

The Sports Market

Major trends and challenges in an industry full of passion

The sports industry today is a wide-reaching business that spans the field of play—from the food and memorabilia stands at the stadium, to media rights and sponsorships. As much as €450 billion (\$620 billion) is spent every year in the sports industry, which is catering to an ever-more fervent fan base. This complex business environment features numerous participants—from rights owners (clubs, leagues, federations and athletes) to sports agencies, sponsors and broadcasters—all competing for a bigger slice of the pie.

Today's global sports industry is worth between €350 billion and €450 billion (\$480-\$620 billion), according to a recent A.T. Kearney study of sports teams, leagues and federations. This includes infrastructure construction, sporting goods, licensed products and live sports events.

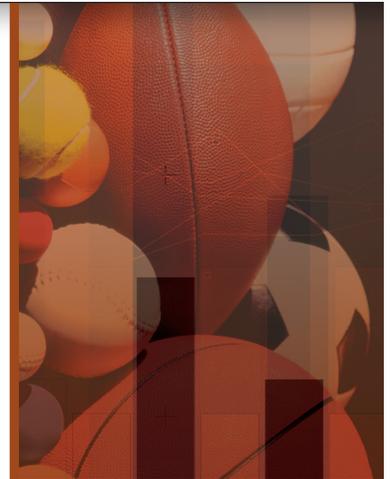
Live sports events in particular offer a compelling proposition to different industry participants—from free-to-air broadcasters seeking viewers and advertising revenues and pay-TV broadcasters looking for loyal subscribers, to sponsors moving away from traditional media, event organizers, athletes and spectators.

Our independent analysis, commissioned by Lagardère Unlimited, finds that the global sports industry is growing much faster than national gross domestic product (GDP) rates around the world.¹ And the global

sports value chain—its size, makeup and revenues—has significant growth prospects for the future.

The Sports Events Market

The worldwide sports events market, defined as all ticketing, media and marketing revenues for major sports, was worth €45 billion (\$64 billion) in 2009. Football (soccer) remains king: Global revenues for this sport equal €20 billion (\$28 billion) yearly—almost as much as the combined €23 billion (\$32 billion) in revenues for all U.S. sports, Formula 1 racing, tennis and golf (see figure 1 on the following page). In Europe alone, football is a €16 billion (\$22 billion) business, with the five biggest leagues accounting for half of the market, and the top 20 teams comprising roughly one-quarter of the market.² In general, the most popular sports, such as football

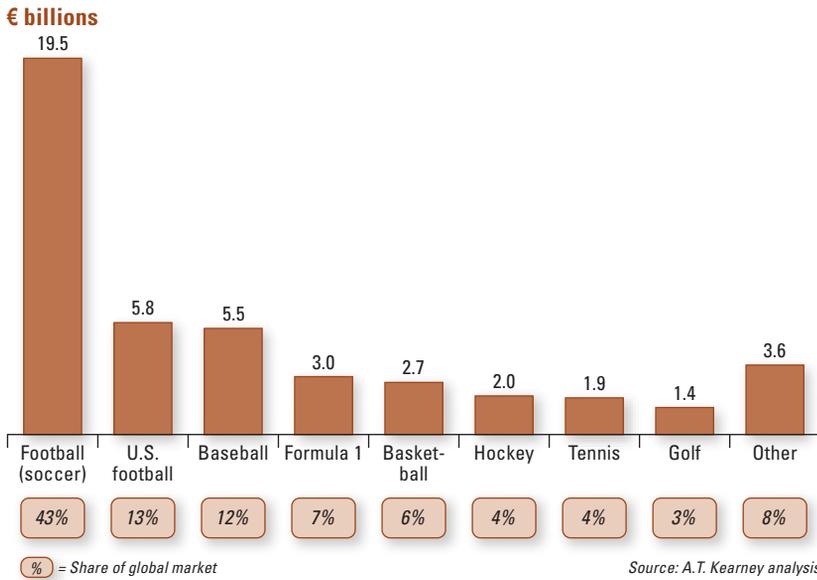


The global sports industry is growing faster than overall GDP, and long-term growth prospects remain strong. What does the future hold for the industry and its fervent fan base?

¹ This paper has been produced independently and does not necessarily represent the views of Lagardère Unlimited.

² The five biggest football leagues are the U.K.'s Premier League, Germany's Bundesliga, Italy's Serie A, Spain's La Liga and France's Ligue 1.

FIGURE 1: Worldwide sports event market in 2009

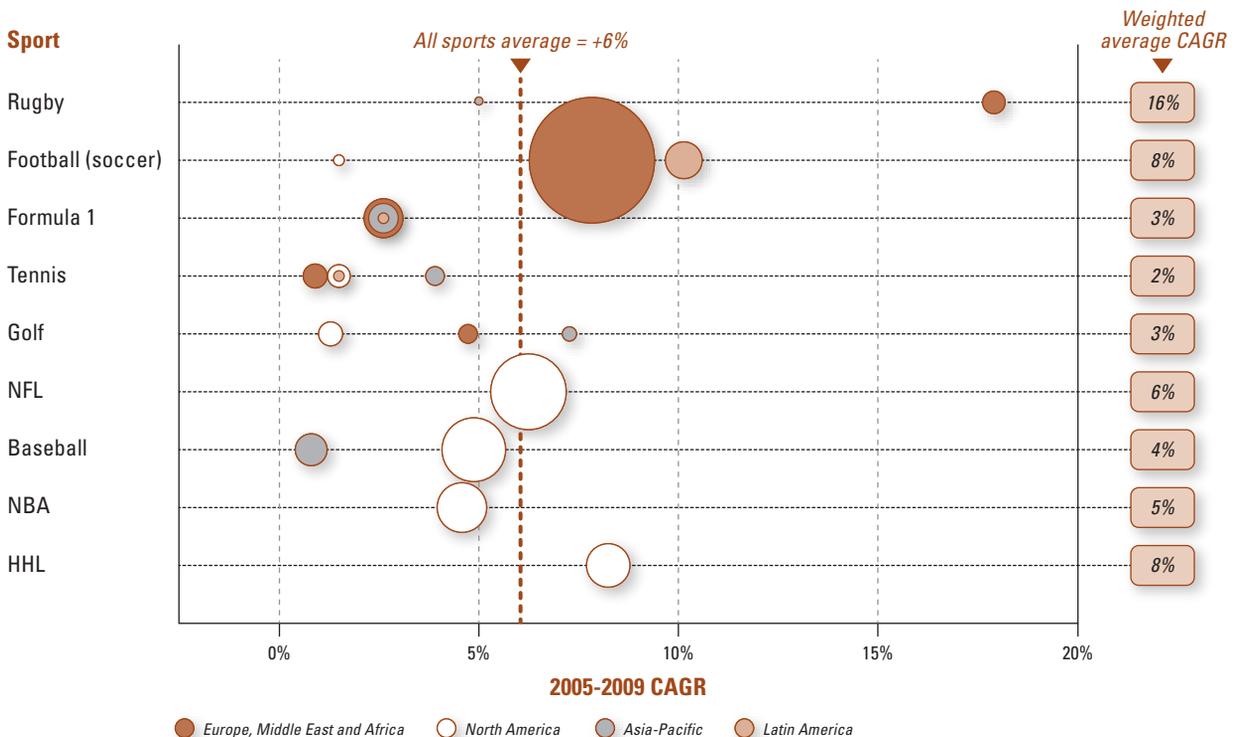


and those based in the United States, are growing faster than tennis and golf. Rugby is emerging and has grown exponentially since becoming a professional sport in 1995 (see figure 2).

A country-by-country breakdown finds that the sports industry is growing faster than GDP both in fast-growing economies, such as the booming BRIC nations (Brazil, Russia, India and China), and in more mature markets in Europe and North America.

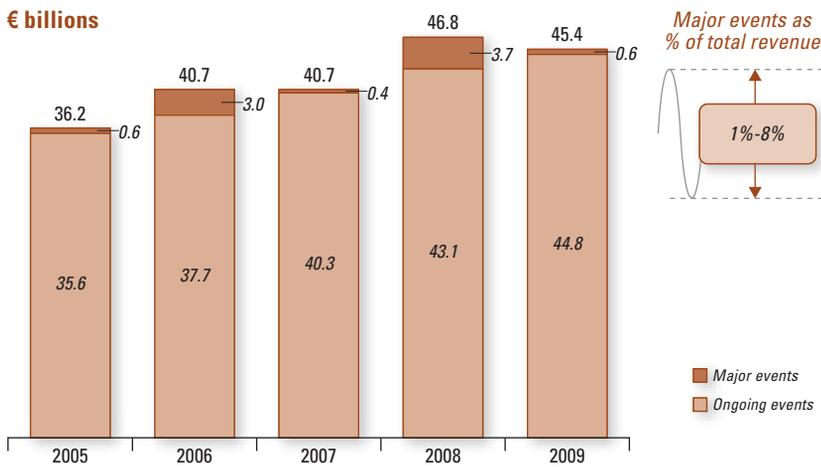
The economy of sports also reflects its cyclical nature. Many of the world's premier sporting events occur every two to four years—the FIFA World Cup and Summer Olympics, for example, take place every four

FIGURE 2: Major sports' growth rates and market sizes by geography



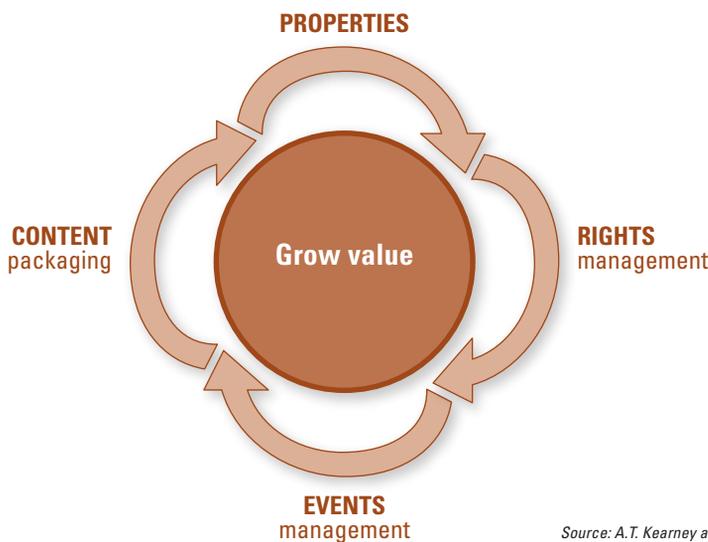
Notes: CAGR is compound annual growth rate; NFL stands for National Football League; NBA stands for National Basketball Association; NHL stands for National Hockey League. Source: A.T. Kearney analysis

FIGURE 3: The worldwide sports industry has grown steadily, despite cyclical nature of major events



Note: Major events include the FIFA World Cup, the UEFA European Football Championship and the Olympic Games. Sources: Professional sports clubs, leagues and federations revenues; A.T. Kearney analysis

FIGURE 4: The four pillars of the sports value chain



Source: A.T. Kearney analysis

years. Figure 3 shows that yearly sports revenues have grown steadily, yet how that money is spent changes every year. In 2008, for example, major events accounted for 8 percent of worldwide sports revenues thanks largely to the

Beijing Olympics and UEFA Euro 2008 football tournament in Austria and Switzerland. In quieter years (2007, for example), major events make up barely 1 percent of worldwide sports revenues.

The Sports Value Chain

How do sports create value? Rights owners define the structure of professional sports around the world. They set the rules, organize the events and take responsibility for generating revenues from matches, media and marketing rights. The sports value chain is structured around four pillars shown in figure 4:

Properties. The properties managed by rights owners are the intangible assets that draw fans and money. They include a wide range of parties, including leagues (such as the Premier League), pro tours (golf’s PGA Tour), teams (the New York Yankees) and athletes (Roger Federer, Lionel Messi).

Rights management. Historically, monetization of properties was based on gate “take” (revenues) but now professional sports depend on media and marketing rights for more sources of revenues. Rights owners, or sports agencies acting on their behalf, not only structure the deals but also trade media and marketing rights.

Events. Effective rights management depends first on operating live events. An enjoyable experience for fans can create additional opportunities for revenue.

Content. The stadiums can only seat a certain number of fans, but packaging content for broadcasters’ and sponsors’ needs is a vital part of creating revenue in modern sports.

Structured around these four pillars, the sports value chain becomes a virtuous circle. Shaping a property can help increase its value through tailored rights management and content packaging can make it more attractive. For example, when cricket organizers

The Wide World of Sports

How has the sports industry grown in both developing and developed countries? The following are some examples (*see figure*).

BRIC. GDP growth in the developing BRIC nations—Brazil, Russia, India and China—has grown more than 4 percent annually since 2000. China and India are the most dynamic, with 8 and 12 percent annual GDP growth. These economies have been even more active in sports, as confirmed by the industry’s impressive growth in relation to household spending.

Since 2000, Russia’s spending on sports rose more than 53 percent annually, China’s rose by 20 percent (thanks to the 2008 Summer Olympics), India’s by 17 percent and Brazil’s by 7 percent. These trends will likely continue in the future as Brazil will host the 2014 World Cup and 2016 Summer Olympics, and Russia will host the 2014 Winter Olympics and 2018 World Cup.

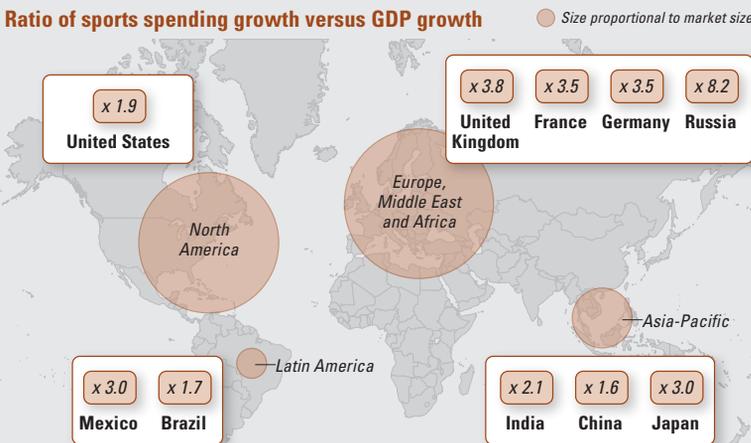
France. While growth in France’s sports spending has been slow since 2000 (4 percent annually), the UEFA Euro 2016 will drive sports consumption and investments. The country has a unique opportunity to build new stadiums and upgrade old ones.

Germany. Germany spent more on sports in preparation for the 2006 World Cup—the country’s sports industry grew at a compound annual growth rate of 5 percent since 2000. Sports marketing in Germany relies on a strong network of local, private sponsors.

United Kingdom. The U.K.’s traditional passion for sports—the country created rugby and was the pioneer of professional football—and its preparation for the 2012 Summer Olympics in London has driven 6 percent annual growth since 2000.

United States. U.S.-based sports—American-style football (NFL), baseball (MLB), basketball (NBA) and hockey (NHL)—are the biggest, bringing in more than €15 billion (\$23 billion) yearly in gate, media and sponsorship revenues.

FIGURE: Sports spending is growing faster than GDP around the globe



Note: Figures are for 2000 to 2009. Brazil spending includes investments related to FIFA World Cup 2014, and culture, leisure and other recreational expenditures are not isolated.
Sources: INSEE, Sport England, ROSSTAT, U.S. Census Bureau, IBGE, Datamonitor, INEGI, Statistical Yearbook Japan, Deutsche Bank, Destatis; A.T. Kearney analysis

created “Twenty20” cricket in 2003, shortening the typical game from several days to a few hours, they shaped a format better suited to live broadcasting. This sports value chain applies similarly to the entertainment industry—including book publishing, music production and other live-event-based markets.

Market Projections

Going forward, the next sports cycle will likely bring somewhat reduced growth, from 6 percent per year down to 4 percent (*see figure 5*). What are the main projections to 2015?

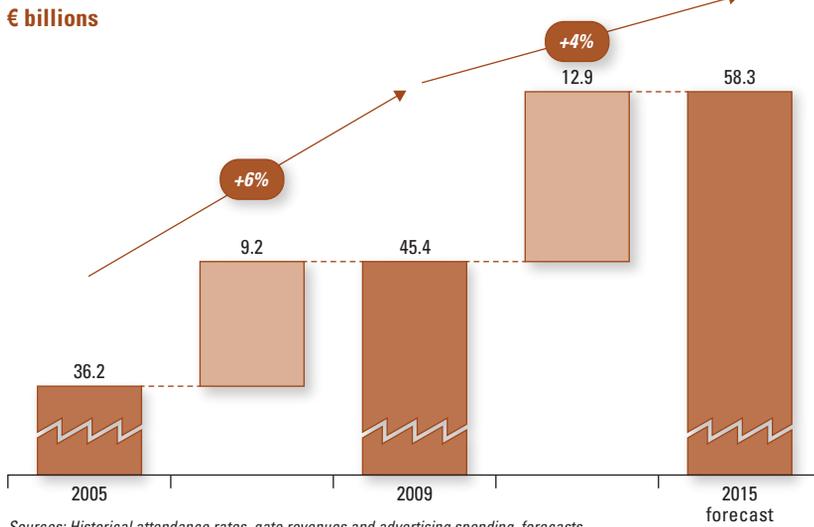
Media rights revenues will plateau.

In the wake of the economic downturn, media rights revenues will likely level off, as broadcasters face increased pressure to reduce programming costs. Negotiations are often based on bargaining power of only a few broadcasters (or in some cases just one), making outcomes difficult to predict, but conservatively we estimate overall media rights to remain stable. Because broadcasters acquire media rights in multi-year contracts, the full impact of the financial crisis may not be felt for a few years. For football, this plateau in media rights revenues likely translates to a growth slowdown from 8 percent to 4 percent per year.

Ticket sales and sponsorships will bounce back. Growth in ticket sales and sponsorships is typically tied to macroeconomic factors. A recovering economy should help bolster these areas again.

“Premium” content: Broadcasters’ battles will continue. Worldwide sports remain premium and exclusive content for broadcasters— attracting large audiences—but making money may

FIGURE 5: Worldwide sports market growth is projected to slow through 2015



Sources: Historical attendance rates, gate revenues and advertising spending, forecasts for macroeconomic trends; A.T. Kearney analysis

Demand is growing, but supply won't always keep up. Increasing the amount of exposure sports properties receive is appealing to sponsors, but team sports are usually limited by a finite number of teams and games (for example, 18 to 20 in football leagues, and 16 in the NFL). Even in individual sports such as golf and tennis, the calendar constrains how many public appearances athletes can make. Hence, even though demand is high, offers for sponsored platforms cannot match it, fueling a race for longer and more exclusive contracts. Sponsors will have to scrutinize their sports investments more effectively, a vital issue as the industry moves into the future.

prove elusive as consumption patterns change, the Internet proliferates and new players emerge. How will multi-screen media drive additional revenues for broadcasters? What new business models will be required to generate content on smartphones and tablets? How to deal with the potential risks of

content piracy in an increasingly digital world? What are the best strategies for traditional broadcasters facing competition from Internet-based platforms willing to acquire and distribute content? These and other issues will continue to challenge broadcasters through 2015.

The Business of Sports

The wave of new stadiums around the globe, the growing size of television contracts and the continued proliferation of sports advertising portends an industry that continues to soar, even as the global economy climbs out of recession.

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