

Chapter One

AN OVERVIEW OF THE SPORT INDUSTRY IN NORTH AMERICA

Introduction

What is the sport industry? This is a question that has never been answered clearly by either scholars in sport management or practitioners in the industry that we call “sport.” Numerous attempts were made in the past, but no indisputable answer to the question was found. In other words, concerned scholars in sport management have not yet reached a consensus in terms of how to define the sport industry. People in the industry have literally used the term at their own discretion. For example, organized sports has been used as an equivalent term while calculating the size of the sport industry (Broughton, Lee & Nethery, 1999). Accordingly, defining the sport industry in North America becomes an important task for the sport management professional. An understanding of the sport industry in North America will provide the student with an analytical foundation for further examinations of various economic issues in sport.

Definition of an Industry

An industry can be defined according to one of two criteria: similarity of products and similarity of economic activities. Defined with the first criterion, an industry refers to a group of firms that provide similar, well-defined products and services (Lipsey, 1999; Shim & Siegel, 1995). Most of the industries in the United States

are labeled in this way, such as the automobile industry. An industry can also be defined by the similarities of firms in economic activities/production. This is the method utilized by the U.S. Census Bureau in the development of the North American Industrial Classification System (NAICS). The Census Bureau in the United States used to utilize a system called the Standard Industrial Classification (SIC) codes to classify the industries in the country. In 1997, NAICS was adopted and replaced the SIC codes in industry classifications. NAICS was developed jointly by the three nations in North America to provide new comparability in statistics about business activity across the United States, Canada, and

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XYZ International is an international oriented firm specializing in sport marketing and facility management. The company was recently contacted and hired by the Sports Bureau of the People's Republic of China to provide consultation services the Chinese sport leadership in terms of how to possibly model the sport industry in China after the U.S. model. At the first meeting between the Chief of the Sports Bureau and the general manager of the firm, the former asked the latter this question: “Can you give me a detailed description of the sport industry in the United States”? Assume you were the general manager. What is your answer?

Mexico. Based on a production-oriented conceptual framework, NAICS groups industries according to their similarities in the process of goods or service production (Office of Management and Budget, 1997).

As mentioned above, NAICS defines an industry as a grouping of economic activities. So, industries are grouped by the similarity of their economic activities, not by their products. The producing units within a particular industry share a basic production process and use a similar technology in production (Office of Management and Budget, 1997). Using the definition as a guideline, NAICS groups all economic activities into a 20-sector structure and it

uses a six-digit coding system to identify particular industries and their placement in this hierarchical structure of the classification system. The first two digits of the code designate the sector, the third designates the subsector, the fourth digit designates the industry group, the fifth digit designates the NAICS industry, and the sixth digit designates the national industry (Office of Management and Budget, 1997, p. 15).

Table 1-1. The 20 Sectors or Major Economic Activities That Are Categorized by NAICS

Two-digit Code	Industry Categories
11	Agriculture, forestry, fishing, and hunting
21	Mining
22	Utilities
23	Construction
31–33	Manufacturing
41–43	Wholesale trade
44–46	Retail trade
48–49	Transportation and warehousing
51	Information
52	Finance and insurance
53	Real estate and rental and leasing
54	Professional, scientific and technical services
55	Management of companies and enterprises
56	Administration and support and waste management and remediation services
61	Education services
62	Health care and social assistance
71	Arts, entertainment, and recreation
72	Accommodation and food services
81	Other services (except public administration)
91-91	Public administration

Source: Meek, A. (1997). An estimate of the size and supported economic activity of the sports industry in the United States. *Sport Marketing Quarterly*, 6(4), 15–21.

Table 1-1 shows the 20 sectors or major economic activities that are categorized by NAICS. NAICS does not consider sport a major economic activity and, therefore, does not treat the sport industry as a stand-alone industrial sector or industry. The industrial activities related to sport are placed into several of the major sectors, such as manufacturing, arts, entertainment, and recreation (see Table 1-2 for details).

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Table 1-2. The 20 NAICS Sectors or Major Economic Activities and Placement of Sport-related Economic Activities

Two-digit Code	Industry Categories
11	Agriculture, forestry, fishing and hunting
21	Mining
22	Utilities
23	Construction
	234990 . . Athletic field construction
31–33	Manufacturing
315	Sport/athletic apparel, sports clothing
	316219 . . Athletic footwear manufacturing
	33992 . . . Sporting goods manufacturing
41–43	Wholesale trade
42191	Sporting and recreational goods and suppliers, and wholesalers
44–46	Retail trade
	451110 . . . Sporting goods stores, sports gear stores
	453310 . . Sporting goods stores, used
48–49	Transportation and warehousing
51	Information
52	Finance and insurance
53	Real estate and rental and leasing
	532292 . . Sporting goods rental
54	Professional, scientific and technical services
55	Management of companies and enterprises
56	Administration and support and waste management and remediation services
61	Education services
	61162 . . . Sports and recreation instructions
62	Health care and social assistance
71	Arts, entertainment and recreation
	71121 . . . Spectator sports
	711211 . . . Professional or semiprofessional sports teams and clubs
	711212 . . . Racetracks
	711219 . . . Independent professional or semiprofessional athletes (race car drivers, golfers, boxers), owners of racing participants (e.g., cars), and independent trainers
	71131 . . . Promoters of sports events
	711310 . . . Sports arena and stadium operators, sports event managers, organizers, and promoters
	71132 . . . Promoters of sports events without facilities
	711320 . . . Sports event managers, organizers and promoters without facilities
	712110 . . . Sports halls of fame
	71391 . . . Golf courses and country clubs
	71392 . . . Skiing facilities
	71394 . . . Fitness and recreational sports centers
	71395 . . . Bowling centers
	713990 . . . Recreational or youth sports teams and leagues
	711410 . . . Sports figures' agents or managers
72	Accommodation and food services
81	Other services (except public administration)
	81149 . . . Sport equipment repair and maintenance
	81391 . . . Municipal sports authorities and councils
	81399 . . . Administrative or regulatory athletic associations (e.g., leagues)
91-91	Public administration

Source: Office of Management and Budget (1997). *North American Industry Classification System (NAICS)—1997*. US Department of Commerce, Washington, D.C.

The contents of NAICS provide sport management professionals with a useful reference in terms of what activities are considered sport-related by the government. Nevertheless, since NAICS groups the economic activities based on their similarity in production, the sport producing units are scattered across eight NAICS sectors. It is very difficult, if not impossible, to conceptualize the industry we call “sport.” In addition, many traditional sport-producing units, such as sport television and radio networks, are not specifically classified. Thus, a conceptual framework that includes and links together all the sport-producing units in a systematic matter must be constructed. As mentioned above, previous attempts have been made to define and outline the sport industry.

Meek (1997) uses a three-sector model to describe the sport industry in North America. The three main sectors are (1) sports entertainments and recreation, (2) sports products and services, and (2) sports support organizations. The first sector, sports entertainment and recreation, includes professional and amateur sport teams, sport events, sport media and sport tourism-related businesses. The sport-producing units related to sporting goods design, manufacturing, and distribution, as well as to provision of sport services, are included in the sports products and services sector. The sport support organizations, the third sector of the sport industry, include all professional and amateur organizations, such as leagues, marketing organizations, and law firms (see Figure 1-1 for details). Meek’s model presents a broad operational definition of the sport industry because it “includes not only the economy activity of sports teams and recreational sports but also the

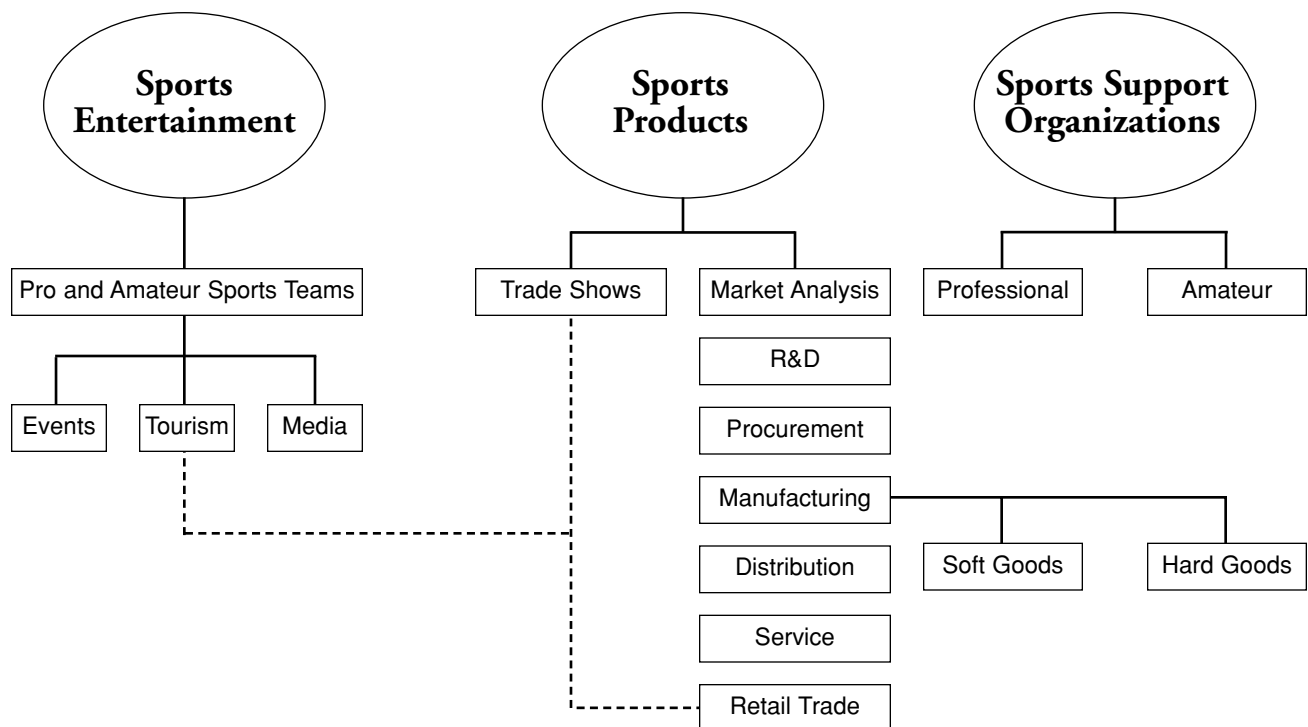


Figure 1-1. Meek’s Model of the Sport Industry

Source: Meek, A. (1997). An estimate of the size and supported economic activity of the sports industry in the United States. *Sport Marketing Quarterly*, 6(4), 15–21.

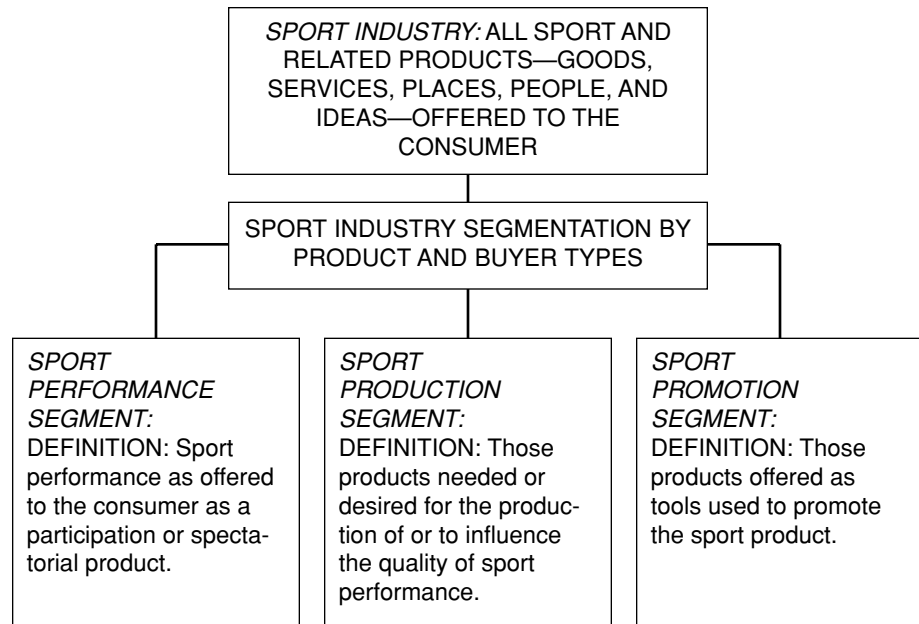


Figure 1-2. The Sport Industry Segment Model Proposed by Pitts, Fielding, and Miller

Source: From Pitts, B. G., Fielding, L. W., & Miller, L. K. (1994). Industry segmentation theory and the sport industry: Developing a sport industry segment model. *Sport Marketing Quarterly*, 3(1), 15–24.

spending of participants, spectators, and sponsors in connection with sports events” (Meek, 1997, p. 16). So, the foundation of his model is spending, not just the economic activity engaged in by sport-related firms and organizations. This may be a limitation of his model. In addition, the three sectors are parallel, and they are not entirely separate from one another. Such a structure has caused some confusion as it does not clearly delineate the defined products or services of the sport industry.

Pitts, Fielding, and Miller (1994) also attempted to depict the sport industry with another three-sector model. In their model, the sport industry is defined as “a market in which the products offered to its buyers are sport, fitness, recreation, or leisure-related and may be activities, goods, services, people, places, or ideas” (p. 3). The industry is divided into three segments: (a) the sport performance industry segment, (b) the sport production industry segment, and (c) the sport promotion industry segment. The sport performance industry segment refers to those sports firms that offer sport performance to the consumer either as a participation or spectatorial product. The sport production industry segment includes those firms whose products are needed or desired for the production of or to influence the quality of sport performance, such as sporting goods manufacturers. The sport promotion industry segment includes those firms whose products offered as tools used to promote the sport product. Figure 1-2 shows the three segments and their respective descriptions. The separation of the three industry segments is based on the benefits of a product to a consumer. As Pitts and Stotlar (1996) maintain, “this type of categorization, called industry segmentation, is helpful to the sport marketing professional in planning marketing strategies”

(p. 19). This model does not, however, outline the relationship among sport producing units of the sport industry. In addition, the separation of the three segments seems to imply that sport firms and organizations included in one segment are not related to those in another segment.

Li, Hofacre, and Mahony (2001) believe that sport competitions and events are one thing that all the firms and organizations in the sport industry can relate to. In other words, sport activities are the center around which many other products and services are produced in the sport industry. The sport activities are what make the industry different from other entertainment counterparts. With this perception in mind, they define the sport industry as the cluster of (1) the firms and organizations that produce sport activities, (2) the firms and organizations that provide products and services to support the production of sport activities, and (3) the firms and organizations that sell and trade products related to sport activities. Conceptualized under this definition, a sport industry model is constructed.

Li, Hofacre, and Mahony's Sport Industry Model

The model has two main sectors. The first sector is the sport activity producing sector. The firms and organizations that produce such activities as sport competitions, sport events, and sport services are included in this sector. Professional and semiprofessional teams, intercollegiate and interscholastic athletic departments, municipal and county recreation departments, sports and fitness clubs, and independent professional athletes, sports trainers and instructors, owners of racing participants (e.g., race cars and horses) are examples of the sport activity producers. The sport activity producing sector is the core of the sport industry. Sport activities are the main line of operations of all the firms and organizations in this sector. They can distinguish their line of operations clearly from those of other industries.

The second sector is labeled as the sport supporting sector. The firms and organizations that make up this sector are in the role of either providing products and services to support the production of sport activities or selling and trading products that are related to sport activities. There are six sport supporting subsectors: administrative and regulatory athletic associations (e.g., USOC, NCAA, and NFL), sporting goods manufacturers, wholesalers and retailers, sports facilities and buildings, sport media, sport management firms, and municipal and county sports councils and authorities. Detailed descriptions of firms and organizations that are composed of these two sectors are given later in the section, and Figure 1-3 illustrates the conceptual framework of the sport industry and the relationship between the two sectors.

It must be noted that all the sport supporting subsectors overlap somewhat with the sport activity producing sector, since sometimes firms and organizations in the sport supporting sector also sponsor and organize sport events. A good example is the recent creation of the Great Outdoor Games by ESPN, which makes the sport-supporting television company also a sport event producer. This phenomenon is reflected by the shaped areas between the big circle and the six smaller ones shown in Figure 1-3. However, since the primary role of firms and organizations in the

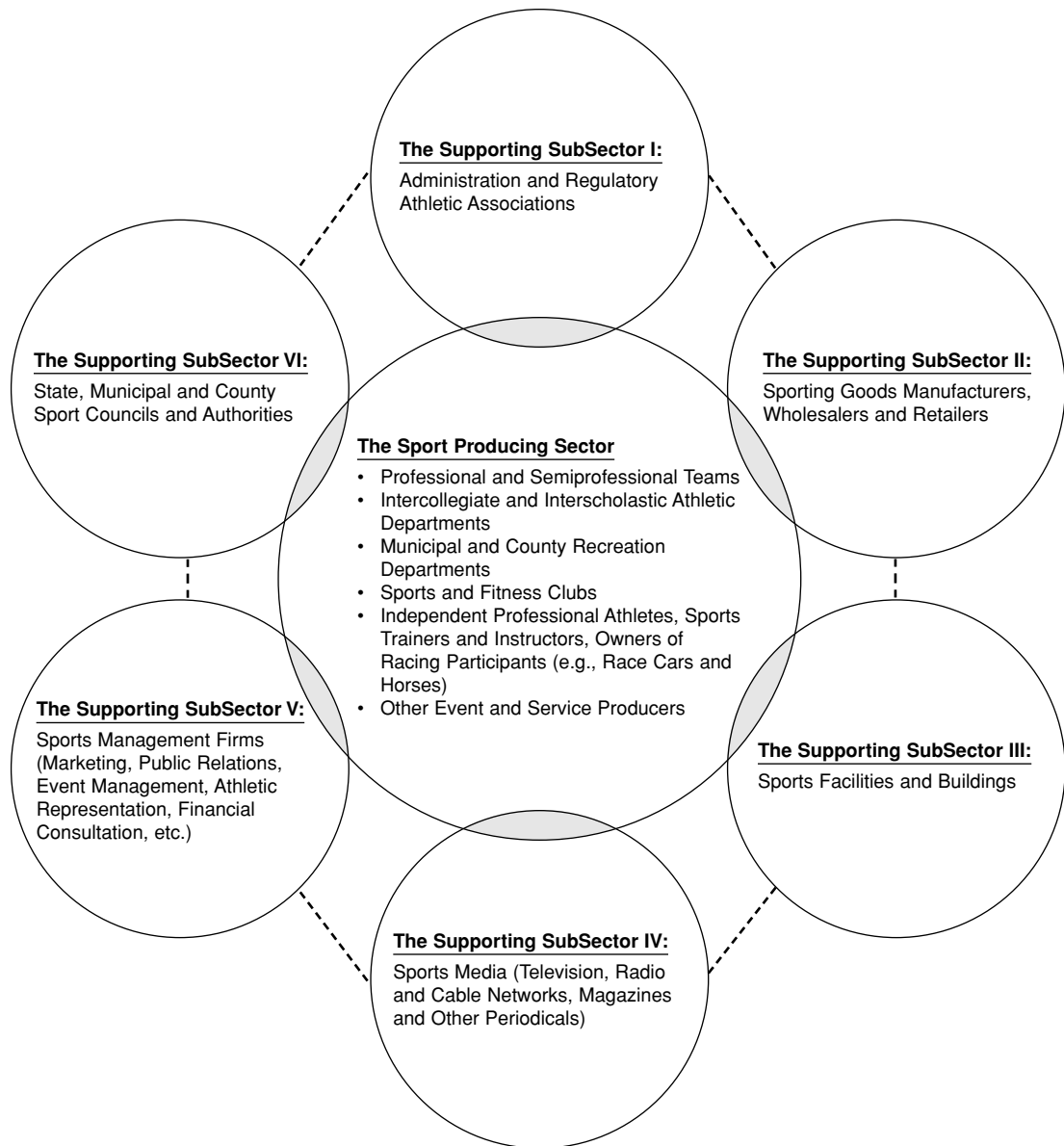


Figure 1-3. The Two-Sector Model of the Sport Industry.

Li, M., Hofacre, S., & Mahony, D. (2001). *Economics of sport*. Morgantown, WV: Fitness Information Technology.

sport supporting sector is to facilitate the production of sport activities or to sell sport-related products, it would be appropriate to label them as sport supporting subsectors. For example, sporting goods manufacturers, through their various wholesale channels, furnish athletic and sport equipment, such as baseball helmets, balls, and bats, to the municipal park and recreation departments all over the country. They are not in a position to produce sport activities but to supply athletic and sport equipment, and other sporting goods (e.g., athletic shoes and apparels) to firms and organizations in the sport activity producing sector. This explains why

sporting goods manufacturers, wholesalers, and retailers are classified as a sport-supporting subsector. The relationship between firms and organizations in the sport activity producing sector and sport media is another appropriate example to explain why the latter is a sport supporting subsector. The games produced by and existence of professional sports teams provide the sport media with sources of information, such as news, statistics, and player stories. This is what the sport media depends on and what it tries to sell to the general public. It is logical, therefore, to regard them as one of the important constituents of the sport-supporting sector.

As mentioned above, the sport activity producing sector comprises several types of firms and organizations that are primarily engaged in producing sport competitions, events, programs, and services. They represent what the industry that we call “sport” is all about.

PROFESSIONAL AND SEMIPROFESSIONAL SPORT TEAMS

The Sport Activity-Producing Sector

Professional sport teams refer to those firms that are “primarily engaged in participating in live sporting events . . . before a pay audience” (Office of Management and Budget, 1997, pp. 659–660). According to the United States 2002 Economic Census (U.S. Census Bureau, 2002), there were about 819 professional sport teams or clubs affiliated with various leagues at both the major and minor league levels at that time. As firms in the sport-producing sector, individual professional sports teams or “franchises” are responsible for producing games to satisfy the needs and interest of consumers for sport entertainment. Each team usually has an exclusive right to market and operate in a designated area. Gate receipts, sales of premier seats and luxury suites, parking and concession, corporate sponsorships, and sales of local broadcast and telecast rights are the revenue sources the teams receive to sustain their operations. In the United States, most professional sport teams are owned by individuals and set up as partnerships.

A semiprofessional sport team refers to a sport establishment made up of semi-professional athletes. A semi-professional athlete is defined as “one who is paid to play and thus is not an amateur, but for whom sport is not a full-time occupation, generally because the level of pay is too low to make a reasonable living based solely upon that service . . .” (Wikipedia, 2006). Setting up either as a profit-oriented firm or a nonprofit 501C3 organization, a semi-professional sport team in the United States is commonly established for the sake of bringing a sport entertainment product to a particular local community. They provide the athletes with a professional opportunity while they complete degrees and/or begin their work careers, and with a path toward the “big professional sport league.” The 750 senior amateur teams affiliated with the American Football Association (AFA) are good representations of the semi-professional sport teams in the United States. More detailed discussion can be found in the section pertaining to administrative or regulatory associations in professional sport.

INTERCOLLEGIATE AND INTERSCHOLASTIC ATHLETIC DEPARTMENTS

Intercollegiate sports is one of the unique aspects of both the higher education system and the sport industry in the United States. More than 4,000 colleges and universities play intercollegiate sports and compete under the sanction of three national governing bodies: the National Collegiate Athletic Association (NCAA), the National Association for Intercollegiate Athletics (NAIA), and the National Junior Collegiate Athletic Association (NJCAA). As of 2005, about 1,024 institutions were affiliated with the NCAA (National Collegiate Athletic Association, 2006) and approximately 283 small colleges are associates of the NAIA (NAIA, 2005). The NJCAA has about 550 member institutions.

Each individual institution that holds membership with a national collegiate athletic association usually competes in a geographically-determined conference at a competition level that matches its operating philosophy and financial resource.

Table 1-3. A Summary of the Differences among Institutions in the Three Divisions of the NCAA

Division I

Division I member institutions have to sponsor at least seven sports for men and seven for women (or six for men and eight for women) with two team sports for each gender. Each playing season has to be represented by each gender as well. There are contest and participant minimums for each sport, as well as scheduling criteria. For sports other than football and basketball, Div. I schools must play 100% of the minimum number of contests against Div. I opponents—anything over the minimum number of games has to be 50% Div. I. men's and women's basketball teams have to play all but two games against Div. I teams; for men, they must play 1/3 of all their contests in the home arena. Schools that have football are classified as Div. I-A or I-AA. I-A football schools are usually fairly elaborate programs. Div. I-A teams have to meet minimum attendance requirements (17,000 people in attendance per home game, OR 20,000 average of all football games in the last four years, OR 30,000 permanent seats in their stadium and average 17,000 per home game, OR 20,000 average of all football games in the last four years, OR be in a member conference in which at

least six conference members sponsor football or more than half of football schools meet attendance criterion). Div. I-AA teams do not need to meet minimum attendance requirements. Div. I schools must meet minimum financial aid awards for their athletics program, and there are maximum financial aid awards for each sport that a Div. I school cannot exceed.

Division II

Division II institutions must sponsor at least five sports for men and five for women or four sports for men and six for women, with two team sports for each gender, and each playing season represented by each gender. There are contest and participant minimums for each sport. Division II schools must meet minimum financial aid awards for their athletics program, and there are maximum financial aid awards for each sport that a Division II school cannot exceed. Division II teams usually feature a number of local or in-state student-athletes. Many Division II student-athletes pay for school through a combination of scholarship money, grants, student loans, and employment earnings. Division II athletics programs are financed in the institu-

tion's budget like other academic departments on campus. Traditional rivalries with regional institutions dominate schedules of many Division II athletics programs.

Division III

Division III institutions have to sponsor at least five sports for men and five for women, with three team sports for each gender, and each playing season represented by each gender. There are minimum contest requirements for all sports and minimum participant requirements for individual sports. Division III athletics feature student-athletes who receive no financial aid related to their athletic ability, and athletic departments are staffed and funded like any other department in the university. Division III athletics departments place special importance on the impact of athletics on the participants rather than on the spectators. The student-athlete's experience is of paramount concern. Division III athletics encourages participation by maximizing the number and variety of athletic opportunities available to students, placing primary emphasis on regional in-season and conference competition.

For example, the member institutions of the NCAA are divided into three divisions (i.e., Division I, Division II, and Division III) based on several criteria, which include, but are not limited to, number of sports sponsored and number of financial aid awards for their athletics program. The institutions having a football program in Division I are further grouped into two competition levels (i.e., Division I-A and Division I-AA). Stadium capacity and records of attendance are determinants used in making such distinctions and grouping. Although the mission and scope of operations of athletic programs in U.S. universities and colleges vary considerably, there is one thing in common: They all provide an athletic entertainment product (i.e., sport games) to their students, faculty, staff, and other constituents, such as their alumni and local communities. Table 1-3 summarizes the differences among institutions in the three divisions of the NCAA.

The intercollegiate athletic departments in those 2,000-some institutions that support athletic programs are a major sport event producer in the sport industry. Based on the level of participation with the national governing body it is affiliated with, an intercollegiate athletic department supports a certain number of sports. For instance, Ohio University has 18 intercollegiate athletic programs, competing mainly in the Mid-American Conference (MAC). The athletic departments in large colleges and universities, in a certain way, are set up and operated as a business enterprise within educational institutions. As such, some of them are incorporated, such as the one at the University of Florida (University Athletic Association, Inc. at the University of Florida).

Almost all the high schools in the United States have an interscholastic athletic department, which is set up to develop and implement athletic programs in the school based on the rules and regulations established by its state interscholastic athletic association. More than 800 schools that are affiliated with the Ohio High School Athletic Association, for example, compete in girls basketball in four divisions. In football, only 716 schools sponsor the sport at 6 different divisions or levels. The size of school and its financial capabilities determine the number of sports it sponsors.

MUNICIPAL AND/OR COUNTY PARKS AND RECREATION DEPARTMENTS

A municipal and/or county parks and recreation department is a unit of local government that is funded by local tax appropriation. Its mission is to provide opportunities for local residents to participate in various leisure and sports activities regardless of their age, skill, and ability. To fulfill such a mission in the sense of provision of sport activities, they organize and sponsor a variety of adult and youth athletic leagues and programs all year long. As a whole, the municipal and/or county parks and recreation departments are the largest producer of sport-related activities, particularly sport games and competitions in the United States. In addition to the provision of sport programming, the local parks and recreation departments also operate a variety of sport facilities, such as golf courses, tennis courts, swimming facilities, baseball/softball fields, etc.