

# Professional Sports Teams & Organizations

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## Industry Overview

Organizations in this industry include professional and semiprofessional sports teams and clubs. Major organizations include the New York Yankees (US), Arsenal (UK), the Calgary Flames (Canada), Manchester United (UK), and Real Madrid (Spain).

Globally, professional sports generates about \$120 billion in revenue. Football (known as soccer in the US) is the dominant sport around the world; other popular sports include rugby, cricket, and baseball. Given the intense global interest in sports, the industry could grow at a compound annual rate of 3.7 percent through 2015 (from 2011), according to PricewaterhouseCoopers.

The US professional sports teams industry includes about 1,500 organizations with combined annual revenue of more than \$20 billion. Key demand drivers include consumer income and audience enthusiasm.

Professional sports teams generally operate as part of a league or professional sports association that sets rules, regulates franchise ownership, and negotiates league-wide broadcasting and marketing relationships. The professional sports teams industry does not include individual sports such as golf, tennis, and boxing.

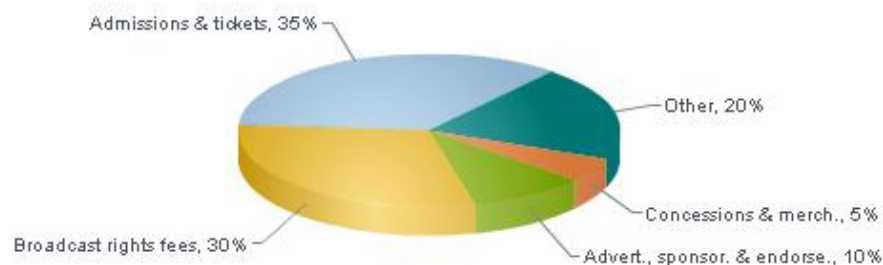
### Competitive Landscape

Demand is driven by **consumer income** and **corporate entertainment spending**. The profitability of individual teams depends on achieving high fan attendance and a large TV audience, both of which are enhanced by **effective marketing** and **competitive play**. Teams in large metropolitan areas have advantages in the population base and TV audience they can draw on, though they may face competition from other teams. **Teams in smaller markets, along with less popular sports and minor league teams, can compete by building fan loyalty through local marketing promotions and an appeal to civic pride.** The industry is concentrated: the top 50 US organizations generate about 60 percent of revenue.

### Products, Operations & Technology

Major revenue sources for US professional sports teams are **admissions and tickets** (35 percent of revenue); **television and broadcasting rights fees** (30 percent); **advertising, sponsorships, and endorsement fees** (10 percent); and **concessions and merchandise sales** (5 percent).

#### Product Segmentation by Revenue - Census Bureau



Major League Baseball (MLB); the National Basketball Association (NBA); and the National Hockey League (NHL) consist of 30 teams each, while the National Football League (NFL) has 32. Within each league, teams are assigned to **conferences** and **divisions** for regular season play. The number of games played by each team in the **regular season** varies from 16 for the NFL to 162 for MLB; NBA and NHL teams play 82 games each.

Teams prepare for the regular season through **training camps** and preseason **exhibition games**. Coaches assess player talent during the preseason to determine the **depth chart** for each position – which players will be **starters** and which will be backups. Some players are cut from the team to get to the **active roster** the league allows. The number of players allowed on the active roster ranges from 15 for the NBA to 53 for the NFL.

The winners of each division and other teams with the best won-loss records during the regular season qualify for the **playoffs**. The number of playoff teams depends on the league: 10 for MLB, 12 for the NFL, and 16 each for the NBA and NHL. The playoffs culminate with the crowning of a league champion.

Due to the large number of games, MLB has a total **attendance** greater than the other three leagues combined. MLB had an attendance of almost 75 million, or an average of almost 31,000 fans per game, during the 2012 season. The NFL averages about 65,000 fans per game, but has less than 17 million in total attendance due to fewer games. The NBA and NHL both average about 17,000 fans per game.

Venues for professional sports include **stadiums** and **arenas**. NFL stadiums range from 60,000 to 91,000 seats, while MLB stadiums seat 34,000 to 57,000; NBA and NHL arenas vary from about 16,000 to 22,000 seats. Public facilities may be operated by the team owner, the municipality, or a facility management company. Constructing new stadiums and arenas can cost from \$400 million to more than \$1 billion and are often a **partnership** between a sports team and a municipality, with tax and other incentives thrown in.

Professional sports teams use information technology to analyze team and player statistics, develop marketing programs, and automate accounting and administrative functions. Many teams use **data mining** software to gain insight into customer demographics and develop targeted marketing promotions and advertising campaigns. Video technology helps coaches analyze games and provides **instant replay** capabilities to officials. Some teams are experimenting with “smart tickets” incorporating radio frequency identification (RFID) tags to speed admissions and prevent counterfeiting. Most teams have an **official website** where fans can learn about players, review game schedules, order tickets, and buy team merchandise.

## Sales & Marketing

Customers for professional sports teams are **individual fans** and **corporations** that buy tickets for business entertainment or employee rewards. **Males** generally make up about 60 percent of major league sports fans; **baseball fans** tend to be older while **soccer** and **basketball** generally attract a younger demographic.

Marketing programs consist primarily of local newspaper, billboard, radio, TV, and direct mail advertising. Teams invest in **community relations** through support of local charities and player appearances at community events. Professional sports organizations also encourage positive press coverage by sports reporters for local newspapers and TV stations by arranging interviews with players and management.

**Average ticket prices** range from about \$25 for MLB to about \$75 for the NFL. **Minor league baseball tickets are typically \$7 or \$8 for general admission, to compete with movie theaters as a family entertainment activity.** Due to the limited number of games played, most NFL franchises sell all or nearly all of their seats through **season ticket packages**. The other leagues depend more on individual game ticket sales, though the most desirable seats may be available only through season ticket packages. Teams charge higher prices for premium seating, such as **club seats** and **luxury suites**, which are typically sold to corporations for entertaining clients. Luxury suite prices range from \$25,000 to \$350,000 per season.

## Finance & Regulation

**Payroll** is the most significant cost of professional sports teams; it can range from a third to almost half of revenue for a team like the New York Yankees. For the four major leagues, average revenues per team range from about \$100 million for the NHL to \$275 million for the NFL. **Operating income** is typically less than 5 percent. **Team valuations** are about two times revenue for the NHL, almost three times revenue for MLB and the NBA, and four times revenue for the NFL.

Financial contracts for use of a stadium or arena affect the profitability of teams. Teams must negotiate with stadium owners, usually local municipalities, for usage fees and how revenue from advertising, concessions, luxury boxes, and naming rights will be shared.

Teams in smaller markets may depend on the league's **revenue-sharing** policies to attain profitability. The NFL has led the way in revenue sharing, equally dividing TV revenue among all teams, sharing gate receipts between home and visiting teams, and even helping fund stadium construction for teams. Other leagues share TV revenue, but are less generous in sharing other revenues.

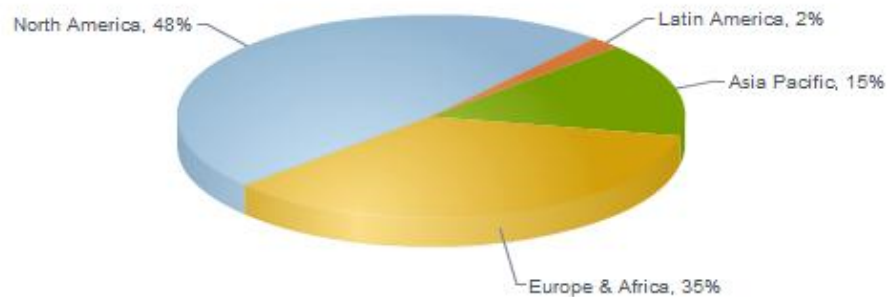
With the exception of the NFL's Green Bay Packers, major professional sports teams are privately owned. Major leagues generally don't allow anyone to own a stake in more than one team to avoid conflicts of interest. Owners are given some form of territorial exclusivity and must consent to the addition of teams within their market area. Leagues are **self-regulated** and teams must comply with rules and regulations established by the **league commissioner** in conjunction with the owners.

## International Insights

The global sports industry generates about \$120 billion in revenue, according to PricewaterhouseCoopers. Rebounding economic conditions plus continued interest in **international sports competition** could help the industry grow at a compound annual rate of 3.7 percent through 2015 (from 2011).

The world of professional sports outside North America is dominated by **football** (soccer in the US), which is played in about 200 countries and boasts more than 250 million athletes. Other popular sports include baseball, basketball, cricket, and rugby. As in North America, most professional sports teams operate as part of a league or professional sports association. Major leagues and sports organizations include the **Fédération Internationale de Football Association** (FIFA; France), the **English Premier League** (UK), and **Nippon Professional Baseball** (Japan).

#### Global Sports Market - PricewaterhouseCoopers, 2009



North America is the world's largest market for professional sports, dominated by the four major sports leagues in the US. The **NFL**, **NBA**, **NHL**, and **MLB** combined generate more than \$20 billion in ticket sales, broadcast fees, and merchandising. The professional sports industry is growing most quickly in many **European countries**, including the UK, France, and Germany, according to A.T. Kearney. Both the NFL and NBA schedule games in Europe in an effort to expand into those markets.

Emerging economies in **China** and **India** could be fertile emerging markets for professional sports growth in the future. The Indian Premier League, an association of **cricket** teams, was launched in 2008 and generated more than \$200 million in revenue in just its second season, according to *Forbes*. The league's brand value grew by 45 percent between 2009 and 2012. Other markets with growth potential include **Russia**, **Mexico**, and **Brazil**.

As sports leagues expand internationally, teams are scouting those new markets for talent to gain a competitive advantage. Increasing competition for **talented players** can sometimes lead to contract offers that local clubs cannot match. Brazilian football striker Robinho made his name playing for Santos FC but has since played for teams including Real Madrid (Spain), Manchester City (UK), and AC Milan (Italy). Baseball pitcher Daisuke Matsuzaka left Japan to play in the US in 2007 when the Boston Red Sox offered him a contract worth \$51 million.

The internationalization of sports combined with the global use of the **Internet** could mean increased complexity in media rights negotiations. Since the Internet has no boundaries, local broadcasting deals that put live or rebroadcast games online could undermine potentially lucrative TV deals in **international markets** unless measures are put in place to ensure only viewers in authorized markets have online access.

International media conglomerates such as **NewsCorp** and **Disney** can help sports leagues expand their fan base into new markets, but they can also wield increasing negotiating power to get **sports content** at lower cost. With sports being distributed to more markets around the world, sports leagues will need to become increasingly vigilant with regard to piracy to protect the value of their content.

### Regional Highlights

Most US metropolitan areas with a population greater than 2 million have at least one major league team, and many have teams from more than one league. Fast-growing Sunbelt states, such as **Florida**, **Texas**, and **Arizona**, have acquired teams in recent years, either through **expansion** or **relocation**. Las Vegas is one of the few major metropolitan areas without a major league franchise. All four leagues have shied away from Las Vegas because of concerns over **sports betting** and the significant competition posed by that city's other entertainment options.

Both MLB and the NBA have expanded into Canada with multiple franchises, though both now operate only in Toronto. The NFL has not expanded into Canada to avoid competition with the **Canadian Football League**

(CFL), although the Buffalo Bills do play some games in Toronto. The NHL started in Canada, but only seven of its 30 teams remain there.

## Human Resources

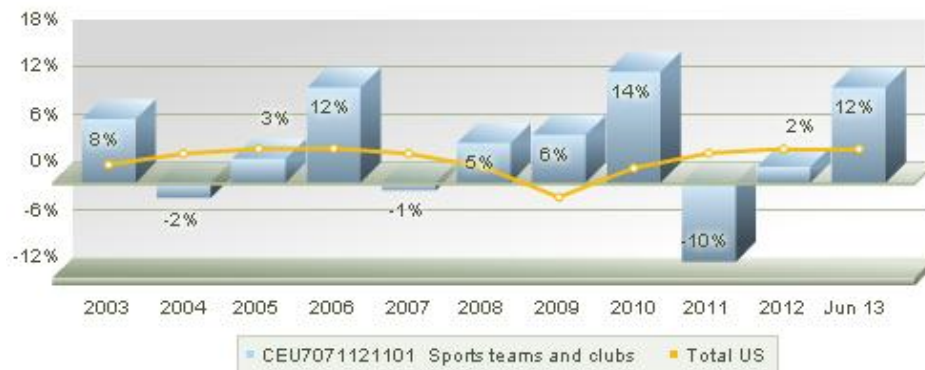
The success of professional sports teams depends on the skills of their players and how well they develop new talent and recruit established talent. Each league has a **player development system** and teams employ scouting staffs to assess new talent. The NFL and NBA rely primarily on college sports to develop players, though the NBA has also established the NBA D-League and recruits talent from international professional leagues. **Both MLB and the NHL have traditionally relied on a minor league system to develop players signed out of high school; however, both are increasingly drafting college players and recruiting players internationally.**

All four major leagues have player unions and **collective bargaining agreements** (CBAs) that govern salaries and contract terms. CBAs set minimum salaries for players, define pension benefits, and define when and how a player may negotiate with other teams. Players typically sign **multiyear contracts** that may include a signing bonus and incentive bonuses for performance on the field. The rules for a player becoming a **free agent**, able to negotiate with other teams at the end of their contract term, vary from league to league.

**Corporate structure** can vary from franchise to franchise but generally business and athletics responsibilities are handled by different personnel. In a typical structure, a **team president** might be in charge of finance, marketing, and other business operations while a **general manager** oversees the coaches and players. Some owners may take a hands-off approach and leave day-to-day operations to executives, while others may be more involved in player or business decisions.

The average injury rate for professional athletes is **significantly higher** than for all other industries. The strain on athletes in non-contact sports such as baseball, as well as physical contact in sports such as football and hockey lead to muscle strains, broken bones, and head injuries. The NFL, for example, emphasizes caution regarding players who have suffered concussions to prevent more serious brain injury.

## Industry Employment Growth Bureau of Labor Statistics



## Average Hourly Earnings & Annual Wage Increase Bureau of Labor Statistics



## Industry Growth Rating



Demand: Tied to consumer and corporate entertainment spending  
Need large fan base and competitive play  
Risk: Rising player salaries and controversy over drug use

## Quarterly Industry Update

**8.26.2013**

**Trend: NFL Reaches Tentative Agreement on HGH Testing** - The NFL and the NFL Players Association (NFLPA) have reached a tentative agreement in the development of a human growth hormone (HGH) testing program. The NFLPA has agreed to a protocol for a population study that requires blood to be drawn from all NFL players. Because all humans naturally produce HGH, the population study will be used to establish a baseline for HGH levels. Once HGH testing begins, five randomly selected players from five teams would be randomly tested each week. The NFL and the NFLPA appear to agree on the basic protocols of the HGH testing plan. The NFL and the NFLPA decided to pursue a new HGH baseline decision limit after an international court determined in March 2013 that the limit set by the World Anti-Doping Agency was unreliable.

**Industry Impact** - Several high-profile sports doping scandals in recent years are causing professional sports teams and organizations to establish new drug-testing protocols. Even the hint of doping allegations can damage a sport's integrity, hurt a team's ability to sell tickets and merchandise, and compromise fan loyalty.

## Industry Indicators

US corporate profits, an indicator of corporate sponsorships, memberships, and donations, rose 4.5 percent in the first quarter of 2013 compared to the same period in 2012.

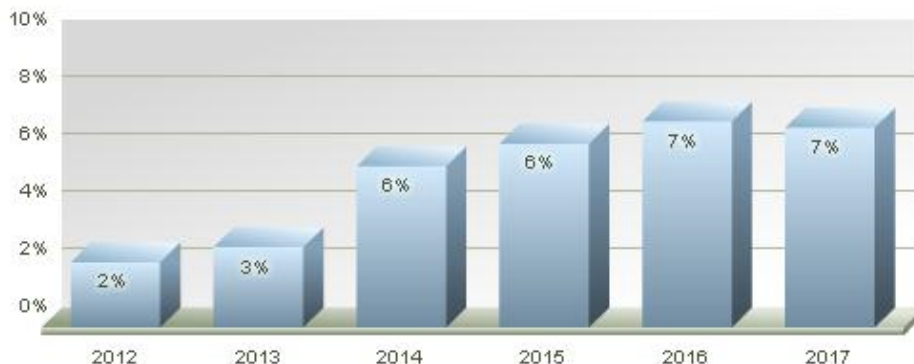
US personal income, which drives consumer spending on sports events and merchandise, rose 3.1 percent in June 2013 compared to the same month in 2012.

Total US revenue for spectator sports rose 4.6 percent in the first quarter of 2013 compared to the previous year.

## Industry Forecast

The output of US spectator sports is forecast to grow at an annual compounded rate of 7 percent between 2013 and 2017. Data Published: March 2013

### Professional Sports Teams and Organizations Growth Increases





First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. [Forecast FAQs](#)

## Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



**Energy Prices** Change in crude oil and related energy prices



**Technology Innovation** Advances in science and technology, including information technology

## Critical Issues

**Dependence on TV Revenue** - Major sports leagues rely on TV contracts for between a third and half of their revenue, so TV considerations affect league operations. TV timeouts for commercials have become a standard part of football, basketball, and hockey games. Baseball's World Series shifted from day to night games to reach the primetime TV audience. However, live streaming of games on the Web has been a sore spot in the relationship between broadcasters and leagues. Television executives claim that the live feeds compete for viewers; league officials contend that it expands the fan base.

**High Player Salaries** - The importance of star players in attracting fans and TV revenues has led to bidding wars among teams and rapid escalation of salaries for top talent. Salaries can range from \$300,000 for a backup player to over \$20 million for a superstar. Most players employ professional sports agents to negotiate favorable contract terms. Owner attempts to control rising payroll costs have led to some form of team salary cap for all the leagues, except MLB.

## Business Challenges

**Player Drug Use** - Negative publicity about players "cheating" by using performance enhancing drugs has tarnished the reputations of the major leagues. In response, all have implemented stricter policies prohibiting steroid use. These policies mandate random drug testing for all players and suspensions for the first offense. Multiple offenses can result in annual or lifetime suspensions, depending on the league.

**Maintaining Competitive Parity** - Achieving a level of competitive parity is in the interest of most sports leagues because it can help generate interest and keeps fans engaged. If a handful of teams dominate year after year, TV audiences can decline and fans of other teams may stop going to as many games. Negative publicity can arise if the public thinks a big market team simply "bought" a championship by hiring all the best talent. Leagues have tried different approaches to achieve parity, including salary caps, revenue sharing, free agency rules, and different strategies for drafting new players.

**Labor Strife** - Players in all four major leagues are members of labor unions and relations with team owners have often been turbulent. The NHL lost the entire 2004-05 season when the players and owners were unable to sign a new collective bargaining agreement. MLB has had four seasons shortened by player strikes and lockouts. Shortened seasons due to labor strife cost teams lost revenue and risk alienating fans.

**Developing Talent Pipeline** - Acquiring and developing new players has become more challenging for teams due to league expansion and the emergence of international sources of talent. Expansion has created more competition for available talent and helped drive up starting salaries. High salaries lure more underclassmen to leave college early and turn pro, but burden teams with the task of how to assess and develop younger, less proven prospects. To be competitive, teams must also incur the cost of scouting and recruiting talent from professional leagues in Europe, Latin America, and Asia.

## Business Trends

**Team Stability** - No team in the four major leagues has folded, though several have relocated to other cities, in the past 10 years. Unlike major leagues outside North America, the worst teams aren't demoted to a second tier league. Instead, they often get the highest draft choices for new players and share in revenues from TV and licensing deals. (Fans have accused some NBA teams of "tanking" toward the season's end, in hopes of improving their draft position).

**Rising Ticket Prices** - The price of admission for sporting events has been rising faster than inflation. The Consumer Price Index (CPI) for sporting event admissions has risen 36 percent faster than the overall CPI since 2002. Ticket prices of \$50 or more for the NBA, NHL, or NFL makes it expensive for the average family to attend games, especially when combined with high concession prices.

**Facility Upgrades** - Professional sports teams have been upgrading their facilities, either by renovating existing stadiums and arenas or building new ones, such as the \$1 billion Barclays Center in Brooklyn, New York, that opened in 2012. Teams are seeking higher corporate sales by adding luxury suites and expanding concessions. Since most major league venues are publicly owned, teams must often negotiate funding and revenue sharing agreements with local governments for any facility upgrades.

**More Foreign Athletes** - The international popularity of baseball, basketball, and hockey has created talent pools of foreign players that teams are now actively recruiting. MLB has long recruited players from Latin American leagues and in recent years has signed many star players from Japanese leagues. The NBA is recruiting players directly from Latin American and European leagues, and is taking advantage of the higher number of foreign athletes playing basketball for US colleges. The NHL signed many players from the former Soviet Union and recruits from both amateur and professional leagues in Europe.

**Selling Naming Rights** - Teams are earning big money from selling naming rights for stadiums and arenas to corporate sponsors. About three-fourths of the facilities hosting major league sports have naming rights deals; the average annual revenue for naming deals has increased substantially since 1999. Despite the high prices, some teams are wary about harming their brand name by selling naming rights and are offering sponsors less expensive rights to name areas within the stadium or arena.

## Industry Opportunities

**Expanded TV, Online Exposure** - The proliferation of cable TV channels and the ability to view live video on the Internet create new vehicles for teams to reach their audience. The major leagues have their own networks, which generally offer news, analysis, historical features, and some live games. The New York Yankees and Boston Red Sox were the first teams to form their own cable networks, the YES Network and NESN, respectively. DIRECTV and regional sports networks, such as FOX Sports Net, provide additional ways to expand coverage. Live webcasts of games reach long-distance fans and broaden exposure to younger fans.

**Family-Friendly Marketing** - Major league teams in smaller markets, minor league teams, and teams not in the "big four" major leagues, can build fan loyalty by appealing to families. Growing family attendance at games results in higher ticket sales and helps build the next generation of fans. Family-friendly marketing can include specially priced ticket packages, promotions involving giveaways for kids, birthday party hosting, and fun contests during time-outs or intermissions.

**Hispanic Fans** - The US Hispanic population is projected to grow by 40 percent between 2010 and 2050. Hispanics represent an opportunity for teams to grow their fan base, particularly for basketball, football, and hockey. Baseball has traditionally drawn more Hispanic fans, due to the popularity of the sport in Latin America and large number of Hispanic players. Teams in the other sports are targeting the Hispanic audience by developing Spanish versions of their websites, providing Spanish-language broadcasts of games on radio and TV, and sponsoring youth clinics in Hispanic communities.

**Enhanced Community Relations** - Establishing a positive image in the local community is important for teams to build long-term fan support. Teams with losing records depend on loyal fans to keep attendance high. Teams participate in fundraisers for local charities and require players to attend local community events. Given negative publicity about drug use and off-the-field behavior by some players, teams are instituting player conduct rules and placing greater emphasis on character in player selection. Players who are positive role models in the community help teams build loyalty among both youth and families.

**International Expansion** - The major leagues continue to invest in building international fan support. To increase exposure, the NFL has committed to holding regular season games in UK through 2016. The NBA and NHL also stage games outside the country regularly to build international fans. The growing popularity of baseball outside the US could lead to MLB establishing teams in Latin America or Japan.



## Executive Insight

### Chief Executive Officer - CEO

#### Ensuring Favorable League Policies

Teams must comply with the rules and policies established by the league. Major policy changes are usually voted on by the team owners and owners work to favor their team's situation. Small market teams lobby for a greater share of league revenues and salary caps on team payrolls, while large market teams seek to keep more of the revenue they generate and avoid spending restrictions.

#### Negotiating Facility Agreements

Most teams play in publicly owned venues and must negotiate revenue sharing agreements and facility improvement plans with local government officials. Negotiation points include sharing ticket sales, concession revenue, naming rights fees, advertising revenue, and facility rental fees. To attract high-income fans and grow corporate sales, teams seek to upgrade facilities with expanded luxury suites and amenities. Negotiations on who pays for facility upgrades and how incremental revenues are shared can significantly impact team profits.

### Chief Financial Officer - CFO

#### Growing Additional Revenue Sources

Ticket sales are typically less than half the total revenue for professional sports teams. Successful teams focus on maximizing revenues from additional sources, such as corporate sponsorships, licensing fees, advertising sales, and merchandise sales. Since ticket revenue is limited by the number of seats available, these other sources can be easier to grow.

#### Negotiating Player Contracts

Team payrolls can run between one-third and more than half of revenues, so effectively managing payroll costs is critical for profitability. Teams try to re-sign players to multi-year contracts before they become free agents, and structure compensation between salary and bonuses to meet salary cap restrictions and to link pay to performance. Most players use professional agents to negotiate contracts, so negotiations are often intense and require someone with skill and experience representing the team.

### Chief Information Officer - CIO

#### Developing Customer Database

Most teams have developed customer databases with information on purchasers of season tickets and individual game tickets. By combining this information with demographic and survey response data, teams can get a more complete picture of their fan base. Some teams have gathered additional fan data by offering discounted tickets for completing an online survey.

#### Implementing Analytical Software

Data mining software and statistical tools allow teams to analyze customer data, and the performance of players and competitors. By analyzing fan characteristics, some teams have developed more effective one-to-one marketing programs and promotions. NBA teams have used data mining to determine which player line-ups to use against certain opponents and which plays opponents are most likely to run in different game situations.

### Human Resources - HR

#### Scouting Prospective Players

Effectively identifying and assessing new talent is critical to the competitiveness of teams. Teams must scout athletes in high schools, colleges, **minor** leagues, and international leagues and project their ability to succeed at the major league level. This assessment includes their athletic ability, and their ability to fit in with teammates and maintain a positive public image. Teams employ dedicated personnel to scout players and may hire outside consultants.

#### Enforcing Drug Policies

In response to negative publicity about use of performance enhancing drugs, all leagues have implemented mandatory drug testing of players. Teams must ensure that required testing takes place according to league procedures and enforce suspensions when violations occur. To avoid problems, teams provide players with education on drug issues and policies.

### VP Sales/Marketing - Sales

#### Selling Season Ticket Packages

Season ticket sales help increase admission revenues, improve cash flow, and identify a loyal fan base. High

season ticket sales can lead to higher merchandise sales and higher rates for advertising signs and corporate sponsorships. Teams develop extensive marketing programs aimed at season ticket renewals and first time buyers. They also create “mini-season packages” to make buying tickets for multiple games more affordable.

### **Expanding Corporate Sales**

Season ticket sales to businesses for entertaining customers are an important revenue source for most teams. Teams also sell blocks of tickets to individual games for corporate outings. To expand corporate sales, teams use sales staff calling on local businesses and develop special corporate ticket packages. They also invest in luxury suites and catering services that appeal to corporate clients.

## **Executive Conversation Starters**

### **Chief Executive Officer - CEO**

#### **How do league policies affect the team's profitability?**

Depending on whether they're in a small or large market, teams will have different views on revenue sharing and salary cap policies.

#### **How satisfied is the team with its current facilities?**

To attract high-income fans and grow corporate sales, teams seek to upgrade facilities with expanded luxury suites and amenities.

### **Chief Financial Officer - CFO**

#### **What are the team's most important revenue sources?**

Ticket sales are typically less than half the total revenue for professional sports teams.

#### **What trends is the company seeing in the structure and terms of player contracts?**

Teams structure compensation between salary and bonuses to meet salary cap restrictions and to link pay to performance.

### **Chief Information Officer - CIO**

#### **How does the team collect and manage customer data?**

Most teams have developed customer databases with information on season and individual game ticket buyers.

#### **What tools are used to analyze team and opponent statistics?**

Data mining software and statistical tools allow teams to analyze customer data, and the performance of players and competitors.

### **Human Resources - HR**

#### **How does the team identify and assess new talent?**

Teams employ dedicated personnel to scout players, and may hire outside consultants.

#### **How have the league's drug policies affected the team?**

Teams must ensure that required testing takes place according to league procedures, and enforce suspensions when violations occur.

### **VP Sales/Marketing - Sales**

#### **How much of annual ticket sales comes from season ticket packages?**

Season ticket sales help increase admission revenues, improve cash flow, and identify a loyal fan base.

#### **What is the team doing to grow sales to local businesses?**

Season ticket sales to businesses for entertaining customers are an important source of revenue for most teams.

## **Call Prep Questions**

### **Conversation Starters**

**How much of the team's revenue is due to TV contracts?**

Major sports leagues rely on TV contracts for between a third and half of their revenue, so TV considerations affect league operations.

**How does the team determine how much to spend on player salaries?**

The importance of star players in attracting fans and TV revenues has led to bidding wars among teams and rapid escalation of salaries for top talent.

**How has the team been challenged by enforcing anti-drug policies?**

Negative publicity about players "cheating" by using performance enhancing drugs has tarnished the reputations of the major leagues.

**What new venues is the team considering to broadcast its games?**

The proliferation of cable TV channels and the ability to view live video on the Internet create new vehicles for teams to reach their audience.

**How important are families to the team's marketing efforts?**

Major league teams in smaller markets, minor league teams, and teams not in the "big four" major leagues, can build fan loyalty by appealing to families.

**What is the team doing to grow its Hispanic fan base?**

The US Hispanic population is projected to grow by 40 percent between 2010 and 2050.

## **Quarterly Industry Update**

**What, if any, new drug-testing protocols is the team/league considering?**

The NFL and the NFL Players Association (NFLPA) have reached a tentative agreement in the development of a human growth hormone (HGH) testing program.

## **Operations, Products, and Facilities**

**What percentage of the team's annual revenue comes from ticket sales?**

Ticket sales and admissions account for about 35 percent of revenues for sports companies.

**How important are TV and radio fees to the team?**

TV and broadcast fees can account for 30 percent of revenues.

**What is the team's average attendance per game?**

NFL teams average 65,000 fans per game, while MLB teams average 31,000, and NBA and NHL teams average 17,000.

**What types of advertising income does the team receive?**

Teams receive income from advertising signage in the stadium or arena, product endorsement fees, and corporate sponsorships.

**What corporate sponsorships does the team have?**

Teams may sell naming rights to the stadium or arena or for areas within the facility, and sell sponsorships of "official team" products and services, such as cars or physician services.

**Is the team's facility privately or publicly owned? Who operates it?**

Most stadiums and arenas are owned by local governments. Teams, local governments, or venue management companies may operate the facility.

**How many luxury suites or other premium seating does the facility have?**

Teams charge higher prices for premium seating, such as club seats and luxury suites, which are typically sold to corporations for entertaining clients.

**How important are concession sales to the team?**

Food and concession sales can be an important aspect of the fan experience.

## **Customers, Marketing, Pricing, Competition**

**How much of annual ticket sales is from season ticket packages?**

Season ticket sales help increase admission revenues, improve cash flow, and identify a loyal fan base.

**How is the team growing sales to local businesses?**

Season ticket sales to businesses for customer entertainment are an important revenue source for most teams.

**What are the demographics of a typical fan?**

About 60 percent of sports fans are men.

**What percentage of ticket buyers are individual fans versus local businesses?**

Corporate sales have increased in importance to teams as tickets have become more expensive.

**What marketing programs have been most effective for the team?**

Marketing programs consist primarily of local newspaper, billboard, radio, TV, and direct mail advertising.

**How is the team encouraging family attendance?**

Family-friendly marketing can include specially priced ticket packages, promotions involving giveaways for kids, birthday party hosting, and fun contests during time-outs or intermissions.

**How is the team building positive community relations?**

Teams invest in community relations through support of local charities and player appearances at community events.

**How is the team's relationship with the local press?**

Teams encourage positive press coverage by sports reporters for local newspapers and TV stations by arranging interviews with players and management.

**What are ticket prices?**

Average ticket prices range from about \$25 for MLB to about \$75 for the NFL.

**What are the prices for luxury suites?**

Luxury suite prices can range from \$25,000 to \$350,000 per season.

## **Regulations, R&D, Imports and Exports**

**How have recent changes in league rules affected the team?**

Leagues may change rules for play, player policies, and revenue sharing among teams.

**How important are foreign athletes to the team?**

Teams are increasingly recruiting foreign athletes as the caliber of international league play improves.

**How likely is the league to expand internationally in the next few years?**

All the major leagues have been considering international expansion.

## **Organization and Management**

**How does the team identify and assess new talent?**

Teams employ dedicated personnel to scout players and may also hire outside consultants.

**How have the league's drug policies affected the team?**

Teams must ensure that required testing takes place according to league procedures and enforce suspensions when violations occur.

**How much does the team focus on developing young players versus hiring veteran free agents from other teams?**

Veterans bring proven skills and experience, but are more expensive.

**How have salary caps affected the team's player roster?**

All leagues, except MLB, have salary caps that restrict the size of a team's payroll.

**How has the team been affected by issues between the league and the players union?**

Shortened seasons due to labor strife cost teams lost revenue and risk alienating fans.

## **Financial Analysis**

**What are the team's most important revenue sources?**

Ticket sales are typically less than half the total revenue for professional sports teams.

**What trends is the company seeing in the structure and terms of player contracts?**

Teams structure compensation between salary and bonuses to meet salary cap restrictions and to link pay to performance.

**How is the team managing increases in payroll costs?**

At roughly one third to more than half of revenue, payroll is the most significant cost of professional sports teams.

**What is the team's operating income?**

Operating income varies by sport and by team, but averages less than 5 percent.

**How dependent is the team on league revenue sharing?**

Teams in smaller markets may depend on the league's revenue sharing policies to attain profitability.

## **Business and Technology Strategies**

**How do league policies affect the team's profitability?**

Depending on whether they're in a small or large market, teams will have different views on revenue sharing and salary cap policies.

**How satisfied is the team with its current facilities?**

To attract high-income fans and grow corporate sales, teams seek to upgrade facilities with expanded luxury suites and amenities.

**How does the team collect and manage customer data?**

Most teams have developed customer databases with information on season and individual game ticket buyers.

**What tools are used to analyze team and opponent statistics?**

Data mining software and statistical tools allow teams to analyze customer data, as well as the performance of players and competitors.

**How is the team using IT to improve operations?**

Teams use technology to improve marketing, analyze game statistics, and automate ticketing and financial systems. Radio frequency identification (RFID) is being used to create "smart tickets."

## Financial Information

### COMPANY BENCHMARK TRENDS

#### Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available by subscription or single report purchase at [www.microbilt.com/firstresearch](http://www.microbilt.com/firstresearch).

### COMPANY BENCHMARK INFORMATION

NAICS: 711211

Data Period

Last Update July 2013

Table Data Format

Mean

Company Size

All

Large

Medium

Small

Size by Revenue

Over \$50M

\$5M - \$50M

Under \$5M

<b>Company Count</b>	2902	5	101	2796
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#### Income Statement

<b>Net Sales</b>	100%	100%	100%	100%
<b>Gross Margin</b>	74.4%	74.5%	73.8%	74.6%
<b>Officer Compensation</b>	2.8%	1.8%	2.1%	3.3%
<b>Advertising &amp; Sales</b>	1.9%	1.9%	1.8%	2.0%
<b>Other Operating Expenses</b>	64.5%	66.2%	64.8%	64.0%
<b>Operating Expenses</b>	69.2%	69.9%	68.7%	69.3%
<b>Operating Income</b>	5.2%	4.7%	5.1%	5.3%
<b>Net Income</b>	2.4%	2.2%	2.2%	2.5%

#### Balance Sheet

<b>Cash</b>	21.1%	17.0%	22.2%	21.1%
<b>Accounts Receivable</b>	6.4%	7.2%	7.3%	5.8%
<b>Inventory</b>	0.6%	0.6%	0.5%	0.6%
<b>Total Current Assets</b>	41.9%	38.3%	43.5%	41.6%
<b>Property, Plant &amp; Equipment</b>	14.7%	16.0%	14.8%	14.5%
<b>Other Non-Current Assets</b>	43.4%	45.8%	41.7%	43.9%
<b>Total Assets</b>	100.0%	100.0%	100.0%	100.0%
<b>Accounts Payable</b>	2.3%	2.2%	1.4%	2.8%
<b>Total Current Liabilities</b>	20.8%	17.4%	19.9%	21.8%
<b>Total Long Term Liabilities</b>	35.2%	22.6%	32.5%	38.7%
<b>Net Worth</b>	44.1%	60.0%	47.6%	39.6%

#### Financial Ratios

(Click on any ratio for comprehensive definitions)

<b>Quick Ratio</b>	1.50	1.62	1.67	1.40
<b>Current Ratio</b>	2.02	2.20	2.18	1.91
<b>Current Liabilities to Net Worth</b>	47.1%	29.1%	41.9%	55.0%
<b>Current Liabilities to Inventory</b>	x35.20	x30.05	x38.35	x34.54
<b>Total Debt to Net Worth</b>	x1.27	x0.67	x1.10	x1.53
<b>Fixed Assets to Net Worth</b>	x0.33	x0.27	x0.31	x0.37
<b>Days Accounts Receivable</b>	28	29	33	26
<b>Inventory Turnover</b>	x35.56	x40.30	x41.60	x32.30
<b>Total Assets to Sales</b>	123.7%	110.2%	123.8%	126.2%
<b>Working Capital to Sales</b>	26.1%	23.0%	29.2%	25.1%

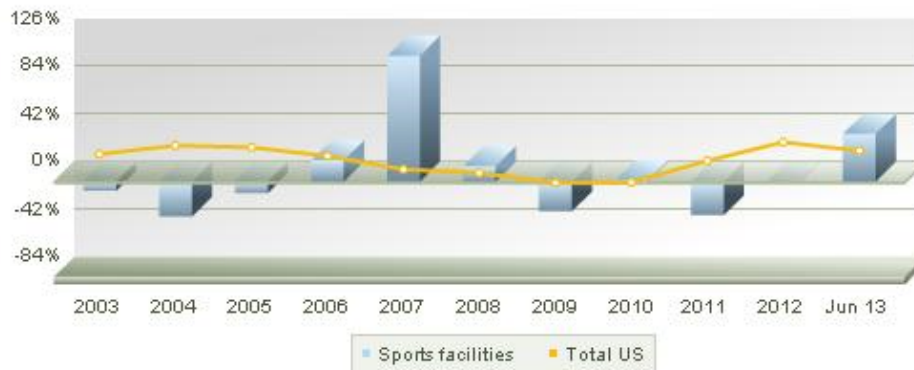


<b>Accounts Payable to Sales</b>	2.8%	2.4%	1.7%	3.5%
<b>Pre-Tax Return on Sales</b>	3.9%	3.5%	3.5%	4.1%
<b>Pre-Tax Return on Assets</b>	3.1%	3.2%	2.8%	3.2%
<b>Pre-Tax Return on Net Worth</b>	7.1%	5.3%	6.0%	8.2%
<b>Interest Coverage</b>	x3.82	x3.97	x3.17	x4.28
<b>EBITDA to Sales</b>	15.4%	15.0%	14.6%	15.8%
<b>Capital Expenditures to Sales</b>	11.4%	11.6%	10.8%	11.7%

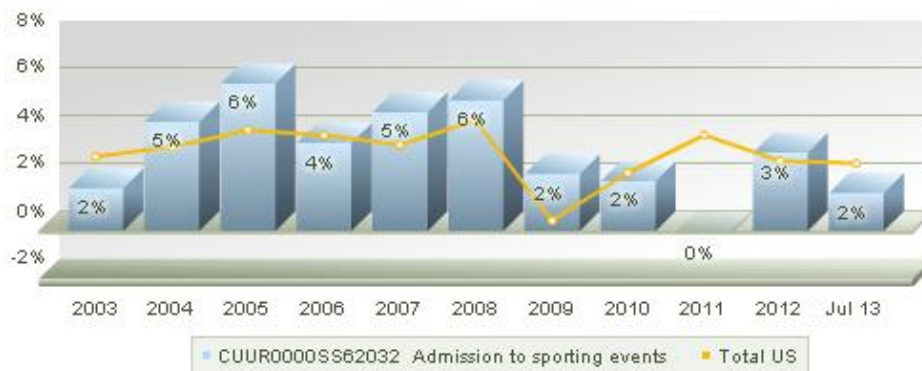
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## ECONOMIC STATISTICS AND INFORMATION

### Annual Construction Put into Place - Census Bureau



### Change in Consumer Prices - Bureau of Labor Statistics



## Industry Websites

**Canadian Football League**  
Official site.

**ESPN**  
News on teams and players.

**Hockey Canada**

Official site.

**Major League Baseball**

Official site of MLB.

**National Basketball Association**

Official site of the NBA.

**National Football League**

Official site of the NFL.

**National Hockey League**

The NHL official site.

**NFL Players Association**

The Official Site of the NFL Players Association.

**Sportbusiness.com**

News on the business of sports worldwide.

**Sports Illustrated**

Team and player news.

**Street and Smith's SportsBusiness Journal**

News on business aspects of professional sports.

## Glossary of Acronyms

**CBA** - collective bargaining agreement

**HGH** - human growth hormone

**MLB** - Major League Baseball

**MLS** - Major League Soccer

**NBA** - National Basketball Association

**NFL** - National Football League

**NHL** - National Hockey League

**RFID** - radio frequency identification

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