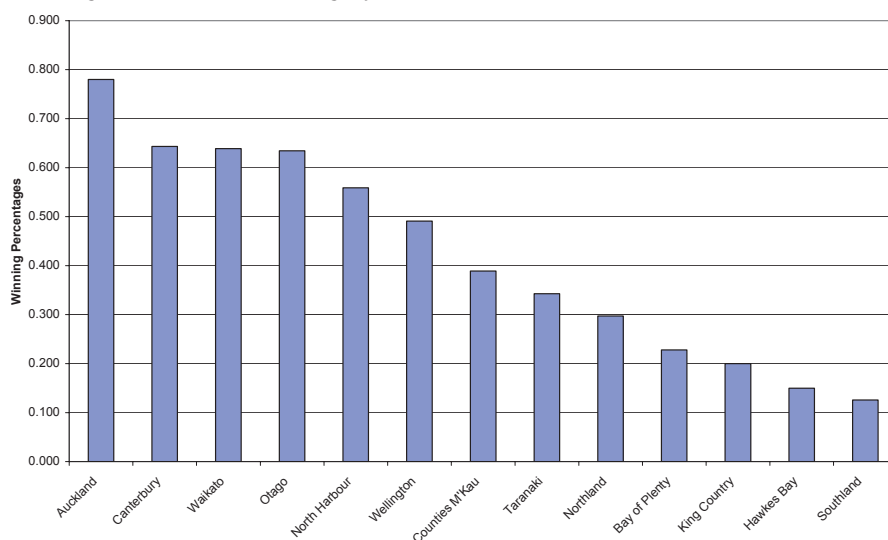
- The uncompetitive nature of the NPC: “the same teams participate in the finals and win all the time” . . . “only Super 12 host unions can win” . . . “the results are becoming predictable”.
- The concentration of the professional players into the Super 12 host unions: “all the players are moving to Auckland, Wellington, Christchurch, Dunedin and Hamilton” . . . “the big are just getting bigger”.

3.79 One measure of competitive balance is the spread of winning percentages (number of wins divided by games played) within the competition. Actual percentages can be compared to the ‘ideal’ spread of percentages for a competitively balanced competition.

3.80 The following four charts assess the competitive balance within the round robin of NPC 1st Division for the period 1990–2002.

3.81 Figure 12 sets out the winning percentages for all teams that have played in the 1st Division during 1990–2002 (the ratios are measured over the whole of the period).

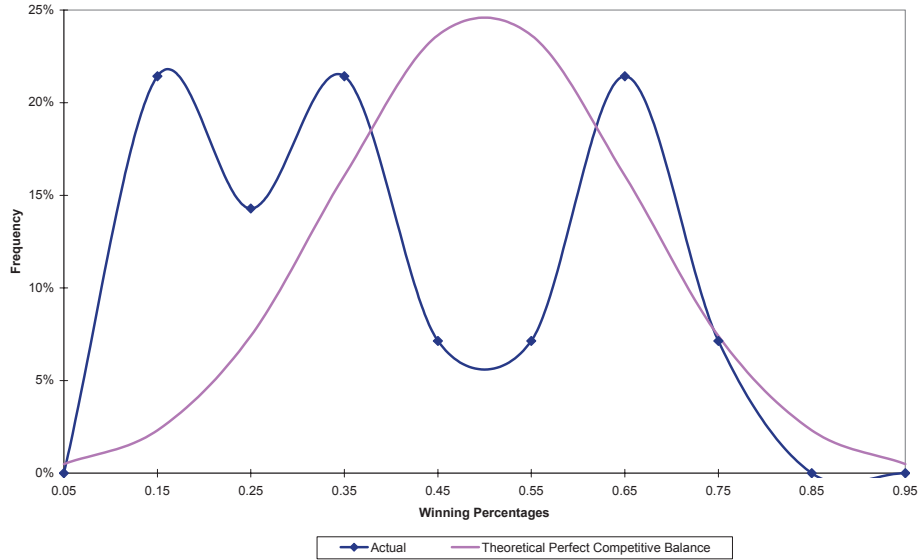
Figure 12. Win Percentages for NPC 1st Division 1990–2002



¹¹ The automatic promotion/relegation between Divisions 2 and 3 was the result of agreement between Division 2 and 3 PUs. The play-off for Division 1/Division 2 promotion/relegation was implemented as it was considered that the top Division 2 team had to be “tested” to confirm its eligibility to enter Division 1.

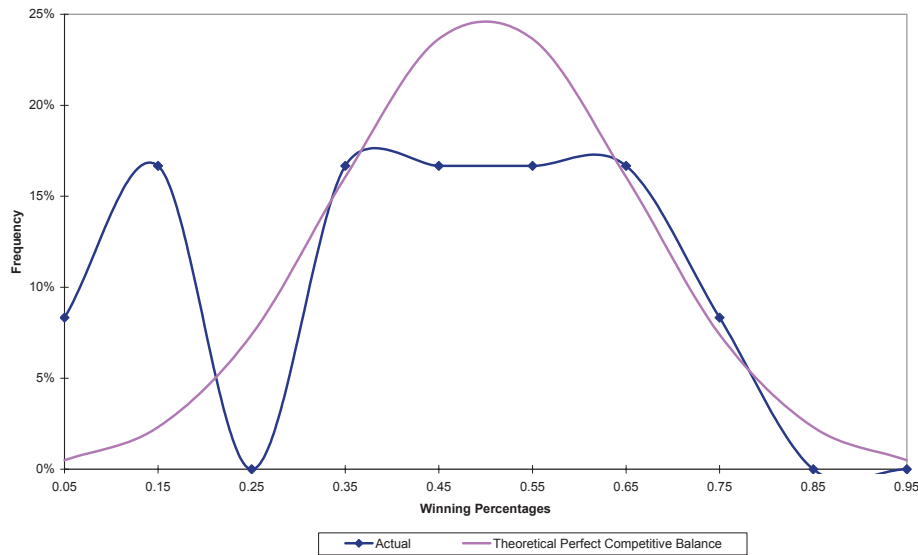
3.82 Figure 13 shows the comparison of the actual distribution of winning percentages over the 1990–2002 period to the ideal distribution for a competitively balanced competition (where the mean win loss ratio is 0.500 and there is an even distribution around the mean).

Figure 13. Win Percentage Distribution 1990–2002



3.83 Figure 14 sets out the same information as Figure 13 but covers the period 1996–2002.

Figure 14. Win Percentage Distribution 1996–2002



3.84 The following conclusions can be drawn from Figure 12 to Figure 14:

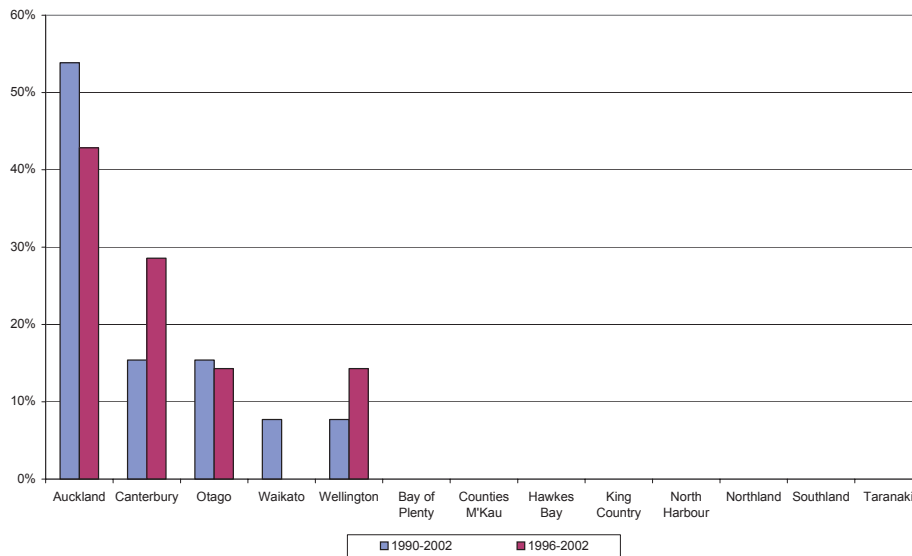
- NPC 1st Division is not a competitively balanced competition.
- The spread between the highest and lowest winning percentages is wider than would be expected from an ideal, competitively balanced competition.
- The difference in the actual and ideal spread is shown by the differences in the shapes of the curves for the actual and theoretical competitively balanced competitions in Figure 13 and Figure 14.



3.85 The analysis of winning percentages indicates that the NPC 1st Division is not competitively balanced. However, winning percentages are only one measure of competitiveness. Concentration of championship winners is also an important measure. The following charts provide an assessment of concentration of championship winners.

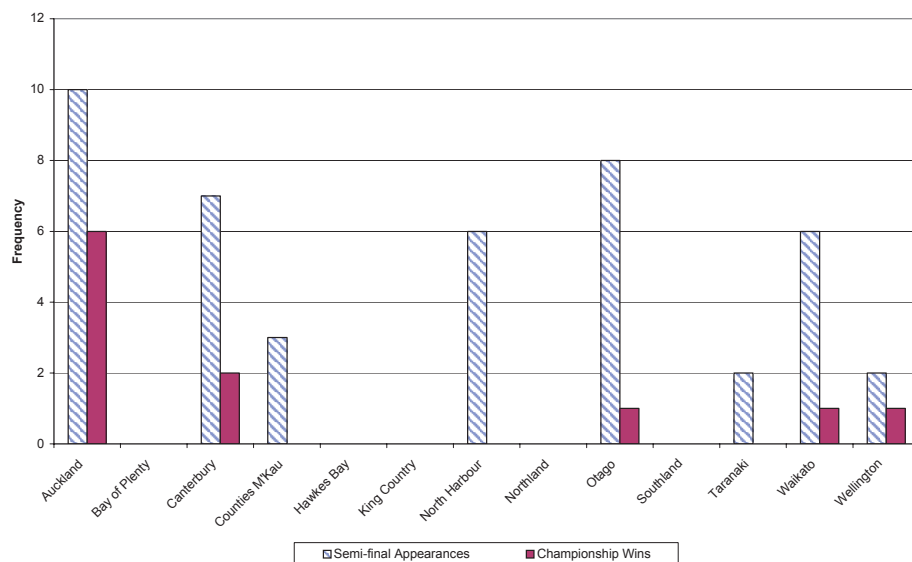
3.86 Figure 15 shows as a percentage the number of times teams have won the NPC 1st Division over two periods: 1990–2002 and 1996–2002.

Figure 15. NPC 1st Division Percentage of Championships Won 1990–2002



3.87 Figure 16 shows the number of times teams have appeared in the semifinals and number of times teams have won the championship.

Figure 16. NPC 1st Division Semifinal Appearances and Championship Wins 1990–2002



3.88 The following conclusions are drawn from Figure 15 and Figure 16:

- Championship winners are highly concentrated: Auckland's dominance is undeniable.
- Auckland's dominance has lessened since professionalism but winning is concentrated in Auckland and Canterbury.



- Semifinal appearances and winning champions are dominated by the big population centres.
 - Although there is a wider spread of teams in the semifinals, the ability of the smaller unions to convert semifinal appearances into championship wins is limited.
- 3.89 The overall conclusion is that NPC 1st Division is not competitively balanced. There is a low level of uncertainty about the outcome, in terms of which teams will be in the semifinals and the championship winner.



FINANCIAL PERFORMANCE OF NZRU AND PROVINCIAL UNIONS

3.90 The need for economic and financial sustainability is critical to the operation and functioning of any competition. Rugby in New Zealand, and internationally, is big business. The NZRU and PUs manage and control substantial revenues, generated primarily from the ‘sale’ of broadcasting rights, sponsorship and gates. These revenues are largely derived from the ‘professional’ game. The revenue not only finances the costs of the professional game but also supports community rugby.

3.91 The following charts show the 2002 revenue sources and major expenses for NZRU and the PUs combined.

Figure 17. NZRU and PU Revenue Sources 2002

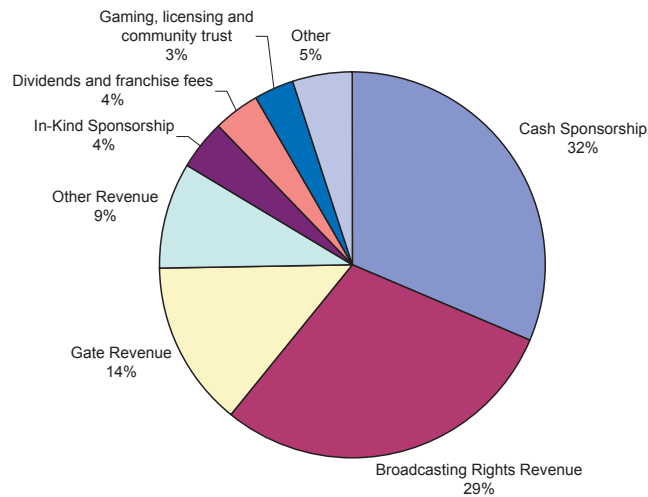
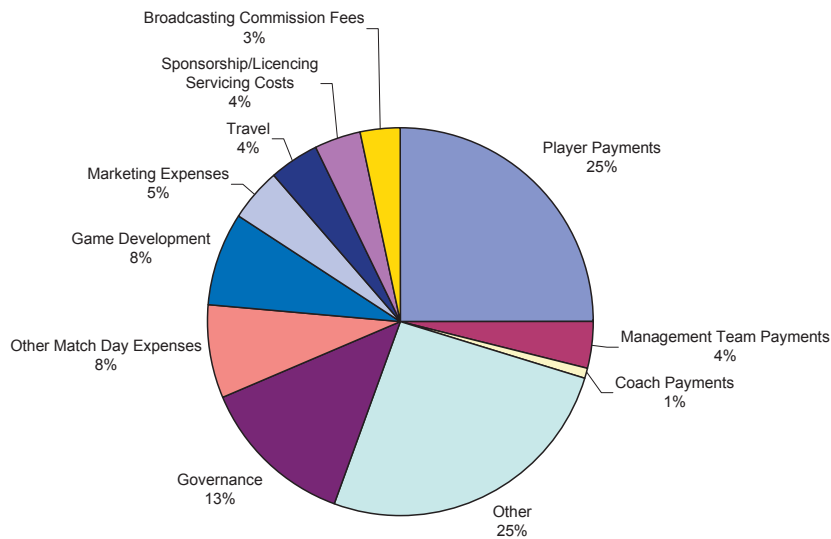


Figure 18. NZRU and PU Expenses 2002



3.92 The critical issue for the Review is the trend in revenue and costs. In particular:

- New Zealand rugby revenue has grown significantly in recent years. This has been occurring at both NZRU and PU level.
- Expenditure has risen to match revenue. This is an inevitable outcome of the nature of New Zealand rugby organisations (but is not necessarily a criticism). The natural incentive of PUs is to spend rather than accumulate cash. The consequence is costs rise as revenue rises.

Figure 19. NZRU and PU Revenue Trends 1998–2002

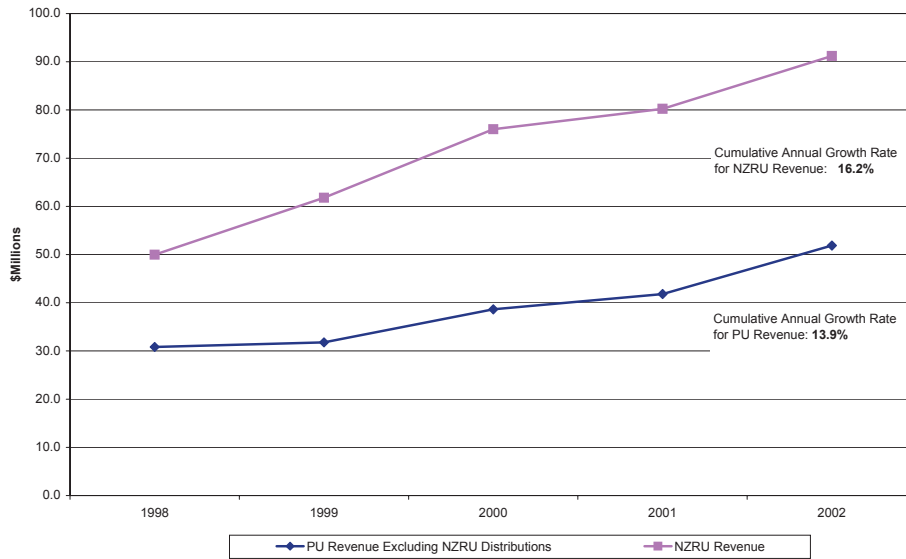


Figure 20. NZRU and PU Revenue and Cost Trends 1998–2002

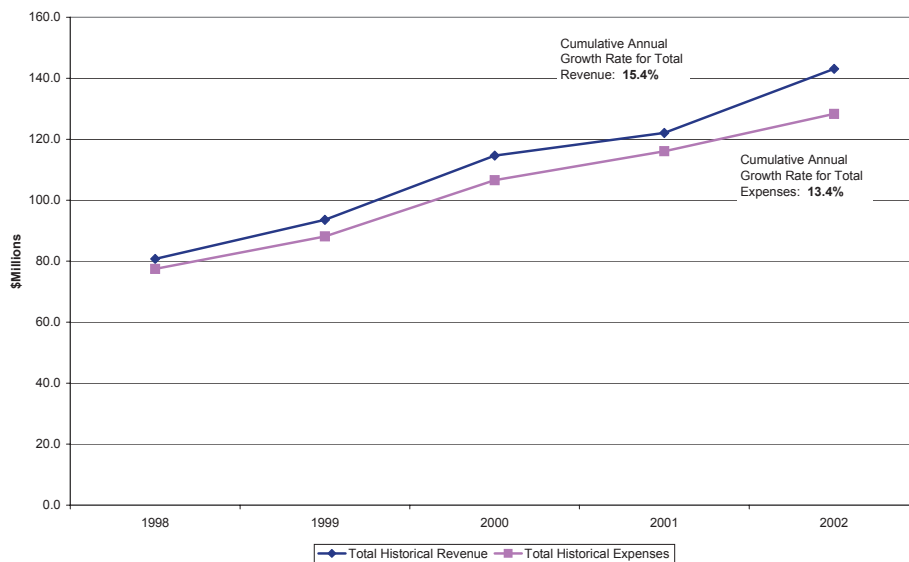
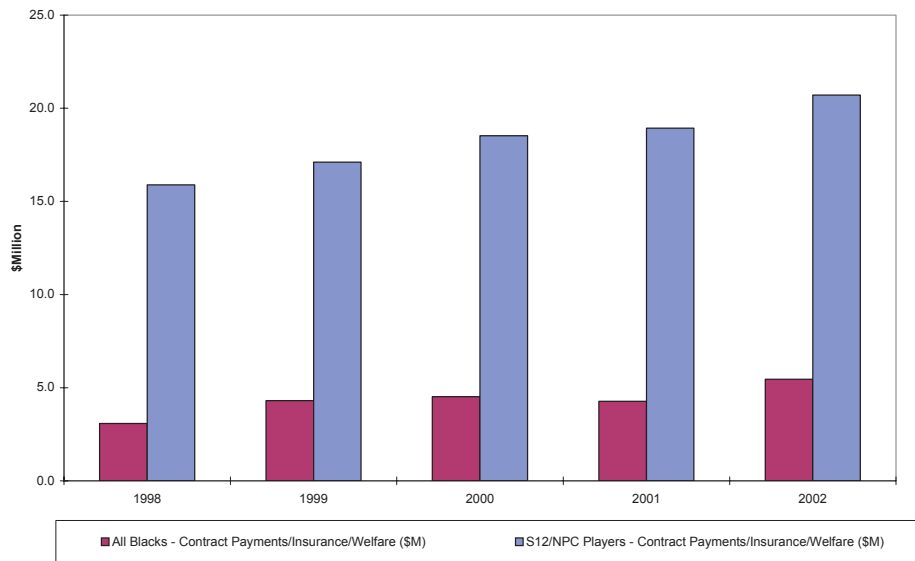


Figure 21. NZRU Player Payments 1998–2002



- 3.93 The historical revenue and cost trends need to be considered in the context of the outlook for revenue.
- 3.94 NZRU revenues are being impacted by the profile of receipts under the broadcasting contract with News Corporation, which are phased so that more money is received in the later years of the contract (i.e. now) than the early years. Also, revenue is benefiting from very favourable long-term US dollar exchange rate contracts entered into to fix, in New Zealand dollar terms, the US dollar receipts under the broadcasting contract. The average foreign exchange rate applying to the 2003 receipts under the contract is 0.46 (US\$0.46 converts to NZ\$1.00). The rates that will apply during the next two financial years are even lower (better for the NZRU). These rates compare very favourably to current spot rates of approximately 0.63 (US\$0.63 converts to NZ\$1.00).
- 3.95 The profiling of the receipts under the broadcasting contract mean that the amounts being received now on an annual basis are significantly above the annual average receipts across the entire contract. The impact of the foreign exchange contracts is that New Zealand dollar revenue being received today under the broadcasting agreement is approximately 30% higher than it would have been if the US dollar receipts were being converted at today's exchange rates.
- 3.96 Negotiations on renewal of the broadcasting contract have commenced. What the revenue will be under any new agreement is uncertain. What is certain is that the extent of financial benefits being provided under the foreign exchange contracts relating to receipts under the current broadcasting contract are unlikely to be repeated. When these contracts expire, and all other things being equal, revenue will decline if the exchange rate remains at current levels. Costs will have to reduce and new sources of revenue will have to be found to make up for this reduction – a significant challenge for any business.

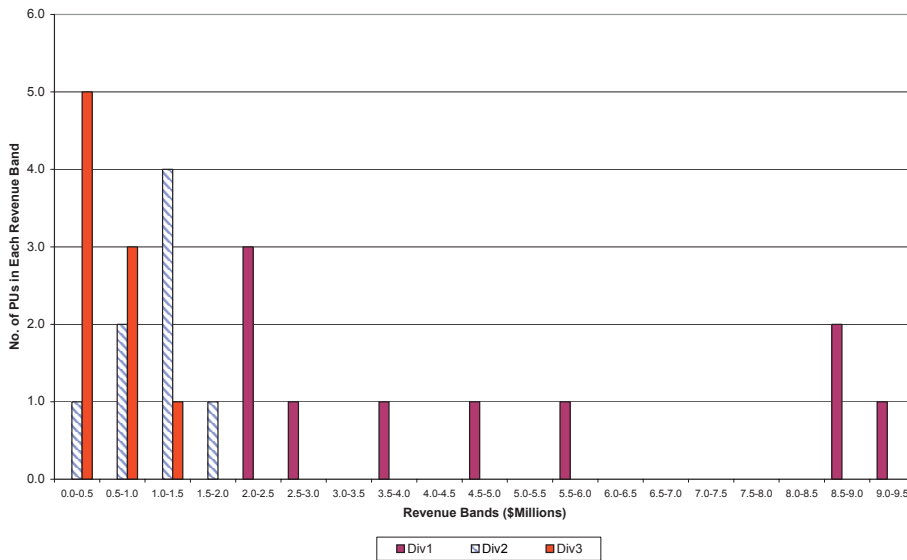


- 3.97 The other aspect of financial performance that is of relevance to the Review is the relative performance of individual PUs. In particular:
 - There is a vast spread of revenue, costs and profits among the PUs. There are a handful of PUs generating revenues and profits that are substantially higher than most PUs.

- There are a number of PUs with financial difficulties.
- The PUs are dependent on NZRU distributions and Super 12 franchise distributions. While this is to be expected, it highlights the importance of the outlook for revenue from the professional game and the need to maximise revenue from that source.

3.98 The following charts demonstrate the disparity in the financial performance of the PUs.

Figure 22. Spread of 2002 PU Net Revenue



3.99 The following chart shows the spread of 2002 PU profits (before distribution grants to clubs).

Figure 23. Spread of 2002 PU Surpluses

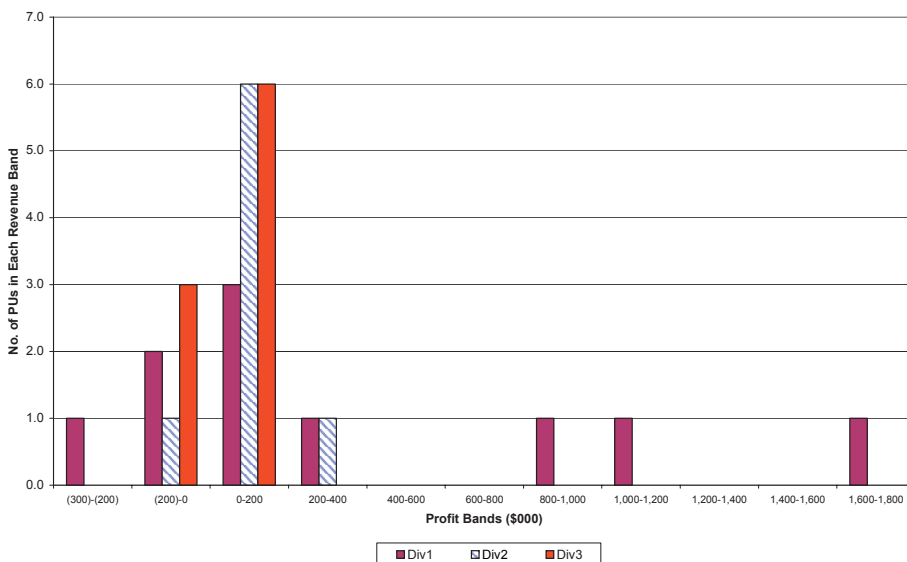
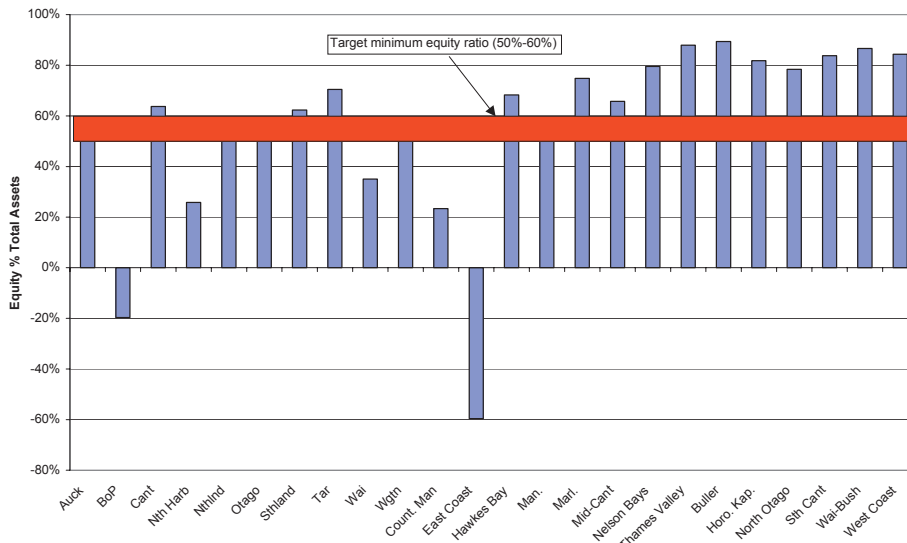
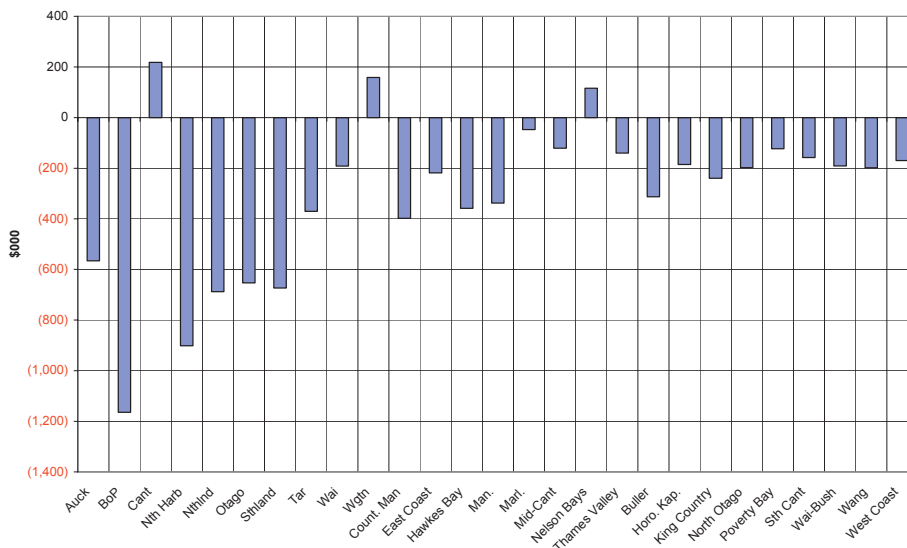


Figure 24. 2002 PU Equity Ratio¹²



3.100 The following chart provides a breakdown of the 2002 surplus before NZRU distributions for each of the PUs.

Figure 25. PU Surpluses/Deficits After Super 12 Dividends Before NZRU Distributions 2002



¹² Equity divided by total assets.

CONCLUSION

3.101 The analysis in this Section establishes that New Zealand rugby operates in an environment that has changed and which will continue to change. The analysis and trends show that the issues and factors are now a permanent feature of the operating environment. They will not go away, nor will they allow New Zealand rugby to revert to ‘the good old days’. To ignore them would be imprudent.

3.102 Does the form and structure of the competitions need changing?

Yes, for the following reasons:

- New Zealand rugby cannot maintain its pre-eminent position in international competitions and in New Zealand society without change to drive competitive innovation. Our historical advantages have been eroded.
- The current financial position of New Zealand rugby is not sustainable in the absence of new revenue sources and/or cost reductions.
- There is a large spread in the ability of teams to compete effectively in the NPC (particularly the 1st Division). Too many outcomes are predictable.

3.103 Is there a crisis today that means change must happen now?

No, but action is required:

- The outlook for New Zealand rugby is not positive in the absence of change. There is a risk the business will decline and it will be increasingly hard to maintain fan support, and therefore sponsor and broadcaster interest.
- Change must occur while there is the luxury of time and options. Delaying change will reduce the number of available options and make implementation more difficult.

3.104 The case for change is a function of trends and changes over time and the need to keep one step ahead of the competition:

- Under prudent financial modelling scenarios, New Zealand rugby revenues will remain static or could decline.
- Costs have been increasing at a significant rate.
- Professional competitions have been a commercial success but there are elements of their integration with and impacts on the semi-professional and amateur components of the game that are causing problems.

3.105 There shouldn't be alarm at the need for change. New Zealand rugby is no different to any other sector or business. The need to continually innovate and change to grow and enhance performance is universal.

3.106 The challenge is to recognise and build on the new and constantly changing operating environment. Many of the attributes and successes of New Zealand rugby provide an excellent base from which to move forward – they, together with many other aspects of history, should be used to guide the future, not to predetermine it.



4. COMPETITION STRUCTURE

What is the professional competition structure that best benefits New Zealand rugby?

DECISIONS

1 International

- (a) The All Blacks will play more Tests against Tier 1 countries.
- (b) Bilateral commercial arrangements leading to a satisfactory commercial return to the NZRU are a condition precedent to increases in the number of All Black Tests and the duration of tours.
- (c) It is likely that the All Blacks will play in the national domestic competition if no alternative international programme has been arranged.
- (d) Subject to satisfactory commercial arrangements, resolution of player welfare issues, and negotiations with the IRB, the Board has decided that there will be an increase in the number of inbound tours by Tier One countries and outbound tours by the All Blacks to Tier One countries.
- (e) The Tri Nations will be retained.

2 Super 12

- (a) Changes to Super 12 to accommodate an expansion of the number of franchises will be supported, subject to:
 - (i) Maintaining the quality of the competition.
 - (ii) The expansion must have a compelling financial case. It must be self-financing (revenue from broadcaster, sponsors and gates exceed the costs resulting from any increase in number of games and establishing and operating new franchises). It must not have a detrimental impact on NZRU's financial returns from Super 12, and should provide an increase in financial returns.
 - (iii) The continuing availability of Super 12 players for the New Zealand domestic competition.
 - (iv) No detrimental affects on player welfare taking into account the other decisions in this report that impact on the length of the entire playing season for professional players.
 - (v) The expansion not impinging on the international programme, taking into account the decision that the All Blacks are to play more games.
 - (vi) Any new teams must be consistent with the franchise model currently used in the competition.

3 Domestic Competition

- (a) The domestic competition will be a managed competition.
- (b) The primary management mechanism will be a salary cap.



- (c) Two new competitions will replace the existing NPC competition: Premier and Modified Division 1.
- (d) Entry to the competitions will be subject to criteria. Teams must meet the criteria to be eligible for inclusion in the competitions.
- (e) Both the Premier and Modified Division 1 competitions will be conducted by the NZRU on an invitation basis. All of the existing 27 PUs will be invited to participate in one of the competitions, subject to meeting the eligibility criteria. PUs will not be obliged to participate.
- (f) The Premier and Modified Division 1 competitions will commence no later than the 2006 season. The NPC will continue in its existing format until the new competitions start.

Premier Competition

- (g) The Premier competition will be a professional/semi-professional competition governed by a salary cap.
- (h) The Premier competition will be comprised of up to 12 teams.
- (i) The composition of the Premier competition will be fixed for the first three years. At the end of three years, all teams will be reassessed against the criteria.
- (j) The Premier competition format will be a single round robin with semifinals and a final. Semifinals for the Premier competition will involve five teams.

Modified Division 1

- (k) The Modified Division 1 competition will be an amateur competition. Modified Division 1 players will not be paid to play. They will be reimbursed for costs
- (l) Entry to the Modified Division 1 competition will be subject to criteria. Teams must meet the criteria to be eligible for inclusion in the competition. The nature of the criteria will be similar to the criteria used for the Premier competition but the thresholds or benchmarks that must be achieved to meet the criteria will be different. They will reflect the amateur status of the Modified Division 1 competition.
- (m) The composition of the Modified Division 1 competition will be reviewed regularly. Ability to meet the entry criteria on an ongoing basis will determine whether teams will be eligible to continue to participate in the Modified Division 1 competition.
- (n) The Modified Division 1 competition will be a national competition. It will operate as either a single national pool or as two seeded national pools with an inter-pool semifinals and final. The number of teams participating in the competition will determine the form that the competition takes. In any event the competition will operate to provide participating teams with no fewer than eight games per season.
- (o) The Lochore and Meads Cups will be incorporated into the Modified Division 1 competition.



COMMENT

4.1 The competitions that have been reviewed are:

- International programme, including:
 - All Blacks
 - Inbound and outbound tours
- Super 12
- Domestic provincial competition

ATTRIBUTES OF COMPETITIONS

4.2 The analysis of the competitions has been carried out taking into account the following attributes for successful competitions:

- *Competitiveness of teams* – Lack of predictability in the round robin, of finals participants and of the ultimate winner.
- *Quality* – Standards should continually improve and enhance player development opportunities.
- *Aspirational appeal* – Players and all other stakeholders, including broadcasters and sponsors should aspire to be involved with or associated with the competition.
- *Economic sustainability* – Optimise revenue and costs.
- *Fan, sponsor and broadcaster loyalty* – Should be at least maintained but preferably increased.
- *Continuity* – Scheduling must optimise fan interest.
- *Competitiveness of New Zealand rugby* – Enhance and not detract from our international competitiveness.
- *Safety* – Minimise injuries.
- *Enjoyment and support* – Competitions should be enjoyed by those who participate directly and by the administrators, volunteers and fans that support them.

4.3 The attributes have been determined after consideration of the purpose of competitions and the requirements of the many and varied stakeholders in New Zealand rugby. They have also been informed by desk-based research and visits to international professional sports bodies.

4.4 The Terms of Reference identified three key principles that must underpin the competitions. The contribution of competitions to achieving the principles are set out in the following table:

Table 7. Competition Principles

Principle	Contribution of Competitions
Winning tradition of the All Blacks	<ul style="list-style-type: none"> • Ensure quality players 'rise to the top' • Provide a showcase for selectors and coaches to view players • Develop and improve playing skills • Maintain and enhance pathways: competitions must be integral part of talent identification



Maintain a game accessible to all New Zealanders	Involvement in the game at all levels by: <ul style="list-style-type: none"> • Players, coaches and referees • Spectators and viewers • Administrators
Economic sustainability	<ul style="list-style-type: none"> • Rugby 'product' and 'content' is attractive to fans and valued highly by sponsors and broadcasters so that revenue will be generated to a level sufficient to cover: <ul style="list-style-type: none"> – Players salaries at a level that is sufficiently competitive to retain an optimum number of quality players. – Player development costs (to ensure a flow of quality players to the top of the game). – The cost of ongoing development of community rugby. – Other competition costs. – An efficient level of administration cost.

International Programme – All Blacks

- 4.5 The All Blacks and the All Blacks brand have a number of key attributes:
- The All Blacks are an integral part of the image of rugby in New Zealand. They are very important to fostering the aspirations of players and maintaining rugby as New Zealand's pre-eminent sport.
 - The All Blacks brand is one of the most widely recognised brands in world rugby.
 - The All Blacks brand is one of the most widely recognised New Zealand brands outside of New Zealand.
 - The All Blacks are New Zealand rugby's single most important revenue generator. They provide potential for significant additional revenue generation in the future.
- 4.6 Statistics on the number of tests played by the All Blacks during the period 1990 to 2003 are presented in the following table:

Table 8. All Black Test Statistics 1990–2003

Opposition	Total no. of Tests		Average no. of Tests per annum	
	Incl. RWC	Excl. RWC	Incl. RWC	Excl. RWC
Australia	31	29	2.2	2.1
England	10	7	0.7	0.5
France	12	10	0.9	0.7
South Africa	26	23	1.9	1.6
	79	69	5.6	4.9
Argentina, Ireland, Scotland and Wales	29	23	2.1	1.6
All others	26	17	1.9	1.2
Total	134	109	9.6	7.8



- 4.7 Matches against countries other than the eight named in the table above are important for the development of rugby internationally and for fulfilling commitments to the IRB but they do not optimise the value of the All Blacks' product and brand. More revenue can be generated from the All Blacks playing Tier 1 countries than playing any other countries.
- 4.8 The number of games being played by the All Blacks against Australia, England, France and South Africa is not high. The All Blacks are New Zealand rugby's most valuable 'product' and most valuable brand but it is questionable whether they are being utilised in a manner that optimises the benefits of the brand to New Zealand rugby, in terms of promotion of the game and financial returns.
- 4.9 With these factors in mind, the Board will seek to increase the number of games played by the All Blacks against Tier 1 countries. To achieve this will require consideration of a number of factors:
- The international calendar and commitments to the IRB.
 - Acceptable bilateral commercial arrangements. More Tests will only happen if acceptable bilateral commercial arrangements can be agreed with the appropriate national bodies.
 - The All Blacks playing more Tests will cause conflicts in the playing calendar. A change in the international calendar will impact most significantly on the domestic competition (the Premier competition). If scheduling permits, the All Blacks will continue to play in the Premier competition. However, the All Blacks' international schedule will take priority over the Premier competition. If the international programme results in a clash of scheduling with the Premier competition then the All Blacks will not play in the Premier competition.
 - Sustainability of revenue. As long as the All Blacks are playing quality rugby against quality opposition, revenue will be sustainable.
 - Content for broadcasters. High quality games that have a high level of spectator and viewer interest will be attractive to broadcasters and sponsors. It will be beneficial for New Zealand rugby for the NZRU to be able to offer such content to broadcasters and sponsors.
 - The NZRU cannot unilaterally increase the number of Tests. It will require the cooperation of other national bodies, IRB, SANZAR, broadcasters and sponsors.
- 4.10 The expansion in the number of games to be played by the All Blacks has to be carefully managed from the perspective of commercial interests, on the one hand, and the history of the brand and the honour and prestige of having worn the jersey on the other. The value of a premium brand derives in part from its exclusiveness – every effort will be required to ensure it is not devalued, either on the field or off the field.
- 4.11 Any decision to remove the All Blacks from the Premier competition will not be taken lightly. The Board understands the importance of the 'stars' playing in the competition to game quality and the interest of fans and sponsors. Removing the All Blacks from the Premier competition because of an expanded international schedule will only occur when the Board considers it is in the best interest of the New Zealand Rugby to do so.
- 4.12 A range of factors will need to be addressed in relation to the All Blacks and the Premier competition during the implementation phase, including:
- The number of All Blacks that will not play in the Premier competition because of the expanded international schedule. This will be tightly controlled.



- The basis in which All Blacks will ‘re-enter’ the competition, for example where there is a gap in the playing schedule or for reasons of regaining form. There will need to be criteria that govern the removal or inclusion of All Blacks from/in the Premier competition.
 - The implications for the salary cap of All Blacks playing or not playing in the Premier competition.
- 4.13 One important criterion will be player welfare. The availability of All Blacks for the Premier competition will need to be considered in the context of appropriate rest and conditioning periods for players as well the international schedule.
- 4.14 The net benefits and costs of the All Blacks not playing in the Premier competition cannot be determined with certainty but the Board is confident that:
- The benefits of the All Blacks playing more high-value games against quality competition are substantial.
 - The Premier competition will be a competitive and high-quality competition. It will be attractive to players, fans and sponsors.
- 4.15 It is understandable that the prospect of the All Blacks not playing in the Premier competition creates a degree of uncertainty about the competition. However, the Premier competition has been designed as an exciting competition in its own right that will retain the commitment of key stakeholders, notwithstanding the absence of the All Blacks.

International Programme – Inbound and Outbound Tours

- 4.16 There was almost universal agreement during the first consultation phase of the Review that longer inbound tours would be of considerable ‘value’ to rugby. A touring team playing a Test ‘series’ and matches against PUs would not only provide more revenue generating opportunities but would add to the profile of rugby¹⁴.
- 4.17 The quid pro quo for longer inbound tours will be longer outbound tours for the All Blacks, with a commensurate increase in costs.
- 4.18 Longer tours, whether inbound or outbound, will have to take into account the playing calendar, both domestic and international, player welfare and the objective noted above of generating more revenue and profile from increasing the number of Tests.

Super 12

- 4.19 Super 12 is a successful competition. It has strong fan support, players like it and it generates significant revenue¹⁵.
- 4.20 Professional rugby will continue to grow. The evidence from other sporting codes overseas is that sports fans have a significant appetite for top-level professional sport. Professional sport is big business.
- 4.21 Broadcasting revenue is a key part of the business of sport internationally. This is particularly true of rugby. The quality of a competition and the number of games are important determinants of the amount broadcasters will pay to televise the competition. With this in mind, and taking into account that



¹⁴ Many PUs were adamant that the club window should be left clear of national team commitments. However, they were generally willing to compromise this position to accommodate games against touring teams.

¹⁵ It has also provided valuable information on the costs and resources required to run a professional rugby franchise.

Super 12 only runs for approximately three months, a number of options were reviewed for the Super 12. These almost all involve expansion of some form through increasing the number of teams. The options can be put into four categories:

- 1 Status quo.
 - 2 Modified status quo: expansion of the existing competition within SANZAR by 1–3 teams.
 - 3 International expansion: expansion of the existing competition by up to six teams, some coming from nations outside of SANZAR.
 - 4 A global competition: a new full time professional competition including ‘franchises’ from UK and Europe.
- 4.22 Consideration of the nature and form of Super 12 is inextricably bound up with renegotiation of the broadcasting contract, the relationship with SANZAR and others and the debate on the separation of the amateur and professional games.
- 4.23 Option 4 will have the greatest revenue generating potential, as it will open up the lucrative UK and European markets. Counting against this option will be costs and logistical issues and the need to rely on a significant number of other parties to make it happen. Further, it is not possible to point to a successful, global franchise-based competition. There are pan-European soccer championships and some of the US sports leagues are eyeing expansion in some form to Europe, but no truly global (southern and northern hemisphere) competitions exist in the form contemplated for a full-time professional rugby competition.
- 4.24 Revenue-generating opportunities from Option 2 will be less than Option 4. Option 3 has commercial potential if franchises can be located in potentially lucrative markets. However, current evidence suggests that revenue from this type of competition will be less than a truly global competition.
- 4.25 A number of factors other than revenue generation have influenced the thinking on the options for amending the structure of Super 12. Firstly, it is inevitable that professional rugby will grow and expand, notwithstanding the relatively small number of countries that are competitive at an international level.
- 4.26 Secondly, New Zealand on its own does not have the economic scale to sustain a meaningful, full-year professional competition. Furthermore, it is questionable whether New Zealand has the capacity to field a sixth franchise in an expanded competition, at present. Therefore, New Zealand rugby will be dependent on others for expansion.
- 4.27 Thirdly, changes to the Super 12 will have implications for the domestic competition and the international programme (All Blacks). Super 12 expansion must be considered in relation to other competitions.
- 4.28 Fourthly, current trends suggest that rugby will eventually have exclusively professional competitions (or a competition) that will occupy the whole playing calendar, subject to the All Blacks’ programme. For this to be viable for New Zealand rugby, it would require a different configuration to the Super 12. Further, viability will be dependent on maximum revenue generation, which at this time appears to be most likely through a truly global competition, rather than incremental changes to the status quo.
- 4.29 Fifthly, player development is a critical part of New Zealand rugby’s competition structure. At present, there is a natural pathway through NPC and Super 12 to the All Blacks. Modifications to the Super 12 must take into account player development, given the overriding requirement to



sustain the winning tradition of the All Blacks. In the extreme, moving to a full-year professional competition would require a radical change to the player development process. This is not of itself an impediment to a full-year professional competition; rather it is a factor that would need to be accommodated in the competition design.

- 4.30 The most important conclusion from these factors is that a high-value, full-year professional competition, subject to the All Blacks' programme, is unlikely to emerge for some time and that it is sensible to retain the player development and quality benefits of having Super 12 players playing in the domestic competition. Therefore, Super 12 should not encroach on the domestic competition.
- 4.31 Taking these factors into account, the NZRU will be supportive of changes to the Super 12, subject to there being no negative impact on:
- Quality of competition.
 - Value of content.
 - The availability of players for the domestic competition.
 - Player welfare (and trade-off with player availability).
 - The international programme.
 - The commercial returns to New Zealand. The changes should provide a commercial return to New Zealand over and above what we already get from Super 12.
- 4.32 This position will be reviewed if the potential for a commercially viable, full-playing-year professional competition begins to emerge.

Domestic Competition

- 4.33 The continuation of some form of domestic competition (involving PUs) has been taken as given for this review.
- 4.34 As there are 27 PUs of varying size, with A teams of varying playing ability, the concept of a single 27-team competition is not an option. In the first instance, the focus has been on defining the structure and form of two or more competitions (the NPC has three).
- 4.35 The remainder of this Section is divided into two parts. The first part deals with the size and structure of a professional/semi-professional domestic competition (referred to as the "Premier competition"). The second part deals with an amateur competition (referred to as the "Modified Division 1 competition").

Premier: Number of Teams

- 4.36 A number of factors will influence the number of teams in a competition.
- *Population* – professional sport, in particular, is influenced by the size and capacity of a particular market or location to support a team.
 - *History* – what historical relationships exist – what traditions are relevant, and what communities of interest exist?
 - *Economic sustainability* – the need to achieve and maintain financial returns to achieve ongoing viability. Competitions (and by inference, the number of teams in them) have to be of a 'not less than' size and profitability. The number of games and ability to deliver 'product' to fans, sponsors and broadcasters and the utilisation of stadia are critical. Economic sustainability is dependent on having a base of fans, players and participants to support and develop a team.
 - *Quality of competition in terms of standard of rugby, competitiveness, variety and diversity* – different teams of similar capability and talent



playing each other creates interest. The concept of a contest and lack of predictability is important.

- *Infrastructure* – infrastructure has two dimensions. Firstly, teams require support and development infrastructure such as academies. Secondly, team facilities for competitions, such as stadia. This is driven in part by population and economic base.
- *Timing and scheduling* – the ability to be accommodated within a defined window in the calendar – this often relates to the seasons of the year.

Population

- 4.37 On a theoretical basis, the size of a population and the associated economic base are critical determinants of the number of teams in a competition. This is particularly true of sport in America and more recently in Australia. The approach differs somewhat in the UK and Europe where team location has a lot to do with history as well as economics.
- 4.38 Using population to determine team numbers has some similarities with franchise businesses such as in the fast food, entertainment and retail sectors. The number of franchises in a particular location will be a function of factors such as the level of economic support, patronage and return on investment or capital employed, with each franchise being granted an exclusive licence to operate.
- 4.39 If a similar approach were used to determine the number of representative rugby teams in New Zealand, the Auckland PU with the highest population would have more than one team. In essence, under this approach the number of teams would be a derivative of defined commercial operating criteria.
- 4.40 Although this approach is valid, its application to the New Zealand environment is inappropriate at this time for a number of reasons.
- It would do little to enhance the broad base of rugby, as it would reinforce the strength of the major metropolitan areas.
 - From an operational or business perspective, in the first instance it would be more efficient to ensure that existing teams, all of whom have an existing presence, brand and supporters are performing to their maximum potential rather than create a new team.
 - It is not the role of the Competitions Review to explicitly address PU boundary issues, notwithstanding that it impacts directly on the design of the competition.
- 4.41 Our analysis of population, and also player numbers shows that if these were to be the key determinants of team numbers and applied objectively in the absence of any other determinants, it would be difficult to justify the current composition of the 1st Division or even the number of PUs themselves. There are PUs outside the 1st Division that would qualify ahead of some of the existing 1st Division teams (refer to Figure 3, on page 34).

History

- 4.42 Balancing the population approach is the issue of history. For some international competitions, the key driver is the history and rivalry developed over many generations, whether that is city versus city or country versus country. The same applies in a New Zealand context.
- 4.43 Domestically, New Zealand rugby has been organised on a provincial basis. The provincial boundaries have by and large remained unchanged since their establishment. Over the last 30 years, the only significant changes have been the merger of the Bush and Wairarapa Unions into Wairarapa Bush,



the merger of the Golden Bay–Motueka Union into Nelson Bays and the creation of North Harbour.

- 4.44 Provincialism in New Zealand continues to be a key driver and differentiator. Behaviourally, it is an influencer on passion and history, which are key attributes of any competition. Provinces are seen as representing a community of interest from which much value is leveraged.
- 4.45 While history, passion and traditional rivalry are fully recognised as important elements, they cannot be measured. Rather, they are factors that influence judgements.

Economic Sustainability

- 4.46 A professional sports competition must be commercially sustainable. Broadcasting licence fees, sponsorship, gate revenue and merchandising are all important sources of revenue. The importance of television and the international dimension to professional rugby means that the audience and fan base extends well beyond New Zealand. Broadcasting licence fees and sponsorship are increasingly underpinning the sustainability of New Zealand rugby.
- 4.47 New Zealand rugby has experienced significant growth in revenue since the introduction of professionalism. The revenue growth has been matched by cost growth. A major component of costs is player salaries and other team costs.
- 4.48 Analysis of the financial results for the NPC 1st Division is complicated by the fact that both the NZRU and the PUs generate revenue and incur costs in relation to the NPC. In particular, allocation of broadcasting licence fee revenue and contract salary costs for All Blacks and Super 12 players playing NPC have a significant impact on the NPC 1st Division results.
- 4.49 The total net surplus for the NPC 1st Division¹⁶ recorded by the PUs for 2002 was approximately \$1 million. However, the position of individual PUs is variable with half of the NPC 1st Division teams incurring losses. These results do not include NZRU distributions or an allocation of costs incurred and revenues generated by the NZRU in relation to the NPC. In this regard, NZRU costs would include a share of Super 12 salaries paid by the NZRU to Super 12 players playing in the NPC.
- 4.50 The financial results need to be considered alongside other non-financial benefits received such as player development and the need to create a base of players to support and ‘feed’ the professional teams in the Super 12 and the All Blacks¹⁷. Almost all Super 12 players have played in the NPC competition before being selected for a Super 12 squad. The importance of a strong domestic competition to the development of players can’t be overstated.
- 4.51 The non-financial benefits are significant. They are difficult to measure in a financial sense, nevertheless they must be recognised in any analysis of and decisions made on the structure of, and number of teams in the competitions.



¹⁶ The total of NPC A Team – Team Management and NPC A Team – Game Management in terms of the GARAP returns.



¹⁷ These non-financial benefits ultimately contribute to a financial outcome. Having high-quality players playing in a high-quality competition is important for optimising revenue from sponsors and broadcasters.

Quality of Competition

- 4.52 Quality is critical to the long-term value and durability of any competition.
- 4.53 The analysis in Section 3 shows that a number of teams in the current NPC 1st Division are not competitive. The question has to be asked, if the current competition lacks competitiveness, will it not just get worse if more teams are added to the competition? In the immediate to short term, the answer is yes.
- 4.54 Similar issues arise with regard to quality. Given the gulf that currently exists between the 1st and 2nd Divisions, will a Premier competition with more than 10 teams, the number in the existing NPC 1st Division, reduce quality? Again, in the immediate to short term, the answer is yes, although it must be recognised that the quality difference between the bottom of the NPC 1st Division and the top of the NPC 2nd Division is not necessarily any bigger than the difference between the top and bottom of the 1st Division.
- 4.55 Some teams in the Premier competition will require financial and operational assistance to allow them to strengthen, develop and be competitive. The period of time for them to raise their competitiveness is likely to be at least three years.
- 4.56 The short term outcome in terms of quality has to be considered in the context of several factors, including:
- Expansion of the Super 12. There is general consensus that expansion of the Super 12 is desirable (subject to certain criteria). At some point in the future it will be in New Zealand's interests to have an additional franchise. An expansion of the pool of professional players through the Premier competition assists in that process.
 - Creating a wider and deeper base of players. If the Premier competition has 12 teams, players in possibly two teams will 'step up' a level with a commensurate increase in their skill level. By implication, this strengthens the pool of domestic players.
 - More home games. Throughout the consultation process, a common theme emerged of the need for more home games to attract fans and sponsors and to utilise grounds and stadia.
 - The current competitive imbalance within the 2nd Division.
- 4.57 Ultimately, the relationship between quality and competitiveness and number of teams is a matter of judgement, with that judgement being proved over time. However, it is reasonable to assume that it will be more difficult to increase quality and promote competitiveness in a larger rather than a smaller competition.

Infrastructure

- 4.58 The nature and quality of teams is inextricably linked to the support and development resources they have available to them. Players are attracted to those teams that provide the best development opportunities and support structures. This is in part a factor in the success of the major metropolitan based PUs. The proposal to develop 14 regionally based academies will be of valuable assistance to teams and their success in competitions.
- 4.59 The second element of infrastructure relates to the facilities available to host games. As rugby progressively moves into the sports and leisure industry, the nature of the facilities and their amenities has a major influence on the financial resources available to individual PUs (Wellington, for example).



Scheduling

- 4.60 The proposition to have up to 12 teams in the Premier competition has implications for the playing calendar. Two existing constraints are the end of the club window and the commencement of Super 12 training¹⁸. Two additional teams, compared to the current NPC 1st Division will add at least two weeks to the schedule¹⁹. It is anticipated that finishing the competition later than the NPC will accommodate these.
- 4.61 An indicative schedule is included in Appendix A to this report. This suggests that there are some scheduling issues, particularly with the end of the club window that will have to be addressed.

Comparisons With Other Competitions

- 4.62 Presented below is a sample of competitions and the associated number of teams. This gives some perspective to the question of numbers of teams:

Table 9. Number of Teams per City

Competition	Cities with more than one team	Cities with one team	Total Teams
NRL	1	6	15
AFL	3	3	16
NFL	1	30	32
NBA	1	28	30
UK Premier League	4	9	20
Super 12	0	12	12
NPC Division 1	1	9	10
Tri Nations	0	3	3

- 4.63 Each of these competitions has different attributes. They rely as much on population, economic sustainability and history as on the number of teams themselves. Commercial considerations appear to be the primary driver although history and the concept of rivalry and tradition are recognised, albeit within limits. This is evidenced particularly by the sale and movement of franchises within the United States from city to city depending on the commercial imperatives and the subsidy or support received from the local authorities (for example, development of stadia for teams).
- 4.64 Within the New Zealand context, we participate in a number of competitions. The number of participants in those competitions varies from three in the Tri Nations to 12 in the Super 12 and between eight and 10 in the NPC. In addition, the Bledisloe Cup, albeit a part of the Tri Nations, is still seen by many as being a competition, although it only involves two teams.
- 4.65 The most recent rugby competition established involving New Zealand is Super 12. Within New Zealand, the alignment of individual provinces to particular franchises was driven primarily by player numbers, geographical spread and, to a lesser extent, community of interest.



¹⁸ Window constraints: club rugby finishing early August, Super 12 training beginning early December.

¹⁹ Assuming no change to the structure of the semifinals and finals.

4.66 Since the establishment of the Super 12 there has been modification to the composition of provinces associated with the Blues and the Chiefs. These modifications were influenced primarily by the need to enhance the community of interest with Northland and North Harbour being put with the Blues franchise and Counties Manakau shifting to the Chiefs.

Options

4.67 There are many variations on how the Premier competition could be structured. The primary options considered were:

Status Quo – 10 teams	<ul style="list-style-type: none"> No implementation issues Doesn't address sustainability Doesn't align to population, player and economic activity indicators.
Premier Competition involving 5–6 teams	<ul style="list-style-type: none"> Will reduce un-competitiveness Similarity to the Super 12 may cause confusion from market and spectator perception Lacks diversity Further consolidates 'rugby power' into a limited number of PUs.
Premier Competition of 8–9 teams (including Australia)	<ul style="list-style-type: none"> Similarity to the Super 12 may cause confusion from market and spectator perception Further consolidates 'rugby power' into a limited number of PUs .
Expand to 12 teams	<ul style="list-style-type: none"> Risks increasing un-competitiveness Will cost more Provides more diversity and depth Allows for better match to criteria.

Conclusions

4.68 The analysis indicates that the overriding issue is the structure of the competition and its attributes as opposed to the number of teams per se. There is no 'magic' as to the number of teams. Team numbers are a derivative as opposed to a driver and reflect the objectives of the competition. For instance:

- If the objective were purely commercial then teams would only be involved and supported where they create and add value. A purely commercial approach could result in the Premier competition having fewer teams than the current 10 in the NPC 1st Division and the teams being concentrated in areas of the country with large populations.
- If there is a mix of objectives (i.e. commercial and developmental) then it is possible that certain elements of a competition or teams within a competition will be supported and subsidised. Taking this approach will result in more teams in the Premier competition than under the commercial approach.

4.69 These factors together with the criteria previously identified for a competition influence the number of teams more than the competition itself.



- 4.70 Fundamental to the Review has been the need to ensure all NZRU competitions:
- Provide the best possible platform for sustaining a winning All Blacks team.
 - Maintain rugby as a game accessible and attractive to all New Zealanders. In particular, rugby is to be maintained as a game for all, with the competitive advantage of the broad base from school and provincial participation being maintained.
- 4.71 The Review has also taken into account the strength of the existing competitions and the history behind those competitions. Also, the competitions must be affordable, workable and acceptable to the majority of the NZRU stakeholders.
- 4.72 The analysis of other sports competitions, particularly professional competitions, shows that size of the population base and the associated economic base is an important determinant of number of teams in the competitions. However, the New Zealand domestic competition is not a purely professional, commercial competition. The competition is used for both developmental and commercial purposes. It is important to player development, it provides an aspirational pathway for players, referees and coaches and enjoyment and recreation for fans and players. For these reasons it does not directly fit a purely professional competition model.
- 4.73 However, more importantly, and as raised by a number of those spoken to during the consultation process the history, passion and tradition of the provincial competition are important and relevant moving forward. They are seen as being important elements of the sense of community and belonging many New Zealanders value.
- 4.74 These factors, together with the issues highlighted in the Terms of Reference outlined above, mean that the design of the competitions has focussed primarily on competitions that are affordable, sustainable and capable of creating a platform from which the winning tradition of the All Blacks can continue to be leveraged and developed. The number of teams per se is of lesser importance, other than the need to be enough to create interest and diversity while achieving quality and economic sustainability.
- 4.75 In the circumstances the Board has applied its judgement. Taking all relevant factors into account it has assessed that a Premier competition of up to 12 teams will best meet the needs of New Zealand rugby. In particular, a competition of up to 12 teams will:
- Create a clear marketing differentiation between the Super 12 and the national domestic competition.
 - Increase the depth and diversity of the player pool in New Zealand.
 - Create more opportunities for players to develop through to the fully professional game.
 - Mitigate the negative affects of the concentration of top-level rugby in a limited number of PUs and maintain rugby as accessible to a wider cross section of New Zealand.
 - Recognise and build on the history, passion and tradition of a strong and relevant national provincial championship.
- 4.76 It is clear that as the dynamics of New Zealand's population, rugby participation levels and economic activities change so must the traditional boundaries and criteria from which the number of teams are drawn. A balance needs to be achieved between the concept of history and tradition and that of relevance and sustainability moving forward. There has been



no regular review of boundaries despite the major demographic trends, a position that must be remedied. Proactive management is required in this area.

- 4.77 For these reasons, the analysis of the competitions for the purposes of this exercise has been predicated on the existing number and configuration of provincial teams. The Review has not explicitly considered the relevance or otherwise of the existing number or configuration of PUs.
- 4.78 However, there is nothing in the design of the new competitions that impedes or inhibits any amalgamations or combinations that may occur. The structure of the competitions is not in itself designed to be used as a mechanism to force a reduction in the number of PUs. Equally, they will not of themselves stop that from happening.

Premier: Competition Structure

- 4.79 The number of teams and the available window has primarily influenced the competition structure. These factors have set the parameters for the structure of the round robin, semifinals and finals.
- 4.80 Given the available window, a 12-team competition can only be accommodated in a single round robin format. Conversely, 12 teams are too few in number to have a meaningful competition of two or more pools.
- 4.81 Semifinals in the format currently used in the NPC 1st Division (1 plays 4 and 2 plays 3) could be used in the Premier competition. Alternatively, revising the format to a playoff series would provide more games. This provides fans with more rugby, sponsors with more exposure and broadcasters with more content. Viewership for NPC 1st Division semifinals and finals is substantial relative to round robin games.
- 4.82 Having an ‘NRL playoff’ involving the top eight teams would require a longer ‘finals’ period than the current two-week period. This, together with the additional round robin games as a result of the two extra teams would extend the season longer than can be accommodated within the playing calendar. Also, eight teams out of a total of 12 in a playoff series is excessive.
- 4.83 The alternatives would be:
- Four-team final series:
 - Semifinal 1: qualifier 1 plays qualifier 2. The winner goes to the final.
 - Semifinal 2: qualifier 3 plays qualifier 4.
 - Semifinal 3: loser of semifinal 1 plays winner of semifinal 2.
 - Final: winner of semifinal 1 plays winner of semifinal 3.
 - Five-team final series:
 - Semifinal 1: qualifier 2 plays qualifier 3. The winner goes to the final.
 - Semifinal 2: qualifier 4 plays qualifier 5.
 - Semifinal 3: qualifier 1 plays winner of semifinal 2.
 - Final: winner of semifinal 1 plays winner of semifinal 3.
- 4.84 Both of these alternatives provide an extra game. This, together with the extra games in the round robin, will extend the season by three weeks.
- 4.85 Providing an extra game for a four-team semifinal is not particularly meaningful. A five-team semifinal provides more competitive tension. Also, one more team brings another ‘community of interest’ (fans, sponsors etc) into the playoff series, which will be good for promoting the game and generating revenue.



Premier: Promotion/Relegation

- 4.86 Promotion/relegation has had a place in the NPC in providing teams from lower divisions with an aspiration. However, it is widely acknowledged that the gap in the standard of rugby between the NPC 1st and 2nd Divisions has been growing. While 2nd Division teams might aspire to be promoted to the 1st Division, the probability of them making it through a promotion/relegation match is reducing. Hawke's Bay did not lose a game in the 2002 and 2003 2nd Division round robin competitions but was convincingly beaten in the promotion/relegation match in both years.
- 4.87 Furthermore, in the event that a 2nd Division team does make it into the 1st Division, it faces the uphill task of assembling a team to be competitive and avoid a promotion/regulation match in the following season, let alone being competitive against the likes of Auckland and Canterbury. These issues serve to reinforce the un-competitiveness of some teams in the competition.
- 4.88 The proposal for the Premier competition is that teams should have an opportunity to achieve a level of competitiveness before they have to 'justify' their position in the competition. This would be a grace period of longer than a year. The length of a grace period should be sufficient to allow the team to adjust but not so long that teams do not have an incentive to perform.
- 4.89 Analysis undertaken in the US suggests that the time required for teams to achieve a reasonable level of competitiveness is relatively long (three years and longer). It is the Board's view that a grace period longer than three years would be too generous and that three years should apply.
- 4.90 Application of a grace period will be subject to the Board's absolute discretion to remove any team at any time if that team is not and is unlikely to be sufficiently competitive.
- 4.91 The nature of the changes to the competitions and the move to more direct intervention in the Premier competition to encourage the spreading of talent (refer to Section 9) means that promotion/relegation matches will be inappropriate. Further, it is likely that the quality gap between the Premier and Modified Division 1 competitions will increase over time.
- 4.92 The Board has decided that entry to and exit from the Premier competition will be criteria-based. Teams will be eligible to enter if they meet the criteria, subject to a maximum of 12 teams in the competition at any one time.
- 4.93 The base criteria to be used for entry and exit from the Premier competition will include:
- Population: current and forecast growth
 - Player numbers
 - Number of clubs
 - Player training and development structures (existing and planned)
 - Academy
 - A team management structure
 - Playing history
 - PU financial position
 - PU governance and administration.
- 4.94 In the interests of maintaining the quality of the competition but subject to the grace period noted above, teams in the Premier competition will also be subject to criteria to retain their positions in the competition. Teams that don't meet the minimum criteria will be removed from the competition.



- 4.95 The introduction of the grace period means that the composition of the Premier competition will be fixed for the first three years, subject to the Board exercising its discretion to remove any team at any time.
- 4.96 After the first three-year grace period, all incumbent teams will be reviewed regularly for compliance with the inclusion criteria, subject to the three-year grace period applying as appropriate.
- 4.97 Relegation by one team does not mean automatic promotion for another team. If a team is relegated but there is no other team in the Modified Division 1 competition that meets the criteria for promotion then the number of teams in the Premier competition will decrease.
- 4.98 The opportunity for PUs to pool resources to produce a combined team to meet the eligibility criteria for the Premier competition has been raised in the consultation process. The Board will be willing to consider such teams in relation to the eligibility criteria. However, the Board, at this stage, will not invite PUs associated with a combined team to enter a team as well in their own right in either of the two competitions (Premier or Modified Division 1).

Modified Division 1

- 4.99 Up to 12 teams in the Premier competition leaves a maximum of 15 teams out of the existing 27 PUs to be accommodated in a competition (or competitions). The Board is committed to having a meaningful and high-quality competition for those PUs not eligible for the Premier competition. The following options were reviewed for the remaining 15 teams:
- 1 A 2nd Division of eight teams and a 3rd Division of seven teams. This is a modification of the existing NPC 2nd and 3rd Division competitions.
 - 2 A competition played as a single round robin and a semifinal and final. This would mean a 14-game round robin if 15 teams are in the competition. The teams making the final would have a 16-week season. This is too long. Also, this would be expensive to operate because of the number of games and the requirement for travel.
 - 3 A competition split into two pools or conferences with semifinals and finals played between the pools.

Options for the composition of the pools are:

- Regional (North Island and South Island).
- National seeded pools.

Options for the semifinals and finals are:

- Semifinals are played within the pools (top qualifier in pool A plays 2nd qualifier in pool A; top qualifier in pool B plays 2nd qualifier in pool B). Pool winners play-off for the championship (winner pool A plays winner pool B).
- Semifinals are played between pools (top qualifier in pool A plays 2nd qualifier in pool B; top qualifier in pool B plays 2nd qualifier in pool A). Semifinal winners play-off for championship.
- Top four teams of each pool (8 teams in all) play an inter-pool finals series consisting of a quarter final (top qualifier of pool A plays 4th qualifier of pool B and so on), semifinal and final. A similar playoff could also be held for the bottom half of the pools after the round robin.

The various options for the semi-finals are designed to provide variety, diversity and an optimum number of games. A competition providing 8–10 games in a season would be broadly consistent with the current number played by NPC 2nd and 3rd Division teams.



- 4.100 The overriding risk of the options presented above is that mixing the existing 2nd and 3rd Division teams will produce a competition where some teams will not be competitive. This outcome is a function of two factors:
- The number and quality of teams available for the Modified Division 1 competition is in part a function of the composition of the Premier competition.
 - There already exists a gulf between the top 2nd Division teams and the 3rd Division teams in the NPC. The un-competitiveness is a function of the need to accommodate 15 teams of vastly differing standards in a meaningful competition. However, the issue is not the competition per se. The problem arises because of the constraint of working with the existing configuration of PUs.
- 4.101 To reduce the risk of un-competitiveness and enhance the quality of the competition, eligibility to participate in the Modified Division 1 competition will be subject to meeting criteria. This is consistent with the approach adopted for the Premier competition.
- 4.102 The nature of the criteria will be similar to the criteria used for the Premier competition but the thresholds or benchmarks that must be achieved to meet the criteria will be different. They will reflect the amateur status of the Modified Division 1 competition.
- 4.103 The format of the Modified Division 1 competition will be dependent on the number of teams that meet the criteria. The competition will be operated either as a single national pool or as two seeded national pools with an inter-pool semifinals and final. In any event the competition will operate to provide participating teams with no fewer than eight games per season.



5. PROVINCIAL UNION AND FRANCHISE STRUCTURE

What are the provincial union and franchise structures to best meet the aims of these competitions?

DECISIONS

- 1 Franchise boards will have seven directors:
 - Two directors appointed by the host PU
 - Two directors appointed by other PUs within the franchise
 - Three independent directors.
- 2 The independent directors will be appointed by the NZRU, after consultation with the franchise PUs.
- 3 The chairman will be appointed by the franchise board. The chairman of the franchise board must not be the chairman of the host PU.
- 4 The relationships between the host PU and the franchise will be:
 - At arm's length
 - Commercial
 - Transparent and auditable
 - Subject to contract/agreement.



COMMENT

FRANCHISES

- 5.1 The relationship between the Super 12 franchises and the host unions is considered by many PUs to be major contributor to the un-competitiveness of some teams in the NPC. The location of the 'best' players in host unions and the support and development that the franchises provide were often quoted during the consultation process as major obstacles to competitiveness in the NPC: "to be picked for the All Blacks, you need to play Super 12" ... "to make the Super 12, you need to play in the 1st Division, preferably for a host union" ... "the standard of training and support is higher in the host unions".
- 5.2 The five host unions are certainly dominant on the field. They also have the greatest financial resources and high quality administration structures. This could be taken as evidence that there are benefits to Auckland, Waikato, Wellington, Canterbury and Otago of hosting the Super 12 franchises. However, this dominance would have occurred notwithstanding the location of the franchises because of the growing concentration of economic activity and population in the main urban centres. Whether the dominance would have been as significant if there was not the close relationship between the franchise and the host unions is uncertain.
- 5.3 Two specific issues were raised about the relationship between the franchises and the PUs:
- Super 12 player selection is biased in favour of host union players.
Action taken to increase the transparency of the Super 12 selection process in recent years has reduced the risk of any undue bias. Further, some of the mechanisms being considered to manage the competitive balance in the Premier competition (refer to Section 9) will help to reduce the risk of bias occurring.
 - The joint administration of the host unions and the franchises. More specifically, having a joint CEO was considered by some PUs to create conflicts of interest.
- 5.4 In theory, the joint administration and management of a franchise and a PU gives rise to a risk that actions could be taken and decisions could be made by the franchise for the benefit of the host union. Whether this happens or not in practice is a moot point. If the separation between franchises and host PUs is not adequate and transparent, the perception of abuse of the relationship will always exist.
- 5.5 Two options for dealing with this issue are to separate the management of the franchises and the PUs or to ensure there are adequate governance arrangements in place. A third option would be to do both.
- 5.6 Separation of management could involve:
- Complete separation of all management and administration functions.
 - Separation of the chief executive position.
- 5.7 Complete separation of the all management and administration functions will result in duplication of resources. Fees paid by the franchises to the host unions can be used as a guide to gauge the annual cost of the duplication. Total fees paid in 2002 by the franchises to the host PUs for administration and related service were approximately \$1.7 million.



- 5.8 In reality, the cost of separation will most likely be higher than the administration fee. Assuming the PUs are run efficiently, then it is possible that the fees will reflect economies of scale. Duplicating the administration structure will remove the scale benefits with a consequential increase in costs. Furthermore, efficient stand-alone management and operation of the franchises is unlikely to be a full-time job for 52 weeks of a year. This will add to the relative costs.
- 5.9 Separation of the CEO function only would require a structure where the CEO and, say, one or two support staff operated on a stand-alone basis but the administration and other functions are contracted out, probably to the PUs.
- 5.10 The incremental costs per franchise of this structure might be in the order of \$200,000 to \$300,000 per franchise per annum as a minimum. This implies a total cost in the order of \$1.0 million to \$1.5 million per annum. This incremental cost is considerable.
- 5.11 The practicality of separation must be considered along with the financial impact. As noted above, management of a franchise is unlikely to be a challenging and demanding job for an entire year. It will be a job with a reasonably narrow focus. In addition, removing the responsibility for the franchises from the PU CEOs will effectively downgrade these positions.
- 5.12 The risk will be that the franchises, and to an extent the PUs, will be less attractive to high-calibre managers. That does not mean that there will not be a long list of applicants for the positions, but those applicants will most likely not include top-quality managers. This might seem to be rather trite, but it is a cause for concern given that high-quality managers and administrators are critical to ensuring the sport prospers in the face of increasing commercialisation, competitive pressure and operational complexity.
- 5.13 Also, there would be a significant risk that the cost of separate CEOs will be a lot higher than estimated. While the concept of having a franchise CEO with a small support team working and sharing resources with the PU is good in theory, the risk, and perhaps the reality, would be that the franchise CEOs would build up their own administration and other functions over time and duplicate costs being incurred within the PUs.
- 5.14 In view of these issues, CEO separation will not be required at this time. Rather, the focus will be on adequate separation and independence of the governance of the franchises and appropriate transparency in the relationships between the franchises and the host PUs.
- 5.15 The following changes will be made to the governance arrangements:
- Franchise boards will have seven directors, comprising:
 - Three independent directors to be appointed by the NZRU, after consultation with the franchises. At the time of their appointment these individuals must not have been a director of, or office holder in any of the franchise PUs within one year prior to their appointment as an independent director. They must remain independent of the PUs during the term of their appointment.
 - Two directors appointed by the non-host union PUs.
 - Two directors appointed by the host union.
 - The chairman will be appointed by the franchise board on the basis of the best person for the job. However, the chairman of a franchise cannot at the same time be the chairman of the host PU.
- 5.16 With regard to the relationship between the PU and franchise for the provision of administration services, in accordance with best practice, the Board is of



the view that these transactions, which are essentially ‘intercompany’, need to be undertaken transparently and with a degree of contestability. The issue is to ensure that value is being obtained for the services being provided and that value is commensurate with the cost and value package that would be obtained generally in the market. It is incumbent on franchise directors to establish sound processes. Audit is an important part of the transparency mechanism.

5.17 Other issues raised by some of the Super 12 franchises were:

- Sale of franchises – the prospect of the NZRU selling the Super 12 franchises to third-party commercial operators was raised during the consultation process. Conceptually, this would mean the franchises would be ‘tradable’, similar to the American professional sports model. A number of issues relating to this idea were considered, including outright sale or partial sale, and separating out the management to an independent third party.

Commercially, such an option is particularly attractive when the owner (in this case the NZRU) is in need of capital. That is not the case at present. The Super 12 franchises are very valuable assets to New Zealand rugby – in the absence of any clear need to do so, the best, most valuable option is to maintain the status quo. That does not mean that at some time in the future, if circumstances change, the decision may change. At present, there is no compelling case for change.

- More equitable distribution of Super 12 franchise dividends – this is dealt with later in the report.
- Changing the franchise structure to merge the franchises with the host PUs. This would enable the host PUs to play Super 12 rugby in their own right and so protect their heritage, brand equity etc.

Such a move would have significant implications for the domestic competition. It would alter the form and nature of the Premier competition. It would also have significant implications for profit sharing, governance and management of the franchises. This matter was outside the scope of the Competitions Review.

NUMBER OF PROVINCIAL UNIONS

5.18 The objective of the Review has been to assess the nature, structure and form of competitions that will provide the best possible platform for sustaining a winning All Blacks team and maintaining rugby as a game accessible and attractive to all New Zealanders. It has not been designed as a vehicle or process to deal with the number of PUs. The terms of reference explicitly excluded review of PU boundaries from the Competitions Review.

5.19 The Review has highlighted a number of issues within the game that must be recognised and managed. It is clear from the analysis of population, player numbers and regional GDP that there are many areas within New Zealand that are not well represented and others that are over-represented in terms of teams.

5.20 This contradiction will require proactive management in the future. The historical context within which provinces are viewed will continue to be challenged. That is regrettable but unavoidable.



5.21 There have been mergers over the last 30 years. Having regard to the dynamics within New Zealand generally, more mergers within the coming years would be a rational response to maintain critical mass, efficiency and competitiveness and to reflect the changes in population.



5.22 In this regard, more active management of the number of PUs and their boundaries will be required in the future.

ADMINISTRATION INFRASTRUCTURE

- 5.23 The Review has highlighted that a significant level of resource is devoted to governance and management. In 2002, total governance costs for 27 PUs and the NZRU was in the order of \$17 million²⁰.
- 5.24 Under any concept of management and value for money, the question has to be posed as to what value or benefit is derived from such expenditure. Such an assessment would need to recognise that the objective of any administrative structure is to be an efficient enabler of a service – in this situation, the delivery of rugby services to achieve participation, development, a game for all and a platform to enhance the winning tradition of the All Blacks.
- 5.25 It is clear that the role, function and responsibility of individual PUs differ. That is a strength that needs to be developed and clearly articulated.
- 5.26 The Review has highlighted several organisational forms for PUs that need to be assessed further. These are based on the concept of combining PU administration functions to obtain critical mass, reduce duplication and remove surplus capacity. There are many ways of achieving this. For example, regionalising some or all administration functions, outsourcing and so on.
- 5.27 It is recognised that such thinking challenges the status quo model and will be strongly resisted by many. However, that does not address the reality of the dynamics of what is occurring in rugby. Strong and proactive leadership and management are required on this issue if rugby is to continue as a game accessible to all. A balance is required between:
- The past and the future.
 - Centralised and decentralised operations.
 - Autonomy and accountability.
 - Reactive and proactive management.

PROVINCIAL UNIONS – ROLE AND RESPONSIBILITIES

- 5.28 As New Zealand society changes, there is a strong argument that the infrastructure that supports rugby should also change. This reflects the reality that nothing is immune from change, especially within the service sector where the key objective should be to remain responsive to change so as to remain relevant and of value to those who use or rely on the services.
- 5.29 By and large, PUs have remained immune from the organisational change experienced by many other entities in the service sector. However, the consultation process highlighted an acknowledgement that ‘things had changed’. Not all PUs are the same, nor should they be. Some are seen as ‘breeding farms’, others ‘fattening farms’ – that is, for some PUs, their primary role is to achieve high (and sustainable) participation rates, for others it is to select from that participation pool to develop players further.
- 5.30 Mechanisms need to be developed to reflect those roles. NZRU is a significant funder of PUs – that funding should be tagged to achieve specific outcomes. Defining the roles and responsibilities of PUs and aligning performance indicators within these role and responsibilities would be a significant step forward in achieving the best possible platform for a winning All Blacks team and a game accessible to all.

²⁰ Excludes depreciation and interest.





6. PROFESSIONAL AND AMATEUR GAMES

How should the professional and amateur sections of rugby be structured, how should they inter-relate and what are the linkages between those two quite different areas of the game?

Should professional players participate at all in amateur or semi-professional competitions?

DECISIONS

- 1 The All Blacks will continue to play in the Super 12.
- 2 It is likely that the All Blacks will play in the national domestic competition if no alternative international programme has been arranged.
- 3 The All Blacks' international schedule will take priority over the Premier competition. If the international programme results in a clash of scheduling with the Premier competition then the All Blacks will not play in the Premier competition.
- 4 There will not be a complete separation of the professional and amateur games yet. The Premier competition will continue to have a mix of professional (Super 12) players and semi-professional players.
- 5 The Premier competition will be a professional/semi-professional competition.
- 6 The Modified Division 1 competition will be an amateur competition with players not being paid, other than for reimbursement of costs.
- 7 As a general rule, players will play in two levels of competition commensurate with their status and are unlikely to play in three:
 - The All Blacks will play in internationals and Super 12 but in the Premier competition only if scheduling permits
 - Non-All Blacks Super 12 players will play in Super 12 and the Premier competition²¹
 - Semi-professionals in the Premier competition and amateurs in the Modified Division 1 competition will play in club rugby.

²¹ It is acknowledged that players can qualify for Super 12 selection by playing for a Modified Division 1 team. However, it is likely to be the exception rather than the rule that Super 12 players will play regularly in the Modified Division 1 competition.



COMMENT

ALL BLACKS

- 6.1 The All Blacks' international programme must take priority over the domestic competition for the long-term benefit of New Zealand rugby. This means that the All Blacks will not play in the Premier competition when arrangements are put in place for an expanded international programme (refer to the discussion in Section 4).

SUPER 12 PROFESSIONALS, SEMI-PROFESSIONALS AND AMATEURS

- 6.2 New Zealand rugby players and competitions currently span the continuum from fully professional to fully amateur:

Table 10. New Zealand Player Status

Competition	Competition Status	Player Status
International Tests	Professional	Professional
Super 12	Professional	Professional
NPC 1st Division	Semi-professional	Professional and semi-professional
NPC 2nd Division	Semi-professional/Amateur	Semi-professional and amateur
NPC 3rd Division	Amateur	Amateur
Club	Amateur	Professional, semi-professional and amateur

- 6.3 The table demonstrates two important points:
- At one level, there is already a separation of the professional and amateur games. The Super 12 is a fully professional competition.
 - In NPC 1st Division there is a mix of professional and semi-professional players.
- 6.4 In the world of professional sport, New Zealand rugby is unusual in having players spanning two competitions²², Super 12 and NPC 1st Division, where one is a fully professional competition and in the other the professionals play alongside and against semi-professionals.
- 6.5 The Review has addressed whether or not there should be a complete separation between the professionals on the one hand and semi-professionals/amateurs on the other hand. That is, professional rugby players would play in some form of professional competition and semi-professional/amateurs play in a separate competition(s). Factors that influence this issue include:
- The international trend of increasing professionalism of top level sport. Revenue generation is a driver of this. Top level professional sport is a valuable product. The more that is available, the more revenue that is generated.
 - The Super 12 is a successful product but runs for only three months. As noted in Section 4, New Zealand on its own does not have the economic scale to provide a meaningful, full professional competition calendar. We might have the depth and breadth of players but we don't have the depth



²² The All Blacks currently play in three competitions: Internationals, Super 12 and NPC 1st Division.

of broadcasting and sponsor revenue-generating opportunities to finance sufficient teams to provide a competition with depth and diversity. We are reliant on other nations to develop a meaningful, full-playing-year professional competition.

- Super 12 players playing with and against semi-professionals in the NPC has important benefits for development of players. Mixing professionals with semi-professionals facilitates the transfer of skills and helps to lift the performance of semi-professionals. It also has the benefit of enabling semi-professionals to be 'tested' against professionals. This is good for the players and helpful for Super 12 squad selection. Feedback from coaches strongly endorses this view.

The benefits from Super 12 players being involved with lower levels of the game were stressed by PUs in relation to Super 12 players being involved with clubs.

- Player welfare is important to the discussion about amateurs and professionals. The issue is the risk of injury, particularly where professionals are playing in lower-level competitions, for example, Super 12 players playing in club competitions. There are risks to both Super 12 players and amateurs mixing in these competitions.
- Mixing professionals and semi-professionals in the NPC 1st Division without explicit mechanisms to manage competitive balance is widely perceived to have contributed to the imbalance in the competitiveness of teams in NPC 1st Division.

- 6.6 A professional competition spanning the playing year, outside of the international Test programme, has been noted in Section 4 as a goal for New Zealand rugby. It will provide maximum revenue potential if properly designed.
- 6.7 When such a competition or competitions happen, there will be a separation of the professionals from the semi-professional/amateur parts of the game. This will be a significant issue for talent identification and player development. Processes to ensure that the best talent is identified and developed to maintain the winning tradition of the All Blacks will have to be carefully designed and managed.
- 6.8 However, the advent of a full-year professional competition is not on the immediate horizon. There is no case at present for excluding the professionals from the Premier competition. The player development benefits of mixing the professionals and semi-professionals are valuable and should not be given away lightly. Neither should the benefits to sponsors of being associated with a domestic competition involving Super 12 professionals.
- 6.9 A potential downside of professionals playing in the Premier competition is a perpetuation of the competitive imbalance evident in the NPC. However, there are procedures and processes recommended as part of the Review to produce better competitive balance. The processes may not produce perfect competitive balance because of the difficulty of countering the broad demographic trends within the constraints of the existing PU boundaries. The benefits of including the Super 12 players in the Premier competition will outweigh the disadvantages of the competitive imbalance their presence might cause.





7. LENGTH OF SEASON

What is the ideal and maximum length of season for professional players?

COMMENT

- 7.1 The competitions involving professional players need to be structured to ensure that there are sufficient periods of time made available to players to allow for a complete rest from the game and to allow for player conditioning and preparation.
- 7.2 The issue of length of season²³ is critical from a number of perspectives, being:
- Player welfare.
 - Interest and commitment of broadcasters and sponsors.
 - Fan interest.
- 7.3 At present there is no definitive research that identifies the optimum length of season for a professional player. However, there are a number of factors highlighted through research and discussions that indicate what the optimum length of season might be.
- 7.4 It is generally recognised that core to the length of the season is the issue of player welfare and the phenomena of physical and emotional exhaustion experienced by players. The contributors to this situation are, amongst other things: the prolonged exposure to stress arising from the intensity of the season, pressure to win, too much or too little outside of sport, problems with injuries or illness and monotony of the same training.
- 7.5 Balanced against this is the recognition by some that, although stress in itself is not always harmful, it does create differing psychological demands for the professional rugby player.
- 7.6 Player welfare considerations are not just related to playing in games and training – they relate to the players' whole operating environment and state of personal and physical well-being. This has to be seen in the context of the professional game being different from the amateur game – in the view of many, the players are becoming faster, stronger, bigger and the game is tougher.
- 7.7 For these reasons, it is apparent that the length of the season is unique to a particular player, their personal well-being and the position in which they play and train. For instance, the number of games a player can play as a front-row prop differs from that of a wing.
- 7.8 In the absence of being able to define the exact number of games, there are two guiding principles arising from the review of literature and the wider consultation process, these being the need:

²³ For the purposes of this discussion, length of season equates to the number of games as opposed to elapsed time.



- For quality rest periods for individual players.
 - To allow a sufficient period of time for player conditioning and preparation.
- 7.9 For players, this currently requires the management of rest periods between the end of:

Professional International Players	Professional Non-International Players
1. Super 12 and the June/July inbound international programme	2. Super 12 and the beginning of the NPC
3. the June/July inbound international programme and the beginning of the NPC	4. the end of the NPC and the beginning of the Super 12
5. the NPC and the outbound November international programme	
6. the November outbound tour and the beginning of the Super 12	

- 7.10 The key issues arise in respect of the professional international programme. When the option of removing the All Blacks from the domestic competition is factored in, the only potential clash arises in respect of the end of the Super 12 and the beginning of the international programme.
- 7.11 This problem exists at present for players involved in the semifinals and finals of the Super 12 with only two to three weeks being available for player rest.
- 7.12 The situation will be exacerbated with an extended Super 12. For these reasons, the support for an expanded Super 12 is contingent on being able to better manage the timing between the completion of that competition and the commencement of the June/July international programme. This has been addressed previously in the report.



8. ASPIRATIONAL PATHWAYS, TALENT IDENTIFICATION AND PLAYER DEVELOPMENT

What is the aspirational pathway from “amateur” to “professional” to All Blacks for players, coaches and other personnel?

How are talent identification, development and retention best served by these competitions?

COMMENT

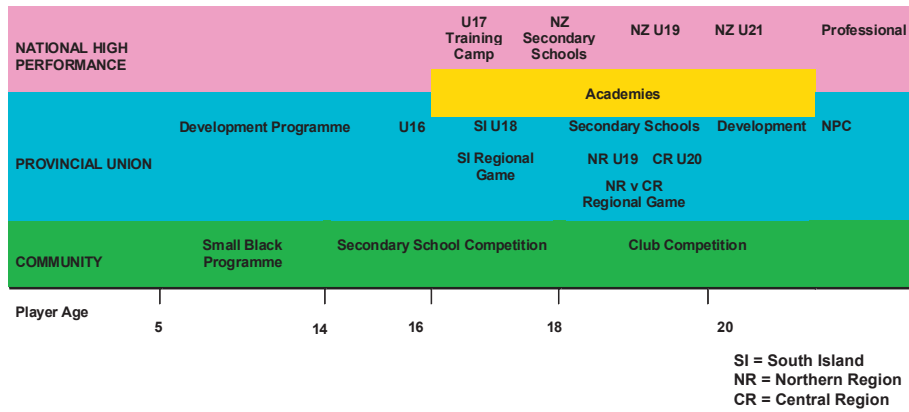
- 8.1 Although the structure and composition of the competitions may change, there is no need to modify the existing support mechanisms. The existing processes, many of which have been introduced only recently, appear adequate and should be continued.
- 8.2 The only issue arising from the Review that needs to be noted is the recognition that for some coaches and other personnel, the development pathway may involve a period of time offshore. This needs to be recognised as experiential and developmental, with value to New Zealand. This should be supported and not inhibited.
- 8.3 The need to identify, develop and secure the best playing talent is critical to the ongoing future success of New Zealand rugby. For the purposes of this commentary, we have considered the issue under three categories, being:
- Players.
 - Coaches.
 - Other personnel (e.g. administrative).
- 8.4 Historically, rugby in New Zealand is based on the philosophy of a pyramid – that is, evolving from many to few. As progression occurs up the pyramid from mass participation to the top level, the numbers reduce. This has been, and continues to be, a significant strength of New Zealand rugby.

PLAYERS

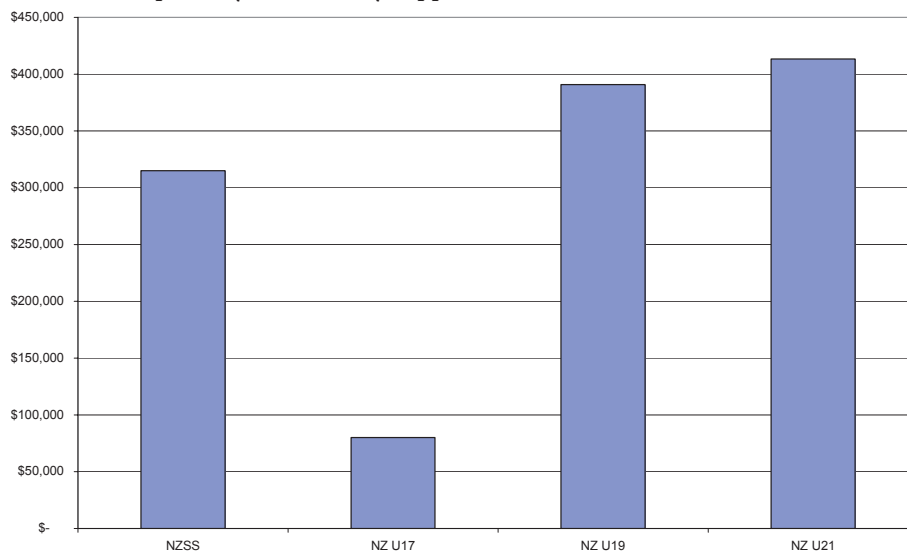
- 8.5 The current pathway for players follows.
- 8.6 The decisions within this Review support these pathways. These pathways have been, and will continue to be, supported by various talent identification and player development programmes, the principle elements of which are:
- Academies.
 - Age-group teams.
 - Sevens.
 - Non-All Blacks national teams.
 - All Blacks.



Figure 27. Current Pathway for Players

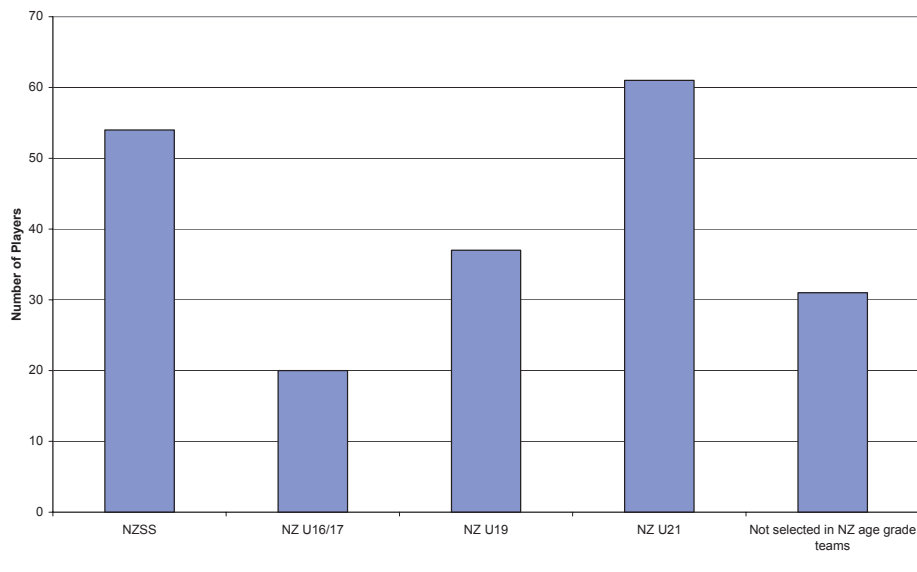


8.7 These pathways are actively supported with substantial resources as follows:



8.8 Commitment of these resources has provided a ‘return’ to rugby as evidenced by the number of players who progress through the various development programmes. Analysis of the period 1990–2000 shows the following:

Figure 29. Pathway to All Blacks 1990–2000²⁴ (NZ Age-Grade Teams)



²⁴ It is possible for a player to be recorded as having played in all teams.

8.9 The trend in recent years shows, for instance, that representation in the New Zealand Under 21 (and to a lesser extent New Zealand Under 19) level is becoming a stronger indicator of future All Blacks and Super 12 representation.

Figure 30. New Zealand Under 19 Teams 1998–2002

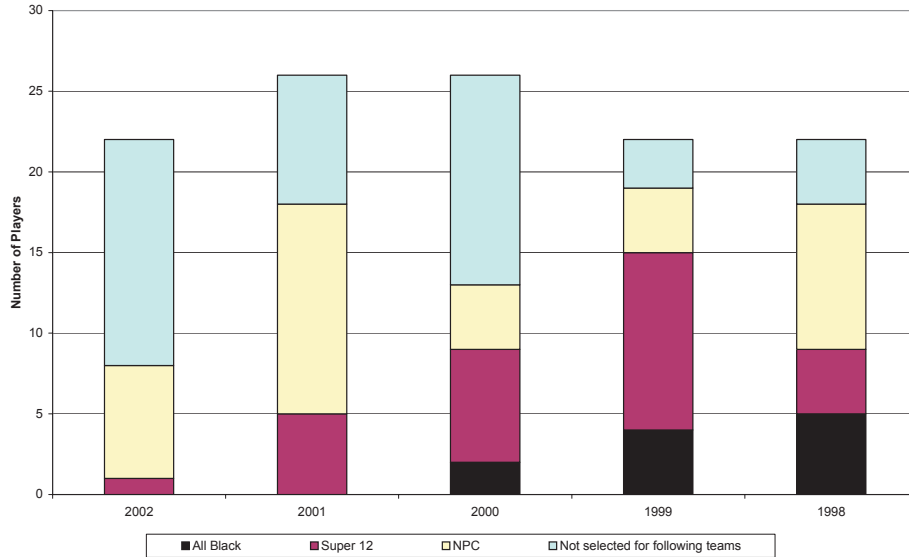
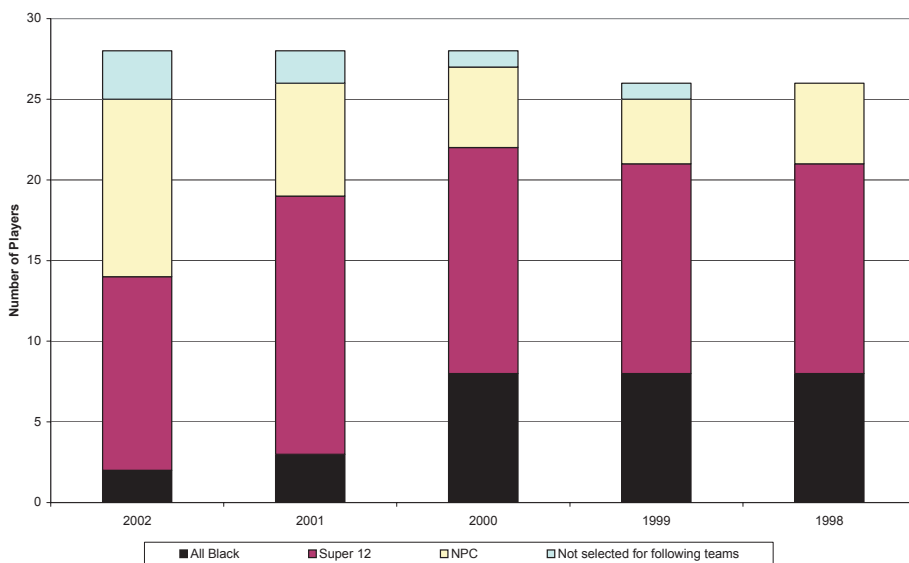


Figure 31. New Zealand Under 21 Teams 1998–2002



8.10 The current national age-grade team activity is as follows:

- New Zealand Secondary Schools
 - Three three-day coaching schools (300 players)
 - Internal match (26 players)
 - Three-match tour to Australia (26 players).
- New Zealand Under 17
 - Five-day training camp (45 players).



- New Zealand Under 19
 - Three-day trial (60 players)
 - Three-day trial (45 players)
 - 14-day camp (26 players)
 - Three-week FIRA/IRB World Cup tournament (26 players).
- New Zealand Under 21
 - Three-day trial (45 players)
 - Four-day trial (45 players)
 - 10-day camp (26 players)
 - Three-week IRB World Cup tournament (26 players).

8.11 The current pathways are seen as providing a valuable development path for players. The opportunity to represent New Zealand at age-group level is a very valuable element of a player's career progression. The involvement in the teams, particularly at an international level, exposes players to overseas experience, plus creates the opportunity for players to be introduced to a 'professional' rugby environment and the experience of a dedicated campaign. The involvement actively supports their personal and professional development.

8.12 Each of these form part of an overall package. As the game has moved into the professional era, rugby has for many become full-time employment – it represents a career option in itself.

8.13 For that reason, there is a desire by many players to be 'spotted', developed and moved through to higher honours. That will continue, if not escalate, in the future. At present, infrastructure is in place (primarily through academies) to ensure that talent is identified and secured.

8.14 The consultation process has highlighted a number of issues which need to be noted with respect to pathways, talent identification and player development.

Talent Identification

8.15 A key issue for the game is the recognition that good players of whatever age will continue to seek out the best opportunities. This means that for many the best opportunities will be delivered through the larger cities, thereby concentrating talent into those areas where the best opportunities and infrastructure exist.

8.16 Throughout the consultation process, a common concern from the PUs was that the best players are 'taken' by the big unions. As outlined in Section 3, the nature of population shifts, education, economic activity, resources and employment has meant that individuals have been relocating to larger cities for the last 30 to 40 years.

8.17 There is a balance required to ensure that players develop in the best environment possible – there can be no one answer for all. Players are individuals and will continue to develop as such. For some, being identified and streamed will be the answer. For others who are later developers, there will be a different process.

8.18 The key moving forward is that the talent identification and development processes remain open. Like many other processes, there will be a mainstream (such as through the age-group teams) but it would be seen as detrimental to New Zealand rugby if the mainstream became exclusive. The analysis shows that players can and do progress through to the All Blacks without necessarily having been through the age-group teams. Diversity is critical and the approach needs to reflect that.



Involvement in International Programme

- 8.19 Concerns were raised by some about the value of both the Under 19 and Under 21 teams participating in an IRB-sponsored annual World Cup, particularly given the costs involved.
- 8.20 As in any issue of this nature, the issue of cost must be balanced against the value derived – in this case, the personal and professional development of talented players and their progression through to higher honours. The figures presented earlier clearly establish the successful progression of many players.
- 8.21 The issue of cost is more problematic – it is difficult and in fact probably inappropriate to adopt a strictly financial cost/benefit analysis. There are other factors that must be considered. Ultimately, the issue is one of affordability, value for resources deployed and the need to invest for the future. New Zealand operates in a competitive global market for players – it cannot afford not to invest in talent.
- 8.22 The merit of convening national age-group teams is acknowledged. Even if there were no IRB-sponsored World Cups, there would be a very strong case to continue to convene the teams and have them participate in bilateral-type competitions.
- 8.23 It is recommended therefore that the NZRU continue with the age-group teams and assess, on an ongoing basis, the mix of IRB and bilateral-type competitions the teams should participate in.

Role of Academies

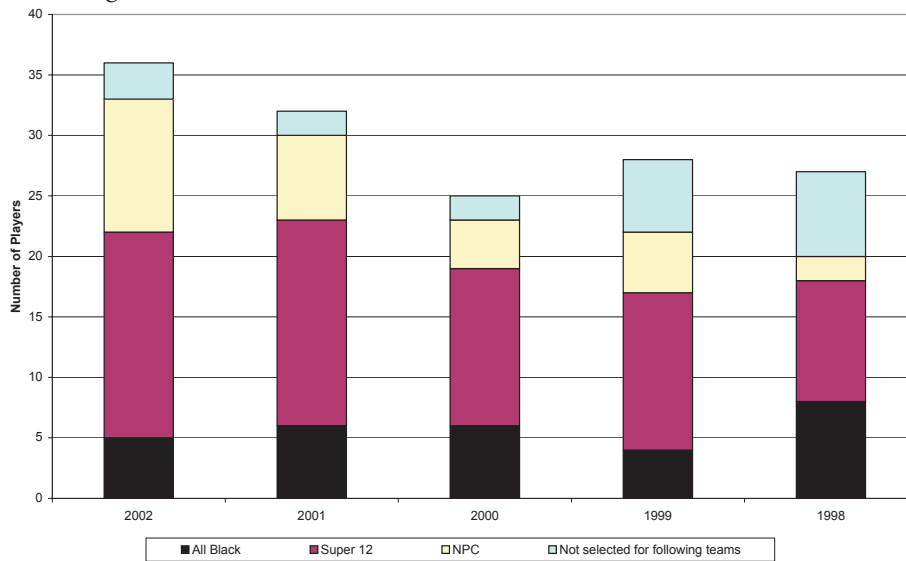
- 8.24 The role of academies as a mechanism to attract and retain talented players is seen as an important issue by many. The current proposal to support 14 regionally-based academies is seen as a positive step in strengthening the base of the game, particularly in non-Super 12 host PUs.
- 8.25 The concern raised by some related to the linkage or relationship between an academy and the provincial team – for instance, is one required to be in the first division?
- 8.26 The decision in this report is for a first division (Premier competition) of up to 12 teams. It is also recommended that the existence of an academy be one of the criteria for eligibility for the Premier competition.
- 8.27 The issue then becomes why have more than 12 academies? In addressing the question, the key points come down to:
- Affordability.
 - A spread of facilities through the country to allow players to be ‘close to home’.
- 8.28 Subject to affordability, the issue will come down to a matter of balance and judgement. Concentration of academies in the Premier competition teams will accentuate the ‘gap’ between the two competitions. Similarly, there is a need to prioritise limited resources – individual PUs cannot be all things to all people – as the country cannot afford the infrastructure. Balanced against that is the need for the game to be accessible to all New Zealanders.

New Zealand Sevens

- 8.29 The diagram below analyses the number of players (by team or competition) who have represented New Zealand at Sevens.



Figure 32. New Zealand Sevens Teams 1998–2002



- 8.30 The IRB has sought to position the Sevens game as a key mechanism in its strategy to position and develop the game internationally. They have actively sought to develop an international programme for the game and to include in that programme cities and populations with limited exposure to the XV’s game.
- 8.31 Increasingly, the skills and attributes required of the Sevens player are incompatible with those required of a XV player. While recognising that the speed, agility and spontaneity of the Sevens are important to the XV’s, the physical conditioning requirements of the XV’s are making it more likely that, other than at the early stages of a player’s career, it is increasingly unlikely that there can or will be a free flow of players between the two games.
- 8.32 From a New Zealand perspective, there are two other factors that need to be considered:
- The nature and timing of the domestic Sevens competition.
 - The timing of the international Sevens programme and its impact on other competitions such as the Super 12.
- 8.33 The IRB is currently reviewing its strategy with respect to the Sevens tournaments. Until such time as that is completed, the role of the Sevens in the future as an aspirational pathway to Super 12 and the All Blacks remains unclear. Resolution of the international issue and the two domestic factors identified above must necessarily occur before clarity can be achieved.

Emerging Issues

- 8.34 The various talent identification, pathways and development mechanisms existing within New Zealand rugby need to be balanced with the concept of the ‘late developer’. As the statistics show, there continues to be a number of All Blacks who do not participate in the pathways and mechanisms outlined above. Having a mix of structured opportunities and experiential-based skills is critical. Exclusivity would be detrimental and foreclose or predetermine outcomes at an individual player level.
- 8.35 The nature of what represents the best pathways is both emerging and dynamic. For instance, there is no research on the impact of academies on talent identification and pathways – is it possible they will become the primary source of and vehicle for players? It is too early to determine from an analytical perspective.



- 8.36 What is clear, however, is that for New Zealand rugby to remain strong and for players to have the opportunity to excel and progress to national honours, there is a need for diversity and breadth. No one pathway will create that diversity and breadth – a mix is required.
- 8.37 What that mix requires is further research and analysis so that resources can be prioritised and deployed to those mechanisms that best achieve the outcome of enhancing the All Blacks' winning tradition.

Non-All Blacks National Teams

- 8.38 The key issues under this category of Talent Identification and Player Development relate to:
- New Zealand A.
 - New Zealand Maori.
- 8.39 The decisions in this report will result in the All Blacks playing in more games against Tier 1 countries. As a consequence, and reflecting in part the issue of player fatigue, there will be a need to maintain a sufficient national player pool to discharge existing IRB obligations and the increasing development obligations expected of New Zealand. Part of that pool should be in the form of New Zealand A and New Zealand Maori, both of whom in their own right command a significant following. New Zealand A is seen as having a high value for non-Maori.
- 8.40 The Terms of Reference also required the Review to address the value of New Zealand rugby taking part, below Test level, in international competitions involving New Zealand Women and the Divisional XV.
- 8.41 It is clear that both form, within their respective contexts, a key element of the aspirational pathway for players and in doing so, provide valuable development for players.
- 8.42 As a general principle, their continuation is supported. However, the support is conditional on:
- *Affordability and prioritisation* – both teams are supported substantially in a financial sense by the NZRU. They must be capable of support in an environment of financial uncertainty, increasing demand for resources and the need for prioritisation.
 - *Linkage to strategic outcomes of the NZRU* – clear linkages need to be able to be made between these activities and the strategy for the NZRU, especially with respect to participation and a game for all.
- 8.43 The Review has, due to time constraints imposed, not been able to fully assess and analyse these two issues and their linkage to the factors identified above. Further work is required before an informed decision can be taken.

COACHES

- 8.44 The existing mechanisms for and approach to aspirational pathways, talent identification and development for coaches are outlined below:
- School children
 - Club
 - Provincial level
 - Age-group teams (provincial and national)
 - Super 12
 - All Blacks.



- 8.45 The pathway is based on experiential learning, augmented by a range of technical-based coaching courses, through to formal certification as a coach issued by the NZRU and Massey University.
- 8.46 Over recent years, there has been a change in the entry point for aspiring coaches with a number of former players pursuing coaching as a career – the majority of such individuals enter the coaching pathway as an assistant coach or adviser to either a Super 12 or an NPC team. This change has created diversity within the coaching ranks.
- 8.47 The end result is that there are now two broad pathways, both of which have advantages and disadvantages.
- 8.48 The decisions of the Review have not in our view altered the pathways for talent identification and development. New Zealand rugby has invested considerable resources into these aspects of the game over recent years. Given the concept of individuals making a full-time living and career from sport, these are seen as being successful and should continue.
- 8.49 The only issue that arises is the role of offshore experience for coaches. For many, both development needs and career options require them, from an experiential point of view, to undertake roles offshore. While this may not be the pathway for all coaches, it is becoming increasingly evident that offshore experience is an important and valuable ingredient in the skills of a professional coach. It is important, therefore, that the selection processes and skill attributes for these positions do not impede this development.
- 8.50 Similarly, the pathway for some coaches will be through the player ranks. This should continue.
- 8.51 As with many careers, there is no absolute or perfect pathway. The objective should be to ensure that there are a variety of pathways, with diversity creating depth of experience and perspective to reflect the multi-dimensional aspects of coaching. The key point is to ensure that there is a pool of talented coaches within the game who have the competency to undertake the roles required.

OTHER PERSONNEL

- 8.52 Rugby, like many other businesses, is becoming increasingly professional in terms of the competencies, skills, behaviours and attitudes required. As the on-field participants become professional, so must the off-field participants.
- 8.53 Professional sports administration is seen as a legitimate career option. The career aspirations of individuals are fully supported within an educational context, with diploma and degrees available.
- 8.54 The rugby sector is able, therefore, to draw on a mix of people, with an increasing mix of experiential and academic-based skills.
- 8.55 The decisions in this report do not in themselves reflect materially on the pathways and career options for professional administrators and other personnel. People are a critical element of any business, particularly professional sports management. The need to attract, retain and develop skilled people is vital to the on-field performance of teams.



9. MANAGING COMPETITIONS

Should competitions be ‘managed’?

‘Managed’ could include such mechanics as salary caps, player drafts etc.

And, if so, to what degree?

DECISIONS

1 Salary Cap

- (a) A salary cap will be introduced for the Premier competition teams.
- (b) The cap will apply to the total monetary remuneration and benefits, including bonuses, received by the players nominated in each PU’s playing squad (referred to as “total team remuneration”).
- (c) All player earnings relating to the Premier competition will be included in total team remuneration for the purpose of determining compliance with the cap. Player earnings will include:
 - cash earnings paid to players by PUs
 - in-kind benefits received by players
 - an allocation of Super 12 salary costs paid to players by the NZRU.
- (d) Sanctions for breaching the cap will be significant and meaningful.
- (e) There will be no exceptions to the cap, other than in exceptional circumstances that are sanctioned by the NZRU in the best interests of New Zealand rugby.

2 Revenue Sharing

- (a) Distributions to PUs by the NZRU will be tagged as either money for competition teams or money for rugby development. Money for rugby development cannot be used to fund competition teams.
- (b) PUs will be required to confirm annually to the NZRU that money for rugby development has not been used for competition teams.
- (c) The NZRU will undertake a comprehensive review of its funding of PUs in the medium term. The review will include consideration of the merits of adjusting NZRU distributions to reflect differences in Super 12 dividends received by PUs.

3 Team Composition

- (a) Players will be eligible for selection for Super 12 squads only if they have been part of a Premier or Modified Division 1 senior team squad during the most recent domestic season and have played a specified number of games.
- (b) The existing regulation allowing outside players to be eligible for inclusion in the playing squads of senior representative teams will be repealed.
- (c) The existing regulations governing the transfer of players will be amended. New regulations governing loan players and transfers within the Premier



competition will be developed as part of the implementation process. These regulations will recognise that loan players and transfers will be an outcome of the processes being put in place to manage the Premier competition.

- (d) Overseas players wanting to play in the Premier competition will need to apply to the NZRU.
- (e) Loan players and overseas players will not be eligible for inclusion in Modified Division 1 teams.



COMMENT

- 9.1 There is widespread consensus in the literature on the economics and management of sports that uncertainty of outcome is an important factor in determining fan interest in a sporting competition. A competition's success depends in part on games having an uncertain outcome. An uncertain outcome adds to a contest's appeal.
- 9.2 This is not to say that the relationship between fan interest and competition outcomes is linear. A contest with perfect competitive balance that relies on random events for an outcome rather than superior talent and skill will not hold fan interest. Further, while competitive balance is important to the competition as a whole, fans like 'their' teams to be dominant.
- 9.3 However, fans, and by definition, broadcasters and sponsors, are not attracted to perpetually uncompetitive contests. Lack of competitiveness means one-sided competitions – one or more teams winning almost all of their round robin games and competition finals. Where this happens, results of games become more certain and winners are more predictable.
- 9.4 The consequences of uncompetitive contests include:
- Fans will lose interest.
 - Sponsors' and broadcasters' interest will reduce.
 - Concentration of players and financial benefits in successful PUs will grow: 'the big will get bigger'.
 - The wealthier PUs will bid-up the price of players, making it harder for 'poorer' PUs to attract or retain players without taking financial risks.
 - Player enjoyment, and therefore participation, will decline.
- 9.5 The result of these factors will be self-perpetuating.
- 9.6 There is a difficult trade-off in managing competitive balance. On the one hand, it is important for the quality of the competition that teams innovate and strive for competitive advantage. It is also important that fans associate and connect with their teams. Successful teams can build a strong identity with fans. On the other hand, for the reasons noted earlier, competitive balance is important to the competition as a whole.
- 9.7 The importance of competitive balance to fan interest and the overall 'health' of a competition is such that intervention in competitions, in various forms, is common practice, particularly in professional sport. All major professional sports in the US have implemented processes, of various sorts, to promote competitive balance. In Australia, the AFL and the NRL have processes in place to manage competitions.
- 9.8 Super 12 has been excluded from the analysis of the need to manage competitions. The NZRU cannot control the operational and financial arrangements of franchises in Australia and South Africa. It would be inappropriate for the NZRU to regulate the New Zealand-based franchises in the absence of commensurate regulation of the Australian and South African franchises.
- 9.9 The Review has focussed on the competitive balance of the NPC, and particularly the 1st Division. As noted in Section 3, analysis of the historical results of the 1st Division supports the contention that on the whole, it is competitively imbalanced. A number of teams in the competition are not competitive. In particular:



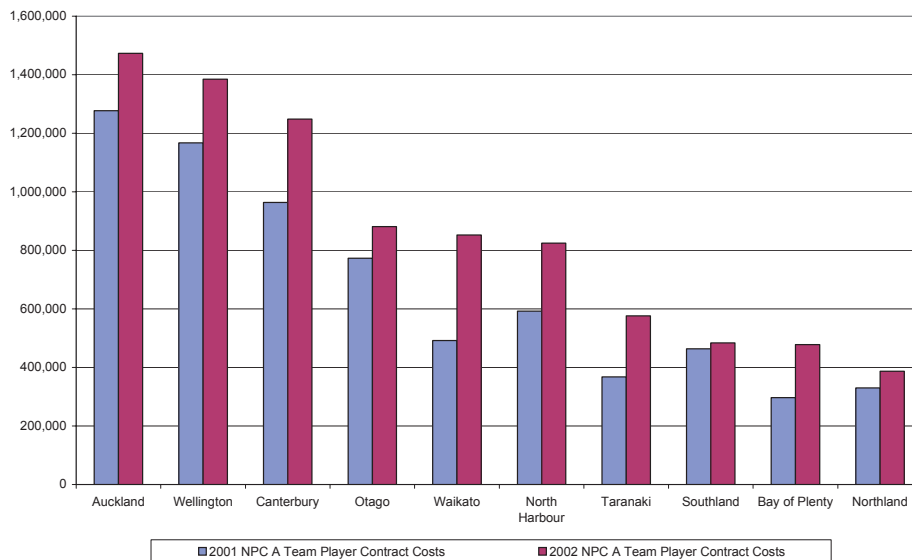
- Championship winners are highly concentrated: Auckland’s dominance is undeniable.
- Auckland’s dominance has lessened since professionalism but winning since 1996 has been concentrated in Auckland and Canterbury.
- The big population centres dominate semifinal appearances and winning champions.
- Although there is a wider spread of teams in the semifinals, the ability of the smaller unions to convert semifinal appearances into championship wins is limited.

9.10 The competitive imbalance is a function of a number of factors. Of particular importance is the interplay between:

- Demographic factors, particularly the increasing concentration of population and economic activity in the major urban centres. The demographic and economic factors manifest themselves in the form of the significant disparity in financial resources and player costs and the concentration of Super 12 players in the host PU NPC teams.
- The regional monopolies enjoyed by PUs, which result in each union fielding one team in the NPC regardless of the size of the ‘catchment’ area and associated demographics. This results in imbalances in the quantum and quality of resources available to teams. There is a strong correlation between PU revenue and on-field success.

9.11 The implications of these factors for PUs include a significant variation in financial resources. This is demonstrated by the stark difference in player costs between NPC 1st Division teams:

Figure 33. NPC 1st Division A Team Player Costs



9.12 Review of the processes used in overseas competitions to manage competitive balance indicates that most have a dual purpose. They are justified to promote competitiveness, but they are also used to balance the economic powers of the team owners and the players.



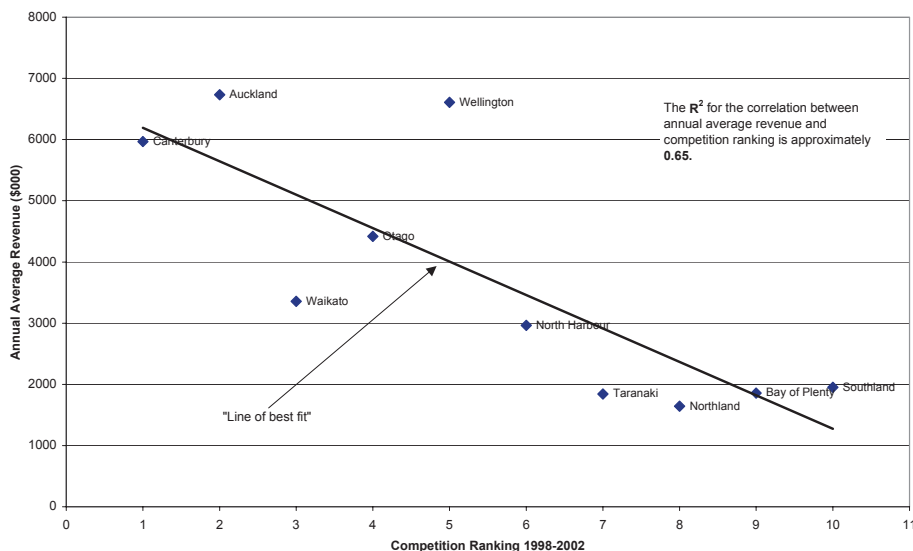
9.13 The issue of costs and cost increases has been an influencing factor in the Board’s consideration of management of competitions.



9.14 The natural incentive for all teams is to spend to accumulate player talent. Accumulation of talented players provides the basis for a strong team and provides competitive advantage through reducing the pool of talent for

other teams. Our analysis of the NPC 1st Division shows that there is a strong correlation between a team's revenue and on-field success²⁵.

Figure 34. Relationship Between PU Revenue and Competition Ranking 1998–2002



- 9.15 The incentives on PUs to spend, and in particular to spend on competition teams to the detriment of rugby development, are not balanced by strong institutional incentives or mechanisms to moderate spending to maintain financial prudence. Cash revenue will more likely be spent rather than accumulated. The consequence is rising costs. New Zealand rugby has had the good fortune in recent years of rising revenue. However, the revenue has been closely matched by rising costs.
- 9.16 This trend is not sustainable, particularly in light of the outlook for NZRU revenue. Also, there is a high risk that some spending decisions by PUs may not necessarily be in the best interests of New Zealand rugby. It is prudent to take action to address the issue of rising costs sooner rather than later.
- 9.17 The preceding discussion is, in effect, an argument in favour of intervention to:
 - Manage costs.
 - Promote greater competitive balance.
- 9.18 There are arguments against intervention. In particular:
 - Intervention can stifle incentives to innovate and gain competitive advantages.
 - Implementation issues (such as legal and player issues) and ongoing compliance costs could outweigh the benefits of intervention.
 - Significant intervention will be new to New Zealand rugby. The risks of getting it wrong are high.
- 9.19 Furthermore, actively managing the Premier competition to achieve a greater degree of competitive balance will be ‘fighting against’ demographic and economic trends. Auckland will continue to grow; some other areas will continue to decline. In the absence of changes to PU boundaries to reflect

²⁵ A similar analysis has been undertaken on the Premier League in UK soccer, which does not have the more heavy-handed regulation prominent in US professional sports. This analysis is consistent with the NPC analysis, in that it shows a very strong relationship between player salary costs and on-field performance.



the demographic and economic trends, managing competitive balance will be difficult.

- 9.20 The particular difficulties in managing the Premier competition are acknowledged. However, on balance it is considered in the best interest of the Premier competition in particular and New Zealand rugby generally to implement processes to manage competitive balance, and at the same time manage costs.
- 9.21 The decision to take a managed approach to the competitions has not been taken lightly. The Board is fully aware of the risks and challenges involved. It understands that managing the competitions might impact on the finances of individual PUs, will be challenging to monitor and enforce and might result in more players moving overseas. The Board believes that these issues, while challenging, can and will be addressed appropriately. The considerable escalation in costs in recent years resulting from unconstrained bidding for players and the concentration of top players in a small number of PUs is of considerable concern to the Board and requires a response.
- 9.22 The following broad mechanisms for managing competitions were considered:
- Transfer regulations.
 - Salary caps.
 - Player drafts.
 - Revenue sharing.
- 9.23 The regulatory mechanisms can be used singularly or in combination. There is a continuum of options.
- 9.24 The mechanisms were reviewed against the following criteria:
- Minimal compliance costs.
 - Maximum incentives for innovation.
 - Minimal restrictions on freedom of choice and freedom of action.
 - Equitable between teams.
- 9.25 The criteria of incentives for innovation and minimising the restrictions on freedom of choice and action might seem at odds with the whole concept of managing competitions. Intervention by its very nature can reduce incentives for innovation and restrict freedom of choice. However, the principle that has been applied is to have intervention that provides teams with an opportunity to be competitive. More specifically, teams should have relatively even financial resources at the start of the competition and freedom to use those resources as they see fit.
- 9.26 The mechanisms were also rated against their impact on spending decisions (that is, the ability to moderate spending on players) and their ability to contribute to the spreading of players and, in doing so, encourage a greater degree of competitive balance within the Premier competition.
- 9.27 Player drafts and transfer restrictions do not meet all the criteria. The primary concern is that these mechanisms are more direct interventions in PUs' decision-making and are somewhat heavy-handed. It is acknowledged that drafts can be designed to be less imposing (for example, if players are tradable) but they do restrict players' ability to choose their preferred location.
- 9.28 Salary caps and revenue sharing are more directed at establishing the limits within which the PUs can operate. On balance, it is considered that they will leave more decisions in the hands of the PUs. Further, they are able to have a direct impact on the cost issues. A player draft of itself does not directly address the cost management issue.



SALARY CAP

- 9.29 The challenge for the implementation phase is to design a salary cap that creates the least distortion and meets the objectives of cost-control and encouraging wider dispersion of players among teams.
- 9.30 A salary cap will involve setting a ceiling on team total player costs. Actual player costs must not exceed the ceiling or cap.
- 9.31 The Board has agreed, in principle, to the concept of a salary cap and its key attributes. The detailed mechanics of the cap need to be determined.
- 9.32 Implementing a salary cap poses some issues because New Zealand rugby has specific characteristics that differentiates it from other sports where salary caps have been implemented:
- Small pool of players and limited financial resources.
 - International market for players. We do not have an exclusive market for players (contrast that to AFL in Australia and NFL in the US – where do players from these competitions go if they don't like their employment terms?).
 - Multiple international representative teams and domestic competitions.
 - Game development and player development responsibilities.
- 9.33 These issues have influenced the responses to the following practical implementation issues:

Table 11. Implementation Issues

Issue	Response
Professional Super 12 players, who are paid by NZRU, play alongside and with semi-professionals in the Premier competition. Therefore, the cost of players playing in the Premier competition will comprise a “share” of the Super 12 salary costs paid by the NZRU and cash costs paid by PUs	<ul style="list-style-type: none"> • PU total team remuneration will include a notional amount representing a share of Super 12 salaries paid by the NZRU to reflect participation in the domestic competition. Therefore, a PU's total team remuneration will be the sum of salaries and other costs paid by the PU and the notional Super 12 salary cost. The notional Super 12 salary will be related to the number of Super 12 players in the PU's A team.
<p>The disparity in total team remuneration between PUs is significant:</p> <ul style="list-style-type: none"> • Setting a salary cap at the highest PU total team remuneration will do nothing to increase competitiveness in the absence of any other invention. Providing more funding to PUs with total team remuneration below the highest cost, if such funding was available, will only serve to raise the average cost per player. • Setting the salary cap at the average cost across the teams will produce a significant redistribution of funds. 	<ul style="list-style-type: none"> • The actual level of the salary cap will be set after discussion and consultation with the PUs, but it will be set at a level below the highest total team remuneration. • Existing contractual arrangements will be ‘grandfathered’ and honoured.
Definition of “total team remuneration” must be unambiguous to minimise the scope for evasion.	<ul style="list-style-type: none"> • The cap will be applied to total team remuneration. • The cap will be a hard cap capturing all player earnings. • There will be no exceptions to the cap other than in exceptional circumstances sanctioned by the NZRU.



<p>The nature of the sanctions for attempting to evade the cap or for exceeding it must act as deterrents.</p>	<ul style="list-style-type: none"> • The nature of the sanctions has not been determined but they will be meaningful. They could comprise a mixture of financial penalty and competition points penalty. • The sanctions will be determined and known in advance of the commencement of the Premier competition.
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- 9.34 The salary cap will require monitoring to ensure compliance. This will be costly. The nature and form of monitoring will depend in part on the approach and attitude of the PUs to the cap. The nature and form of the monitoring will be different if PUs generally act in accordance with the spirit of the cap or if they are constantly seeking to evade the cap rules and regulations.
- 9.35 The consultation process identified a concern that that the salary cap system will remove incentives to develop players. This is not expected to be a major issue as the incentives for player development will remain:
- Competitive incentives will continue to drive the need to invest in player development. Incentives to invest in player development are linked to the desire to win. There will continue to be a competitive drive to win. The risk of loss of drive to develop players does not correlate with the evidence in other sports that have managed competitions. So long as there is competitive tension and the desire to win there will be incentive to develop talent.
 - Moving of players is ultimately a choice that will be made by PUs under the salary cap. They will be free to choose which players they want to retain and develop and which players they are prepared to release. The choice will be determined by a number of factors, one of which will be affordability under the salary cap.
- 9.36 The salary cap will result in the movement of players among Premier competition teams. Player movements will be by way of a loan system and or by way of transfer. The details of these systems will be worked through during implementation.

REVENUE SHARING

- 9.37 There is a myriad of factors that contribute to competitive imbalance. Disparity of financial resources is one of the contributing factors. Variations in financial resources between PUs will arise for three broad reasons:
- The ability to generate team related 'local' revenue will vary significantly between PUs. Factors contributing to the variations will include location, team success in the competition, administrative capabilities and capacity.
 - Uneven allocation of distributions from Super 12 franchises.
 - Uneven distribution of NZRU funding.
- 9.38 As a matter of principle, it is inequitable to have differential funding of teams in the same competition, where that funding is being allocated to PUs. Uneven funding is inconsistent with the principle that teams should have an opportunity to be competitive.



Local Revenue

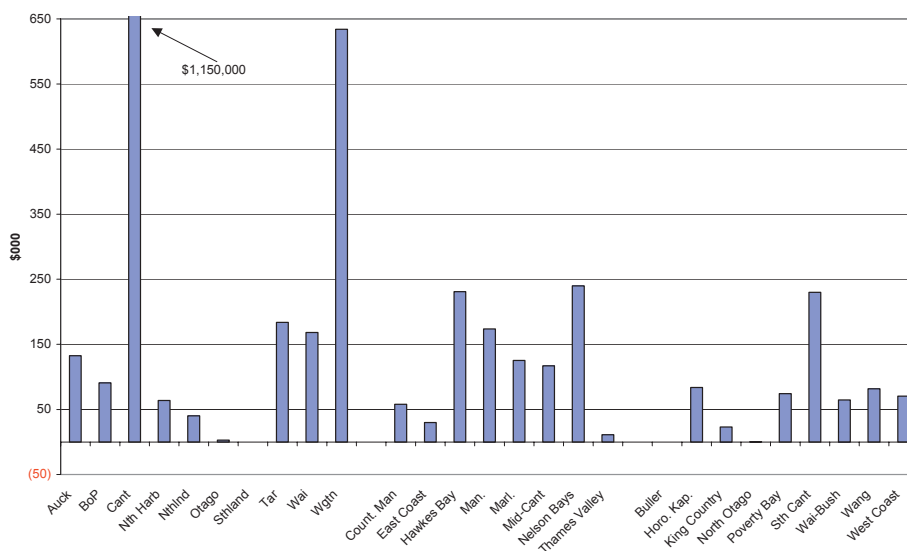
- 9.39 Local revenue comprises gates, sponsorship etc. Local revenue will vary due to the nature, size and location of each PU, the success of the team and the ability of management to capitalise on local advantages.

- 9.40 The differential in local revenue is very significant at present. The differential might be moderated to some extent by the reallocation of players and the change in competitive balance that will result from the salary cap. However, the differences between PUs in terms of demographics and infrastructure will mean that local revenue differentials will be hard to avoid.
- 9.41 The Board’s view is that PUs should be offered incentives to maximise local revenue. Accordingly, there is no decision to share local revenue. The exception is semifinal and final gate takes. These will continue to be shared in accordance with the regulations.

Super 12 Distributions

- 9.42 Net surpluses vary significantly between franchises and therefore franchise ‘dividends’ vary significantly between PUs. As a consequence, PUs are either advantaged or disadvantaged relative to one another by virtue of their location. This is inequitable. Super 12 franchise 2002 distributions were as follows:

Figure 35. 2002 Super 12 Franchise Distributions



- 9.43 The hosting of semifinals and finals significantly distorts the numbers. In 2002, the Crusaders hosted a semifinal and final and its revenue benefited accordingly. In 2003, the Blues hosted a semifinal and a final. Its net surplus has increased significantly compared to 2002. The interim 2003 distributions by the Blues (not shown above) are significantly higher than total Blues’ distributions for 2002.
- 9.44 The variability in the success of the franchises means that the share of franchise profits received by PUs varies considerably. Two PUs in the same NPC division may receive considerably different franchise distributions. While PUs will contribute in varying degrees to the success of the franchises, in reality the dividends that a number of the PUs receive is a function of location rather than any significant influence they have had on the success or otherwise of the franchise.
- 9.45 Mechanisms to rebalance franchise distributions were canvassed extensively by the Board. The issues debated included:
 - *Ownership* – the NZRU is the owner of the franchises and therefore, in normal circumstances, would be entitled to any surplus or dividend generated by the ‘business’.

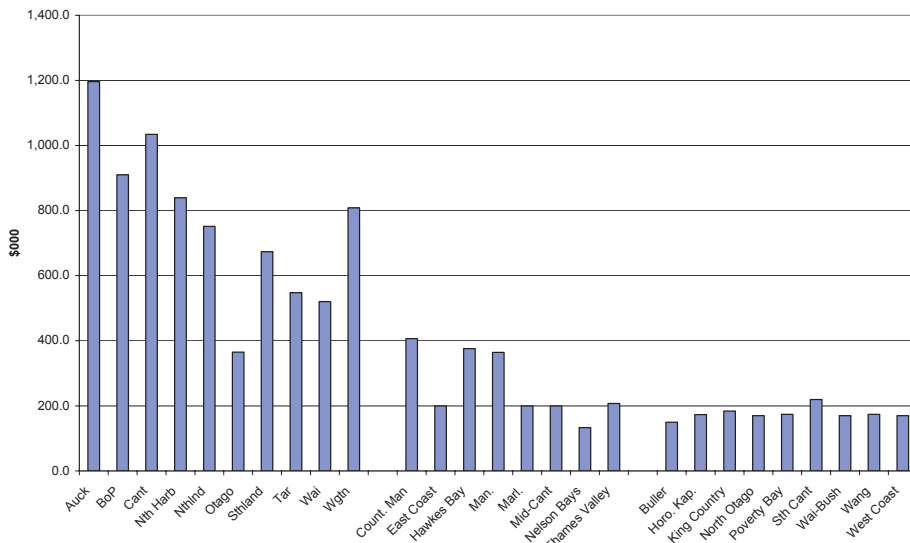


- *Risk and reward* – the need to encourage innovation with respect to how the franchises are operated is critical to enhancing stakeholder value. The Board is committed to ensuring there is no dumbing-down of innovation in the management of the franchises.
 - *Allocation of revenue and costs* – the current financial position, and therefore surplus of the franchises, does not reflect either the full value of the revenue from broadcasting or other sponsorship properties retained by the NZRU or the salary costs of the players, all of whom are paid by the NZRU.
- 9.46 Having considered the matter fully, the Board took the view that on balance there was more value to be derived by remaining with the status quo – that is, franchises retain and distribute surpluses. However, the Board will keep the matter under review – if and when circumstances change, another outcome may be necessary.
- 9.47 In the meantime, the NZRU will consider issues of inequities on franchise distributions through other NZRU funding mechanisms. The NZRU is to undertake a review of its funding to PUs. One of the issues to be considered is whether funding support to PUs for either competitions or development and participation should take into account receipts by PUs of franchise distributions.

NZRU Distributions

9.48 Distributions by the NZRU to the PUs in 2002 were as follows:

Figure 36. NZRU 2002 Funding



9.49 While there is an element of constant funding among the PUs, in reality there is a large component of funding based on the relative size (player numbers) of each PU. This undoubtedly impacts on the funding made available by PUs for their NPC A teams. To remove this anomaly, the following changes will be made to NZRU funding:

- NZRU distributions will be clearly differentiated and tagged as funding for rugby development and funding for PU competition teams.
- Use of funds by PUs will be monitored to ensure rugby development funds are not used for funding PU competition teams.
- To the extent that there is funding for competition teams, in principle it will be on an even basis. Teams in the Premier competition will receive equal team funding, as will teams in the Modified Division 1 competition.



- Notwithstanding the principle of even funding, the NZRU will have discretion to vary funding levels if it is warranted to achieve competitive balance. In this regard, as noted earlier, NZRU funding for competition teams will recognise anomalies in funding due to Super 12 franchise distributions.

OTHER COMPETITION MANAGEMENT MECHANISMS

9.50 There are two decisions made elsewhere in this report that represent quasi-mechanisms to manage the competitions:

- The decision that entry and exit from the Premier competition should be criteria-based is a means of managing the composition of the competition.
- The decision that only players who have been included in an A team squad to be eligible for Super 12 in the following season, is designed to further encourage the spread of players and to reduce the risk of PUs hoarding players. An important objective of the mechanisms to manage competitive balance is to provide incentives for the spreading of playing talent around the Premier competition teams. Importantly, spreading talent will also assist in ensuring that the best players are playing as often as possible and being challenged and tested against their peers in New Zealand.

MODIFIED DIVISION 1

9.51 There are two mechanisms that will be used to manage competitive balance in the Modified Division 1 competition:

- Players in Modified Division 1 cannot be paid for playing in the competition. There will be reimbursement of costs. This will be monitored.
- There will be no loan players and overseas players will not be eligible to play in the Modified Division 1 competition.





10. IMPLEMENTATION

IMPLEMENTATION PROCESS

- 10.1 The decisions contained in this report represent a framework within which implementation will occur. They also represent a package that collectively achieves a set of outcomes. Given their interdependency, it is important they are implemented as a package. A change in one area could impact on other areas.
- 10.2 A successful implementation process requires:
- Trust in the integrity and competency of the people tasked with the job.
 - Strong leadership and accountability.
 - A robust and thorough process.
 - Flexibility to modify and adapt as new and improved information becomes available.
 - Clear sequencing of decisions.
- 10.3 The Board is committed to ensuring that the implementation is undertaken according to the following principles:
- An open and transparent process.
 - Involvement, where appropriate, of working groups.
 - The implementation will be carried out in a business like manner.
 - To recognise and be coordinated with the renegotiation of the broadcasting rights, the Players' Collective and Community Rugby Plan.
- 10.4 Implementation of the decisions will be worked through collectively with appropriate PU and Super 12 franchise representatives.
- 10.5 Critical to the process moving forward will be the need to manage the inherent conflicts that exist between:
- Providing certainty of outcome while maintaining flexibility on the exact approach.
 - Achieving progress and meeting a deadline, while ensuring the best and most robust information is available.
- 10.6 This will require balance, both in approach and attitude. The Board is committed to ensuring an open and transparent process – the objective is clear, namely to achieve implementation of the strategic framework within the shortest timeframe commensurate with sound decision-making processes and prudent risk management.
- 10.7 Within that context, it is proposed that, where appropriate, working groups are established to help form the detail and discussion required for a robust and thorough process. The key work groups will involve work related to:
- Managing competitions particularly with respect to:
 - The level of the salary cap
 - The detailed workings of the salary cap



- Transition issues
 - Grandfathering and special cases, if any.
- The eligibility criteria for participation in the domestic competitions.
- 10.8 Other groups may be convened to cover other issues as and when they are required.
- 10.9 There is a range of other matters that will need to be addressed to implement the decisions in this report. They include:
- Discussions with other national unions and the IRB to increase the number of Tests.
 - Legal and regulatory issues arising from the salary cap and related matters.
 - Identifying and managing the key linkages and interdependencies between this review, the outcome of the broadcasting contract, the Players' Collective and the Community Rugby Plan.
 - Changes to the NZRU's regulations. Regulations relating to the NPC will need to be repealed and new regulations relating to the Premier and Modified Division 1 competitions added. The regulations will need to deal with a range of new issues, such as eligibility criteria for participation in competitions. Other regulations will need to be modified, such as the transfer regulations.
 - Modification of selection procedures for PU representative teams to take account of player transfers to manage total team remuneration.
 - Development of processes by the NZRU to establish eligibility for participation in the new competitions.
 - Development of regulations for the salary cap and establishment of monitoring processes.
- 10.10 The NZRU will commence preparation of the detailed implementation plan and timetable immediately. This will cover all of the key actions required and the steps needed to implement the decisions in this report. As noted above, it is envisaged that PUs will have a significant role in planning the implementation.
- 10.11 As noted previously the operating environment within which rugby operates is dynamic. The Board does not have perfect information or foresight. Nor does the Board control all the key variables that impact on our future. In recognition of this, the Board is committed to ensuring that the decisions outlined in this report are able to be revisited by the Board if either:
- The implementation process identifies a key and or material factor that affects the framework; or
 - Influences outside the control of the NZRU/PUs affect the framework, its assumptions or the implementation.



IMPLEMENTATION ISSUES

10.12 Key implementation issues are discussed in the following tables.

DOMESTIC COMPETITION

Premier Competition

Issue	Response
Communication with stakeholders	There will be regular communication of relevant information to appropriate stakeholders during implementation.
Eligibility	Eligibility for entry to the new competition will be a tightly managed process. The implementation plan will set out the process for eligibility, including: <ul style="list-style-type: none"> • Timetable for the eligibility process • Confirmation of the criteria • When the eligibility assessment will occur • How assessment will be undertaken and by whom • Roles and responsibilities of the NZRU and the PUs.
Regulations and legal issues	The regulations governing the competitions will need to be amended. Legal advice will be required to determine if other documentation is required, for example participation agreements.
Determine the assistance, if any, provided to the Premier competition teams	The issue of competitive balance has been discussed at length in this report. Decisions have been made on mechanisms to address competitive balance. Consideration will need to be given as to whether some of the teams should get additional support to enhance their competitiveness.
2004 and 2005 NPC	Minimise the risk that the commencement of the Premier competition in 2006 detracts from the NPC in 2004 and particularly in 2005.
Timetabling	The structure as recommended adds three weeks to the playing calendar. The timetable for the competition will have to be reviewed in light of any developments in the format and structure of the Super 12.

Modified Division 1 Competition

Issue	Response
Implementation plan, including timetable	The Modified Division 1 implementation plan should be prepared in conjunction with and complement the Premier competition plan. Implementation issues specific to the Modified Division 1 competition include composition of pools (if pools apply) and the basis of seeding teams, both in year 1 and thereafter.
Communication with stakeholders	One coherent strategy covering both the Premier and Modified Division 1 competitions will be developed.
Eligibility	The implementation plan will detail the eligibility process, including timetable. The issues will be similar to the Premier competition.
Regulations and legal issues	The regulations governing the competitions will need to be amended. Issues specific to the Modified Division 1 competition include no payments to players (see below) other than costs, no loan players and no overseas players. Legal advice will be required to determine if other documentation is required, participation agreements for example.



Player payments	<p>A number of matters will have to be addressed to deal with the decision of no payments to players other than cost reimbursement, including:</p> <ul style="list-style-type: none"> • Arrangements to 'grandfather' existing contracts with players. • Mechanisms to avoid establishment of new arrangements with players to take advantage of the grandfathering arrangements. • The approach to reimbursement of 'costs'. Will the cost reimbursement be standardised or will PUs have discretion as to what is paid and to whom (for example, up to a certain limit). • The approach to and nature of monitoring of compliance with the requirement for no player payments. This will depend in part on an assessment of the risk and consequences of evasion. Does the risk warrant heavy-handed monitoring? If so, should it be undertaken as part of the Premier competition salary cap monitoring?
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Separation of PU and Franchise Governance

Issue	Response
Constitutions	The changes will require amendments to be made to the franchises' constitutions.
How and when should the changes take effect?	A process will be established to enable franchise boards to make the transition to the new board composition.
Search for independent directors	The requirement for the NZRU to appoint new independent directors is likely to be infrequent. However, in anticipation of this occurring, which of course it will, the NZRU will consider establishing a list of preferred candidates.

Managing Competitions: Salary Cap

10.13 A number of implementation matters were discussed in Section 9. Additional matters are presented below.

Issue	Response
Level of the salary cap	<p>Information will be required to establish the level of the salary cap. In particular:</p> <ul style="list-style-type: none"> • List of salaries, bonuses, any in-kind benefits received by NPC A squad members from the PUs. • Identification of any payments to NPC A squad members for playing rugby that are made by third parties. • Terms and conditions of all existing agreements and contracts with players.
Monitoring and compliance	Policies and procedures for monitoring compliance with the salary cap will need to be developed. Sanctions for salary cap breaches will be determined and promulgated.
Legal and regulatory approval	Investigation of the nature and timing of legal and regulatory approvals will commence as soon as possible.
Legal documentation	Investigation will commence on the nature and form of the agreements that will be required to give effect to the cap. Importantly, this will include consideration of implications of the cap for the Players' Collective agreement. Other legal issues will include commitments of some form from PUs not to enter into salary agreements prior to 2006 that prejudice implementation of the cap in 2006.
Player transfers	There will be significant practical implications of player transfers occurring because of the cap. Transfers will impact on the timing of selection of NPC squads, eligibility for Super 12 teams and so on.
Transition	A policy on transition to full implementation of the cap will be developed. This will depend in part on the level of the cap and the implications for teams with total team remuneration above the cap.



Team Composition

Issue	Response
Super 12 selection	Rules will be established for the eligibility of Super 12 selection. These will include definitions of key terms, such as minimum number of games for Premier and Modified Division 1 teams, implications if players are injured or are otherwise unavailable for the domestic season, etc.
Transfer regulations	New transfer regulations will be developed. These will recognise that player transfers are an important component of the processes being put in place to manage competitive balance. Transfer payments will be reconsidered as part of this process.
Overseas players	Regulations will be developed to align the eligibility of overseas players in the Premier competition with the process used to determine eligibility for the Super 12.





11. OTHER ISSUES

ROLE OF REGULATION

11.1 In December 1996, the Commerce Commission determined that:

“Pursuant to ss 58 and 61 of the Commerce Act 1986, the Commission determines to grant an authorisation for the New Zealand Rugby Football Union Incorporated to enter into, and to give effect to, the Regulations Relating to Transfer System in the amended form presented to the Commission at the Conference on 20 November 1996”.

11.2 The NZRU has operated under that authorisation since that time.

11.3 The decisions of this Review propose further mechanisms to achieve a competition that is economically sustainable and competitive.

11.4 Given the nature of the decisions, further approvals may be required from the Commerce Commission, particularly with respect to the impact the decisions have on the competitive market for:

- The rights to player services.
- Sports entertainment services.

11.5 That impact, if any, has to be considered in the light of the public benefits accruing from these decisions.



RANFURLY SHIELD

- 11.6 Although not explicitly part of the Terms of Reference, the Ranfurly Shield as a competition was raised by many in the course of the consultation process.
- 11.7 It is recognised that the Ranfurly Shield maintains a very strong relevance and value to provincial rugby. It is still seen by many as the pre-eminent domestic trophy – something that is strived for and then defended with great passion. It above all else epitomises the rich tradition and passion of New Zealand provincial rugby.
- 11.8 Off the field, the Shield is also seen as a significant creator of value, with benefits derived from increased attendances and high TV audiences.
- 11.9 Issues have been raised about the Shield becoming the exclusive domain of a few in recent years. In the period 1980 to 2003, the Shield has been held by only five PUs, with two of those PUs holding the shield for less than six games:

Table 12. Number of Ranfurly Shield Matches Won

Name	Number of Shield Matches Won
Auckland	83
Canterbury	54
Taranaki	2
Waikato	33
Wellington	5

- 11.10 The Shield was first contested in 1902. There are 13 PUs that have never held the Shield.
- 11.11 For many, the concentration of power has been exacerbated by the introduction of professionalism into the game – as the above table shows, that is not the case. The concentration of holders has more to do with the size of population and player base than any other factor.
- 11.12 There was no consensus put forward as to how the Shield should operate. The range of options included:
- Status quo.
 - The holder defending for one year as per the current arrangements and then in the second year all home games being challenges.
 - As per above but with all games (including those ‘on the road’) being challenges.
 - Creating a FA Cup-type challenge process.
- 11.13 There was a very strong belief expressed by many that despite the limited movement in recent years, there was nothing fundamentally wrong with the competition. For many, it was the highlight of their career to play for, secure and defend the Shield. Any ‘dumbing-down’ of the process would undermine the value of the Shield and the strength of purpose and focus required to go to an opponent’s home base and win.
- 11.14 The Board considers that the current format of the Ranfurly Shield should remain until the new competitions outlined in this report are fully operational.



COMMUNITY RUGBY

- 11.15 For the purposes of this Section of the report we have addressed community rugby from two perspectives, being school and club rugby.

SCHOOL RUGBY

- 11.16 Historically, school rugby has been one of the key foundations of New Zealand rugby. It has, and continues to, provide the opportunity for:
- Participation.
 - Player development.
 - A pathway for players.
- 11.17 The research and consultation process has highlighted a number of issues relating to school rugby, including the:
- *Relationship between clubs and schools* – there is a wide variety of models in operation across the country, with no clear consensus on what a ‘national solution’ might be. Individual PUs have adopted approaches influenced in part by history but primarily by the commitment and leadership of individuals within particular locations.
 - *Issue of weight and age grades* – the issue of weight and age grades is an influence on the attractiveness to and ongoing participation of players. The ability to split on the basis of age and or weight tends to be a coefficient of the number of players – the bigger the player pool, the greater the potential. The issue arises, however, when the size of the pool does not allow for such a split.
 - *Potential for player fatigue* – the issue of the number of games being played by some First XV players was raised. For those who participate in First XV games, PU age-grade and secondary school teams, and national teams, it is possible for an individual to play 35–40 games. Strategies will need to be implemented to ensure both that player fatigue is managed and that personal education opportunities are not compromised.
 - *Targeting and poaching of talented players* – as noted previously, talented players (including their parents) will seek to access the best opportunities to enhance their careers. As the professional aspects of the sport develop, the identification of ever increasingly younger talent will emerge – that has been the experience of other international sports bodies and based on the evidence to date, New Zealand will be no different. Regulatory intervention will be considered.
- 11.18 Proactive management of these issues is required to ensure that one of the foundations of the game is protected.
- 11.19 Each of these issues forms part of the broader Community Rugby Plan of the NZRU and should be actively pursued.

CLUB RUGBY

- 11.20 One of the historical strengths of New Zealand rugby has been the depth and spread of community rugby, both club and school rugby. It is a key foundation and anchor of New Zealand rugby. It provides the vehicle for the participation and enjoyment of many thousands of New Zealanders.
- 11.21 The primary focus of this review has been to assess and make decisions for the best national and international competition structures for the game in New Zealand. Within that assessment, the key relationship with club rugby



was to ensure a competition window of not less than 20 consecutive weeks and maintaining Saturday afternoon as the domain of community rugby. This review was not designed to address the broader operating and strategic issues associated with club rugby – those issues are more appropriately addressed within the context of the NZRU Community Rugby Strategy.

11.22 The consultation process highlighted a number of issues with respect to club rugby:

- There was a strong view that club rugby should be strictly amateur – that is, there is no payment to a player for playing club rugby.
- A 20-week window (free of representative and age grade commitments on Saturday afternoon) commencing late March or early April was seen as being adequate.
- The concept of a National Finals Day was seen as having merit from a marketing and event focus point of view.
- The overlap with Super 12 was recognised as being unavoidable, as long as games are not scheduled on Saturday afternoon.
- The current NPC scheduling was seen as a constraint on a later finish to club rugby.
- There was a desire by some to see professional Super 12 and contracted players back for the business end of the club competitions.
- There was a general consensus that the ‘big names’ of professional rugby need to be involved with clubs but an increasing recognition that their involvement will probably not be as players. Visibility and involvement was seen as being critical.
- The future operation and viability of clubs, particularly with respect to:
 - Age and availability of club administrators and volunteers.
 - Changing nature and expectations of clubs as a facility with emerging preference for leisure and recreation centres as opposed to single purpose clubs.
 - Financial dependency by clubs on pub charities.

11.23 Many of these factors affecting clubs arise from the significant changes that have occurred within New Zealand. The case for change in Section 3 has highlighted changes with respect to the:

- Shift from rural to urban.
- Ageing of New Zealand.
- Manner by which New Zealanders recreate and undertake leisure.

11.24 All of these factors contribute to the ‘availability’ of people to participate in and support clubs. This phenomenon is similar to other aspects of New Zealand society.

11.25 While recognising the pressures arising on the people side of the business, of more immediate concern is the financial state of the clubs. The traditional source of funding has changed – the concept of club fees has been replaced by grants primarily from pub charities. There is now a dependency on the grant system that, in the event the system changes through legislation, would be disastrous for clubs.



11.26 From a competitions perspective, the key points are:

- The club window.
- Pathway for players of club rugby.
- Relationship to the professional game.



Club Window

- 11.27 As noted above, a club window, free of representative and age grade commitments, commencing late March or early April was seen as being adequate. That timing of commencement is driven by a number of factors relating to ground availability, history, player availability and work seasons and commitments, and the commencement of the NPC. These combine to create the 20-week window.
- 11.28 In designing the competition framework, the Board has secured a 20-week window, subject to an overlap with the:
- Super 12 competition. As occurs at present, this overlap is addressed primarily by the scheduling that leaves Saturday afternoons largely free of Super 12 games and their associated broadcast.
 - International programme, as occurs at present.
 - Convening of domestic provincial teams prior to the commencement of the Premier and Modified Division 1 competition. It is likely that players will be engaged in both the completion of the club competition and pre-season training for their representative teams.

Pathway for Players

- 11.29 Historically, the pathway for players has been club–provincial–national. This pathway created a strong bond between representative players and their clubs, with players ‘learning their trade’ within a club and representative team environment.
- 11.30 There are now variants to this pathway, with some players, albeit limited at this stage, now moving through the national age-group teams directly to the representative and Super 12 teams.
- 11.31 The decisions of the Board require a player to have played in the representative A team of either the Premier or Modified Division 1 competition to be eligible to be selected for Super 12. This will mean that as a general rule, players who play in these competitions who are not full-time professionals will have played in the club competition.

Relationship of Club Rugby to Professional Game

- 11.32 The relationship between the community game and the professional game is critical to the health and well-being of the game in New Zealand.
- 11.33 At present, the key relationships occur with respect to the flow of:
- Money from the professional game to the community game. The NZRU annually distributes a substantial amount of money to the PUs to support the community game.
 - Players from the community game to the professional game.
- 11.34 The nature of the relationships is changing. Increasingly, it is becoming more difficult for professional players to play in the club competitions. For these reasons, it is becoming recognised that the nature of the player relationships to clubs needs to be redefined. The value of a relationship based on availability and presence within the club environment, as opposed to playing, is recognised as being necessary. The nature of that relationship needs to be reinforced through the employment contracts of individual players.
- 11.35 Considerable resource and focus is being applied by the NZRU to club rugby. These efforts will be continued and modified if necessary to incorporate and address the points above relating to:



- Club administration.
- Financial position of clubs.
- The need to redefine the relationship between players and clubs, including incorporation in the contracts of professional players.



APPENDIX B – SUMMARY OF CONSULTATION

INTRODUCTION

A critical aspect of the approach to the Review was to meet with key stakeholders to identify and listen to their perspectives and observations, with a focus on the questions that derived from the Terms of Reference – refer Appendix C.

The key components of each of the phases were as follows:

PRE NOVEMBER REPORT

- Face to face meetings with all Provincial Unions (PUs), Super 12 franchises and a cross section of broadcasters, sponsors, media, players and other key stakeholders. The objectives of the meetings were to obtain input to and perspectives on the matters set out in the Terms of Reference.
- The opportunity for stakeholders to make written submissions on the original Terms of Reference and to highlight issues of concern.
- Desk-based research of sports competitions in other countries and meetings with professional sports organisations in Australia and the United States to identify key issues and lessons to be learnt on the management and operation of competitions and professional sport more generally.
- Analysis of a range of financial and non-financial data to identify and substantiate the key influences on the operating environment within which rugby has been and is likely to be operating.
- Regular discussion and debate by both the Rugby Committee and the full NZRU Board.
- Production of the November Report including presentations to PU and Super 12 franchise Chairs/CEOs together with media and NZRU sponsors.

Set out below is a summary of the issues highlighted from the meetings. They represent views at a point in time. For every point raised, there are individual variants or points of emphasis. As expected, the perspectives varied and depended on the background of the attendees, particularly with respect to which Super 12 franchise and or existing NPC division they represented or had been involved with. Similarly, some of the perspectives were contradictory.

Every attempt was made by the Review team to ensure that any issues of concern were raised and discussed.

Overall, the process was comprehensive and achieved its objectives of exposing the review team to a wide range of perspectives. Interestingly, there was a high degree of commonality on the issues, albeit different perspectives on how the issue arose and what the options might be to address them.

Key Conclusion



The key conclusion from the meetings was that the status quo competition model (or parts of it) has problems and was not seen as being sustainable. However, (and somewhat regrettable though not surprising), there was no consensus from the discussions on the mechanisms required to address the problems.



For the purposes of presentation, we have categorised the feedback into categories from the Terms of Reference.

Community Rugby

- There was a strong view that club rugby should be strictly amateur – that is, you do not get paid for playing club rugby.
- A 20-week window (free of representative and age grade commitments) commencing late March or early April was seen as being adequate.
- Merit was seen in the concept of a National Finals Day from a marketing and event focus point of view.
- The overlap with Super 12 was recognised as being unavoidable.
- The current NPC scheduling was seen as a constraint on a later finish to club rugby.
- There was a desire by some to see professional Super 12 and contracted players back for the business end of the club competitions.
- There was a general consensus that the ‘big names’ of professional rugby need to be involved with clubs, but an increasing recognition that involvement would probably not be as players. Visibility and involvement was seen as being critical.

NPC Competition

- There were a wide variety of views expressed.
- There was a general acknowledgement that the current NPC lacks competitiveness, particularly in the 1st and 2nd Divisions.
- Concern over economic sustainability was expressed; for many, the cost of remaining competitive and involved was seen as unsustainable.
- There were diverging views on promotion/relegation. Some saw the event as the core of a contest while others thought promotion and relegation should be automatic.

Super 12 Competition

- Super 12 was acknowledged as being overwhelmingly successful.
- The expansion of Super 12 was supported as being something New Zealand should actively consider, with variations offered on the range of that expansion.
- The distributions from the franchises were not seen as being evenly spread.
- Within the context of that conclusion, there was a range of views expressed on reducing the number of players a franchise could protect.
- Many thought that the management and operation of the Super 12 franchise should be split from the host union.

Management of Competitions

- There was a general acknowledgement that the current NPC lacks competitiveness, particularly 1st and 2nd Divisions.
- Super 12 franchises are seen as a major issue in terms of:
 - Attractiveness to players
 - Linkage to host union
 - ‘Hoarding’ of players
- Two broad options for competitions were identified as being:
 - Free market
 - No restriction on player recruitment or payments; or



- Regulated competition involving a mix of:
 - Salary caps
 - Player draft
 - Loan players
 - Spreading all players around first division
 - ‘State of Origin’-type concept.

Amateur vs. Professional

- Three categories of rugby player were identified, being:
 - Amateur
 - Semi-professional
 - Professional.
- Some believed that there should be complete separation of the professional game, involving either:
 - An extension of Super 12; or
 - A ‘Premier competition’ in some form, potentially involving Australian states or the Pacific Islands.
- There was no consensus on structure of the competition for the remaining teams.
- The majority view was that there was a need to use interventions of some form to ‘even up’ the competitions.

International Competitions

- There was a common concern over the Tri Nations becoming ‘stale’ and repetitive.
- The overwhelming view was of the need for more inbound tours to provide ‘product’ in stadia, attractiveness to spectators and sponsors, and diversity to the fans.

Other Issues

- Number of PUs
 - Views were expressed that there were too many unions.
 - Concern over the value derived from the money spent on administration.
 - Concerns expressed that the structure of the PUs should be left alone.
 - Funding of PUs by the NZRU was raised by many with some believing that some of the lower unions were being over compensated for what they actually do.
- Length of Season
 - Variety of views expressed.
 - General recognition that the demands on top players need to be managed.
 - Key issues identified were around quality rest periods and time for conditioning.
- Roles & Responsibilities of PUs
 - A division within PUs was highlighted with some seen as being ‘breeding grounds’ versus ‘fattening farm’.
 - PUs expressed a frustration with the lack of recognition and reward for ‘breeding grounds’ when they produce talent (especially at school level).



- School Rugby
 - Approach varied across PUs, with various levels of success.
 - Concern over promising players being poached.
 - Highly dependent on the quality and attitude of the people involved.
 - Emerging issues over the number of games being played by the more-promising players.
- Promotion/Relegation
 - Seen as fundamental by some.
 - Concern by some over the level of resources being committed to secure promotion or avoid relegation at the expense of the resource available for other aspects of the game.
- Ranfurly Shield
 - FA Cup-type competition was suggested by some.
 - Should be ‘placed’ in second division so those teams get a chance to hold.
 - Suggestion made to change the current challenge system with all games after a defined period being a challenge.
- Administration of club rugby
 - Declining voluntary sector: “everyone wants to get paid”.
 - Volunteers aging with no obvious replacements.
 - Critical dependency on pub charities.

POST NOVEMBER REPORT

Set out below is a summary of the key elements of the process.

- Written submissions from those stakeholders who wished to comment on the November Report.
- Analysis of the submissions and reports to the NZRU Board.
- Meetings with NZRU advisers and representatives of the PUs and Super 12 franchises who sought further clarification and or information on the November report. Ten meetings took place.
- Meetings involving those parties who wished to meet directly with and make their submission to the Rugby Committee of the NZRU Board. Twelve parties made submissions in person to the Rugby Committee.
- Production of the final report.

There were meetings with the Players Association during both phases of the review to receive their input and perspective on the issues and options available.

Extensive consultation has been a critical element of the Review. It has been an invaluable input into the analysis and the decision-making process.

Key Conclusion

The key conclusion from the second round of consultation reinforced the key findings of the first round – namely, the status quo, ‘do nothing’ option was neither sustainable nor appropriate. There was, however, lack of consensus as to the nature and timing of what should be done with a variety of views being expressed depending in part on whether the PU was:

- An existing first division participant.
- Involved as a host to a Super 12 franchise.
- A potential premier and or modified first division participant.



Despite the lack of unanimity, the second round of consultation confirmed that there is clear support for the direction and principles signalled in the decisions set out in this report.

Many of the views expressed by PUs and other stakeholders were influenced by their level of understanding and acceptance of the Terms of Reference for this review and the inevitable conflicts and judgements required.

For the purposes of presentation, we have both summarised and categorised the feedback into the recommendations from the November report.

Recommendation	Response
More All Blacks Tests	No disagreement, subject to getting 'right' games, revenue equalisation, and ensuring that the All Blacks brand was not undermined.
All Blacks out of the NPC	<p>Almost universal agreement that this recommendation has been poorly presented in the November report. The conditions upon which All Blacks were to be taken out of the NPC need to be made more explicit.</p> <p>A small number of large PUs were very concerned about the impact of this recommendation on their own revenue streams, brand equity and the quality of the competition.</p>
Managed Competitions and Salary Cap	<p>Managed Competitions</p> <p>PUs' views fall into two groups:</p> <ul style="list-style-type: none"> Those who consider that a free market approach should prevail. The strong should be allowed to get stronger. This is the view held by at least three of the five Super 12 host unions, who, they emphasised, account for a significant number of players and domestic revenue. Those who consider intervention to manage the competitions is vital to moderate costs and un-competitiveness. <p>Overall, there was a high level of support among other PUs, although there were some differing views on whether to manage for competitive balance or cost reasons.</p> <p>Some of the free-market proponents have suggested that the answer to dominance of the five Super 12 host unions is to have a competition of the 5–6 largest PUs in New Zealand with, perhaps, some Australian teams. This is counter to the view of others who want a New Zealand Premier competition with a wide representation of domestic teams.</p> <p>Salary Cap</p> <p>Three or four PUs/franchises against the concept (see above). Remainder of PUs and franchises supportive but support is conditional on achieving a greater understanding of the mechanics and quantum of the cap.</p> <p>A small number of PUs want to see a draft to spread players.</p>
Player Considerations	Minority view that player development has been underestimated and will be compromised if the recommendations were implemented as presented.
Franchise Governance	Almost universal disagreement on the mechanism recommended. There was a high level of agreement on the principle of the need for independence and transparency.
Provincial Boundaries	A level of support of the need for boundaries to be addressed. Most thought it should be voluntary with NZRU leadership and support. Minority thought that amalgamation should be forced and that the changes should reflect New Zealand rugby's future and the prevailing demographics, not history.
Loan Players	Majority support. Some of the smaller PUs think dispensations should be allowed.
Union Funding	<p>Small minority disagreed with the concept of tagged funding.</p> <p>Minority disagree with concept of compensating for disparate Super 12 dividends through alterations to NZRU funding.</p>
Eligibility Criteria	Majority support for concept – some questions on detail. A major theme was the need for the criteria to be determined and communicated as soon as possible to provide the PUs with direction and give them a basis on which to undertake forward planning.



Number of Premier Teams	Minority view that 12 is too many and that quality will be compromised. Minority view that more than 12 would be appropriate.
Expansion of Super 12	Majority support though some PUs expressed the view that Super 12 should be abandoned in favour of a PU-based international competition.
Implementation Timing	Majority support.
Secondary Schools	General support.
Player Eligibility	Majority support.
Payments to Modified Division 1 Players	Majority support.
Structure of Modified Division 1	No consensus on structure of competition.
Process for implementing the report	<p>Issues identified include:</p> <ul style="list-style-type: none"> • A small number of PUs have said they find it difficult to trust the NZRU to undertake implementation of key matters such as the salary cap. This raises the issue of the level and extent of involvement of PUs in the implementation process. • There is some concern about the sequencing of implementation. What are the conditions precedent to removing the All Blacks from the NPC? • Some PUs have suggested that implementation should be deferred until after the broadcasting contract is signed. Others say the implementation should occur as a matter of urgency.



APPENDIX C – TERMS OF REFERENCE

INTRODUCTION

The NZRU Board and management have recently completed a strategic review of the organisation. It has been decided that the priorities for 2003 are to:

- assist the All Blacks to win the Rugby World Cup 2003;
- commence preparatory work for the renegotiations of the SANZAR broadcasting deal;
- conduct a competitions review; and
- ensure the NZRU is structured and resourced appropriately to take the game forward.

The competitions review will be comprehensive and look at all the competitions the NZRU's teams are involved in – the Super 12, the Air New Zealand NPC, the Lion Foundation Cup, the National Sevens, the Super 12 and NPC Development competitions, and the Under 19 and Under 21 programmes.

The review comes at a time when the game of rugby in New Zealand has had to face up to a set of challenges and issues that have been largely caused by external pressures as well as the changes forced upon the game by the advent of professionalism in 1996.

These external forces have included changing demographics, work patterns, immigration and entertainment and recreational options for participants and fans.

The most profound change to the game, however, came when the SANZAR Joint Venture Agreement was initiated to capitalise on the commercial arrangements captured by the News Limited contract. This allowed each of the SANZAR partners to contract a group of professional players to play in the Super 12 and Philips Tri Nations competitions.

At that time the NZRU negotiated within SANZAR to form five teams that meant it could effectively contract 130 professional players. That was extended to 140 players in 2002 when the five Super 12 squads were enlarged to 28 fulltime players. In addition, a number of retainer and Sevens players were contracted.

This move to professional rugby immediately changed the dynamics of the domestic game in New Zealand, although the structure of club, school and Air New Zealand NPC rugby remained largely unaltered.

The general consensus is that the establishment of professional rugby from Super 12 upwards has been successful. The Super 12 and the five New Zealand teams are now established 'brands' with both Super 12 and Tri Nations competitions enjoying consistent at-ground and television audience growth as well as on-field success. The majority of Super 12 franchises have developed successful commercial models that have seen additional funds invested, to varying degrees, back into provincial unions.

It has long been believed that having the greatest domestic rugby competitions in the world has given New Zealand rugby its international competitive advantage. That assertion and the impact of professionalism on the NPC have not been tested. Throughout the transition to professionalism the NPC has remained largely unchanged as New Zealand's premier domestic competition. However, the continued participation of professional players in a semi-professional domestic competition has highlighted, some say created, issues affecting the competitiveness



of the NPC. As the issues have arisen and in consultation with constituent members the NZRU has addressed them in an ad hoc, often single issue-by-issue basis.

The NZRU, with agreement from its members, has now decided the time is opportune to complete a comprehensive and challenging review of all its competitions. One of the principle reasons for undertaking the review at this time, but by no means the only one, is the pending renegotiation of the broadcasting contract. In 2002, the revenue earned from this arrangement accounted for about 47 percent of the NZRU's income. It is, therefore, critical to the future financial well-being of New Zealand rugby.

In conducting this review the NZRU has as a guiding principle that the best interests of New Zealand rugby must be paramount. It is envisaged the review will take a 'green fields' approach, although the ultimate outcomes must be economically sustainable and acceptable to the majority of constituent members. The review will also take into account the many societal changes New Zealand has and will face going into this millennium.

OBJECTIVE

To conduct a comprehensive review of all NZRU competitions (including our involvement in international competitions) to ensure they provide the best possible platform for sustaining a winning All Blacks team and maintaining rugby as a game accessible and attractive to all New Zealanders.

ENVIRONMENT

In drafting these Terms of Reference and in approaching the Review, the NZRU has made a number of assumptions it believes should not be challenged by this exercise. In summary they are:

- The winning tradition of the All Blacks must be sustained. We must ensure they have the ability to maintain or enhance the team's very proud but demanding winning record. This involves an acceptance that the best players will always be chosen for the All Blacks providing they are based in New Zealand and that the All Blacks will participate in an IRB-governed international programme, which includes a four-yearly Rugby World Cup tournament.
- Rugby in New Zealand is a game for all and it is the responsibility of the NZRU to ensure that the competitive advantage that the broad base that club, school and provincial rugby provides is sustained.
- The NZRU will enter a renewed broadcasting contract after the current arrangement expires at the end of 2005. The value derived from that contract will be largely driven by the value broadcasters ascribe to the competitions the NZRU manages and participates in.
- There will be a level of rugby that will be fully professional.
- There will continue to be a significant section of rugby that will be amateur, but aspirational as well as recreational.
- There will be a club and school competition window of not less than 20 consecutive weeks each year starting no sooner than the end of March or beginning of April.
- All competitions must be economically sustainable from both the national and provincial union's perspective.
- For competitions to remain commercially and popularly attractive they will need to consist of even contests.
- There are no constraints to the design of future competitions other than the need for them to be affordable, workable and acceptable to the majority of the NZRU stakeholders.
- The review will take into account the strength of existing competitions and the history behind those competitions.



THE CHALLENGE

In conducting this Review, it is anticipated that *inter alia* the following questions will be answered:

- How should the professional and amateur sections of rugby be structured, how should they inter-relate and what are the linkages between those two quite different areas of the game?
- What is the ideal and maximum length of season for professional players?
- Should professional players participate at all in amateur or semi-professional competitions?
- What is the aspirational pathway from ‘amateur’ to ‘professional’ to All Blacks for players, coaches and other personnel?
- Should competitions be ‘managed’? ‘Managed’ could include such mechanics as salary caps, player drafts etc. And, if so, to what degree?
- What is the best professional competition structure that best benefits New Zealand rugby?
- What is the best provincial union or franchise structure to best meet the aims of these competitions?
- How are talent identification, development and retention best served by these competitions?

SPECIFIC INSTRUCTIONS

Against this background the Review is directed to:

1. Consider, report and make recommendations on the best competition structures *FOR THE GAME IN NEW ZEALAND* framed around:
 - an ongoing involvement of professional teams from New Zealand, Australia and South Africa;
 - the international tours and tournament schedule;
 - a provincial competition(s) that is even and contestable, exciting, affordable and aspirational; and
 - club and school competition window of not less than 20 consecutive weeks.
2. Detail with reasons the point that is the most appropriate within the competition framework to switch from amateur to professional and comment on whether the supporting infrastructure needs to change to be cost-efficient.
3. Demonstrate, through projection analysis, that the competition structure and supporting infrastructure proposed is sustainable in the long term.
4. Detail how the proposed competition structure will provide the most cost-efficient aspirational pathway from club and school to premier international status for players, coaches and referees.
5. Consider the value to New Zealand rugby of continuing to take part in existing international competitions below Test matches and make recommendations in respect of:
 - a. New Zealand A
 - b. New Zealand Sevens
 - c. New Zealand Maori
 - d. New Zealand Age Grades
 - e. New Zealand Women
 - f. New Zealand Divisional XV

