

Global Cultural Sporting Environment

M5X02091



Lecture 5

The Business of Professional Team Sports

2020-21



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Session Overview

- Business of professional team sport
 - Profit maximisation v utility maximisation
- Assignment support

Cover photo: Old Trafford anti Glazer protests circa 2010.



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Lecture/Seminar Schedule: Semester 1

Teaching Week	W/C	Sessions Details
2	28/09/2020	Module Introduction
3	05/10/2020	Sport, culture and national identity – UK and Ireland
4	12/10/2020	Sport, culture and national identity in the Rest of World – The Arab World
5	19/10/2020	Sport, culture and national identity – South East Asia
6	26/10/2020	Sport, culture and national identity in the Rest of World – North America
7	02/11/2020	Globalisation and Sport – Part 1
8	09/11/2020	Globalisation and Sport – Part 2
9	16/11/2020	Culture, commercialisation and consumerism in sport
10	23/11/2020	Professional Team Sports – International Comparisons
11	30/11/2020	Sport for Development and Peace
12	07/12/2020	Assignment Support Session
Christmas Vacation Monday 14th December to Monday 18th January 2021		

Module Assessment

WRIT 1 Essay: 4000 words (100% contribution)

To what extent has the relationship between sport and national identity been eroded and replaced by a homogenous global sporting culture? Critically evaluate the arguments for and against this statement and draw your own conclusions.

Define the key concepts and demonstrate knowledge and understanding of the subject; provide examples of how sport contributes to national identity, using historical and present day perspectives. Analysis should also consider the role of the state and international organisations with regards to national identity and sport; and must draw on the case studies, theories and concepts covered within the Module.

Evaluation must be critical in nature and underpinned with appropriate and accurate citations. Students should adhere to the Harvard referencing system.

Assessment Format and Submission

Answers should be presented as a structured essay of 4,000 words, containing an introduction, main body sections and conclusion. Work should be written in Arial font, size 12 with 1.5 or double line spacing.

A list of references must be included at the rear of the essay. References are those sources directly cited in the text.

Please adhere to the specified word limit. Marks will be deducted in accordance with the Academic Quality Handbook if work is 10% above the limit.

Further advice and guidance will be provided during lectures and seminars.

Please note this is an online submission so students must submit their work via Turnitin.

Due date: Friday 11th December 4pm

Independent Study Task for next Week

Review one of these North American sports in terms of its place in society and extent to which it represents the national identity; has been used as a nation building tool, and in terms of its global reach.

- Baseball in USA - Cieran
- American Football in USA - Chris
- Basketball in USA - Brooklyn
- Ice hockey in Canada - Owen
- Lacrosse in Canada - Callum
- Football in Mexico -
- Wrestling in Mexico - Cedric

Prepare a 2 slide Powerpoint and use this to feedback to the class next week.

Discuss in Pairs – 5 mins

What is professional sport?

Have you noticed any differences in the way
the business of professional team sport is
managed in USA and Europe?

What is professional sport?

*“Professional sport, wherever it is played, is **the most expensive, most visible and most watched sporting activity**. It captures the lion’s share of media coverage, as well as almost all sponsorship revenue and corporate support that is on offer,” Hoyer et al (2012, p. 54)*

“The apex of the sports industry”.





CHAMPIONS LEAGUE



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Professional Sport– An overview

“The constancy and consistency of professional sport leagues has been the foundation on which their popularity has been built.” Hoyer et al (2012, p.54). e.g. college football in USA.

Professional sports leagues have become “an ingrained part of what it means to belong to a culture or social group,” (Hoyer et al, ibid), thus they help people, fans especially, define who they are.

Professional sport is now BIG business.

Closer to home....

From Graveyard to Ambition



"A role model for a Supporters Trust"
Huw Jenkins, Chairman
of Swansea City FC

THE OFFICIAL HISTORY OF THE
SWANSEA CITY
SUPPORTERS TRUST



Phil Sumbler

Forewords by Huw Jenkins & Kevin Johns



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Unusual characteristics of professional team sports: can you think of any?

1. Teams perform in leagues on which they are dependent.
2. Fans consume the product but are also part of it.
3. Fan loyalty provides a deep sense of identity, usually rooted in a geographical place.
4. As a business, relegation and promotion adds to excitement, but the economic consequences makes business planning very difficult.

(n.b. North American model avoids this by having closed leagues).

Supporters are a contributor to the product – if they were not there the product would be less valuable – both live and televised products. Thus, ensuring a good crowd is an important part of the product.



Ownership and Outcome Models

1. Profit maximisation/profit maximisers

- Typically American professional sports leagues
- Owned and run by individuals or businesses who seek to maximise the financial return on investment – just like in other industries.



2. Utility maximisation or 'win maximisers'

- Typically found in European and Australian professional sports leagues, where the need to win is a greater priority than the need to make a profit.
- In some instances, utility maximising clubs will place themselves in financial jeopardy, by purchasing players they cannot afford e.g. Leeds United FC, Portsmouth FC.
- In most instances, 'a more plausible assumption is the maximisation of games won subject to minimum profits (or maximum loss)' Sandy, Sloane and Rosentraub (2004, p.16).

<https://youtu.be/1zycTSTrujE>



The Damned United - Trailer



Watch later



Share



0:07 / 2:16



YouTube



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Financial Fair Play

Limits for clubs in Premier League in 2016/17 season

Club's Division in 2014/15	Club's Division in 2015/16	Club's Division in 2016/17	Max loss ⁺	Notes
Premier League	Premier League	Premier League	£105m	Or £15m if no equity injected
Premier League	Championship	Premier League	£83m	Or £15m if no equity injected
Championship	Championship	Premier League	£61m	Or £15m if no equity injected

Limits for clubs in Championship in 2016/17 season

Club's Division in 2014/15	Club's Division in 2015/16	Club's Division in 2016/17	Max loss ⁺	Notes
Championship	Championship	Championship	£39m	Or £15m if no equity injected
League 1	Championship	Championship	£39m	Or £15m if no equity injected
Premier League	Championship	Championship	£61m	Or £15m if no equity injected
Premier League	Premier League	Championship	£83m	Or £15m if no equity injected

Q. What evidence is there for profit maximisation by US team owners & league organisers?

Q. How is competitive balance maintained in North American leagues?



Evidence for profit maximisation by US team owners

- ☐ Owners have relocated teams to new cities for financial gain e.g. subsidies, stadium deals, larger populations.
- ☐ Restriction of competition to maintain 'uncertainty of outcome' e.g. draft pick system e.g. revenue sharing amongst clubs.
- ☐ Very few exceptions to profit maximisation in the USA since 1980 (Sandy, Sloane Rosentraub, 2004).
- ☐ Is there a tension between Profit Max. and what the fans want?
- ☐ However, many US teams are part of large corps. where profits and losses can be moved around different division for financial advantage, so true picture can be difficult to gauge.

Outside of New York,
the Yankees receive
only $1/13^{\text{th}}$ of the
profit of each cap
sold!!



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What constraints are there on utility maximizing clubs?

- ☐ Publically traded clubs face pressure from shareholders.
- ☐ Trend in Europe towards **clubs becoming PLCs**.
- ☐ **Immobility of clubs** and could argue there are too many clubs in Europe given the population size.
- ☐ Whereas, in **US under-provision of teams** enables them to consider moving to cities that will pay the most & provide new stadiums.

North American v UK

2 fundamental differences?

1. US professional teams are typically local monopolies with permanent major league status – there is no threat of relegation unlike in European leagues.
2. US leagues will not allow another member of the league to locate within a team's exclusive territory.

(Sandy, Sloane and Rosentraub, 2004)

NFL	CFL	NHL	NBA
❑ Entirely US based ❑ 32 teams ❑ 2 conferences: AFC and NFC x 4 divisions ❑ 2012 average salary \$1.9m	❑ Teams in 9 cities	❑ 30 teams ❑ Eastern and Western Conferences x 2 divisions ❑ 2012 average salary \$2.4m	❑ 30 teams ❑ Eastern and Western Conferences x 3 divisions ❑ 2012 average salary \$5.15m
MLB	MLS	WNBA	Football League
❑ 30 teams ❑ 2 leagues: AL and NL x 3 divisions ❑ 2012 average salary \$3.2m	❑ 19 teams ❑ Eastern and Western conferences ❑ No divisions	❑ Only major professional team sport league for women ❑ 12 teams ❑ Eastern and Western Conferences	❑ 72 clubs ❑ 3 divisions ❑ 22 clubs split away and formed Premier League in 1992 ❑ Average premier league salary £1.6m 2012-13.



Does a professional sports league lose its appeal if the same team/handful of teams win all the time?



Premier League Champions history:

 1993	 1994	 1995	 1996	 1997
 1998	 1999	 2000	 2001	 2002
 2003	 2004	 2005	 2006	 2007
 2008	 2009	 2010	 2011	 2012
 2013	 2014	 2015	 2016	 2017

@SOFIYA7

1. Man Utd x 13
 2. Chelsea x 5
 3. Arsenal x 3
 4. Man City x 4
 5. Blackburn x 1
 6. Leicester x 1
 7. Liverpool x 1
- Man Utd win %: 46%



What about NFL Champions since 1993?

Number of different winners?

15

Most successful team?

New England Patriots

Number of victories?

6



Group Discussion

To what extent can clubs in the UK drive up entrance fees for fans to increase their revenues?

Is allowing promotion and relegation good or bad for the business of professional team sport?

Draft picks and salary caps – would these improve professional sport in the UK?



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Problems Facing Professional Sport in US and Canada

1. Small market teams.
2. Public subsidies of stadiums.
3. Escalating player salaries.
4. Increasing violence.
5. Drug abuse.
6. Labour relations between players and owners.

Slack and Parent (2016)

Small Market Teams

Particularly acute issue in
Canada – resulted in teams
relocating to US.

Why do you think this
occurs?

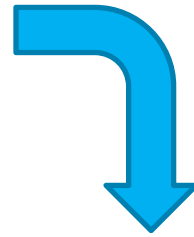


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1995 - 2001



2001 -



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1972 - 1995



1995 -

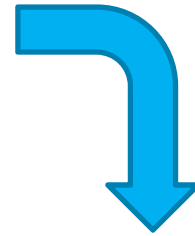


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1972 - 2004



2005 -



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Critical Factors

- ❑ Canadian cities typically smaller – smaller fan base & TV audience.
- ❑ Canadian \$ worth less than US \$.
- ❑ Taxes – bonds to build sports facilities and income taxes, more favourable in US.
- ❑ US cities lure franchises with stadium deals.
- ❑ Canadian public not prepared to allocate tax dollars to subsidise professional sports teams.

Slack and Parent (2016, p.481)

Group Discussion: North America v UK

Where would you rather be a sport fan?

Where would you rather be a team owner?



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Is Australian team sport different?

Australian Football League

- ☐ Clubs are member-based organisations;
- ☐ Members pay to watch and can vote at AGM;
- ☐ Not-for-profit - all money is used on club operations and profits are not returned to an owner or shareholder.



Australian National Rugby League

Majority of clubs are member owned but some are privately owned e.g. Melbourne Storm owned by media conglomerate News Corporation.



Australian A-League - all eight clubs are privately owned.



BRITISH PROFESSIONAL SPORT

- ☐ Playing success has traditionally been the prime motive of owners rather than profit maximization.
- ☐ Large numbers of teams in relation to population.
- ☐ No movement of franchises between cities /towns because of strong community attachment.
- ☐ No attempt to maintain 'uncertainty of outcome' or to share revenue.
- ☐ Role of TV driven by objective of increasing pay-per-view subscriptions.
- ☐ International club competitions (e.g. Champions League) and internationals are very important.

NORTH AMERICAN PROFESSIONAL SPORT

- ☐ Profit maximisation the prime motive of owners
- ☐ Relatively small number of teams in relation to population size
- ☐ Movement of franchises to cities of larger populations
- ☐ Restriction of competition to maintain 'uncertainty of outcome ' (n.b. draft system)
- ☐ Revenue sharing among clubs
- ☐ Main motivation of TV is ability to sell advertising to massive audiences (e.g. 130 million to watch Superbowl).
- ☐ Domestic team competition paramount.
- ☐ Little or no international competition for clubs or country.



Case Study: Sport, culture and globalisation



Ballyhaunis, Ireland



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Any questions?

Thanks for listening.

References and additional reading

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King, A., The European Ritual – Football in the New Europe, Ashgate Publishing, 2003. Several relevant chapters e.g. Bosman, TV, The New Business of Football. Sandy, R., Sloane, P.J., and Rosentraub, M.S., The Economics of Sport: An International Perspective, Palgrave Macmillan, 2004. Thorough examination of sports economics. Contains chapter on profit versus utility maximisation.

General Reading

Rosner, S. and Shopshire, K.L. (2011) *The Business of Sports* (2nd edition) London: Jones and Bartlett learning. [An overview of the relationship between the different sectors of sport.](#)

Szymanski, S. (2011) Sport financing and governance in Europe. In: W. Andreff (ed) *Contemporary issues in sports economics; participation and professional team sports*. Cheltenham: Edward Elgar. Pp 65 – 79.

The North American model

Barros, C., Ibrahimo, M. and Szymanski, S. (2002) Transatlantic Sport: the comparative economics of North American and European Sport. Cheltenham; E Elgar. Crompton J.L. & Howard D.R., The American experience with facility naming rights: opportunities for English professional football teams. *Managing Leisure*, Vol 8 No 4, October 2003. This article outlines the historical development of stadium naming rights (US) and shirt naming rights (UK) and the merits of each. The potential for English football clubs to pursue stadium naming rights is assessed.

Quirk J. and Fort R.D., *Pay Dirt: the business of professional team sports*, Princeton University Press, 1992

Hoehn T. & Szymanski S., The Americanization of European Football, *Economic Policy*, 28, 1999

Howard D.R. & Crompton J.L., The growth and financial status of professional sports in North America – insights for English soccer leagues? *Managing Leisure*, 7, 3, July 2002 (NB electronic access)

Frank P. Jozsa (2004) *Sports capitalism: the foreign business of American Professional Leagues* Ashgate: Hants

Web based reading

Annual Review of Football Finance 2016' freely available on a web site. <http://www2.deloitte.com/uk/en/pages/sports-business-group/articles/annual-review-of-football-finance.html> Deloitte Annual Review of Football Finance 2015

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Financial Fair Play

<http://www.financialfairplay.co.uk/>

<https://www.birminghammail.co.uk/sport/football/football-news/aston-villa-xia-china-ffp-12408433>

<https://www.bbc.co.uk/sport/football/29361839>