Winning in the Business of Sports

The market for sporting events is worth $80 billion in 2014—with impressive growth projected for the foreseeable future. For a content industry wracked with uncertainty, sports is a beacon of hope.
By the time the 2014 FIFA World Cup ended, 3 million people had gone through the turnstiles at 12 Brazilian stadiums, paying in some cases thousands of dollars per seat to see the world’s greatest footballers. On TVs around the world, more than 3 billion people watched at least a minute of the Cup, thanks to media rights worth as much as $1.7 billion total. And the TV networks were rewarded handsomely with record ratings: from the 30 million Chinese who watched the Germany-Argentina final despite a 3 a.m. local start time to the 90 percent of Dutch households that watched the Netherlands’ semifinal game against Argentina.

Yet, within the scope of the global sports events market, the World Cup is but a fraction of sports’ total economic impact. New research by A.T. Kearney finds that the market for sports events in 2014—revenues from tickets, media rights, and sponsorships—will be worth close to $80 billion, with impressive annual growth of 7 percent. When you add in sporting goods, apparel, equipment, and health and fitness spending, the sports industry generates as much as $700 billion yearly, or 1 percent of global GDP.

This report examines the data behind the rise of the sports events market and takes a look at its future. We also look at how the major players in sports—the leagues, clubs, media partners, and brands—can capitalize on this impressive growth.

The Sports Cycle

As any fan can tell you, sports is cyclical. There are the yearly events—the Super Bowl every winter, the final rounds of the Champions League in the spring, the Wimbledon tennis championships in the summer, and baseball’s World Series in the fall. Every four years are the summer and winter Olympics, the World Cup, and the UEFA European Championships, major events that generate massive global interest.

Whether looking at yearly figures or at four-year cycles, the sports market is booming. Let’s look at some of the major findings of our research.

**The sports events market is growing impressively.** Between 2009 and 2013—a typical sports cycle that included the Winter Olympics and World Cup in 2010 and the Summer Olympics and the UEFA European Championships in 2012—sports market revenues increased almost $18 billion (7 percent CAGR), with a peak of $78.2 billion in 2012, when London hosted the Olympics and Poland and Ukraine hosted the European Championships. The revenues for yearly events are growing steadily too, from $58.4 billion in 2009 to $76.1 billion in 2013 (see figure 1 on page 2).

At a rate of 7 percent per year over that stretch, the sports market has grown faster than GDP in nearly every country—and many times more in some major markets such as the United States, Brazil, the UK, and France (see figure 2 on page 2).

**Football is still king.** On a sport-by-sport basis, growth occurred nearly across the board, but football (soccer) remains the runaway leader. Football revenues increased from $25.1 billion in 2009 to $35.3 billion in 2013, a CAGR of 9 percent. (Only cricket, at 10 percent per year, had faster growth over that period.) The sport’s revenues in Europe, the Middle East, and Africa alone were $27.1 billion in 2013; by comparison, the six major U.S.-based sports (American football, baseball, hockey, basketball, stock-car racing, and college sports) combined for $26 billion in the United States (see figure 3 on page 3). Overall, the top seven sports remain about the same (football, American football, baseball, Formula 1 racing, basketball, hockey, and tennis). Cricket and rugby are gaining ground, while NASCAR and golf have fallen.
Figure 1
The sports market’s next four-year cycle will bring continued growth

<table>
<thead>
<tr>
<th>Sports market revenue ($ billion)</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>46.5</td>
<td>8%</td>
</tr>
<tr>
<td>11.9</td>
<td>5%</td>
</tr>
<tr>
<td>58.4</td>
<td>3%</td>
</tr>
<tr>
<td>17.7</td>
<td>2%</td>
</tr>
<tr>
<td>90.9</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

Figure 2
On average, the sports industry is growing at a faster pace than global GDP


Note: Including investments related to Football World Cup 2014 as well as culture, leisure, and other recreational expenditure not isolated

Football will undoubtedly remain the leader in the years to come, demonstrated by the record level of interest in the 2014 World Cup and, at the more local level, the rising attendances for many of Europe’s top leagues (see figure 4).
Media rights and sponsorships drive revenues. Sponsorships accounted for 35 percent of sports event revenues in 2013, and media rights accounted for 35 percent. Ticketing was only 27 percent of revenues.

In football, media rights accounted for 40 percent of sports event revenues in 2013, as TV rights provided major revenues across the world. For American sports, those rights were worth 33 percent, and sponsorships were 36 percent. Formula 1, with its sponsored events and cars, gets 71 percent of its revenues from sponsorships.

The raw media rights numbers are impressive. TV rights and marketing deals for the 2014 World Cup brought roughly $4 billion in revenue for soccer regulator FIFA. In the United States, the NFL earns about $5 billion a year from its TV deals with four networks, a 12-fold increase since the mid-1980s (see figure 5). European football leagues have seen impressive TV rights growth, including a 172 percent increase for France’s Ligue 1 (see figure 6 on page 5).

Whether looking at yearly figures or at four-year cycles, the sports market is booming. Between 2009 and 2013, revenues increased 7 percent annually.

Even in sports where national ratings have sunk in recent years, TV networks are doling out record amounts of cash to secure what is considered to be “DVR-proof” content. For example, Major League Baseball, which is well off its ratings heights from the early 1980s, still makes about $800 million per year in its national TV contracts.

Figure 5
The value of NFL broadcasting rights has increased 12 fold since the mid-1980s

NFL TV broadcasting rights ($ million per year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>420</td>
</tr>
<tr>
<td>1985</td>
<td>473</td>
</tr>
<tr>
<td>1987</td>
<td>900</td>
</tr>
<tr>
<td>1989</td>
<td>1,100</td>
</tr>
<tr>
<td>1991</td>
<td>2,200</td>
</tr>
<tr>
<td>1993</td>
<td>3,085</td>
</tr>
<tr>
<td>1995</td>
<td>4,950</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
Beyond events, the overall sports market is massive. Taking into account revenues from sporting goods and licensed products, health and fitness clubs, and other non-event activities as well as events, the sports market generates $600 billion to $700 billion, or roughly 1 percent of global GDP. The market for sporting goods and licensed products, which includes sports apparel, equipment, and footwear, is worth $310 billion; the market for sports clubs, including fitness clubs, yoga classes, personal training, and the like, is worth $105 billion. Other sports revenues, which include infrastructure construction, food and beverage, and grayer areas such as betting, are worth between $100 billion and $200 billion.

North America dominates overall sports spending, accounting for $266 billion, compared to $204 billion for Europe and $180 billion everywhere else. The share of non-event revenues in the sports market is greater outside of North America and Europe; there, sporting goods and licensed products account for 57 percent of revenues, and others account for 28 percent.

The sports market will only continue growing. Going forward, revenue of sports events should continue to grow in the next cycle with projected revenue of $90.9 billion by 2017, an increase of $15 billion between 2013 and 2017, driven by continued football growth. Sports should remain an exciting business full of opportunities in the coming years.
Getting a Piece of the Pie

As the stakes get higher, the many actors are angling for a bigger piece of the pie—media companies and brands, sports leagues and clubs, not to mention cities and countries that are making bids on major events in efforts to “put themselves on the map.” Money flows in many directions: from fans to pay-TV providers; from leagues to clubs; from brands to clubs (see figure 7).

Figure 7
The sports ecosystem: the flow of money

What opportunities and challenges do media companies, leagues, clubs, and brands face going forward?

Media

For networks, sports has become the most secure way to obtain viewers in today’s fragmented media market—“DVR-proof” content in an era of delayed viewing, video-on-demand, and online streaming. Across the world and across all sports, viewers and advertisers are turning to sports. The NFL’s Super Bowl XLVIII in February 2014 was the highest-rated program in U.S. history, even though the game was one of the least competitive in years. Five months later, the FIFA World Cup championship game drew about one billion viewers worldwide, the culmination of a month of robust ratings.

For some broadcasters, these trends are translating into impressive results. ESPN, which broadcasts nearly every major American sport, accounts for roughly half of the revenue of its parent company, Disney. For others, particularly free-to-air channels, high ratings don’t guarantee immediate results, as advertising returns often lag the costs of acquiring rights. However, the networks use the events for brand-building and cross-promotion.

Our research shows that the “premier” matches involving leading teams can bring a bump in ratings. For example, matches involving star club Paris Saint Germain in France’s Ligue 1 provide,
on average, almost two times the audience of matches involving other teams. Creating “must-see TV” is perhaps the best way to build ratings.

Pay-TV networks, which generate subscriber revenues on top of advertising money, are seeking to serve their viewers all year long by locking in the best matches and championship games. ESPN’s schedule includes playoff games in football, baseball, and basketball as well as the college football championship. beIN SPORTS combines a large offering of premium sports content, including European football leagues, major global events such as the World Cup, and events in tennis, handball, Formula 1, basketball, and rugby.

Aside from the ratings potential of live programming, sports also offers passionate fans and, in an era of multi-screen viewing, a wealth of opportunities on alternative platforms such as websites and apps.

“Premier” matches involving leading top teams can provide a big ratings bump. For example, matches involving star football club Paris Saint Germain in France’s Ligue 1 provide almost double the audience of matches with other teams.

Leagues

Within the sports ecosystem, leagues organize the seasons and championships; in most cases they also play an intermediary role in flowing revenues to clubs, particularly media rights money. Media rights account for 40 percent of the revenues for Europe’s top 10 clubs; marketing and ticketing respectively represent 30 percent and 20 percent, and the remaining 10 percent come from player transfers. Leagues’ economic viability depends on some actions leagues can take to maximize revenues by providing high volume and high value.

Organizing competition. One simple way to increase volume is adding clubs to a league. France’s Ligue 1 added two clubs in 2002; the U.S.’s “big four” professional leagues (the NFL, MLB, NBA, and NHL) have each added between four and eight teams since the late 1980s. For these leagues, new teams have meant additional games and new geographical markets to sell to media, sponsors, and spectators. For the Big Ten, a U.S. college sports conference based in the Midwest, recent expansion to 14 teams has allowed the league to offer its lucrative TV network across a wider geographic range, including the New York and Washington metropolitan areas.

Creating “valuable” events. Like any product, sports have a perceived value that the leagues can boost. All need both defensive and offensive strategies for advancing their leagues. Defensive strategies include defending sports’ ethical values (such as fair play), combating risks such as violence, and condemning cheating. Offensive strategies aim to ensure compelling competitions that drive ratings and media revenue.
Recent A.T. Kearney research digging into Europe’s top football leagues highlights how the value of league media rights correlates very closely to the potential number of “premium matches”—those involving two top teams (such as Real Madrid vs. Barcelona in Spain, or Chelsea-Manchester in the United Kingdom). The figure shows that, regardless of any other factors like consumer economics or competition among broadcasters, the UK’s Premier League has media rights worth twice as much as France and Italy’s leagues—and twice as many premium matches.

What is the Premier League’s secret? It has seven of Europe’s highest-performing clubs, providing broadcasters with a minimum of 42 premium matches. Italy similarly has five teams ranked in the UEFA’s top 50, providing at least 20 top matches. In other words, it is in the league’s best interest to have as many high-performing clubs as possible—rather than one team dominating the pack—because that gives a lot more premium inventory to offer broadcasters. Thus one lever is optimizing revenue sharing across clubs. In the United States this leads to high levels of parity in the NFL, which has had 10 different teams in the past five Super Bowls.

European leagues have another advantage in that teams can be relegated or promoted, based on their records. This can add to the uncertainty and tension of the football season, and thus increase fans’ excitement.

**Leagues are getting creative with their digital rights**, tailoring deals for non-linear, multi-screen viewing and opening the market to specialized websites.

**Structuring media rights tenders.** For leagues, the best TV rights deals carefully dole out allotments with a goal to optimize the overall return and, ultimately, to increase the potential attractiveness of the overall championship.

In practice, this means managing the premium matches—which station gets which games, which games get which time slots—compared with the “bulk” of the season. The premium games offer the most revenue per match, as they are most attractive to more potential bidders; at the same time, premium time slots offer a huge amount of potential. Both are attractive to free-to-air and pay-TV broadcasters. The NFL, which traditionally plays its games on Sunday afternoons, has long had Sunday and Monday night games with huge viewsherships. In recent years it has added Thursday night games, and it is reintroducing some Saturday games in 2014.

Many leagues are getting creative with their digital rights, tailoring their deals toward non-linear viewing and multi-screen usage, which opens the market to social networks and specialized websites. The NFL’s deal with DirecTV includes the Red Zone Channel, which switches viewers to games where big plays are about to occur. When selling TV rights, leagues can develop allotment strategies that optimize the value of both TV and alternate platforms.

**Clubs**

Clubs play the central role in the sports ecosystem—the origin of the excitement for most fans, and, ultimately, where the money ends up at the end of the value chain.
Clubs get their revenues from ticketing, merchandising, sponsorships, and media rights. Teams can protect and increase revenues by carefully watching three key indicators, all “synergistic” and in some ways overlapping: performance, as winning generates interest, which generates media revenue; the presence of star players, who drive ticketing, merchandising, and sponsorships; and loyalty, which drives, in particular, ticketing revenues (see figure 8). So how do you allocate money to improve these three indicators?

Various studies have shown that winning performances are the best guarantee for protecting revenues. While winning is a function of many factors—coaching, team chemistry, infrastructure, and luck—in general the teams that perform best are those that invest the most to acquire the best players. For some teams, that can come from spending on transfers (or free agents in North American sports), as “buying” external players can help teams—particularly those that lack the time or money to invest in home-grown player systems—build strong rosters in short time frames. Building a home-grown player system is similar to venture capital: stock up on high-potential young players, understanding that few will become stars, and many may end up being sold or traded to other teams during their prime years.

For clubs, two major income sources (besides media) have not yet been maximized, particularly in Europe: marketing and ticketing. North American sports have already made huge leaps in selling stadium naming rights, developing sponsors, and improving merchandising in external markets. Stadium management (through areas such as tickets, affiliate programs, hospitality, and stadium expansion) is just starting to develop in Europe, but there are steps to improve grey-market activities and no-show issues to reduce revenue losses. Still, particularly in Europe’s football leagues, most clubs are not yet profitable. Tomorrow’s champions will tackle costs and revenues behind sound asset-building strategies.
Brands

The sports sponsorship market is worth an estimated $50 billion per year. The brands that succeed in this arena are those that select the right partner clubs, leagues, and athletes, and choose the right types of partnerships (official partners, suppliers, or stadium naming, to name a few options), based on their objectives. While geographical reach, price, and popularity are obvious components, the values that a certain sports property carry are also crucial. For example, Nike’s contract with Swiss tennis star Roger Federer is a natural fit, as the player brings his elegance, style, and success to a brand that seeks to embody those attributes.

Developing a comprehensive portfolio approach is the best step for a brand to achieve its objectives in sports sponsorship. Samsung has successfully pushed this concept over the past several years with a portfolio that covers more than 30 sports. In particular, its soccer strategy includes official partnership with a national team, team naming, shirt sponsorship with Chelsea, and stadium banners. In 2010, Samsung became the best-known European football sponsor among telecommunications suppliers, after going unranked just five years earlier.

Once a partnership deal is closed, the main differentiating factor is activation—not just through traditional means such as banners and ads, but also digital and social media. In other words, can a brand tap into the emotional link between fans and their favorite sports, teams, and players, while communicating its values and product offerings? Consider McDonalds’ successful multimedia sponsorship strategy during the 2014 FIFA World Cup. The brand’s Gol! theme, featured on french fry boxes, allowed customers to play via a mobile phone app, and the campaign was also supported by a website and a Twitter account. Altogether, McDonald’s multi-platform strategy made it one of the most prominent brands at the world’s most popular sporting event.

How to Hit a Home Run

Sports will remain one of the most valuable parts of the media and entertainment industry globally for years to come. In an increasingly digitized world, it has not only resisted the value drain of other types of content, but it also appears to be providing significant growth opportunities in the future.

For media companies, leagues, clubs, and sponsors, tackling strategic and operational challenges will help extract the most value and build a sustainable industry going forward.

Authors

Hervé Collignon, partner, Paris herve.collignon@atkearney.com

Nicolas Sultan, principal, Middle East (Doha) nicolas.sultan@atkearney.com

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