CHAPTER 2
Sports and Entertainment Means Business

2.1 Sports and Entertainment Economics
2.2 Risk Management
2.3 Business Ethics
2.4 Financial Analysis

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EMI

EMI is one of the largest music content corporations in the world. EMI is based in London, but its music catalog has an extensive roster of artists from all over the world covering a variety of music and songwriters who are globally known. EMI leads the industry in keeping up with the latest technology. It also leads the industry financially with over £2 billion in revenue and an operating profit of over £225 million.

When EMI needed to restructure to improve its financial picture, one of the steps was to outsource its manufacturing processes. The manufacturing of CDs and DVDs was moved from its own facilities in the United States and Europe and contracted to companies based in countries where labor costs are less expensive. This strategy resulted in extensive cost savings.

EMI Group Chairman Eric Nicoli attributes the improved economic conditions of the company in 2005 to the rapid growth in sales of legitimate digital music. In prior years, illegal pirating of digital music had cut into the company’s income.

The music industry has always been a creative industry, with a need to embrace ever-changing technology, stay on the edge of effective business operations, and constantly seek and support new musical talent. The industry is recognized for the tremendous part it plays in driving the economy. EMI has roots that go back to the beginnings of recorded sound and plans to continue to be in the forefront of the future of music in whatever format people choose to enjoy it.

Think Critically

1. Look at the EMI web site and briefly read the history of EMI. Why is the company now called EMI? What two companies merged to form EMI?
2. Why does the outsourcing of manufacturing improve the financial picture of many companies? Does outsourcing hurt the economy? Would you be willing to pay more for CDs and DVDs to save U.S. jobs? Explain why or why not.
Lesson 2.1

Sports and Entertainment Economics

Goals
- Define profit and explain the profit motive.
- Describe types of economic utility.

Terms
- profit
- profit motive
- economics
- economic utility

Opening Act

Convenience is a major factor in the level of satisfaction of consumers who are spending their resources on sports and entertainment events. Ordering, paying for, and receiving refreshments while not missing any of the game or show is a convenience fans can appreciate. Research by credit card companies has shown that consumers will spend 60 to 70 percent more when they are not limited to cash transactions and do not have to miss any of the action.

ExaDigm is an innovative company that provides the event and venue industry with point-of-sale wireless terminals that have revolutionized concession sales. ExaDigm uses secure wireless technology to accept payments from credit and debit cards so that transactions can be completed while fans remain in their seats.

Work with a group. Discuss why adding payment options in the stands can increase a fan’s satisfaction at a sports event.

THE PROFIT MAKERS

For more than a decade, movie ticket sales in the United States have increased each year. However, movie studios continue to struggle for earnings. Less than 50 percent of movies make a profit—the amount of money remaining from revenues after all expenses are paid. Revenue is the money a business receives from the sale of goods and services. Although revenues from ticket sales have increased, the costs of production and marketing have increased even more. A studio’s average cost of marketing a film is roughly half of the cost of producing a film. Marketing costs can range from $30 to $60 million.

Studios are always looking for ways to cut costs and make more profit. They are even joining forces with rival studios to split production and marketing costs and share box-office ticket sales and other income sources. Home video and international box-office sales are sometimes larger sources of
income than U.S. ticket sales. Some movies are made for direct release into the home video market, bypassing the costs of distribution to theaters.

Large movie studios have taken on the role of financial manager in an effort to redistribute the economic risk of making a movie. Studios seek out partnerships with rival studios to help produce, promote, and distribute films. Future studios may be lean and mean, with very little money tied up in studio facilities or ongoing personnel costs.

Movie studios, sports teams, sports venues, and the various media companies that bring entertainment to the masses are all in the business to make money. Having a **profit motive** means making decisions to use resources in ways that result in the greatest profit. The National Football League (NFL) teams, for example, have total revenue in excess of $5.5 billion. The teams operate under an agreement that total revenue will be shared among the 32 member teams. Although the teams are privately owned by individuals or groups, they share the revenue. The financial resources that teams share is called the total football revenue (TFL) and includes the majority of the income sources for each team, including revenues from local and national television broadcasts, ticket sales, and sales of concessions and merchandise. Under the agreement that runs until 2012, the players receive about 59.5 percent of the TFL. Another percentage goes to pay all of the other costs of operating the massive business. About $150 million per season is transferred from the top 15 high-revenue teams to the low-revenue teams. The money that is left after all of the expenses are paid, including salaries and taxes, is the profit.

**Cultural Opportunities for Profits**

Worldwide distribution revenue is critical for movie profits. The income from an international release of a movie can increase the box-office take by 50 to 100 percent over domestic ticket sales. Most films generate less than 25 percent of their final income from U.S. domestic ticket sales. The biggest ticket seller in the last 100 years has remained *Titanic* with $600.8 million in U.S. tickets and $1,234.6 million in overseas tickets, more than double the total sales of *Star Wars*, which comes in a distant second in sales.

With 1.3 billion people in China, the market for movies is tremendous. Movie theater ticket sales have been shrinking in China because of the widespread availability of pirated movies shown on home video or DVD players. Currently, the Chinese government tightly controls the content, filming location, and distribution of films released in China. Chinese films must avoid political and religious topics. The Chinese government seeks to limit the distribution of non-Chinese films and television programming so as to limit competition and exposure to foreign cultures. Marketers must understand the markets in which they are trying to sell.
In addition to U.S. ticket sales, name two other large sources of revenue for U.S. film studios.

**ECONOMICS**

Economics is the study of how goods and services are produced, distributed, and consumed. There are two levels of economics that are studied. Macroeconomics is the study of the economics of the entire society (the big picture). Microeconomics is the study of the relationships between individual consumers and producers. Sports and entertainment marketers are focused on microeconomics and their relationships with customers. Marketers want to persuade consumers to use their resources on the products and services the marketers offer.

**Sports and Entertainment Economics**

Because people have limited time and money to spend on sports and entertainment, they must make decisions as to how they will spend their limited resources. Often, the decisions are based on the amount of satisfaction they believe they will receive from the sports or entertainment product. The amount of satisfaction a person receives from the consumption of a particular product or service is called economic utility. Sports and entertainment businesses are constantly seeking ways to increase the economic utility of their products and services. Consumers are more likely to purchase a product or service if it provides higher utility than another product or service. The utility improvements can take place in four categories—form, time, place, and possession.
Types of Utility

When the physical characteristics of a product or service are improved, it is called form utility. Offering a movie in DVD format is a form utility improvement over the same movie in a 16-mm format. A DVD is easily transported, while a 16-mm full-length film is packaged in multiple 18-inch-diameter, heavy metal cans. A DVD can be mailed in an envelope, but a 16-mm film must be packaged for shipping.

The movie must be accessible when and where the consumer wants to view it. Time utility is the result of making the product or service available when the consumer wants it. For example, a movie theater schedules several different showings of a movie throughout the day. This way, the movie is available at a time when it is more convenient for the customer.

Place utility ensures that the product or service is available where the consumer wants it. If the consumer wants to watch the movie at home, then the movie must be made available for purchase or rental at conveniently located retail outlets.

Even if form utility, time utility, and place utility requirements have all been met, the consumer still may not make a purchase if possession utility does not exist. Possession utility results from making the product or service available at an affordable price. To take possession of the movie, the consumer must be able to obtain it affordably through convenient methods of payment. Allowing the consumer to rent a movie rather than buy it is a way to improve possession utility. If the movie is being viewed at a theater, the customer may prefer to pay for the tickets with a credit card. Having more than one payment option is a convenience for customers.

Three-Ring Utilities

When families take their children to see the circus, they want it to be fun for everyone. A Feld Entertainment production of the Ringling Brothers and Barnum and Bailey Circus offers maximum economic utility for the parents and children. Information about times and locations as well as tickets are available online. The circus travels around the country to make it possible for all to enjoy. As the family settles in to enjoy The Greatest Show on Earth, they have the added convenience of purchasing refreshments with debit or credit cards without leaving their seats. The enhancements of the various forms of economic utility have helped Feld keep the circus as the only form of family entertainment that has performed nonstop for three centuries.

List four types of economic utility.

Intermission

SPORTS AND ENTERTAINMENT ECONOMICS Lesson 2.1
Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. Macroeconomics is
   a. the study of sports and entertainment marketing
   b. the study of the economics of the entire society
   c. the study of the relationships between individual consumers and producers
   d. none of the above

2. Having a profit motive means
   a. charging high prices
   b. increasing the number of products offered
   c. producing what consumers want
   d. making decisions to use resources in ways that result in the greatest profit

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. Think of a sports or entertainment event you have attended. How could the form utility have been improved?

   ______________________________________________________
   ______________________________________________________
   ______________________________________________________
   ______________________________________________________

4. Geography Select a country other than the United States in which you could attend a sports event. Name the country, the sport, the location of the event, and how you could get tickets. State how the possession utility could be improved for you.

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Lesson 2.2

Risk Management

Goals
- Define risk and describe the categories and classifications of risk.
- Name and describe four strategies for risk management.

Terms
- risk
- risk management
- liable

Opening a sports or entertainment business requires taking risks. **Risk** is the possibility of financial gain or loss or personal injury. Financial loss can occur if a business does not make a profit and has to close, resulting in the loss of all of the money the owners and investors have used to start the business. Personal injuries can occur if businesses do not take the appropriate safety precautions. Businesses must consider three categories of risk—natural risk, human risk, and economic risk.

**Categories of Risk**

**Natural risk** includes weather conditions that cannot be avoided. Tornadoes, blizzards, hurricanes, floods, droughts, and ice storms have major impacts on consumers and businesses. Hurricane Katrina caused incredible destruction in New Orleans and tourist cities in Mississippi. The population of New Orleans was decreased by 80 percent due to the destruction of Hurricane Katrina. Hotels, restaurants, and other tourist attractions lost months of business due to the hurricane. Less catastrophic weather conditions can also cause problems. Ice storms or other dangerous winter weather conditions will result in power outages and other disruptions.

**Human risk** includes the possibility of injury caused by human actions. For example, a ride at a theme park may have a warning sign that indicates it is not suitable for guests with certain medical conditions. If a guest ignores this warning and gets injured, the theme park may be liable for the injury.

**Economic risk** includes the possibility of financial loss due to changes in the economy. For example, a business may find that it is not able to compete with other businesses due to changes in consumer behavior or changes in the market.

Work with a group. Discuss what risk people assume when they board a ride at a theme park. What responsibility does the theme park have to the riders?
in people staying home instead of spending money at sports and entertainment events. Outdoor concerts will face cancellation or postponement due to heavy thunderstorms, dangerous lightening, or tornadoes.

Human risk in business can result from customer dishonesty, employee theft, and employee incompetence. Businesses are aware of shoplifting and other dishonest practices by customers, such as credit card fraud and bad checks.

Many sports and entertainment businesses hire special security personnel to monitor special events. Businesses of all sizes must also deal with dishonest employees. There is always the risk of employee theft in the company. Also, employees who have not been fully trained to perform their jobs or have a negative attitude at work pose financial and safety risks.

Economic risk faced by businesses is due to changes in the business environment, such as the economy. The economy affects a consumer’s lifestyle, which plays an important role in what an individual purchases. When the economy is good, consumers have more discretionary income to spend on sports and entertainment products and services. The opposite is true when the economy is bad. Because of economic risks, there is no guarantee that consumer demand will remain consistent for a long period of time.

Additional Classification of Risk
The three categories of risk—natural, human, and economic—can be further classified as three additional types of risk. Businesses should be aware of these risks and develop a plan for managing them if possible. These three types of risk are gain or loss risk, controllable risk, and insurable risk.

Gain or Loss Risk A sports team that does not attract enough fans may cease to exist. If this happens, all of the groups and individuals who have invested money in the startup of the team will lose their investment. If the team is wildly successful at attracting fans, the investors stand to make a great deal of profit. Since the outcome is not known, the investors are taking what is known as a speculative risk that could result in either a gain or loss. If there is a chance of an event occurring that could result only in a loss, it is known as a pure risk. For example, if a flood closes a golf resort, the loss of business is a pure risk since there is no possibility of gain from the event.

Controllable Risk If a loss can be prevented or the likelihood of its occurrence reduced, it is called a controllable risk. If a theater has adequate fire exits that are properly lit, sprinkler systems, and employees that have been trained on fire safety procedures, the managers have taken steps to control the risk of loss due to a fire. If a tornado blows the theater away, that is an uncontrollable risk because the managers could do nothing to prevent the loss. Weather cannot be controlled.
**Insurable Risk**

Insurable risk is pure risk for which the chances of loss are predictable and the amount of the loss can be estimated. For example, the likelihood of a fire and the average dollar amount of the loss from the fire can be calculated using statistics of similar losses that have occurred in past years. Insurance companies will provide insurance against losses resulting from insurable risk. If there is a chance that a loss could occur, but the dollar amount of the loss cannot be estimated, it is an **uninsurable risk**. For example, if a baseball team has a losing season and ticket sales drop, the loss of revenue is an uninsurable risk.

What is meant by a controllable risk?

**MANAGING RISK**

Managing risk is a very important financial consideration for sports and entertainment businesses. **Risk management** involves preventing, reducing, or lessening the negative impacts of risk by using the strategies of risk avoidance, risk insurance, risk transfer, and/or risk retention. Marketers must develop risk management strategies to ensure all possible risks are addressed. Careful planning is required to prevent financial loss and personal injuries.

**Risk Avoidance**

Avoiding risky situations takes planning on the part of sports and entertainment marketers. If a sports arena hires individuals to serve as security personnel without performing background checks, it is not taking appropriate steps to avoid crime. If fire exits are locked or blocked in a nightclub that has a pyrotechnics show, the danger of injury increases.

Inviting large groups of people to view an event carries the risk of potential legal action based on harm or personal injury. A business could be successfully sued if it has not taken steps to ensure compliance with safety laws that limit the liability for injury. Being **liable** means the business is legally responsible for damages and might have to pay for the medical costs and other losses suffered by an injured person. Added measures such as security guards, video surveillance, controlled access to public and private areas, and safety training for all staff members are ways to avoid risk.

By posting warning signs on some of its rides, Disney is trying to limit its risk.

**Risk Insurance**

Sports and entertainment businesses contract with insurance companies and other financial institutions to cover their risk of financial loss. Risk insurance pays for predictable losses. Insurance companies can predict the potential for losses due to fire based on the past occurrences of such losses.
Risk insurance is available in many forms, such as property insurance, liability insurance, or theft insurance. Businesses pay the cost of insurance in the form of a premium. The premiums from many businesses are pooled and used to pay for the losses that a few businesses will experience. Many losses are not insurable and must be covered in other ways.

**Risk Transfer**

Some risks can be transferred to another company or even to the consumer. A park wanting to host a fireworks display may contract with another company to be responsible for the show. In this way, the park is transferring liability to the fireworks company. One method of transferring the risk to the fans is the inclusion of a statement on the back of the event ticket saying that the promoter is not responsible for any harm to the ticket holder. By accepting the ticket, the attendee agrees to accept liability for possible risks. However, neither of these examples of transferring risk relieves the facility or event management from providing a reasonably safe environment.

**Risk Retention**

Businesses that face uninsurable risks must assume the cost of the risk. This is referred to as risk retention. Owners of a theater production company understand that they may not sell as many tickets as they planned due to uncontrollable circumstances. If bad reviews keep attendance low, the company may suffer a loss that cannot be recovered through insurance. The business will retain the risk of a loss of sales.

All businesses will utilize risk retention to some degree because not all risks are predictable. To offset costs that are unplanned, businesses can simply set aside funds for use in these circumstances. Risk retention groups are another option. These groups are formed by similar businesses that face similar liability risks. The businesses join together and contribute resources to be distributed among members who have suffered a loss.

**Briefly describe four strategies for managing risk.**

Almost everyone likes amusement park rides, but not all rides are right for everyone. Amusement park rides are powerful machines, and there is a risk that someone can get hurt. Access thomsonedu.com/school/sports and click on the link for Chapter 2. Browse the Saferparks website to determine who is involved in the most ride-related accidents. What are the primary risk factors? Is the risk of injury on an amusement park ride a pure or a speculative risk for the amusement park?
Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. All of the following are examples of human risk except
   a. employee dishonesty
   b. thunderstorm
   c. check written on bank account with insufficient funds
   d. unskilled labor

2. The three classifications of risk are
   a. gain or loss risks, insurable risks, and controllable risks
   b. financial loss, personal injury, and property loss
   c. risk transfer, risk retention, and risk avoidance
   d. fire, theft, and floods

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. List four steps a sports venue could take to avoid risk of injury to fans attending games.

   _________________________________________________________
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4. Communication Write a letter to a state legislator about who should regulate and assure the safety of rides at amusement parks. Should theme parks be self-regulating regarding the safety of their rides (as they currently are)? Or, should local, state, or federal agencies be involved?

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Lesson 2.3
Business Ethics

Goals
- Define ethics.
- Discuss the impacts of unethical behavior.

Terms
- ethics
- principles

Opening Act
Visits to the Parc des Princes stadium in Paris, France, for a Paris Saint-Germain soccer game sometimes provide a shocking side of sports. Members of what the International Herald Tribune calls “hooligan gangs” often yell racial insults at members of their own home team.

In the past, fans that were disruptive were attempting to antagonize members of a rival team. Currently, many teams across Europe are having problems with hometown citizens harassing members of the home team when their performance is lacking.

Work with a group. Discuss why fans are harassing their home teams. What can teams and leagues do to end harassment of players? Whose responsibility is it to protect the players?

DO ETHICS COUNT?

A perception exists among the general public that sports and entertainment celebrities no longer value ethics. Ethics are a system of deciding what is right or wrong in a reasoned and impartial manner. Ethics are an important part of sound business decisions. Business should be conducted with integrity, trust, and fairness, which are all core standards of ethics. When a bitter NBA lockout almost resulted in a lost season in 1998, the credit for saving the season could be given to a single player. Hakeem Olajuwon, then of the Houston Rockets, is known as a quiet and religious man of principles.
Olajuwon met with Billy Hunter, the NBA Players’ Association negotiator. Olajuwon, along with Shaquille O’Neal, Jayson Williams, and their agents, persuaded Hunter to set up the last-minute meeting that led to the settlement. O’Neal is a marketing giant, but he needed a thoughtful man of integrity like Olajuwon to help bring the battle to an end. The players wanted a man of ethics to represent them when it mattered the most.

Ethics and Character Matter

Ethical behavior is based on solid principles, which are the high standards of rules and guidelines in both business and personal life. Almost all societies can agree on some principles such as “don’t kill” or “don’t steal.” Character development can be divided into stages in which people advance from childish behavior to mature and responsible behavior based on principles.

In early stages of character development, a child learns that exhibiting bad behavior will result in punishment, while good behavior will result in rewards. As a child matures, the influence of others’ expectations of him or her grows. Eventually, the child may reach a stage of maturity in which he or she acts on the basis of a set of principles. Ethical people do not act just because they can. They consider the results and effects on others before making a decision to take an action.

Today’s youth may have difficulty developing the later stages of ethical behavior due to lack of mature adult role models. Exposure to frequent news accounts of unethical behavior by politicians, sports and entertainment figures, and even religious leaders may cause a negative view of the value of ethics. Do poor examples of ethical behavior receive more attention while good examples are ignored? Are there more instances today of unethical behavior or is it just being reported more than in previous decades? Either way, there is no way to justify unethical behavior. Just because “everybody is doing it” does not make it the principle by which to live, nor does it improve

The Smithsonian is a publicly financed museum that signed a contract with Showtime Networks. The agreement set up the Smithsonian Networks to broadcast original television programming. According to Lorne Manly in The New York Times, the venture gives the Smithsonian Networks “the right of first refusal on commercial documentaries that rely significantly on the museum’s archives, curators, or scientists.” The Smithsonian is using the contract to bring in badly needed revenue.

The contract caused a negative reaction from more than 215 filmmakers, television executives, and academicians. Those in opposition to the agreement believe the venture will provide preferential treatment to a commercial entity and limit the ability of independent filmmakers from using sources other than the Smithsonian Network. They believe it is anticompetitive and will limit access to publicly owned resources.

Think Critically

1. Do you think the museum should have a limited commercial broadcast contract? Why or why not?
2. How might this contract impact independent filmmakers? Discuss your opinion.

Judgment Call

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Think Critically

1. Do you think the museum should have a limited commercial broadcast contract? Why or why not?
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the marketability of a product. In fact, a lack of business ethics can result in publicity that will undo the best marketing plans.

How does a person’s character develop?

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**BUSINESS BEHAVIOR**

Having a profit motive for a business is sometimes mistakenly confused with acting unethically out of greed. Making a profit is a legitimate goal of business. Without profits a business will cease to exist. But, a need to make a profit is not an excuse for unfair or deceitful business practices. Individuals in businesses have the power to decide what they do and say. They must also be responsible for the consequences of their actions and words.

**Seeking an Advantage**

When athletes take illegal drugs, such as anabolic steroids, in hopes of improving performance, they are behaving unethically and gaining an unfair advantage over their competition. When athletes observe that those who are “cheating” by taking illegal drugs are rewarded with more pay or recognition, making the ethical choice becomes more difficult.

**When Being Bad Is Profitable**

In efforts to control the bad behavior of professional athletes, leagues and teams assess fines to players. According to Jon Weinback in *The Wall Street Journal*, player’s fines assessed in one year by the NBA amounted to $13.9 million; by the NFL, $3.3 million; by the MLB, $170,725; and by NASCAR, $384,495. The amounts actually paid are not released and are assumed to
have been negotiated down from the original amounts. While most of the
major leagues donate the fines collected to charities, NASCAR actually
redistributes the pooled fines to drivers based on where they finish in the
final point standings.

Finding ways to control the behaviors of multimillionaires who are not
good role models is one of the ethical dilemmas for the sports and enter-
tainment industry. Only fans can really influence the behavior of ethically
challenged athletes and celebrities. Fans can effectively take a stand against
bad behavior by not buying tickets or the products promoted by unethical
celebrities. As long as the fans put up with poor behavior from celebrities,
the celebrities who lack self-control will consider themselves above the
standards of ethics. They will see no reason to behave as responsible adults
because they are profiting from their bad behavior.

Effective and Ethical
According to the Josephson Institute of Ethics, good decisions are both
ethical and effective. Good decisions are the right choices for the long term.
If a coach provides steroids to athletes, it may help the team win in the
current season. But in the long term, it may cause serious health problems
for the players and legal problems for the coach, players, and organization.
With profit as the motive for business, managers of publicly owned sports
and entertainment businesses may be under a great deal of pressure to
achieve success. They may be tempted to resort to unethical tactics to deliver
the desired results. In the long run, companies that establish core values, like
honesty and respect for others, and base decisions on those values will be
the big winners. When sports teams establish core values and demand that
players act within ethical guidelines, the players will “step up to the plate.”

How can the bad behavior of celebrities be controlled?
Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. Ethical behavior requires
   a. making tough decisions
   b. using self-restraint
   c. acting in a mature, responsible manner
   d. all of the above

2. Principles
   a. are applied to only certain people
   b. are high standards of rules and guidelines
   c. have no affect on businesses
   d. none of the above

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. Explain why it is worthwhile to encourage business people to act ethically.

4. Communication Write a paragraph about how unethical behavior can impact the promotion of a product.
Lesson 2.4

Financial Analysis

Goals
• Discuss sources of funding and revenue for sports and entertainment businesses.
• Describe four tools for financial analysis.

Terms
• return on investment
• forecast
• budget
• balance sheet
• income statement

Opening Act

Banker David Pullman is credited with creating the Bowie Bonds, a new way for performers to secure financing. Named for singer David Bowie, who was the first singer to have bonds issued based on future earnings for his music, the Bowie Bonds provide upfront money to the performer.

The bonds are agreements or promises by the performer to repay a specific amount of money plus interest. The performer is, in effect, taking out a loan by selling the bonds to investors, who will be repaid from money earned on future music and concert sales. Prior to the first Bowie Bonds, most bonds had been issued by corporations or the U.S. government. The idea of the Bowie Bonds is now frequently used by film studios and even for World Cup Football in Japan and South Korea.

Work with a group. Discuss why an entertainer would want to finance a project by issuing bonds. What are the risks on the part of the bond purchasers? Share your group’s thoughts with the rest of the class.

IT TAKES MONEY

The main purpose of all business activity surrounding sports and entertainment marketing is to make a profit. An unprofitable venture will eventually run out of money, and other businesspeople will be unwilling to invest or become owners. The venture will cease to exist.

Finding Funding

Individuals and businesses (entities) make profits in the sports and entertainment business at many levels. Since a number of entities generally come together to stage an entertainment or sports event, each entity has the possibility to make or lose money. Marketing represents just one activity within each entity. Either the people who are the owners of the event idea must risk their own money to stage and market the event, or they must find others who are willing to invest in or sponsor the event. The owners/originators must have a plan that will convince investors of the potential for profit.
plan must show what expenses will be incurred to produce the event and how revenue will be produced from the sale of tickets and other items.

Financing a movie can be very expensive. Movies made for teenagers in which young actors star are a money-making asset for filmmakers. The salaries paid to young up-and-coming actors, sometimes between $50,000 and $150,000 per movie, are much less than the $20-million salary of a superstar. They also can cost 50 percent less to advertise than big-budget movies. By using cable TV channels directed at teens, such as music video channels, movie marketers can purchase cost-efficient ads and hold down expenses.

Investors generally provide the funding for an event to cover all the costs that must be incurred before tickets are ever sold. The costs may include salaries for the cast and crew who stage a play or concert, the costs of the facilities, the costs of promoting the event to fans, and all other costs that go into making an event happen. In return for providing the money to cover costs, the investors seek a return on their investment. The return on investment (ROI) is the income from a venture that is distributed to investors. Investors must feel secure about their chances of earning a return on investment before they will risk their money to make a profit.

Think Critically
1. Look at the See Jane web site for research on gender representation in movies. Do you think balancing what children see in movies will impact their self-image as well as the image of others?
2. Why do G- and PG-rated movies sell more tickets than R-rated movies? Why is the content of the movies important to ticket sales? What groups might be interested in investing in or providing financing for See Jane projects?
Money Sources
The revenues used to repay investors are generated through ticket sales, broadcast rights, licensing, and facilities. Facility revenues are generated from sponsor advertising (signage), parking fees, rental of luxury boxes, and sales of concessions or rental of concession stands to vendors. The event must attract fans that will use some of their limited financial resources to purchase tickets, related licensed merchandise, and food and beverages.

Television networks generate revenue by selling commercial time to advertisers and by selling programs to affiliated stations. To clear a profit, they must bring in more revenue than they spend on buying the rights to air sporting events or producing and distributing programs. The total of television contracts with the National Football League (NFL) will cost CBS, Fox, ESPN, and NBC over $3.1 billion each year from 2006 to 2011. These contracts increased the total revenue going to the NFL from TV by over one billion dollars. As the price of television contracts increases, the television networks will have to charge more for advertising to cover the rising costs.

Name three sources of revenue from sports and entertainment.

WHERE IS THE MONEY?

Putting the core standards of marketing to work costs money, and the costs must be controlled and managed if the sports and entertainment company is to stay in business. Decisions made about where and how to spend money impact profitability. Financing involves budgeting, finding ways to pay the costs of doing business, managing the costs so that they do not exceed the revenues coming in, and helping customers pay for the products or services. Since sports and entertainment events often cost millions of dollars to produce, careful financial plans must be prepared and records must be kept. A report called a forecast is developed to predict the expenses to be incurred and revenues to be received from an event. The information from the forecast is vital for planning.

Budgets
A budget is a plan for how available funds will be spent. A budget is like a road map for spending, and it has a specific purpose—to control costs so they do not exceed the funds available. Budgets are usually prepared for one fiscal year and broken into monthly segments. For a typical business, the monthly costs of operation include costs of office space, equipment, utilities, computers and software, salaries, supplies, merchandise to be resold, costs of marketing, and taxes. Predicting costs accurately requires knowledge and experience. Those starting new businesses usually need help from financial advisors to ensure they have thought of all the costs involved and estimated them correctly.
Financial Statements
Records must be kept of all financial transactions. The recorded data can be organized into financial statements that report the financial condition of the business. A **balance sheet** shows the company’s **assets** (items of value, including cash, property, and equipment) and its **liabilities** (amounts owed for purchases made on credit and loans) at a specific point in time. The difference between the assets and liabilities is the **net worth** of the business. The **income statement** shows all revenues received and all expenses incurred over a specific period of time. The income statement will reveal the company’s profit or loss. If the company’s planning has been effective, the income statement will show a profit. Potential investors will usually want to look at the forecasts, budgets, and financial statements before making a decision to invest in one of its sports and entertainment ventures.

**Intermission**

What is the purpose of a forecast?

**Take a Bow**

Becky Heidesch brings both sports and business experience to her role as CEO of Women’s Sports Services (WSS). Her background includes positions as head coach at the high school, NAIA, and NCAA levels, assistant professor of health and physical education, director of human resources, career counselor, marketing consultant, event manager, and entrepreneur. In the fall of 1995, Heidesch founded the Women’s Sports Wire (WSW), the first and only national clearinghouse for women’s sports business news and information. By 1997, the women’s sports market was exploding, and the business expanded to become Women’s Sports Services (WSS). WSS is a full-service women’s sports marketing agency offering marketing consulting, event management, and career services. With a commitment to women’s sports, the company held the “Girls’ Sports X-travaganza” event in 2000–2002. The X-travaganza was the largest event in the country celebrating National Girls & Women in Sports Day.

The company operates WomenSportsJobs.com, an online career center for women interested in sports-related career fields. Heidesch is a popular speaker. She conducts sports career seminars and training workshops nationwide. Passionate about women’s sports, diversity, and career management, Heidesch says, “The business is a marriage of all my passions.”

**Think Critically**
What kinds of teams or individuals would utilize the services of Heidesch’s company? What might have inspired Heidesch to move from coaching to marketing?
Understand Marketing Concepts
Circle the best answer for each of the following questions.

1. Costs of sports and entertainment events include
   a. salaries, facilities, and promotion
   b. income, sales, and revenue
   c. investors, networks, and revenue
   d. none of the above

2. Forecasting involves
   a. purchasing and promotion
   b. pricing and ticket sales
   c. predicting costs and revenue
   d. planning, distribution, price, and advertising

Think Critically
Answer the following questions as completely as possible. If necessary, use a separate sheet of paper.

3. Think about the advertising sponsors that TV networks will be seeking to pay the billions of dollars it costs to broadcast NFL games. Make a list of possible advertisers and the likely target customers of each.

   ______________________________________________________
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4. Why are balance sheets and income statements important to a business? What would investors look for on a sports and entertainment company’s balance sheet and income statement?

   ______________________________________________________
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   ______________________________________________________
Review Marketing Concepts

Write the letter of the term that best matches each definition. Some terms will not be used.

1. The amount of money remaining from revenues after all expenses are paid
   a. balance sheet
   b. budget
   c. economics
   d. economic utility
   e. ethics
   f. forecast
   g. income statement
   h. liable
   i. principles
   j. profit
   k. profit motive
   l. return on investment
   m. risk
   n. risk management

2. The study of how goods and services are produced, distributed, and consumed
3. The possibility of financial gain or loss or personal injury
4. A report developed to predict the expenses to be incurred and revenues to be received
5. The business is legally responsible for damages
6. Involves preventing, reducing, or lessening the negative impacts of risk.
7. The income that is distributed to investors
8. A system of deciding what is right or wrong in a reasoned and impartial manner
9. The amount of satisfaction a person receives from the consumption of a particular product or service
10. A financial statement that shows a company’s assets, liabilities, and net worth at a specific point in time

Circle the best answer.

11. Pure risks
   a. involve the possibility for gain
   b. involve no possibility for gain
   c. are never insurable
   d. are speculative in nature

12. Categories of economic utility include
   a. place
   b. possession
   c. time
   d. all of the above

13. Strategies for managing risk include
   a. risk avoidance and risk insurance
   b. risk transfer and risk retention
   c. risk acceptance and risk denial
   d. all of the above
   e. both a and b
Think Critically

14. To increase their revenue, some movie theaters now run ads for local businesses before a movie starts. Would you advertise this way if you owned a business? Why or why not?

15. List two human risks faced by businesses and describe strategies to overcome those risks.

16. Assess your school’s fire safety practices. Make a list of signs, lighting, and other ways that the school is trying to reduce the risk of injury to students.

17. Describe an example of unethical behavior in the sports and entertainment industry that has been reported in the media recently. Explain what impact this behavior had on the person(s) involved.

18. If your school cannot increase its seating capacity for basketball games, describe two other ways it can increase revenue from basketball.
19. **Marketing Math** A movie costs $40 million to produce and $45 million to promote and distribute. The movie’s total revenue from ticket sales is forecast to be 18 percent above costs, with 28 percent of revenue from U.S. sales and the balance from overseas. What is the total estimated revenue? How much of the total revenue will come from the United States? How much will come from overseas?

20. **Government** Use the Internet to find out about safety regulations for public entertainment complexes, such as theaters and sports arenas. What governmental agencies are responsible to ensure regulations are enforced? Write two paragraphs on your findings. Do you think that enough is being done to ensure public safety? Write an additional paragraph stating your position and describing any recommendations you would make.

21. **Geography** Research current facts about the United States and China. What is the geographic size of each country? What is the population of each country? If you were a movie producer, would you try to market your films in China? Why or why not?

22. **Finance** Research three sponsors of NASCAR. Explain how the sponsors help finance NASCAR and how the sponsors benefit financially from sponsorship.
23. **History** Use the Internet to research how the recording industry has changed over the last 100 years. Include information about the different media that have been used to record music and the improvements in form utility.

24. **Marketing Math** A local band with five members has the following expenses.

   - Renting a recording studio, $2,400
   - Creating a promotional web site, $5,000
   - Duplicating and packaging 20,000 copies of a DVD, $50,000
   - Advertising and distribution costs, $62,000
   - Agent and songwriter fees, 10% of revenues

If the DVD sells for $15 per copy, how many copies will need to be sold in order to earn $10,000 for each band member?

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**PROJECT EXTRA INNINGS**

Video rentals used to require joining a video rental club for as much as $75 per year, going to a video rental store to see what was available, paying about $5 to rent a video for 3 days, taking the tape or DVD home, and returning it after viewing. Incurring late fees was always a risk in the event you forgot to return the video by its due date. The economic utility of video rental has been improved by a company called Netflix.

Work with a group and complete the following activities.

1. Use the Internet or library resources to research what is happening in the video rental business.

2. What changes have online businesses such as Netflix caused in the video rental business? Discuss all four categories of economic utility in your answer.

3. Write a one-page summary that compares and contrasts the video rental business before and after the arrival of Netflix.

4. In the summary, include your opinion of how the video rental business could further improve economic utility.
LOTTERY SALES REINVIGORATED BY NEW SCRATCH GAMES

Lotteries and casinos are controversial sources of revenue for an increasing number of states. Most states have avowed to use the revenue from games of chance to fund education and other worthwhile public causes. The chances of winning the big lottery are extremely small, but most people still like to dream about the possibility of becoming rich with the purchase of the right ticket.

**Scratch Your Way to Millions**

Lottery sales lost steam with the increased popularity of casino and Internet gambling, but high-priced scratch-off tickets have revived lottery sales and increased state revenue. The introduction of instant-win tickets that cost $10, $20, and $30, offering top prizes of $1 million or more, has set lottery ticket sales on fire in many states.

Weak lottery revenue in 2004 caused Georgia to tighten eligibility requirements for its HOPE scholarships, which have paid tuition for 900,000 college students since 1993. Now the program is successful again thanks to a 17 percent increase in instant-game sales, bringing in $1.9 billion during the first nine months of 2006. Florida’s instant-game sales have almost tripled since 2002. Massachusetts launched a successful scratch-off game, selling $1 billion of $10 scratch-off tickets that resulted in $800 million in prizes. Texas has two $30-ticket instant games which offer a $3 million prize. The state also offers three $20-ticket and six $10-ticket games. California’s most expensive ticket is $5 because of legal restrictions.

The popularity of $10, $20, and $30 scratch-off tickets was unexpected. The limited number of tickets for these games has sold out quickly. The high-dollar tickets return about 75 percent in prizes, which could be the reason for the high demand. Due to its success, the scratch-off ticket trend is likely to continue in the 42 states that offer lotteries.

Casino-gambling revenue has increased 49 percent since 2000 to $55.3 billion in 2005. Lotteries contributed almost 1 percent or $16 billion to state budgets in 2005. Creators of scratch-off games understand the financial rewards of delivering the next popular lottery game.

No research has been conducted on who’s buying the expensive tickets. Most lottery critics say the newest games probably hurt the poor.

Think Critically

1. What are the benefits of state lotteries and other state-regulated games of chance?
2. What are the drawbacks of state lotteries, scratch-off games, and casinos?
3. What is the ethical issue involving expensive scratch-off tickets?
4. Why do you think that games of chance are so popular with Americans?
You are the ticket manager for a major university that sells out all home football games. Your football team won two national championships in the past three years. The 100,000-seat stadium is a major revenue producer for the university. Many of the teams in your school’s conference charge high ticket prices for key rivalry games. The regular price for a ticket to a football game is $40. However, some universities will charge as much as $65 per ticket for games that generate high national interest or involve big rivalries. Two of your nonconference home games are marquee match-ups, and your major rivalry is scheduled as the last home game of the season. There are a total of seven home games for the upcoming season.

The DECA Sports and Entertainment Marketing Series Event consists of a written comprehensive exam and a role playing event. You have ten minutes to review a situation and develop a professional approach to solving a problem. You then have ten minutes to explain your solution to the judge. The judge has an additional five minutes to ask questions.

You have been asked to develop a pricing strategy for the seven home football games. No tickets can be sold for less than $40. The university wants to maximize revenue. You will need to justify the higher ticket prices of selected games to fans. Fans and university officials will also want an explanation of how the additional revenue will be used.

Performance Indicators Evaluated
- Communicate pricing strategies for supply and demand.
- Analyze relevant data to determine varying ticket prices for home games.
- Explain the need for and use of additional revenue from higher-priced tickets.
- Demonstrate knowledge of appropriate pricing strategies.
- Explain the benefits of increased revenue for consumers of football tickets.

Go to the DECA web site for more detailed information.

Think Critically
1. Why have an increasing number of universities varied ticket prices to games based upon the opponent?
2. Why must universities consider the consumer before raising ticket prices?
3. If games become too expensive to attend, what other options do consumers have to watch the games?
4. How much revenue would be generated from the seven games if ticket prices were $40 all season long?