

# The Changing and Challenging Economic Environment

## CHAPTER OUTLINE

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This chapter identifies the three distinctive economic climates that emerged in recent decades; describes their immediate and legacy impacts on the financing of sport properties; and discusses the challenges and opportunities the contemporary economic climate presents for sport managers.

### **Boom Years: The 1990s and Early Millennium Years**

When we wrote the first edition of *Financing Sport* in the early 1990s, the U.S. economy was strong. Indeed, for most of the 16 years from February 1991 through October 2007 the U.S. enjoyed unprecedented prosperity. It was the longest sustained period of economic growth in U.S. history.<sup>1</sup>

These were boom years for the sport industry. It benefited from an economy that grew at a record rate and unemployment which was at an all-time low. The momentum of the 1990s allowed most sport leagues and properties to weather the brief economic recession in 2001. The sport industry's growth in the new millennium, while expanding at a slower rate than in the 1990s, continued

largely unabated through most of 2007. Some of the notable features of this period of unprecedented growth included:

**A Sport Facility Construction Boom.** In this era, 40 new stadiums and 40 new arenas were built for major league franchises at an average cost of \$431 million and \$279 per facility, respectively. Their aggregate cost totaled \$28,401 billion.

**Emergence of New Professional Sports Leagues and Teams.** In the 1990s almost 180 new professional sport teams were launched in North America, together with 13 new leagues (e.g., the XFL, National Rookie League, West Coast Hockey League). The total inventory of professional teams at all levels increased to over 800. The spectacular expansion of minor league hockey in the Sun Belt states and the emergence of women's sports leagues (e.g., Women's National Basketball Association, Women's United Soccer Association) were especially prominent trends.

**Increased Corporate Investment in Sport.** Corporate investment in sport in North America more than tripled in the decade from 1990 to 2000 when it totaled \$8 billion and by 2007, it had risen to over \$20 billion. The three most common ways in which companies align with sport properties are corporate sponsorships, naming rights, and premium seating.

*Corporate sponsorships.* In 2000, companies in the United States and Canada spent \$5.92 billion sponsoring sporting events and teams.<sup>2</sup> By 2008, this had almost doubled to \$11.4 billion and over 5,000 companies were partnered with sports organizations.<sup>2</sup> Exhibit 1.1 shows the extraordinary growth rate of corporate sponsorship in sport in the last few years of the boom era.<sup>2</sup>

*Naming rights.* One of the most prominent manifestations of corporate America's alignment with sport has been the number of naming rights agreements since the mid-1990s. In 1990, only a handful of professional teams played in corporately named venues, but by 2001, 82 major league teams played in arenas or stadiums named for a company brand or product.<sup>3,4</sup> Not only was there a proliferation of branded sport facilities, but also a significant increase in the fees paid for them. In the 1980s, the biggest naming rights deal was the \$18.75 million entitlement of the Target Center in Minneapolis. Early in 2001, the \$300 million barrier was broken when Reliant Energy Company agreed to pay \$300 million over 30 years to name the NFL's Houston Texans' Reliant Stadium (re-named NRG Stadium in 2014). In late 2006, Citigroup Inc. agreed to pay the owners of the New York Mets \$400 million over 20 years for the naming rights to the team's new ballpark, Citi Field.

*Premium seating.* In the mid-1990s it was estimated that 114 teams in the four major leagues realized close to \$1 billion from luxury suite revenues.<sup>5</sup> By 2007, the NFL teams alone received \$4.35 billion from the 4,354 suites in their stadiums, selling at an average of \$100,000 per suite per season. The great majority (over 75%) of these amenity-laden sky boxes or executive suites are used by corporations with annual earnings that exceed \$100 million to entertain key clients or to reward high-performing employees. In addition to occupying the vast majority of suites, corporations reputedly purchase 50-60% of the most expensive season tickets sold in NHL and NBA arenas.

*Consistent Growth of Sporting Goods Sales.* Exhibit 1.2 shows this era was a period of steady growth for sales of sporting goods, with annual growth rates averaging approximately 3% and reaching a peak of \$53.4 billion in 2007.<sup>6</sup>

## Impacts of the Great Recession

The Great Recession was the worst economic decline in the U.S. for the last 80 years. It began in December 2007 and technically ended in June 2009. The reassuring conventional wisdom was that sport was recession proof. While people would forgo many discretionary purchases in difficult economic times, it was widely believed that attending and/or watching sporting events would be categorized by many as a "basic need" because of their intense emotional connections to favorite teams. Indeed, some argued that avid fans would be even more devoted, since games would be viewed as a way to escape life's harsh realities.<sup>7</sup> This perspective was based on evidence from the

### EXHIBIT 1.1. Corporate Sponsorship Investments in Sport in North America

Year	\$ billions	\$ billions increases from previous year	% increase from previous year
2004	7.67	-	-
2005	8.31	0.64	8.3%
2006	8.94	0.63	7.6%
2007	9.94	1.00	11.1%
2008	11.40	1.15	14.7%
2009	11.30	-0.1	-1.0%
2010	11.60	0.3	2.8%
2011	12.70	1.10	9.5%
2012	13.20	0.5	3.9%
2013	13.68	0.48	3.6%
2014	14.35	0.67	4.9%
2015	14.98	0.63	4.4%
2016	15.74	0.76	5.1%

### EXHIBIT 1.2. Sporting Goods Sales by Product Category: 1990–2015

Selected Product Category	1990	2000	2005	2007	2009	2010	2012	2015
Sales, all products	36,133	45,564	50,352	53,419	50,736	51,094	60,337	67,704
% change from previous benchmark		26.1	10.5	6.9	-5.2	0.07	18.1	12.2
Athletic/sport clothing	10,130	11,030	10,898	10,834	9,246	9,655	13,722	16,438
Athletic/sport footwear	11,654	13,026	15,719	17,524	17,069	17,282	19,366	21,634
Athletic/sport equipment	14,349	21,608	23,735	25,061	24,421	24,157	27,249	29,632

In millions of dollars (50,736 represents \$50,736,000)

previous four decades, when the sport industry was relatively unaffected by recessions occurring in 1970, 1974–75, 1980, 1982, 1990–91 and 2001.<sup>8,9</sup>

The severity and lingering economic legacy of the Great Recession eroded this conviction. It was pointed out, “In the old days, when you used to be able to go to Yankee Stadium and buy a box seat for three dollars and fifty cents, that kind of assumption [sports are recession proof] held . . . But, today, a box seat isn’t three-fifty, you pay twelve hundred and fifty dollars for the best box seat” (p. 2).<sup>10</sup>

While using the “best seat in the house” as the benchmark for the comparison makes it extreme, the cost of attending professional sporting events in real dollars has more than doubled over the last 20 years. Among major league sports, baseball is by far the best “bargain.” Nevertheless, while the average cost of a ticket to a MLB game was less than \$11.98 in 1997, it almost doubled in the

next decade to \$22.21 in 2006; and in the next decade increased by about the same amount, so the average cost of attending a game in 2016 was \$31.<sup>11</sup>

By comparison, in 2016 the average cost of a ticket to a National Football League (NFL) game was \$93, followed by the National Hockey League (NHL) at \$65 and the National Basketball League (NBA) at \$56 per ticket.<sup>11</sup>

Buying a ticket is only part of the cost of attending a game. When ancillaries such as parking and food, beverage, and program purchases are included, the cost grows substantially. The composite price associated with attending a single major league game for a family of four *on average* across the four major leagues exceeded \$350 in 2016.<sup>11</sup> That accounts for 42% of an average household's weekly earnings, since the median *weekly* earnings of a full-time worker over 25 years of age in 2016 was \$830.<sup>12</sup>

These average increases hide some egregious cases. For example, a prominent columnist for the *New York Times* reported:

Some long time ticket holders, the loyal of the loyal in Gouge City, are being billed for 100% increases or more just to hold on to the same seats they had for a decade or three... A seat at the Rangers on their Stanley Cup year of 1994 was \$50, the price reached triple digits three seasons later, the seat in 2010 was \$240. In 2011, it was increased to \$715. The fan holding this seat who was subjected to these price increases observed: "The Garden [Madison Square Garden] is writing off its longtime fans in favor of corporate patrons. That's plain to see in my section, where very few of the old guard are left, as they've been swept away like a Lundqvist clear. Like Seventh Avenue, loyalty is not a two-way street in this neighborhood."<sup>13</sup>

The large price increases have led many analysts to assert that most middle-income fans have been priced out of attending major league games.<sup>14</sup> A celebrated baseball writer, proclaimed, "going to a ball game has become a perk of the rich" (pp. 8-9).<sup>15</sup>

The relentless rise in the price of tickets and ancillary costs over the past two decades has made sport much more vulnerable to economic downturns. When a family is struggling to make a house payment, it's hard to imagine them spending hundreds of dollars to attend a game, no matter what level of emotional attachment they might feel for their favorite team.

Exhibit 1.3 shows total attendance dropped at three of the major leagues from 2007 to 2011.<sup>16</sup> Exhibit 1.4 points out even these declining numbers are inflated.<sup>17</sup> However, the inflation is probably consistent across the time period so they are comparable. The only league not to experience a downturn was the NHL which showed a very modest increase. MLB had the largest declines with 6 million fewer fans attending games in 2011 than in 2007 (the 2007 MLB season ended before the effects of the Great Recession were widely felt).

These declines were generic across the sport landscape. For example, NASCAR reported attendance declines of 10% or more at a majority of race tracks on the Sprint Cup circuit in 2010.<sup>18</sup> Minor league baseball's 15 leagues and 176 teams showed a modest but persistent decline of 3.3% in gross attendance from 2007 through 2011.<sup>19</sup> Similarly, Exhibit 1.2 shows the consistent upward trajectory of sporting good sales was abruptly interrupted as they declined by 5.2% in the two years of the Great Recession.

The persistent declines in major league attendance were exacerbated by the advent of high-definition television with its ability to enhance the in-home viewing experience. This created a cheaper and, for many, a hassle-free alternative to live attendance. By 2015, 81% of U.S. households owned at least one HDTV, compared to 17% a decade earlier in 2006.<sup>20</sup>

During the prosperous boom years, sport leagues and teams became increasingly dependent on corporate funds and their financial projections assumed their continued expansion. As one team

**EXHIBIT 1.3. Aggregate Attendances at Four Major U.S. Sports Leagues: 2007–2017 (in millions)**

	2007	2011	% Shift '07 - '11	2016-17	% Shift '07-17
MLB	79.50	73.45	- 8.2	72.67	-8.5
NFL	17.52	17.12	- 2.3	17.78	0.14
NBA	21.84	21.30	- 2.5	21.99	0.06
NHL	20.86	20.93	+ 0.4	21.43	+2.7

**EXHIBIT 1.4. Announced Attendance Does Not Report How Many Attend a Game**

Most attendance figures documented by teams do not report how many people attend a game. Traditionally, attendance was defined as the number of folks who passed through the turnstiles. However, this was abandoned in the early 1990s and replaced with “announced attendance,” which is defined as the number of tickets sold or distributed. MLB teams report tickets sold, but the NFL, NHL, and NBA report tickets distributed, which includes not only all tickets sold but also complimentary tickets provided to sponsors, official guests, players’ families, charities, et al., irrespective of whether those ticket holders show up. The “no-show” rate is especially high in baseball. A substantial proportion of baseball games are held during the normal working day and on hot days, which cause some season ticket holders to skip them. In addition, interest and attendance at games lapses near the end of a season if a team is doing poorly. These factors contribute to a no-show rate estimated by a MLB executive to average 18–20% over the length of a season.<sup>17</sup>

The NFL policy of “sell it out or it’s blacked out” has resulted in similar anomalies. To avoid a local media blackout, teams will sometimes purchase unsold tickets themselves or persuade sponsors to do it. For example, the city of San Diego agreed to purchase all unsold tickets for Charger’s games for a seven-year period, which cost the city \$36.4 million. A common practice among teams in all leagues is to either donate seats or sell them at a nominal price to local charities who distribute them to their clientele. This enables the teams to claim a tax write-off for their charitable donation. For example, if tickets are sold to a charity for 10% of their face value, then the team can claim a 90% write-off on those tickets.

Published high attendance numbers are important to teams since they influence revenue streams beyond ticket sales. Fees paid by sponsors, stadium advertisers, media, concession operators, license holders, et al, are all influenced by numbers who attend games. Further, high attendance is perceived by some to be a signal of quality of experience. If attendance numbers fall, then they are likely to interpret the lower attendance as an indicator that the experience is no longer good value for money.

senior executive observed, “Corporate support has become the lifeblood of sport organizations” (p. 23).<sup>9</sup> However, Exhibit 1.1 shows that the Great Recession significantly curtailed the annual growth rate in corporate sponsorship in sport from 11.1% and 14.7% in 2007 and 2008, to -1.0% in 2009.

Many sport properties’ corporate partners were in sectors of the economy that were most adversely impacted such as automobile companies, where General Motors and Chrysler both entered bankruptcy and had to be rescued by the federal government; and financial service and insurance firms such as the Bank of America, Citigroup, and AIG, which all received billions of dollars in

federal assistance. Sensitive to both their difficult financial positions and the intense public scrutiny that accompanied their federal “bailout,” these companies dramatically reduced their spending on sport during 2008 and 2009. For example, General Motors ended its longstanding partnership with the U.S. Olympic Committee, terminated numerous sponsorship agreements with NASCAR racing teams and the PGA, and (after airing 11 advertisements during the 2008 Super Bowl) did not buy a single Super Bowl advertisement in 2009.

In 2008, every major league terminated between 5% and 15% of their employees, and similar job cuts were reported across the sport industry. To alleviate the financial crisis facing many of its teams, the NBA arranged a \$200 million loan for 15 of its franchises to cover their operational losses.

In addition to cost-cutting, many sport properties offered a variety of price incentives and promotional giveaways to fans in an effort to sustain attendance. A business aphorism states, “In a recession the goal is survival, not profits.”<sup>21</sup> Winning back lost customers is difficult and expensive, so during difficult economic conditions prices have to be cut. Thus, for example, the San Francisco Giants, prior to the 2009 MLB season, significantly reduced prices in an effort to retain their 11,000 season ticket customers. The team president said, “Our ticket holders want some acknowledgement from the Giants that times are tough. We’re sending a signal to our fans we’ll work with them to make this work out” (p. D8).<sup>22</sup>

Some teams went to extraordinary lengths to induce fans to buy season tickets. The NHL St. Louis Blues, a team that had struggled for many years, offered a half-price-due-up-front deal on season ticket packages, with a unique caveat: The other half of the ticket price would only have to be paid if the Blues made the playoffs. The team did not get into the playoffs that season and finished close to the bottom of the standings. Nevertheless, the special promotion was considered a success from a fan support standpoint since the Blues virtually sold out their arena for the entire season, averaging 19,950 fans per home game.<sup>23</sup> The NBA Minnesota Timberwolves went a step further. The team offered a “no risk pledge” season ticket plan that guaranteed full refunds to customers who lost their jobs in 2009.

A number of teams for the first time offered installment payment plans to season ticket holders, including the Los Angeles Lakers and Portland Trailblazers. The New Jersey Nets went further, offering a deferred payment program. The team’s full season ticket package allowed fans to attend games for the first two months of the season without having to pay until January, after almost 40 percent of the home games had been played.

## The Contemporary Environment

The economic environment gradually improved after 2009 and the recovery restored some revenue sources. Sporting goods sales rebounded robustly, increasing from \$50.7 billion to \$67.7 billion from 2010 to 2015, which is almost 33% (Exhibit 1.2). Similarly, corporate sponsorship in sport in North America regained momentum in 2011 and subsequently showed steady annual growth of approximately 4% (Exhibit 1.1). The four major leagues were primary beneficiaries, with companies spending over \$3.5 billion in creating partnerships with the NFL (\$1.2B), MLB (\$778M), NBA (\$799M), NHL (\$447M) and MLS (\$333M) in 2016.

Exhibit 1.3 shows recovery of attendance at major league sports was less favorable. While the NHL attendance showed a 3% increase between 2007 and 2015, the decline experienced by the NBA and NFL had barely reached the pre-recession season attendance totals by 2016. The data for baseball were the most troubling. Six years after the recession ended, attendance remained 7.8% lower than their pre-recession level.

While many sectors of the sport industry recovered well, the Great Recession, nevertheless, left the legacy of a more challenging economic environment for sport managers than existed before its onset. It was not until 2016 that the median family income showed signs of upward momentum,

while household debt as a share of disposable family income fell below the historic trend line as a result of low borrowing rates.<sup>24</sup> Despite these improvements, many U.S. families were living paycheck to paycheck, as they still were confronted with difficult financial conditions caused by the shift away from high paying manufacturing jobs to low wage service economy jobs, and the continuing substantial rise in costs of such major expenditure items as housing, automobiles, and college tuition. Faced with a more daunting and uncertain economic future makes it likely people will spend less. This tendency to “hunker down” has repercussions for properties across all levels of professional sport, major events, and “big time” intercollegiate athletic programs.

This section examines the four most challenging macro trends that impact the financial viability of sport properties in the contemporary economic landscape with which sport managers have to grapple: competition from other entertainment options; impact of television on live attendances; a narrower fan base; and globalization.

## Competition from Other Entertainment Options

The competition for sport fans’ time and disposable income is ferocious. People have a reduced amount of discretionary income and time, and more choices than ever before on which to spend those resources. In 2008, U.S. household average spending on entertainment reached its peak of \$2,835. This declined in the Great Recession, but by 2016 had recovered and reached the same amount.<sup>25</sup> However, an analysis of data from the *Bureau of Labor Statistics Annual Consumer Spending Survey* revealed the allocation of entertainment expenditures has changed. In 1995, 80% of this spending was on electronic and digital equipment, services and software, while 20% was at “bricks-and-mortar” venues. Two decades later, the venue-based expenditures proportion had halved to 10% of entertainment spending.

Further, *if* people are prepared to leave their homes, the number of venue options available to them has increased, reflecting the rapid expansion of multiplex and IMAX movie theaters, theme parks, and a proliferating number of other well-established entertainment options such as restaurants, museums, shopping malls, and the explosive growth of sports bars. All of these venues are competing for the smaller share of consumer venue-based entertainment dollars.

The data are clear. The primary source of entertainment competition is home electronics, which offer more compelling options than ever before. Technology breakthroughs in high-definition television (4K Ultra), video on demand, subscription streaming (e.g., Netflix) and interactive gaming options have contributed to Americans spending large amounts of their time on a range of video devices including watching TV, streamed videos, surfing the web, and playing video games. Different surveys, using different definitions, have produced average estimates that range from 3 to 11 hours per day spent on electronic devices. Whatever the figure, it is clear that home electronic devices dominate a large majority of Americans’ available discretionary time.

## The Impact of Television and Digital Devices on Live Attendances

Sport fans have never had as many opportunities to view their favorite team or sport on television or digital devices. In the last decade, the hours of sport programming increased by 232 percent, so there is now more than 127,000 hours of sport programming on television and digital devices. What makes it especially compelling is that 95% of all sport programming is live (compared to 66% of general TV programming). Live viewing is more emotionally engaging, which excites marketers, since it means viewers are more likely to pay attention to their advertising.

The insatiable demand is fueled by the abundance of cable network channels dedicated to sports. Exhibit 1.5 lists 27 national cable sports networks that have been established and in parenthesis gives the year in which each of them commenced broadcasting. Each of these networks provides year-round, 24/7 coverage focused on sport content. The Entertainment Sports Programming Network (ESPN) was the first cable network to devote its entire programming to a single subject. The pioneer

network's initial broadcast in September, 1979, reached about one million homes, and featured a slow-pitch softball World Series game between the Milwaukee Schlitzes and the Kentucky Bourbons. From that modest beginning, ESPN has become the leading viewing destination for American sport fans, now reaching 90 million homes. The original network has spun off five additional domestic ESPN-branded television broadcast outlets, which provide in-depth news, commentary, and live event programming across multiple platforms.

The extraordinary success of ESPN inspired the launch of several sport-specific networks in the mid-1990s, led by The Outdoor Channel in 1994, the Golf Channel in 1995, and SPEED TV

### EXHIBIT 1.5. National Cable Sports Networks Distribution

Network (Year established)	# TV households	Programming focus
ESPN (1979)	92.9 MM	Comprehensive sports coverage
ESPN2 (1993)	92.8	2nd outlet for ESPN's mainstream coverage
Fox Sports 1 (2013)	84.3	Comprehensive sports coverage
NBCSN (2014)	83.8	Comprehensive sports coverage
Golf Channel (1995)	78.3	Golf news, commentary and tournament coverage
ESPNU (2005)	73.0	College sports news, commentary, live events
Fox Sports 2 (2015)	46.7	UFC, NASCAR
ESPNNews (1996)	71.3	24-hour-a-day sports news
NFL Network (2003)	70.4	NFL league-produced news, commentary, live coverage
MLB Network (2009)	68.3	MLB league-produced news, commentary, live coverage
Big Ten Network (2007)	60.0	College sports exclusive to Big 10
NBA TV (1999)	55.7	NBA league-produced news, commentary, live coverage
Univision Deportes	44.2	Soccer programming directed to Hispanics in US
NHL Network (2007)	43.9	NHL league-produced news, commentary, live coverage
Pursuit Channel (2008)	42.0	Hunting, Fishing, Outdoor Recreation
Outdoor Channel (1994)	35.3	Hunting, Fishing, Off-road motorsports
Sportsman Channel (2003)	34.0	Hunting, Fishing,
TVG Network (1999)	31.0	Horse Racing, Online betting
Tennis Channel (2003)	30.0	Tennis
ESPN Classic (1997)	25.2	Re-runs of classic sporting events, live coverage of poker, bowling
Fox Deportes (2010)	21.8	International sport focused on Hispanic population
World Fishing Network (2005)	20.0	Recreational and Sport Fishing
TVG2 (2015)	19.0	Horse racing and horse competitions
beIN SPORTS	18.1	Soccer (La Liga, Series A), rugby, tennis
ESPN Deportes (2004)	17.3	Sports programming in Spanish
Gol TV (2003)	13.0	Bilingual (English & Spanish) soccer (Bundesliga), news, commentary
CBS Sports Network (2011)	NA*	Mainstream sports with focus on college sports

(subsequently rebranded to Fox Sports 1 and 2) in 1996. The proliferation of specialized sport networks accelerated so two-thirds of the cable networks were established in the 2005-2015 decade. Now viewers are provided in-depth coverage of their favorite sport across multiple outlets.

Not only is there more sport on television, but technology has enhanced the viewing experience. Since over 89% of U.S. households now own at least one high-definition television, and about 52% of all households have more than one HDTV.<sup>20,26</sup> The growth in HDTV adoption has had a significant impact on sports viewing, since sport viewing ratings are 21% higher on HDTVs.<sup>11</sup>

In addition, fans now consume sports across many platforms other than television. Indeed, by 2014 more than 70 million people were accessing sport on either their smartphones or computer. While most of the viewing occurs in private households, the growing popularity of sports bars attests to the popularity of televised sports outside the home. The more than 6,000 sports bars in North America with HDTV technology<sup>27</sup> offer an affordable option for fans who want to share the experience of watching their favorite team in the company of other sport enthusiasts.

The ubiquitous content presents sport leagues and teams with a conundrum. Will fans reach a point where the quality and convenience of home or sports bar viewing is preferable to going to the arena or stadium? There is evidence that fans are substituting live sport on TV for the live experience in the ballpark or arena. Consider America's most popular sports league. In 2015, the NFL had its most successful season ever in terms of television viewership, attracting more than 202 million unique viewers over the course of the season.<sup>28</sup> However, the attendance decline at NFL games in the Great Recession continued after 2009 to 2011. As Exhibit 1.3 indicates, by 2015—a decade later—it had recovered only to the level it was at in 2007.

Some of the early research on this issue in both the U.S. and England in the mid-1980s and 1990s indicated that watching sport on television had a positive stimulation effect on live attendance. Much like advertising, the exposure provided by television appeared to encourage people to witness live sport action in stadiums and arenas.<sup>23</sup> However, subsequent studies have reported a contrary result, indicating there is a “substitution effect”<sup>29</sup> by which as television viewing increases, stadium attendance decreases. A sport fan's decision to substitute watching a game on television rather than attending in person is influenced primarily by price of attendance; (household) income; and “opportunity costs” associated with attending, which include travel time, convenience, accessibility, and the quality of available seating opportunities. As one New York Giants fan noted, “I can buy a huge HDTV for well less than the cost of one season ticket and never have to leave the comfort of my home. Forget driving, parking and \$9 beer.”<sup>13</sup>

The negative impact of televised sport on live attendance appears to be accelerating for four reasons. First, there is more content and so more opportunities for fans to substitute a televised broadcast for a live experience. Second, given the financial constraints facing many households and the cost of attending, watching the game on television is their only feasible option. Third, watching the game at home is appealing for some fans because it eliminates the “hassle” associated with driving, parking and in some cases poor weather conditions. Fourth, the quality of the viewing experience, enhanced by high-definition and further augmented by replays and expert commentary, has never been as compelling.

### **The Emergence of Regional Sports Networks**

With more than 127,000 hours of air time to fill, major network and cable channel operators are anxious to find compelling sport programming opportunities. As a result, sport properties have abundant opportunities to partner with major cable distributors, like Fox and Comcast, to broadcast live games and to offer specialized programming to fans in their local or regional market. There are more than 40 Regional Sport Networks (RSNs) in North America, and they provide another layer of targeted sport programming.

A majority of RSNs are joint or multiple ventures involving two or more teams in a local market. For example, the New England Sports Network (NESN) is the primary broadcaster of the Boston Red Sox (MLB) and Boston Bruins (NHL). The regional network is a joint venture between Fenway Sports Group (the ownership group of the Red Sox) and Delaware North (owner of the TD Garden arena in which the Bruins play). NESN also features minor league baseball, regional college sports, and sport talk shows to viewers in six New England states.

Most RSNs have proven to be highly profitable with a number achieving margins estimated at 30-40% derived from cable network subscription fees ranging from \$2 to almost \$6. In 2014, the New York Yankees, which established the YES Network with Goldman Sachs in 2002, sold a majority interest (80%) in the regional network to 21st Century Fox. At the time of the transaction, the enterprise value of the YES Network was estimated at \$3.9 billion. In addition to the infusion of cash, the sales agreement stipulated the Yankees would receive a yearly rights fee payment of \$85 million that grows 4% to 7% per year in the following 30 years.

### Challenges to Network Growth

It appears, however, that the period of robust growth of RSNs is threatened, because major cable and satellite companies such as Comcast and DirecTV, on which team-based RSNs depend to telecast their games, are resisting the high subscription fees demanded by the RSNs. Sport channels, on average, now account for 35% of the typical monthly bill paid by cable customers.<sup>30</sup> The YES Network's average fee was \$5.36 per month per customer, while another New York RSN, Madison Square Garden Network (MSG) charged \$3.76 per month. The total monthly cable bill for the four sports channels airing in the New York City market—YES (MLB Yankees, NBA Nets), SportsNet New York (MLB Mets) and MSG and MSG Plus (NBA Knicks, NHL Rangers, NHL Islanders), meant New York City residents signing up for standard cable were paying over \$125 a year, irrespective of whether they viewed any of these channels or not. Significantly, many cable network subscribers did not. For example, it was reported that more than 90% of Comcast's 900,000 subscribers in the greater New York area who received YES Network did not watch more than 25% of the Yankee games broadcast in 2015.<sup>31</sup> A Comcast executive said: "We are not going to subsidize the YES business by charging a broad set of consumers when only a subset want it."<sup>31</sup>

The combination of diminishing ratings and the high subscription rates demanded by team-affiliated RSNs resulted in several large pay-TV distributors refusing to carry the games of teams in their markets. The carriers have demanded significant reductions in subscription fees as a condition of airing games. When Comcast refused to carry YES Network Yankee games on its channels in the greater New York area, it meant that a million homes were unable to view Yankee games. A Comcast executive stated: "The issue is the price/value proposition for the YES network given the customer viewership data we have, which does not justify the price that Fox is asking for the network." A commentator reporting on the conflict observed:

The problem for Fox and other media companies is that many agreed to high-priced sports rights deals at a time when cost-cutting was more myth than reality. Today, as more consumers are shifting to online viewing instead of traditional pay-TV, distributors are looking to keep subscribers by reducing content costs or selling 'skinny' packages that don't include expensive networks such as regional sports channels.<sup>32</sup>

### The Financial Trade-Off

It has been suggested that the NFL is primarily a television show.<sup>33</sup> The increased number of people watching sport on television may more than compensate for the negative impact television coverage

has on live attendance. For some sport leagues, the sale of broadcast rights is the single largest source of annual income, more than offsetting any losses in gate receipts. The NFL leads the way. It grants rights by device, so the same game can be viewed on multiple platforms. In 2016, half of the total gross revenues generated by the league, \$7.1 billion, came from the sale of broadcast rights to major television networks. Subsequent renewal of the league's television broadcast agreements guarantees the NFL \$55 billion in television rights for the six seasons from 2017 through 2022.

Beyond that date, it seems additional media expansion opportunities are likely to be available. For example, consider the potential that may emerge with the arrival of driverless cars, technically termed "user operated autonomous cars:"

Imagine a highway full of autonomous cars with their occupants sitting back watching their favorite television show in high definition... If you want to watch the latest episode of your favorite show, the car will know how long the journey needs to be and can optimize the route and driving control accordingly. With autonomous drive it is no longer just a question of getting from A to B quickly—it's about the experience you wish to have in the car—how you wish to spend the time you are saving. People will have the freedom to choose the way they would like to commute and the content they would like to experience.<sup>34</sup>

For many people, a sport is their favorite television program. Since vehicle companies are major sponsors of sport, there appears to be potential for formidable car-media partnerships to emerge.

Exhibit 12.1 (page 482) shows that major national television networks have committed nearly \$93 billion in future years to the four major professional sports leagues in North America in recent contracts. The NHL's 10-year, \$2 billion agreement with NBC more than doubled the value of the league's previous national broadcast agreement. Similarly, NASCAR's sale to Fox and NBC requires the two networks to pay the premier motorsports organization \$8.2 billion in the seven years from 2015 through 2024. The 10-year contract represents a 46% increase over NASCAR's previous agreement. CBS and Turner Sports negotiated a nearly \$11 billion agreement with the NCAA to broadcast the men's national basketball tournament from 2012 to 2024, while ESPN committed \$5.64 billion—about \$470 million annually—for the rights to broadcast college football four-team playoffs from 2014 through 2025.

The reason networks have been willing to pay such large rights fees is that sport programming delivers large audiences. For example, in 2015, 8 of the 10 most watched television programs were sport related, and all of them attracted over 30 million viewers. By comparison, in 2004, fewer than half the shows attracting 30 million or more viewers were sport programs.<sup>34</sup> The 2015 Super Bowl was the most watched program in history, averaging 114.4 million viewers throughout the broadcast. This audience, persuaded advertisers to pay up to \$4.5 million to air a 30-second commercial during the game.

### **Responding to a Narrower Fan Base**

In 1960, it cost a family of four a total of \$12.50 (including the cost of a 25 cent program) to attend a San Francisco 49ers game. At that time, the average player salary was \$15,000, and the 49ers received \$85,000 from television revenues that season. Today, the same experience costs a family of four around \$640.<sup>23</sup> The average salary of a player on the 49er's active roster is \$2.69 million with total payroll costs amounting to \$144 million, and the team receives \$226.4 million share of the NFL national television broadcast agreement. While the basic nature of the game has changed very little in 50 years, fans have borne the brunt of paying for the lavish new sports venues, the high purchase price for sport franchises, and accelerated player salaries.

The high cost of attending a professional major league event is mirrored in other contexts. The cost of attending a college football game has risen dramatically. A survey of ticket prices at the 63

schools in the six major conferences involved in the Bowl Championship Series (BCS) reported that, even in the two-year period of the Great Recession, the price of single-game tickets to high-demand games rose by 12% to 16% on average.<sup>35</sup> Further, as Chapter 10 details, the face value of a ticket does not reflect its true cost, because many major college football programs require mandatory annual donations—often exceeding \$1,000, or the purchase of personal seat licenses—as prerequisites for purchasing tickets in good locations.

NASCAR tickets are similarly expensive. While the average ticket price was \$83, for premier events, such as the Daytona 500 and the Charlotte Speedway's Bank of America 500, the average prices were \$192 and \$156, respectively.<sup>36</sup> Further, like many other desirable sport event tickets, the face-value prices for major races and the average price of tickets sold on the secondary market (resold tickets) are much higher. For example, those for the Daytona 500 averaged \$358.<sup>37</sup>

The rising cost of attending live events has resulted in middle-income and blue-collar fans, the traditional bedrock consumers of professional sports, being replaced at stadiums and arenas by more affluent spectators. For example, it was reported that the household income of those attending Baltimore Orioles games averaged \$87,500, which was \$35,000, or 65%, more than the median household income of those residing in the area.<sup>38</sup> In effect, facilities are built for wealthy owners and well-paid athletes to play in front of wealthy corporate executives and season ticket holders.

The extent to which sport properties have become dependent on more affluent fans is illustrated in the NFL and NBA, where almost two-thirds of season-ticket holders have aggregate household incomes over \$100,000. One prominent NBA team reported that 24% of its season ticket holders had annual household incomes of \$250,000 and above. A comparison of these numbers with the income profile of U.S. households reveals the narrowness of the base: 17.8% of all American households have incomes over \$100,000; about 4% of households report incomes over \$250,000; and the median household income is \$59,000. With reference to the NFL, it has been observed: "Fans simply can't afford to go to games. If you take a family of four and you get an average seat—between the parking and making the day for the kids a good experience [with concession items]—you are spending about \$600, which is the price you'd pay for a good TV back home"<sup>39</sup>

These prices have resulted in a narrowing of the size of the potential market who can afford to attend live events. For major league, professional, and college sports, it is likely to be around 15% to 20% of households in a market area. Can sport properties thrive when targeting only 15 to 20% of the households in their markets with the capacity to pay premium prices? Dependence on such a narrow segment of the population places them in a precarious and vulnerable position, because these affluent households are likely to be the primary focus of every other venue entertainment provider: cruise lines, resort operators, live theater, orchestras, et al.

To reduce their financial vulnerability, it seems likely managers will seek to supplement the income from this high income target group by attracting less affluent and younger fans. Exposing the next generation of fans to the distinctive experience of a live, in-venue experience is especially important since it is a key to sustaining robust future attendance.

To effectively expand the fan base, sport managers will have to be creative and flexible with offers of affordable, budget-sensitive opportunities to prospective attendees. This will involve developing special discounts, such as the Charlotte Bobcats Pay-The-Pick promotion described in Exhibit 1.6.<sup>40,41</sup> Other pricing tactics are likely to include early or pre-payment discounts, installment and/or deferred payment plans and, even money-back guarantees, while recent innovations such as dynamic pricing also will become standard practice (Chapter 10).

In addition to ameliorating price barriers, the benefits of live, in-person attendance must be consistently reinforced. The strength of fans' affinity with their teams is a major predictor of attendance.<sup>42</sup> The goal for sport managers is to develop programs that enhance fan's identification with the team so "their relationship with the team becomes a significant part of their lives."<sup>42</sup> Fan loyalty-building programs, such as regular newsletters and personal communications (e.g. email,

## EXHIBIT 1.6. Bobcat Tickets for a Buck

Immediately after the end of the 2011–12 season in which the NBA Charlotte Bobcats team (re-named the Charlotte Hornets in 2014) finished with the worst winning percentage (.106) in the history of the NBA and the actual attendance had fallen to fewer than 14,000 per game (less than 70% of capacity), the team offered their fans the opportunity to purchase a full-season ticket package for the following season for as little as \$1 per game. The special promotion discount was tied to the team's draft selection position.

If the team was awarded the first pick, seats would be offered as cheaply as \$1 per game or \$43 for the season. With the worst record, the Bobcats were guaranteed one of the top four picks in the draft, with a 25% chance of winning the first selection. The team's actual draft selection pick would be determined by a lottery held by the league at the end of May. The team placed 500 upper-deck tickets for sale in the "Pay the Pick" promotion. The special promotion offered fans the opportunity to buy up to four seats for a little as \$1 (#1 pick) to a maximum of \$4 per game, if the team's pick fell to four. Even that worst case scenario that would price the season tickets at \$172 resulted in a substantial savings, as the full price for these tickets would be \$344.

The special promotion proved to be very successful. According to the team president, "The demand for the 'Pay-The-Pick' promotion surpassed anything we had hoped for." The original 500 seats sold out in less than a week. As a result, the team increased the number of seats made available at the special discount price. In fact, the Bobcats received the second pick in the draft lottery, which meant fans responding to the special promotion were charged just \$2 per seat per game or a total of \$86 for the full season.

tweets); direct access to players, coaches and team executives (e.g., chat rooms with coaches and players; regular pre- or post-game meetings; chalk talks; and special autograph signing opportunities with players) all correlate positively with increased attendance. In addition to increased attendance, stronger affinity results in diminished price sensitivity and an increased propensity to seek out and patronize team sponsors, both of which are key contributors to the financial viability of a sport organization.

### Globalization

The magnitude of the transition of professional sport from being a local to being a global product could not have been foreseen by anyone 25 years ago. In that sense, it is unbelievable. Major sport properties are aggressively expanding their international presence through television and digital vehicles, live exhibitions and licensing agreements. There has been no transition of similar magnitude and speed in the history of sport.

The growth is perhaps most dramatically illustrated by the English Premier League (EPL) whose foreign media rights revenues exceed those of any other sport league in the world. These are documented in Exhibit 1.7. When the league was restructured and rebranded into its present format in 1992-93, it received less than £8 million a year from selling live game rights to other countries. From 2016 to 2019, international TV rights fees increased to £1.1 billion a year. This includes a £100 million a year agreement for six years with NBC, which substantially enhanced its mainstream visibility in the U.S. The league's 80 separate foreign contracts deliver the games to over 200 countries.<sup>43</sup>

Exhibit 1.8 compares the nine soccer clubs attaining the highest revenues in the 1996-97 season with those receiving the most revenues 20 years later in the 2015-16 season. Five of the top nine revenue producing clubs in the 2015-16 season were from the EPL. When the total revenues of the top 9 clubs in each year are aggregated, they increased by almost 800% from \$461 million to \$3,655 million over the 20 years. In both seasons, the list was headed by Manchester United, Barcelona,

### EXHIBIT 1.7. Growth of Foreign Media Rights Income Accruing to the English Premier League

	Length of contract (years)	Total value of contract	Income per year	Annual growth compared to the previous contract
1992-97	5	£38m	£7.6m	-
1997-01	4	98m	24.5m	158%
2001-04	3	178m	59.3m	82%
2004-07	3	325m	108.3m	83%
2007-10	3	650m	216.7m	100%
2010-13	3	1.4bn	479m	121%
2013-16	3	2.2bn	744m	55%
2016-19	3	3.2bn	1.1bn	45%

### EXHIBIT 1.8. Soccer Clubs Reporting the Largest Revenues in the 1996-97 and 2015-16 Seasons

(£ sterling)

1996-97	
Club	1996-97 Revenue (£m)
Manchester United	87.9
FC Barcelona	58.9
Real Madrid	55.7
Juventus	53.2
Bayern Munich	51.6
AC Milan	47.5
Liverpool	39.2
Internationale	39.1
Tottenham Hotspur	27.9
<b>Total:</b>	<b>£461</b>

  

2015-16	
Club	2015-16 Revenue (£m)
Manchester United	515.3
FC Barcelona	463.8
Real Madrid	463.8
Bayern Munich	442.7
Manchester City	392.6
Paris Saint-Germain	389.6
Arsenal	350.4
Chelsea	334.6
Liverpool	302
<b>Total:</b>	<b>£3,655</b>

and Real Madrid. Over the 20 years their respective revenues increased by 427%, 787%, and 833%. Indeed, the 2015-16 revenues reported by each of these three clubs exceeded the total revenues received by all top 9 clubs in 1996-97<sup>43a</sup>.

The globalization of sport gathered momentum when the owners of broadcast media joined with the corporate owners of sport teams in the early 1990s. This alliance made it possible for new sports, new formats of existing sports, or new leagues to “go global” quickly with strong support from media, sponsors, advertisers, and sport promoters.

The remarkable evolution of the Indian Premier League in the cricket world inspired two similar ventures: The Premier Soccer League and the International Tennis League. All of these ventures illustrate the speed with which globalization can occur when business and media interests merge. In 2016, eight years after it was launched, the brand value of the India Premier League was estimated to be \$4.16 billion, and its annual revenues ranked it sixth among all the world’s sport leagues. These ventures are described in Exhibit 1.9.<sup>44,45,46</sup>

### **EXHIBIT 1.9. The Indian Cricket and Soccer Leagues and the International Tennis League as Examples of Sport Entrepreneurship**

The Indian Premier League (IPL) was launched in 2008. Within two years its revenues were the sixth largest among all the world’s sports leagues. It demonstrated what could be achieved by innovation, creativity, and vision, when media and business interests cooperated. Its success, inspired two similar ventures: the Indian Super League (ISL) and the International Premier Tennis League (IPTL) which both commenced in 2014.

#### **The Indian Premier League**

This cricket league was launched in 2008. It is a “made for television” venture. The league plays the shortest version of the game called 20/20. In this format, each team bats for 20 overs (There are six balls in every over). This format is characterized by high-scoring action that is typically completed in a three- to four-hour time period, comparable to an American football or baseball game. The teams play an aggregate total of 60 games in a seven-week April/May spring season. The season was selected because there was a relative lack of competing events in the world cricket calendar at this time of the year.

The salaries of elite IPL players for that short period are substantially higher than the annual salaries they are paid by their national cricket associations. This had an immediate impact on the cricket world. For example, shortly after the first IPL draft, New Zealand Cricket announced a 40% pay increase for its contracted players. This

still left the annual top salary of their highest paid players well below the average amount paid by the IPL for just six weeks of work.

The IPL was founded in 2008 with eight team franchises based in India’s major cities. India’s population of 1.3 billion, a rising middle class of about 250 million, and an economy growing at about 6% annually provided a prime business opportunity for a new Indian cricket venture. The league was created by India’s governing body for cricket, the Board of Control for Cricket in India (BCCI).

Twenty-four syndicates bid for the eight franchises. The successful bidders paid between \$67 and \$112 million. Each year a two-day player draft is held and is broadcast live on television. The draft takes the form of an auction. In a recent auction, 127 cricketers were sold for \$62 million. Six players on each squad can be foreign. The franchises have a salary cap of \$9 million to control costs.

To promote their teams, most franchises incorporated the Indian passion for Bollywood into their marketing programs. Bollywood stars were key members of groups that won franchises and were the public faces for their franchises. All but one of the IPL teams hired Bollywood stars and other celebrities as “brand ambassadors.” When Bollywood action hero Akshay Kumar was introduced

*Continued*

## EXHIBIT 1.9. The Indian Cricket and Soccer Leagues and the International Tennis League as Examples of Sport Entrepreneurship

*Continued from page 17*

as the brand partner for the Delhi Daredevils, he made a grand entry on to the stage with a cricket bat and helmet and performed a martial art dance before vouching his loyalty for the team. The Daredevils' team captain observed, "20/20 is pure entertainment, and there are no bigger entertainers than Bollywood stars." IPL matches are more than sporting events; they are over-the-top entertainment extravaganzas, embracing Bollywood and other spectacles. Teams typically budget \$500,000 to \$1.25 million for entertainment during home matches. This was a very different approach to the traditionally staid and tradition-bound game of cricket to which fans had previously been exposed.

For example, the opening match in Delhi included a 45-minute entertainment spectacular on four mobile stages, including performances by Bollywood stars and international artists. There were folk dancers, acrobats, and trampoline athletes. The songs for all eight IPL teams were performed. There was a laser and light display and fireworks.

When the league commenced, five Indian players were designated as "iconic": Rahul Dravid, Yuvraj Singh, Sourav Ganguly, Sachin Tendulkar, and Virender Sehwag. These players were legendary stars of the game in India. They were not included in the regular draft of players but were assigned to their home city teams in order to nurture local fan excitement. The iconic players received salaries 15% higher than the next-highest player on their teams.

Each game typically is viewed by approximately 150 million Indians, but global broadcasting rights mean the total number of viewers is much greater. The Indian audience is dominated by young middle-class city dwellers, who are among India's most free-spending consumers. Remarkably, 45% of these viewers are female.

Franchise fees increased exponentially. When two new franchises were admitted four years after the league was launched, their owners paid a combined total of \$700 million. This was more than the founding eight franchises paid in total when

the league was formed. The value of the property is now estimated to be over \$4 billion.

### **The IPL Business Model**

IPL franchises generate revenue from two sources. First, they share in central revenues paid to the league. These include a share of league media rights, sponsorships, and money paid by league official suppliers. For instance, franchisees were scheduled to receive 80% of television revenues (after production costs) for the first two years, gradually decreasing to 50% for year 11 and beyond. Franchisees receive 60% of league sponsorship revenues for the first 10 years, and 50% thereafter. In addition, to the revenues distributed to all franchisees, BCCI pays \$3 million in prize money. The matches became must-see viewing in India with the country fixated on the tournament. The media rights fee amounts to over \$1.5 billion for a nine-year period.

The second source of franchisee revenue is from locally generated sources. In the first 10 years, the period in which the financial arrangements between franchises and the BCCI are most well defined, each franchise keeps 100% of these revenues. This includes match tickets, franchise sponsorships, licensing, merchandising, concessions, and other local-source revenue. Teams are responsible for leasing stadiums for their home games. Stadiums are generally owned by cricket associations, which receive 20% of the tickets for each match. The remaining 80% of tickets are sold by the host teams, who keep all the revenue from these tickets.

Each franchise owner pays its franchise fee in equal installments over 10 years. Franchisees also pay player salaries, franchise management salaries, stadium leases, match day costs such as stadium staffing and security, and other franchise-specific costs.

### **Emergence of the Indian Super League**

Following the success of the IPL cricket league, the Indian Super League was launched in 2014 to capture interest in soccer. It is comprised of eight teams and plays a 10-week season from October through December. In its first season, average

attendance at its games was 24,337. This was exceeded only by the top leagues in England, Germany, and Spain and was higher than those in the long-established soccer leagues of France, Italy, Brazil, Argentina, and others.

Team rosters were required to be between 22 and 25. Foreign players had to account for between eight and 11 of those on the rosters, reflecting the long-term goal of moving India on to the world stage in soccer by learning from seasoned professionals from Europe and Latin America. The opening game of the season was watched on television by 74.7 million. The teams were located in hotbeds of soccer interest and included four of the five most populated cities in India.

The ISL got a lot right: An eight-team format centered in hotbeds of football interest; a round-robin contest ending with play-offs for the actual title to avoid tedium or any one club dominating; revamped stadiums with proper facilities; sponsorship to enable ticket prices to stay low; a new level of broadcast professionalism; and the right level of stardust by ensuring popular figures from Bollywood, cricket and business were prominently involved with each team.

Embracing the modern sport fan's need for constant interaction, organizers went large on digital media. The ISL site had 16 million online video views through the course of the tournament. Its online channel registered 28.7 million visits. On social media it recorded more than 1.8 million

conversations on Twitter and Facebook, 10 billion page impressions, and 275,000 registered members. The semifinal between Chennaiyin FC and Kerala Blasters attracted 1.1 million online video views—the highest ever in India for a single sporting event.

### **The International Premier Tennis League**

The International Premier Tennis League similarly followed the IPL model when it commenced play in 2014 with five franchises in New Delhi, India; Kobe, Japan; Singapore; Dubai, UAE; and Pasay, Philippines, with Coca Cola as the league's title sponsor and Qatar Airways as its presenting sponsor. Matches are held in December after the end of the regular professional tennis tour. It was successful in attracting most of the top players from the circuit because it was highly remunerative and the format was sufficiently short that it did not exhaust the players at the end of their long season.

Its television contracts made IPTL matches available in over 125 countries. Its playing format is tailored to television with the need to maximize the number of critical, dramatic moments in the shortest possible timeframe. Accordingly, the team event is comprised of five, one set matches in men's and women's singles, men's and women's doubles; and past champions' singles. The first to four points wins a game (no advantage points). The first to six games wins the set. In the case of a tie, there is a five-minute timed shoot-out.

A similar entrepreneurial opportunity relating to soccer appears to exist in China, with its attractive market of 1.4 billion people. In 2016, China's national soccer team was ranked 96 by FIFA, immediately behind the Faroe Islands, whose population is 50,000. This was viewed by the Chinese President, who was a self-proclaimed soccer enthusiast, as being shameful and inconsistent with China's aspiration to be the world's dominant power. His actions in response to this situation are described in Exhibit 1.10.<sup>47,48</sup>

Globalization is a major thrust of all the major U.S. leagues. Four of the five have a substantial proportion of international players on their rosters, which has aided this effort. MLS only recently attained the status of a "major league" in North America, but its recent success in globalization is remarkable. As part of the league's long-term strategy to grow soccer in the U.S., it limits the number of international player roster spots to a total of 160 divided among its 20 clubs. These spots are tradeable, so some clubs may have more than eight and others fewer than eight. Despite this limitation, over the years players from 112 different countries have played in the MLS. MLS media exposure beyond North America includes:

- A six-year contract with Britain's Sky Sports in the UK.
- A similar contract with Eurosport to televise MLS games in Europe.
- An agreement with Abu Dhabi's Sports Channel to show at least two games a week to audiences across the Middle East and North Africa.
- A multi-season agreement with Globosat, which is Brazil's main soccer station.
- Ongoing negotiations with prospective media partners in South America, Africa, and Asia.

Among the other U.S. major leagues, the NBA has the broadest global appeal, reporting 100 international players from 37 countries, mostly European, on their most recent season rosters, with all 30 NBA teams featuring at least one foreign player. The NHL has players from 20 different countries on its teams. In a typical recent season, the 25-man opening day rosters of MLB teams showed 28% of players were born outside the U.S. A large proportion of them had their roots in the same narrow

### **EXHIBIT 1.10. Rapid Development of Soccer in China**

In 2016, the President of China announced a three-pronged plan to transform China's soccer status. First, 20,000 "soccer schools" attached to regular schools were to be opened in 2016, rising to 50,000 by 2020. The Evergrande Football School in Guangzhou—with its 50 training fields, 24 Spanish coaches, and 2,800 Chinese students—was a prototype.

Second, the China Super League, the country's 16-team elite professional soccer league was upgraded. The expenditures of its teams have matched the English Premier League in recent years in acquiring marquee players from around the globe. The average player salary in the league is double that of players in MLS. For its top five teams, the squads' average salaries exceed \$1.5 million, and in 2016 the most highly paid player in the world was an Argentinian who signed a two-year contract at \$770,000 a week to play for Shanghai Shenhua in the China Super League.

Business interests are centrally controlled with most teams owned by the nation's biggest developers and media conglomerates, which thrive in the one-party state only if the government let them. The mainline media are committed to the success of the project, so the media rights for the five year period 2016–2020 were sold for \$1.3 billion to China Media Capital, a state-backed investment company.

Third, China has a strong core of soccer fans who avidly support Europe's top teams. These teams cultivate the support (and merchandise sales) by regularly touring Chinese cities for pre-season exhibition games and invariably sell out their games. With the Chinese government's encouragement, this relationship has been strengthened in recent years by Chinese companies acquiring ownership of professional teams in soccer-prominent nations. For example, in England they have purchased a majority ownership of two EPL teams, West Bromwich Albion and Hull City, and two second tier teams, Aston Villa and Wolverhampton Wanderers, both of which have viable aspirations to achieve promotion into the EPL. In addition, they have acquired minority stakes in the EPL's Manchester City and Liverpool clubs.

The world's most populous country has long been viewed by Western sport properties as a fertile market for the export of their products. However, Chinese owners are quickly learning the advanced nuances of American and European sport business and developing ways to apply these lessons at home. Their knowledge, commitment, and level of financial investment has grown to the point where the Super League's lure of top talent may result in it capturing some of the media interest in soccer from other parts of the world. In the not too distant future, it is possible other soccer nations will be playing defense and thinking about protecting their home markets from Chinese expansion, rather than playing offense by exporting their products to China.

geographic zone of Caribbean Island countries. The NFL has very few international players, and most of them are kickers, because there are few opportunities to learn and play the sport outside the US.

These data illustrate why the NBA has had most success in penetrating international markets. Although the US voted against allowing NBA players to participate in the Olympic Games in 1992, the outcome was hugely beneficial to the globalization of the sport and the league. Basketball interest soared internationally and the sport can now claim to be the world's second most popular sport behind soccer. Before the 1992 Games, the NBA was viewed in 88 countries. Now it is viewed in 217 nations and territories.<sup>49</sup>

Some NBA team owners believe the next step in global expansion should be to create a World Cup based on soccer's model every four years. This would embrace 32 teams (compared to 12 in the Olympic Games) and be controlled by the NBA so revenues from media rights and sponsorships would be more equitably shared among the NBA, national basketball federations, and the players, rather than accruing to the International Olympic Committee.<sup>49</sup>

The NBA's future global opportunities seem most promising in Europe and China. The league has suggested four strategies it could adopt to expand into Europe: (i) enter into "alliances" with European clubs, several of which have contacted the NBA to explore this option; (ii) take over an existing league; (iii) form a new league comprised of existing European teams, which would withdraw from their national competitions; or (iv) award franchises to a number of European cities which would become members of the NBA.<sup>50</sup>

Consistent with the earlier description of soccer expansion in China (Exhibit 1.10), that country probably offers the most opportunities for expanding revenues in all sports. Basketball became prominent in Chinese consciousness when Yao Ming joined the Houston Rockets. His presence meant that Houston's games were widely broadcast in China. When the Rockets played Milwaukee, who had Yi Jianlian on their team, the game featuring the two biggest names in Chinese sport was broadcast by 19 television stations, two websites, and a mobile phone company. The audience exceeded 200 million. The NBA commissioner commented, "I have seen the future, and it is Chinese."<sup>51</sup> Consequently, the NBA has opened two NBA stores in Beijing, a branch office in Beijing, expanded its administrative staff in Hong Kong, created a Chinese website, launched a Chinese basketball magazine, and scheduled and played exhibition and preseason games in Beijing, Shanghai, and other large Asian cities.<sup>52</sup>

However, any expansion into China has to consider the optic of playing in a country that restricts freedom of speech, movement, religion, and other human rights. Further, there are logistical challenges. Beijing is a 12-hour time difference from the East Coast and a 15-hour time difference from the West Coast. There is a difficult balance between playing a game at a time that is palatable to Chinese fans and the television schedule in the US. A game played at noon on Sunday in China would start at 9pm and midnight for television viewers in the Pacific and East Coasts of the US, respectively. In addition the flight time to China is a significant consideration.<sup>53</sup>

The NFL is the richest of all the world's sports leagues, but is challenged to create a global market. Basketball and soccer are relatively easy to play and understand, but American football is not. One NFL executive stated: "The NFL is not adaptable. This is a much harder product to sell on a global basis."<sup>54</sup> Nevertheless, an NFL official reported the league is "making concerted efforts to establish ourselves, internationally, going after half-a-dozen key territories to create some level of foundation."<sup>54</sup> Prominent among these targets are Mexico and China, but the primary focus is on London. An NFL game has been played there every year since 2007, and by 2017 the number per season had gradually increased to four. This is the equivalent of half of an NFL team's home schedule, and the NFL's strategy is to gradually move toward playing eight games, which would be the equivalent of a team's full season home schedule.<sup>56</sup>

All of the games in London have been a sell-out with an average attendance of over 80,000 despite the NFL scheduling less well-known teams for these games. The league's internal research

shows a fan base of 13 million of which almost 4 million are considered to be “avid” fans.<sup>57</sup> The success of these games caused the NFL Commissioner to state, “I actually believe that a franchise in London is realistic...Just how you work that is not easy...I think we can find solutions to those issues...As a market, I believe they can support a franchise.”<sup>55</sup> On another occasion the NFL commissioner stated, “There’s a great deal of interest in holding a Super Bowl in London so we’ll be looking at that.”<sup>53</sup>

A major step forward appears to have been made when Tottenham Hotspur, a leading English Premier League (EPL) team based in London, constructed a new state-of-the-art 61,000 stadium in 2018. It included a retractable grass pitch for EPL matches, but beneath that pitch is an artificial surface which is a regulation American football field. The stadium also has “dedicated facilities for the NFL” including a home locker room and a media suite. Besides soccer and concerts, the team signed an agreement with the NFL to host two NFL games per year for 10 years. In addition to helping the NFL grow in England, Tottenham believe the relationship will deepen its own team’s fan base in the US. Their CEO observed: “Our tie-up with the NFL will see the two most popular sports in the world come together at a time when both the EPL and NFL are enjoying huge growth in each other’s home territory. This can be mutually beneficial to both parties.”<sup>58</sup>

An additional dimension to the NFL’s globalization effort was noted by another of its executives who stated, “As big as the NFL is in the United States, it’s one-third the size of rugby on a global basis.”<sup>59</sup> The similarities between American football and rugby caused the NFL to explore launching a professional rugby union league in the U.S. Initial tentative steps have seen the NFL channel broadcast exhibition rugby games. The NFL believes that thousands of high-caliber American football players, who do not get to play in the NFL, provide a substantial resource of player talent.<sup>59</sup> A five team professional rugby league was launched in 2016, but without NFL backing it received little visibility.

Recognition of the limited global potential of the U.S. leagues, except for the NBA, was central in the decision of the owners of the Boston Red Sox to purchase Liverpool Football Club, which is a leading team in the EPL. Their rationale is described in Exhibit 1.11.<sup>60</sup> Their investment strategy was validated, since six years after purchasing the team for £300 million, they were considering an offer to purchase a 13% stake in it from Chinese investors which valued the club at more than £700 million.<sup>61</sup>

The EPL is the most global of the world’s sport leagues. Analysis of starting line-ups of all matches in the EPL revealed that only 31% of players who started in the first game of the 2016–17 season were English. This compared to 69% who were English when the league was restructured into its present form 25 years earlier. The league’s internationalization was reflected in the teams’ managers, since only 3 out of the 20 of them were English.

The search for young talent is similarly international. For example, in the US many of Europe’s leading clubs have for several decades operated short, intense, summer camps for promising young players. This model transitioned into a more permanent relationship in 2006 when Liverpool opened its Liverpool F.C. International American Academy (LIAA) in Texas. The club has expanded it to other locations in the San Francisco Bay Area, Michigan, South Carolina, and West Florida. In total, LIAA sites enroll 4,000-5,000 players across all age groups from under 6 to high school. Typically, parents pay around \$2,000 per year for each athlete, if they make the annual cut-offs based on their ability. If they stand out, then they are invited to transition to the home club’s academy in Liverpool. This approach has since been embraced by many other leading European clubs.<sup>62</sup>

The globalization of sport inevitably results in globalization of financing. The US leagues have rules that effectively prevent such investments, but the EPL does not. In 2016, the majority owner of 13 of the 20 teams in the EPL was a non-UK citizen. The non-citizen owners were from the US (Arsenal, Liverpool, Manchester United, Sunderland, and Swansea City), Russia (Chelsea and Bournemouth), Switzerland (Southampton), Thailand (Leicester City), United Arab Emirates (Manchester City), Watford, (Italy), and China (West Bromwich Albion and Hull City).

### **EXHIBIT 1.11. Why the Fenway Group Bought the English Premier League's Liverpool Football Club**

The Fenway Group, owners of the Boston Red Sox, had no knowledge of soccer—not even of some of its basic rules—when they purchased Liverpool F.C. for £320 million. Indeed, the principal owner acknowledged that while he was a lifelong American sport fan, he knew “virtually nothing” of Liverpool or the EPL before buying the club. However, when the club’s prospects were explained to him, “A number of parallels emerged with the situation that existed in Boston when we arrived.” He noted the Red Sox and Liverpool were both historically successful clubs, which had lost their dominance, and both had beloved old grounds not up to modern money-making standards. He believed Fenway could apply the same strategies at Liverpool as they had to the winning effect in Boston and also make an ambitious move into international sport.

There was more to it than just wanting to win. Central to Fenway’s fascination was English football’s, and Liverpool’s, huge worldwide support, compared to the US-restricted following for American sports. Several Fenway executives recounted with awe that the Super Bowl, American sport’s most prestigious event, is watched by around 20 million viewers outside the US, whereas Liverpool’s 3-1 defeat of Manchester United in an EPL game attracted an estimated 500 million global audience.

Fenway became aware of the large sponsorship revenues from international companies, which the American owners of Manchester United had obtained for that club and believed Liverpool had similar unexploited potential. They found it attractive that EPL clubs keep the money they make from such worldwide sponsorship, whereas MLB teams’ income is taxed and shared, and Fenway resented the amount of money the Red Sox had to share with smaller teams. Fenway was convinced that buying Liverpool was better value than U.S. sports teams with their “limited global potential.” Their spokesperson explained Liverpool’s appeal:

So much internet clutter competes for mindshare now. Big sports clubs are one of the few things which can cut through and capture mindshare. We have one of the greatest baseball teams, but its ability is geographically limited. The Liverpool numbers blew us away. We believe there is a significant amount of monetization we can do, on a worldwide basis, which is not occurring now.

After acquiring the club, Fenway repeatedly stated they had no interest in selling it. Their owner observed:

We’ve said it before and I’d like to say it again: This club is not for sale. If someone wants to write us a letter saying they want to buy the club, then it will get put in the garbage. However, we actively pursue commercial opportunities which, in turn, help us invest in the squad and win football matches. Under the right conditions and absolutely with the right partner, we could look at some small investment stake in the club.

In accordance with this latter position, six years after they purchased the club Fenway announced they were considering an offer by a Chinese company to acquire a 13% stake in it which would value it at over £700 million. Thus, in six years Fenway’s investment had more than doubled in value.

The involvement of so many international players, managers and owners in the games helps to foster interest in their home countries and contributes to the league’s remarkable global penetration. The EPL’s chief executive observed:

Only the American leagues do better on a commercial basis than us, but they have a population of 300 million and we are only 60 million. They are interested in how

we have done so well internationally. We have one big advantage—we play football [soccer], the global game. I don't have to show countries what football is, with exhibition matches to explain the rules.<sup>53</sup>

The EPL's globalization is reflected in its teams' sponsorships. Companies are looking to be involved with events that have a strong mass appeal world-wide, which makes EPL games highly desirable. An executive noted: "Businesses, whether they are U.S. multinationals, UK or Asian based, are not talking about borders, that's the game changer here. It's a global opportunity."<sup>53</sup>

Like almost all professional sport teams, Manchester United has a kit sponsor (Adidas), but as Exhibit 1.12 shows the team has 68 other sponsors including:

- Beer (Singha), wine (Casillero del Diablo), and spirits (Aperol);
- An official confectionary sponsor, though only for five countries in southeast Asia;

### **EXHIBIT 1.12. Manchester United's Extensive Network of Commercial Partners**

#### **Global Partners**

- Adidas, official kit supplier
- Aon, principal partner
- Chevrolet, principal partner
- 20th Century Fox, official Manchester United feature film partner
- Abengoa, official sustainable technology partner
- Aeroflot, official carrier
- Aperol Spritz, official global spirits partner
- Apollo Tyres, official tyre partner
- Casillero del Diablo, official wine partner
- Columbia, official outdoor apparel partner
- DHL, official logistics partner
- Epson, official office equipment partner
- Gulf Oil International, official global lubricant oil and fuel retail partner
- HCL, official digital transformation partner
- HEROES, official formal footwear partner
- Kansai Paint, official paint partner
- Marathon Bet, official global betting partner
- New Era, official leisure headwear partner
- Nissin Foods Group, official global partner
- Swissquote, official forex and online financial trading partner
- Toshiba Medical Systems, official medical systems partner
- Yanmar, official global partner

#### **Regional Partners**

- A.P. Honda, official motorcycle partner for Thailand
- Achilles Radial, official tyre partner for Indonesia
- CHI, official soft drinks partner for Nigeria
- Cho-A Pharm Co. Ltd., official pharmaceutical partner for Korea and Vietnam
- Donaco, official casino resort partner for Thailand, Cambodia, Vietnam, Laos, Myanmar and South Korea
- Eurofood, official confectionary partner for Cambodia, Laos Myanmar, Thailand and Vietnam
- Federal, official tyre partner for Taiwan and China
- Gloops, official social gaming partner for Japan
- The Hong Kong Jockey Club, official partner
- IVC, official wellness partner for China
- Manda, official nutritional supplements partner for Japan
- Nexon, official social football gaming partner in South Korea
- Ottogi, official ready meal partner for Korea
- Sbenu, official casual footwear partner in South Korea
- Belgacom TV (11+), official MUTV broadcast partner for Belgium

- Cable and Wireless, official Quad-Play partner for the Caribbean
- Direct TV PanAmericana, official MUTV broadcast partner
- Eclat Media Group, official MUTV broadcast partner for South Korea
- Emtel, official triple play and MUTV broadcast partner for Mauritius
- Fiji TV, official MUTV broadcast partner for Fiji
- Globacom, official integrated telecommunications partner for Nigeria, Ghana, Republic of Benin
- PCCW, official integrated telecommunications partner and official broadcast partner for Hong Kong
- Portugal Telecom (MEO), official MUTV broadcast partner for Portugal
- Sina Sports, official MUTV broadcast partner for China
- Sky TV NZ, official MUTV broadcast partner for New Zealand
- STC, official integrated telecommunications for Saudi Arabia
- TM, official integrated telecommunications partner for Malaysia
- TrueMove H, official integrated telecommunications partner for Thailand
- TV 2, official MUTV broadcast partner for Norway
- VIVA, official integrated telecommunications partner for Bahrain and Kuwait

#### **Financial Partners**

- AFB, official financial services affinity partner for Kenya, Ghana, Zambia, Zimbabwe, Uganda and Tanzania
- Banif Bank, official financial services affinity partner for Malta
- BIDV, official financial services affinity partner for Vietnam
- Commercial Bank of Qatar, official financial services affinity partner for Qatar
- Danamon, official financial services affinity partner for Indonesia
- DenizBank, official financial services affinity partner for Turkey
- Emirates NBD, official financial services affinity partner for the UAE
- Eurobank, official financial services affinity partner for Serbia
- Invex Banco, official financial services affinity partner for Mexico
- Krungsri, official financial services affinity partner for Thailand
- Maybank, official retail banking partner for Malaysia, Singapore, and Philippines
- MBNA, official financial services affinity partner for the UK
- Santander, official financial services affinity partner for Norway
- Shinsei, official financial services affinity partner for Japan
- Virgin Money, official financial services partner

- An official soft drinks partner in Nigeria (CHD);
- 15 financial and banking partners around the world from Malta to Zimbabwe and Norway to Tanzania;
- Three different tire sponsors: Apollo Tyres for the whole world, Achilles Radial in Indonesia, and Federal in China and Taiwan.

Much of the focus has been in the Far East where most of the team's regional partners do their business, including an agreement with Unilever, the team's official male shampoo partner in Indonesia, Singapore, and Vietnam. The club has shown their global appeal with media partnerships everywhere from Azerbaijan to New Zealand via Mauritius, the Caribbean, and Kuwait.<sup>63</sup>

Associating with a property to build brand image through sponsorship is now widely used by companies. A more comprehensive approach of owning sport properties through acquisition or development for the explicit purpose of using them to develop a global brand was pioneered by Red Bull. Typically, the company has developed its own event properties aimed at "edgy," extreme

adventure sports, or acquired small existing properties, rebranded them with the Red Bull name, and expanded and molded them to fit the Red Bull image. In addition to its numerous events, the company owns two Formula One racing teams, A NASCAR team, and soccer teams in Austria, Germany, New York, and Brazil. All of the soccer teams play in Red Bull colors, in Red Bull named and colored stadiums. The fastest growing motor sport in the world is the Red Bull Air Race series which attracts a global audience of 300 million in 180 countries, and average on-site crowds of 400,000. Its sport properties have been a profitable venture, but their most important role has been to build the Red Bull brand, which was launched in the 1980s into a global company with annual revenues of around \$5.5 billion.<sup>64</sup>

The prime motivation behind the City Football Group (CFG) appears to be similar, but in this case the brand is not a product; it is the Principality of Abu Dhabi. The chairman of CFG is a member of the Abu Dhabi royal family. After acquiring Manchester City of the EPL in 2008, the company invested over \$1 billion in buying outstanding players from around the globe to transform a traditionally mediocre EPL team into one of the world's elite club teams. Since that time, CFG have acquired New York City FC, Melbourne FC in Australia, and a minority interest in Yokohama E Marinos in Japan's J League. Subsequently, the group sold 13% of the company to a Chinese syndicate, which is supported by the China government, for \$400 million valuing it at around \$3 billion. The chairman observed: "This will leverage the incredible potential that exists in China."<sup>65</sup>

The goal of CFG is to build a global platform from which to promote and raise the profile of Abu Dhabi. The Sheik confessed to having little knowledge of soccer. As one commentator noted: "How better to guarantee headlines from Manchester to Madras than buying a football club and then launching raids for the world's best players"<sup>66</sup>

## Sport Managers as Entrepreneurs

The basic theme of this text is that managers of sport organizations are required to seek out scarce resources from a wide range of possible sources and to use their marketing and financing skills to ensure the scarce resources acquired are allocated in a way that yields optimum financial benefits. These are the tasks of an entrepreneur. Indeed, we view the contemporary sport manager as an entrepreneur. Increasingly, effectiveness in professional, collegiate, and other forms of sport will be dependent upon managers' abilities to aggressively seek out resources for their organizations. This book is intended to provide readers with an in-depth understanding of the many traditional and innovative revenue acquisition methods available to sport organizations. It is the authors' belief that managers who are confident in their understanding of when and how to use a combination of these financing options will be in the best position to sustain and enhance the viability of their sport organizations.

The following quotation caught the authors' attention. It is extracted from a piece written in a national newspaper by a well-known commentator:

Out of the clubs which form the League, it would probably be over the mark to say that one-sixth are beginning this season with a balance on the right side of their accounts. One result is that they are anxious to offer lower wages to their players. In spite of that some players are keeping up the prices happily.

My point is that football is being ruined by being a commercial speculation. Local team spirit is being shattered by the purchases of players from outside, and is being replaced by merely mercenary ambitions on the part of the players. A large proportion of the clubs are so hard up that they can never hope to buy good enough players to rise to the top. . . . We have developed, on the one hand, into a ring of

financiers, who have captured sport for its value in the market, and, on the other hand, into a raucous, grasping multitude, who are good enough at pushing through the turnstiles, or bellowing at a player, or even battering a referee, but who have no notion of taking any decent exercise for themselves at any time.<sup>67</sup>

There are many in North America who would concur with the sentiments expressed by the writer and advocate that such flimsy foundations make the contraction of professional and collegiate sports inevitable and perhaps desirable. However, the article appeared in *The Daily Telegraph*, an English national newspaper; its context was the forerunner of the English Premier League; and it was published in September 1900. The writer was bemoaning the transfer of a player from one club to another for \$500 and a team spending \$6,000 on a new ground. In 2017, Paris Saint German (PSG) acquired a Brazilian player, Neymar, from Barcelona for a transfer fee of \$263 million. He signed a five-year contract with PSG, which paid him \$350 million in salary and bonuses over the five-year period. Thus, the total cost of the player to PSG for the five years is over \$600 million..

A large proportion of the clubs in 1900 were “so hard up that they could never hope to buy good enough players,”<sup>67</sup> but 90% of them were still in business 115 years later. Clearly, sport managers have responded to the challenge to find new revenues in the past, and the authors are confident they will do so in the future.

## Organization of the Book

Although the focus of the book is on the two most visible segments of the sport industry, intercollegiate and professional sports, the methods and strategies of revenue acquisition discussed in its chapters are adopted by a wide range of public and private sport organizations. Consequently, the numerous references and examples are drawn from a variety of sport settings.

Sport organizations are likely to acquire financial resources from three generic sources, which are shown in Exhibit 1.13: the public sector, the private sector, and the sport enterprise.

### EXHIBIT 1.13. Sources of Finance for Sport

Private Sector Sources	Public Sources	Sports Enterprise Sources
Investment capital	General taxes	Tickets, concessions
Corporate sponsorships	Selective taxes	Personal seat licenses
Donations	Grants, subsidies	Naming rights
	Tax abatements	Premium seating
		Licensed merchandise
		Media rights fees

The public sector has traditionally assumed a significant role in the financing of sport. Although government support may be axiomatic in the collegiate context, some are surprised to find it is so pervasive in the professional sports area. Consider the following:

Modern professional sport in the United States exists as we know it as a result of the public policies of federal, state, and local governments. Without favorable tax treatment of the professional sports industry, antitrust exemptions for the NFL-AFL merger and Major League Baseball, and the broad antitrust exemption for the

packaging of telecast and broadcast rights to league games, the economics and business operations of professional sports leagues would be dramatically different. Similarly, without the public financing of playing facilities, below-market rents for the facilities, tax exemptions, and other forms of subsidies provided by local and state governments, the economics and business operations of professional sports would be significantly different. This is just as true of those sports organizations and events that are not considered to be major league (i.e., the secondary sports market) as it is for the major league sports and premier sporting events.<sup>68</sup>

At the local government level, cities and counties have a long tradition of committing substantial tax monies to support sport from youth programs to the construction and operation of stadiums and arenas for professional teams. However, in the past decade the sport landscape has been transformed by the commercial alignment of private companies with sport organizations in the form of sponsorships and stadium naming agreements

Finally, sport properties can generate substantial revenue directly from their own operations through the sale of admission tickets, concessions, licensed merchandise, and media rights. High-revenue-yielding premium seating options (club seats, luxury suites) have displaced less expensive seating in all stadiums and arenas built over the past two decades. Personal seat licenses (PSLs) contractually obligated income streams (COIs), and a number of other revenue-enhancing innovations have become standard features throughout professional and collegiate sport in North America.

Section I of this fourth edition lays the foundation for the book. Chapter 1 has examined the many challenges and opportunities facing managers in the contemporary sport industry. Chapter 2 focuses on the contemporary financial environment confronting collegiate athletic programs, including spiraling costs, increased competition, flat or declining revenues, and the substantial financial implications associated with Title IX compliance. Chapter 3 examines the collective bargaining agreements of each of the major professional leagues; their implications for team financial performance; and insights into the many financial challenges and opportunities facing the thousands of sport teams operating in North America at the major and minor league levels. Chapter 4 reviews trends in the cost and number of new sports facilities built in recent decades and discusses who should pay for the development of these new venues. The sources of momentum undergirding the large public investment in sport facilities are analyzed, and the contentious issues of opportunity costs and equity that invariably accompany public subsidy decisions are discussed.

Section II focuses on economic rationales for public investment in major sport venues and events. Invariably, studies are undertaken to measure the magnitude of economic benefits purported to accrue from public investment in sport facilities. These are central to debates about the justification of tax-based subsidies that invariably arise when sport projects are proposed. Chapter 5 focuses on the principles of economic impact analysis and highlights errors commonly made in these analyses—sometimes inadvertently, but often deliberately to inflate the impact. Chapter 6 points out that economic impacts are only one side of the economic ledger, and they have to be weighed against the costs associated with new projects. Project proponents of new stadiums and arenas usually omit, and often suppress, cost information that should be central to making informed decisions.

Total community benefits from sport projects are not confined to direct economic impacts, they also embrace the structural and social capital benefits associated with them that may accrue to a community. As skepticism toward the purported economic benefits of major sport facilities and events has grown, advocates have redirected their justifications toward these less measurable benefits. Hence, Chapter 7 evaluates the potential contribution of new facilities or events to infrastructure and to social capital, which is concerned with the relationships that bind people together to accomplish collective community goals.

Section III covers the many capital funding options available from both public and private sector sources. When managers seek public sector funding, it is important they have some understanding of the alternative options available for acquiring tax dollars. These are provided in Chapter 8. Chapter 9 describes how government entities and sport organizations can creatively combine their respective assets to produce opportunities that neither could achieve alone.

Section IV focuses on the financial resources that accrue directly from the operation of sport enterprises. Chapter 10 addresses the three most prominent facility-related income sources: premium seating, permanent seat licenses, and naming rights. These three income streams have transformed the sports landscape at all levels over the past 20 years. Chapter 11 addresses ticket sales and operations that have been transformed by technological developments in recent years. The following two chapters in the section are contributed by leading experts in each topic area. We invited leading authorities to write a chapter drawing on their extensive background and “firing line” experience in their specialty areas. Chapter 12, “Commercializing Media Rights,” is contributed by Lee H. Berke, president and CEO of LHB Sports and Entertainment. Mr. Berke is the leading consultant for the creation of regional sports networks and was co-author of the pioneering YES Network business plan. Rick Van Brimmer, the director of Trademark Licensing at The Ohio State University, contributed Chapter 13, “Sale of Licensed Merchandise.” He is responsible for the strategic brand management of the \$9 billion apparel licensing program at Ohio State and is the only two-time president of the American Collegiate Licensing Association.

Section V covers donations and sponsorships. This material was not included in the third edition because the authors believed it was sufficiently substantial and important that it warranted more extensive treatment. Accordingly, a separate complementary text was devoted to it and published coincident with the third edition.<sup>69</sup> However, feedback suggested an updated synthesis should be included in this edition. Hence, Chapter 14 addresses sponsorship, which is a central element of financing in almost all sport contexts, while Chapter 15 focuses on donations, which are a core element in the financing of college sports. This was contributed by our colleague Jeff Stinson, the assistant dean in the College of Business at Central Washington University and leading researcher on collegiate athletic fundraising.

## Summary

The years from 1990 through 2007 were boom years for the sport industry. The boom was manifested by construction of a large number of facilities; launching of almost 180 new professional sport teams and 13 leagues; an increase in corporate investment from \$2.5 billion to \$20 billion, which was spent on sponsorships, naming rights, and premium seating; and growth in sporting goods sales from \$26 billion to \$53 billion.

The boom came to an abrupt halt with the advent of the Great Recession in December 2007. Technically it ended in June 2009, but its legacy endured beyond that date. The reassuring, conventional wisdom that sport was recession proof was shown to no longer be true. The relentless rise in the price of tickets and ancillary costs over the previous two decades made sport more vulnerable to economic downturns. This was exemplified by reductions in game attendances, corporate investments, and sporting goods sales. In response, sport managers created a variety of innovative price incentives and giveaways in an effort to sustain attendances.

The sport industry rebounded after the Great Recession, but it left a legacy of a more challenging economic environment than existed before its onset. Many families still were confronted with difficult financial conditions caused by the shift away from high paying manufacturing jobs to low wage service economy jobs; the continuing substantial rise in costs of such major expenditure items as housing, automobiles and college tuition; and high levels of household debt. A decade after the recession officially ended, the average U.S. household income remained below its pre-recession levels,

so more U.S. families are living paycheck to paycheck. Faced with a more daunting and uncertain economic future, more people are likely to spend less. Four macro trends that impact the financial viability of sport properties in the contemporary economic landscape with which sport managers have to grapple have been identified: competition from other entertainments; impact of television on live attendances; a narrower fan base; and globalization.

While the average household expenditure on entertainment has rebounded to its pre- Great Recession level, its allocation has shifted. Spending on “bricks-and-mortar” venues outside the home now accounts for less than 10% of the total, compared to 20% three decades ago. At the same time, the number of venue entertainment suppliers competing for this lower share has increased substantially.

During the same period, the home electronics share of entertainment spending increased from 80% to 90%. Sport fans have never had as many opportunities to view their favorite team or sport on television or digital devices. The amount of sport programming has increased exponentially, while advances in technology have substantially enhanced the viewing experience.

The ubiquitous content presents a sport leagues and teams with a conundrum. Will fans reach a point where the quality and convenience of home or sports bar viewing is preferable to going to the arena or stadium? In effect, many sport properties may be competing against themselves. Finding the right balance between the increased exposure and revenue streams afforded by TV without cannibalizing live attendances will be a growing challenge for sport managers.

The adverse impact of televised sport on live attendance appears to be accelerating for four reasons. First, there is more content and so more opportunities to substitute a televised broadcast for a live experience. Second, given the financial constraints facing many households and the cost of attending, watching the game on television is their only feasible option. Third, watching the game at home is appealing for some fans because it eliminates the “hassle” associated with driving, parking and, in some cases, poor weather conditions. Fourth, the quality of the viewing experience, enhanced by high-definition and further augmented by replays and expert commentary, has never been as compelling. However, the robust growth in the number of sport networks, especially regional networks, in the past two decades is threatened by resistance from the major cable and satellite companies to the subscription prices sought by the networks.

The increased number of people watching sport on television may more than compensate for the adverse impact television coverage has on live attendance. For some sport leagues, the sale of broadcast rights is the single largest source of annual income, more than offsetting any losses in gate receipts.

High prices have resulted in a narrowing of the size of the potential market who can afford to regularly attend live events. For major league professional and college sports it is likely to be around 20% of households in a market area. Dependence on such a narrow segment of the population places sport properties in a precarious and vulnerable position, because these affluent households are likely to be the primary focus of every other venue entertainment provider

Globalization of sport properties from local to international audiences is aggressively pursued through television, live exhibitions and licensing agreements. There has been no transition of similar magnitude and speed in the history of sport. It gathered momentum when the owners of broadcast media joined with the corporate owners of sport teams in the early 1990s. This alliance made it possible for new sports, new formats of existing sports, or new leagues to “go global” quickly with strong support from media, sponsors, advertisers and sport promoters.

The involvement of so many international players, managers and owners in a league’s games helps to foster interest in their home countries and contributes to the rate of global penetration. Globalization attracts sponsorships, since major companies seek to be involved with events that have a strong mass appeal worldwide.

Finding creative ways to do more with fewer resources is a major challenge confronting sport managers. With professional sport franchises facing squeezed operating margins and only a handful of college athletic programs operating in the “black,” managers are under increasing pressure to aggressively find new revenue sources, as well as to preserve existing ones, to sustain the financial viability of their organizations. Allocating these finite resources to ensure optimum economic and social benefits will be crucial to the success of contemporary sport managers.

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