

Playing to win in the business of sports

The pressure is on. Making money—not just popularity—is the name of the game.

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Athletes aren't the only competitors in the world of professional sports: individual sports are battling one another for market share in what has become an international entertainment industry with global revenues of more than \$38 billion in television rights and ticketing alone.

This commercial contest does have winners and losers. The global economic downturn intensified the competition with other forms of entertainment. Not surprisingly, sports that have been traditionally popular in the United States or Europe—which are the most lucrative television-advertising markets—enjoy an inherent advantage and are grabbing the biggest slices of a competitive pie. Soccer and US football together take more than a third of the revenues in the global TV sports market (exhibit). But commercial success isn't just about popularity. For a sport to capture its fair share or more of this market's revenues, it must translate its popularity into cash. In the course of studying many different sports, we found surprising discrepancies between their popularity, on the one hand, and the revenues generated by their sport organizations, on the other.

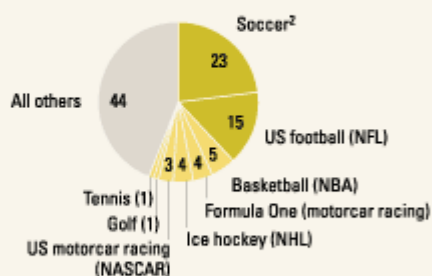
EXHIBIT

Two games that win

Revenues from television rights for selected sports,¹ %

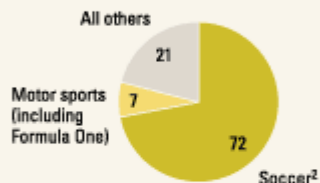
Global, 2002

100% = \$15 billion



Europe, 2001

100% = \$5 billion



¹ Figures estimated as a result of disparate sources and reporting methods.

² Includes FIFA World Cup 2002, German Bundesliga, Italian Serie A, UEFA Champions League, and UK Premiership; 2002 FIFA World Cup alone accounts for 8% of global television-rights revenues.

Source: Interviews; European Broadcasting Union (EBU); Kagan Research; PricewaterhouseCoopers; Web sites and annual reports of organizations in exhibit; McKinsey analysis

Some sports, regardless of size, capitalize on their popularity more successfully than others do. While broadly popular sports such as soccer and US football will fight to extend their dominance, up-and-coming sports with niche appeal, from

professional cycling and skiing to "extreme" sports and surfing, can try to improve their individual competitiveness by studying what successful rivals have done. As the competition heats up, the owners and executives of teams, the officials, the leagues—and, perhaps most important, the international associations that could market sports on a global scale—will have to go on increasing the attractiveness of sports to consumers, broadcasters, and sponsors while also realizing their commercial value.

Commercial pressure

The sports industry's core sources of revenue can be divided into three main categories: broadcast rights, sponsorships (including licensing and merchandising), and ticketing and hospitality (such as entertainment and catering in sports venues). Each category accounts for roughly one-third of the industry's revenues, and each has enjoyed strong growth. Total revenues from television rights—particularly important because of the exposure television generates for a sport and its sponsors—rose by 14 percent a year from 1997 to 2001.

In 2002, however, the economic downturn forced companies to cut back their marketing budgets. The advertising revenues of the US networks couldn't match the amount they had paid to acquire broadcast rights at the business cycle's peak, so they lost an estimated \$4 billion from sports programming that year. When sports rights holders renegotiate their television contracts, prices are unlikely to go on rising sharply.¹ In addition, the rate of revenue growth from global corporate sponsorships has fallen by some 6 percent annually since 1996. Thus sports increasingly compete among themselves for a tighter pool of funds.

The decline of consumer interest is another sobering, and more structural, development. In Europe, the number of sports-TV viewers fell by 15 percent from 1996 to 2001 as other forms of entertainment programming, such as reality TV, came into fashion. In the United States, even the traditionally popular Monday Night Football game of the National Football League (NFL) has lost 17 percent of its TV viewers since 1999. And fewer amateur athletes are playing certain major sports—the number of participants in US baseball games dropped by 10 percent from 1991 to 2001, for example. This decline potentially reduces the level of interest in watching these sports on TV and in spending money on them over the longer term.

Consequently, in some areas the sports business is becoming a buyer's market in which broadcasters and sponsors not only resist any increase in price but also insist that games be tailored to their needs. Sports have no choice but to respond: the Wimbledon tennis tournament plans to put a roof over Centre Court to eliminate the rain delays that wreak havoc with broadcast schedules, for example, and the Australian Open has scheduled matches for prime time. Licensees too are getting tougher, with many now demanding exclusive deals.

As if the intensified competition between individual sports weren't enough, every sport needs to overcome a number of specific obstacles (see sidebar "[Six challenges](#)").

Raising the game

In this new environment, all sports must continually raise their commercial game, and none more so than those now falling behind. All sports, whether they attract broad audiences or have potential niche appeal, must make a concerted effort to improve their individual competitiveness by observing what successful rivals have done.

We have identified seven levers to help a sport achieve its market potential (see sidebar "[Scoring in the sports business](#)"). The first three focus on making the sport more attractive to consumers, advertisers, broadcasters, and sponsors; the other four deal more directly with the challenge of translating a sport's popularity into revenues. International sports organizations that are charged with boosting the commercial standing of their sports have much to learn in this respect from powerful national leagues such as the National Basketball

Association (NBA) and the NFL, which are already exploiting these levers. Decisions about which ones to employ, and in which order, must be carefully tailored to the strengths and weaknesses of a sport and applied with a long-term perspective that respects and maintains its traditions.

To illustrate the power of the levers, consider their effect on golf, which is well on its way to fulfilling its commercial potential, and what they could do for tennis, a sport that is very popular but has yet to capture its fair share of revenues. Golf and tennis have a lot in common. They are major—but not huge—global sports. Their audiences consist largely of affluent people² who often play tennis or golf themselves. Such characteristics make the audience not only attractive targets for advertisers but also potential purchasers of goods licensed by the governing bodies of the two sports or by event organizers.

Yet golf has been more successful than tennis has in exploiting this high-income niche. On a per-viewer basis, the tour of the Professional Golfers' Association (PGA) of America earns substantially more for US television rights than tennis does, despite the fame and popularity of the Grand Slam tournaments.³ While tennis has yet to capture its potential, the trends in the golf business look as good as Tiger Woods on a hot streak.

Golf—a commercial hole in one

Golf as a leisure activity has expanded enormously over the past 50 years, but only recently has the professional game begun to realize its commercial potential. The sport is now enjoying the fruits of a virtuous cycle. The Masters and US Open golf tournaments are among a handful of sporting events with consistently improved US television ratings in recent years. In the 1990s, when participation in many other sports declined—35 percent fewer people in the United States played tennis during this period, for example—the number of US golfers rose to 27 million, from 25 million. A lucrative \$290-million-a-year TV deal (running from 2003 to 2006) with four US broadcasters will give the sport even more exposure and enable the PGA to invest more money in public relations and promotion. These developments will in turn drive sales of PGA-licensed consumer goods and services—about \$200 million in 2002.

The emergence of Tiger Woods, a megastar popular not only in the United States but throughout the world, was fortunate for golf, and the PGA was quick to seize the opportunity to intensify its promotional efforts. To that end, Woods and other top players are contractually obliged to spend several hours during tournament weeks doing public relations. This requirement exposes fans to their favorite golfers' off-course personalities—a significant way of fostering interest in the tour. The importance of Tiger Woods to the PGA's marketing effort is demonstrated by the fact that US broadcasters focus 60 percent of their golf coverage on him and his tee-off partners. Such tactics helped the sport to double its TV ratings and the growth rate of its tournament revenues, which ultimately provided the funds for a more than twofold increase in prize money during the past decade.

To exploit golf's rising popularity, the PGA bundles the rights it sells in two important ways. First, while golf has a complex tournament calendar, the PGA has been tactically clever over the years by cultivating the "swings" that the tour makes through US regions and states, thereby building a minitour and golf season in each area. This tactic allows the PGA and its commercial partners (such as sponsors, advertisers, and broadcasters) to concentrate on one region at a time and in effect strike while the nine iron is hot. To create all-or-nothing offers to sponsors and broadcasters, the most coveted events are bundled with smaller, regional ones when the tour swings through an area. This approach both strengthens the PGA's negotiating position and ensures more exposure for smaller tournaments.

Moreover, PGA negotiators offer broadcasters bundled rights to the ads of the main sponsors as well as to events. Consumer goods producers and companies that make golfing products buy a sizable share of the available advertising slots of PGA tournaments in advance and may even agree to cover the broadcasters' production costs. In return for helping to reduce the risk the network takes in televising tournaments that initially had low ratings, the sponsors usually get more favorable on-air treatment for their ads and logos.

Sales of licensed sporting goods and services contribute substantial revenues to golf's bottom line. Strong branding is decisive in this arena, and the PGA has carefully built a single umbrella brand for its ever-growing range of licensing and merchandising activities. Networks are required to incorporate the organization's logo into all broadcast content; tournaments are obliged to display the logo in a multitude of ways; and millions of people see it on PGA.com—the world's most visited golf Web site. Apparel and golf equipment are sold at tournaments, in the PGA's own stores at airports around the world, and by licensees in some 20 countries. The brand has also been stretched to include PGA Village and PGA Travel (which does business as Premier Golf) for packaged golfing holidays and even a business school for professional golf managers.

Restraining tennis

Meanwhile, tennis has only started to launch its own virtuous cycle. Although the Grand Slam and other major tournaments do well and are attractive to broadcasters and sponsors, the record of the past suggests that long-term trends for the sport's overall TV ratings are mostly flat. Tennis is still one of the world's most popular sports, but its 2002 global revenues from TV rights were estimated at only \$200 million—nearly a third lower than the revenues of the US PGA golf tour from domestic networks alone. Similarly, worldwide sales of all licensed goods and services in men's tennis were only marginally higher than those of PGA-branded products, although US tennis players, at 46 million, outnumber the country's 27 million golfers.

We believe that fragmentation is the root cause of the current inability of tennis to fully translate its popularity into cash. Each of the Grand Slam tournaments, which capture the lion's share of the sport's earnings, is owned and run separately. Furthermore, the sport has a number of governing bodies. The International Tennis Federation (ITF) handles Olympic tennis events, the Davis Cup (men), and the Fed Cup (women). The Association of Tennis Professionals (ATP) runs the men's circuit, and the Women's Tennis Association (WTA) runs the women's. The result is a year-round tennis calendar that lacks a clear start or climax and is packed with tournaments going on simultaneously throughout the world.

Media coverage and promotional efforts are thus diluted, making it hard for consumers to grasp who is playing whom, who is number one in the world at any given time, and why a specific match or tournament matters. Players don't always keep their commitments to appear in key tournaments. The diffuse calendar of events makes them less attractive to consumers, and the divided ownership structure lowers the sale price of commercial rights and impedes a coherent branding strategy. Each governing body negotiates its own TV, sponsorship, and licensing deals, targeting the same broadcasters with its own piece of the pie. Networks can cherry-pick what they want—for instance, by choosing to buy only the US Open, and not the other three Grand Slam events, for the US market.


To secure a prosperous future and to convert the sport's popularity into stronger streams of revenue, tennis organizations are now challenging the status quo. Some tennis executives believe that they can improve their negotiating position by bundling TV rights as well as streamlining the tournament calendar. This approach would require increased cooperation among the sport's governing bodies and, potentially, a new governance structure. Organizational changes and other modifications would have to be gradual to ensure that the interests of all parties could be met. The ATP and WTA have taken the first steps by cooperating on operational initiatives (such as education, research, administration, and joint media guides), and they are considering the idea of combining certain key tournaments. The risks are worth taking, since the potential long-term benefits are compelling for all parties: we estimate that tennis would significantly increase its revenues if it captured its fair share.

Several options that could make the tennis calendar more commercially successful illustrate this potential. The first would be a global "premier tour" for top players only, similar to the format used by Formula One racing. Such a tour could have a defined season with some 20 events—including the Grand Slams, other major tournaments, the Davis and Fed cups, and the year-end finals—and would guarantee that all top players appeared at a limited number of high-profile

tournaments. A second tour, with players vying for promotion to the following year's premier tour, could run in parallel. This dual structure has many advantages over the current system. Since viewers could follow a "story" as it unfolded during the season, the sport would be more interesting to them and therefore more attractive to sponsors with global interests. Moreover, a premier tour might bundle a highly concentrated package of TV rights in markets around the world and offer a focal point for branding and promotion. Last, increased media exposure would help transform some tennis stars into the international celebrities the sport needs.

Another option could be to divide the men's and women's tennis circuits into US and European tours, thereby creating regional swings, much as the PGA format does. Players from both tours could compete at the Grand Slams and one or two big ATP and WTA tournaments, at the Davis and Fed cups, and at the year-end finals. Creating clearly defined tennis products in complementary markets would reduce fragmentation and make it possible to bundle TV rights without having to take global time differences into account. Advertisers and sponsors with a regional focus could more easily target their desired audiences. In the case of the United States, which is such a crucial market, bringing more of the action closer to home would increase the sport's popularity.

Each of these and other options has its own pros and cons, but we believe that a coordinated effort's rewards—higher exposure, higher TV and sponsorship revenues, and, of course, more prize money for the players—outweigh the risks.

The stakes are high, and the competition to achieve full success is brutal. Industry revenues are being divided among a few dominant sports and successful niche offerings. The winners will be sports that not only continually make themselves more attractive to consumers and commercial interests but also explore better ways of translating their popularity into revenues. 

Six challenges

We have identified several important challenges that every sport must confront in its quest to be the best.

Players' salaries. The financial success of different sports leagues has depended in part on their ability to control player costs. Among the top four US sports leagues, salaries have grown from 50 percent of total revenues in 1992 to 65 percent today. The runaway contracts of the National Hockey League (NHL) have largely driven this increase. The bargaining agreements of most major US leagues have long included minimum and maximum levels for players' salaries—an approach that has helped control costs. Without the benefit of a salary cap, the NHL lost \$1.6 billion over the past few years and is facing a labor lockout.

Changes in technology. Owners of sports rights must make huge bets on technology when they sell their rights several years ahead. To date, sports organizations have been slow to systematically leverage the potential of new technologies such as broadband, video on demand, the wireless Internet, and digital cable. Nonetheless, there have been attempts to do so; for instance, the cable channel Eurosport, which broadcasts in 18 languages, and France's Alcatel have announced a deal to develop sports programming for mobile telephones.

Pricing. Ticket prices for many sporting events have far outpaced inflation and can't be pushed much further. The average ticket price for a New England Patriots football game, for instance, increased by 58 percent from 2001 to 2003. In Formula One racing, Grand Prix attendance in Germany fell last year, mostly as a result of significant price increases. Furthermore, many sports leagues and individual franchises and venues take an outmoded approach to pricing. Greater utilization of variable pricing, alternative channels for distributing tickets, and the segmentation of recreational and business

customers could all generate rather significant gains in gate receipts.

Internationalization. As sports brands mature, they must expand into additional markets. The National Basketball Association (NBA) has already struck many overseas television deals. Now it is adding international sponsorship deals and increasing the number of grassroots programs designed to help its global branding efforts: since 1999, for example, it has added nine foreign-language Web sites to NBA.com. Top European soccer teams, including Manchester United, are extending their game schedules and licensing efforts into Asia.

Innovation. The limited success of niche sports leagues in recent years and of the international-expansion efforts of leagues in major sports suggests that steep barriers for new entrants remain in most markets. However, some leagues, such as the X Games (featuring the extreme sports of surfing and skateboarding, among others), have proved highly successful in targeting young men and in attracting sponsors that want to reach them. In an increasingly fickle media marketplace, a sport needs to consider innovative approaches, to both its contests and its marketing, that will emphasize its distinctiveness as well as generate excitement.

Illegal activities. Off-court transgressions by professional athletes—including violence and the use of controlled substances—have become critical image issues for sports officials. Internationally, doping has become a major problem in most sports. In the United States, both the House and the Senate are working on bills to ban legal over-the-counter drugs that metabolize into illegal anabolic steroids. Recent high-profile episodes in ice hockey and basketball not only have highlighted the issue of whether the thuggish image of some of their star players hurts them but also have raised questions about the steps leagues should take when stars engage in criminal behavior.

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Scoring in the sports business

In the face of the many structural issues confronting the sports business, we have identified seven levers that tennis and other sports can use to optimize their performance.

Changing the sport. Although preserving a sport's traditions is critical, small changes to its rules can increase its popularity. The NBA frequently revises its rules—speeding up the game, for example, by tightening the time limit for getting the ball past midcourt. The International Ski Federation successfully changed the rules for competitive downhill skiing to ensure that star skiers didn't all make their runs at the beginning of an event.

Calendaring and scheduling. Some sports, such as Formula One racing and National Football League (NFL) football, have a straightforward calendar that caters to a dedicated following and builds to a climax over the course of a season. The challenge for tennis (and other sports) is to create a more coherent calendar of events in order to command higher broadcast revenues. Before this change can take place, however, the sport's main governing organizations would need to collaborate more closely.

Developing stars. Athletes who transcend their sport—like Wayne Gretzky, Michael Jordan, Michael Schumacher, and Tiger Woods—are born, not created. Still, each sports organization needs to ensure that it has the mandate and the structures to promote its most talented and popular players (they are not always one and the same) in ways that guarantee them maximum exposure and benefit the sport overall.

Coherent branding. A coordinated, consistent brand identity is the key to the

sale of licensed sports gear and services. The NBA, for instance, has very successfully cultivated its identity throughout the world—the total revenue from its branded products now totals about \$1.6 billion a year.

Marketing partnerships. Relationships with companies from apparel and beverage concerns to sports-equipment manufacturers can benefit sports leagues as well as the individual athletes and teams that attract sponsorships. Each sports organization should also have a coordinated public-relations strategy to ensure that its players participate in promotional appearances and media events.

Bundling rights. When the broadcast and sponsorship rights to a number of tournaments or contests are packaged together, those rights are far more valuable, since the whole is usually worth more than the sum of its parts. The bundling of broadcast rights by the National Association for Stock Car Auto Racing (NASCAR), for example, increased their overall value to \$400 million, from \$100 million.

Professionalizing the organization. Many sports teams began as clubs and are essentially small businesses that need to adapt to a big-business environment, with its escalating salaries and lucrative TV contracts. When led by seasoned business executives, the marketing and finance functions can often imbue sports with a more commercial mind-set. This approach is relatively new outside the United States, but it is quickly becoming more common. Some soccer clubs are hiring high-profile executives, going public (Manchester United, for example), and using innovative financial tools such as bonds and securitization.

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Notes

¹ The National Basketball Association and the National Football League have responded by launching their own cable channels, which present a broader offering of league games than the top-reach ones the networks broadcast.

² In the United States, for example, the average golf or tennis TV viewer has an income of more than \$100,000 a year.

³ The Australian, French, and US opens and Wimbledon.

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