
Advertising in Sports

Module 2, Chapter 6

Lesson : Advertising in Sports

Objectives:

- ❑ Explain the need for advertising in sports
 - ❑ Find the optimal profit-max quantity of ads
 - ❑ Explain the need for advertising through game theory
 - ❑ Describe the types of advertisement in sports
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Advertising in Sports

AmEx – corporate sponsor of the 2006 NBA draft

Sony – sponsor of the Hawaiian Open golf tournament

Heinz field, Wrigley field, AT&T field, Key arena

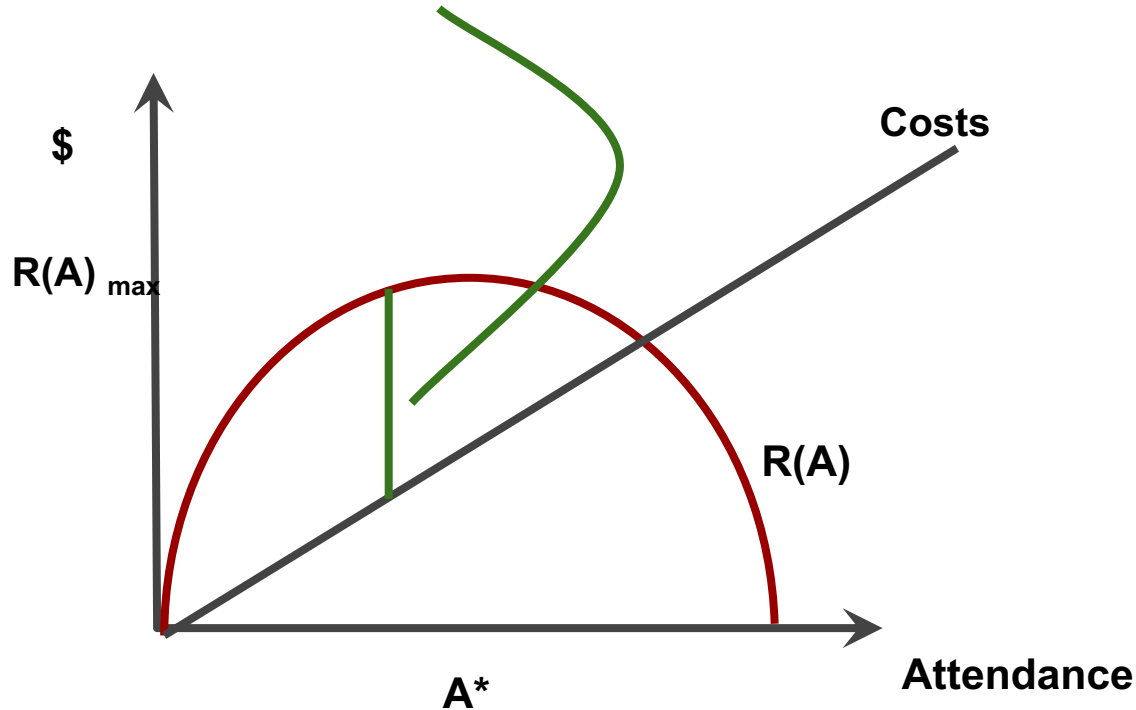
The White Sox start their home games at 7:11pm because of 7-Eleven's support

Tiger Woods is a Nike man, Bryce Harper endorsed by Under Armour

Why Advertise?

To be successful, advertising must increase revenues faster than costs.

Maximize the gap between
revenue and costs



Profit Maximizing Rule

*Admit fans as long as
additional revenue is
more than additional
cost*

$MR = \text{Additional Revenue}$

$MC = \text{Additional Cost}$

$$MR \geq MC$$

Revenue is nice, but what about Profit?

How many ads should the team purchase if fans respond as such

$$Q = 80A - 4A^2$$

Each Fan Pays \$10

Ads Are Free (Cost = 0)

$$\text{Rev} = P \times Q$$

$$\text{Rev} = 10 \times (80A - 4A^2)$$

$$\text{Rev} = 800A - 40A^2$$

$$\text{MR} = 800 - 80A$$

$$\text{Cost} = \$0$$

$$\text{MC} = 0$$

Profit Maximizing Rule:

$$\text{MR} = \text{MC}$$

$$800 - 80A = 0$$

$$800 = 80A$$

$$10 = A$$

A Numerical Example

How many ads should the team purchase if fans respond as such

$$Q = 80A - 4A^2$$

Each Fan Pays \$10

Ads Are \$100 each (Cost=100*A)

$$\text{Rev} = P \times Q$$

$$\text{Rev} = 10 \times (80A - 4A^2)$$

$$\text{Rev} = 800A - 40A^2$$

$$\text{MR} = 800 - 80A$$

$$\text{Cost} = \$100 \times A$$

$$\text{MC} = 100$$

Profit Maximizing Rule:

$$\text{MR} = \text{MC}$$

$$800 - 80A = 100$$

$$700 = 80A$$

$$8.75 = A$$

A Numerical Example

The Seattle Mariners want to take out ads in the newspaper to advertise the July 4th game. They estimate demand at:

$$Q = 22,000 + 800A - 50A^2$$

Each Fan Pays \$30

The Seattle Weekly offers the following costs for ads, where A is a full page ad:

$$TC = 500A^2$$

The Seattle Times offers the following costs for ads, where A is a full page ad:

$$TC = 1000A + 200A^2$$

Self Assessment - Quiz

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What is the optimal advertising choice? How much profit is earned?

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What is the optimal advertising choice? How much profit is earned?

Self Assessment - Quiz

Sports Advertising

- 2009 – top 100 sports advertisers spent \$6.7bln on sports advertising
 - Ads on radio and TV sports programming
 - Signage on venues
 - Print ads in sports publications
 - Top product groups – cars and trucks, communications and beer
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Sports Business Daily: 2011 Spending on Ads During Sporting Events

Category	<i>Highest Spender</i>	<i>2011 Spending (millions)</i>	<i>Second Highest Spender</i>	<i>2011 Spending (millions)</i>
Communication	Verizon	\$345.5	AT&T	\$296.9
Alcohol	Anheuser-Busch	\$299.7	MillerCoors	\$203
Automobiles	Ford	\$263.5	Chevrolet	\$249.9
Insurance	Geico	\$163.5	State Farm	\$125.4

Some companies actually spent MORE on sports advertising during the recession

Game Theory and Advertising

NBC News: Companies that have wasted the most on Super Bowl advertising (2002 -- 2011)

<i>Company</i>	<i>Total Ad Spending (millions)</i>	<i>Average Ads Per SB</i>	<i>Δ in Market Share</i>
Anheuser-Busch	\$246.2	8.7	-3.7%
PepsiCo	\$209.7	7.2	-2.1%
General Motors	\$135.2	5.5	-9.4%
Yum! Brands	\$67.8	3	-9%
Coca Cola	\$61	2.8	-2.3%

Top Five Categories:
(Nielsen)

Automotive
Beer
Motion Picture
Regular Soft Drinks
Tortilla Chips

Average 30-second Commercial for 2017 Super Bowl LI?

\$5 million

(CNBC)

Is it worth it in the sports broadcast market?

Target Audience

- Each firm has a target audience, which must be reached through advertising
 - gender, ethnicity, household income, age

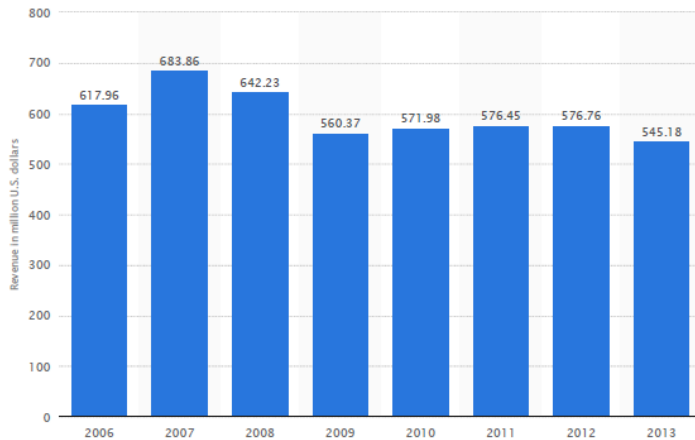
Types of Advertising

- Sports Publications
 - Naming rights
 - Sponsorships
 - Endorsements
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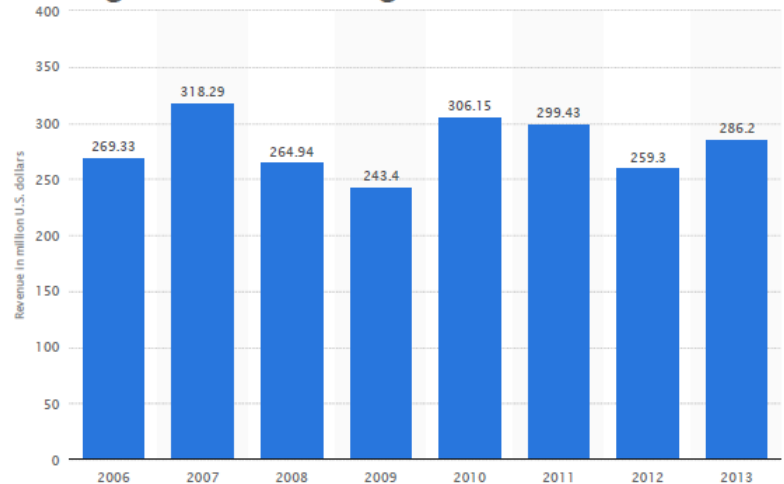
Types of Advertising

- Sports Publications
 - Sports Illustrated: \$545 mln in revenue (2010)
 - ESPN The Magazine: \$286 mln (2013)

Sports Illustrated's advertising revenue from 2006 to 2013



ESPN Magazine's advertising revenue from 2006 to 2013



Types of Advertising

- Naming rights
 - Heinz Field, Key Arena, Wrigley Field, AT&T Field
 - Multi-year (15-30 yrs) contracts
 - Examples of stadium naming rights
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NAMING-RIGHTS DEALS ANNOUNCED SINCE JANUARY 2015

VENUE (CITY)	TENANT(S)	TERM S
Mercedes-Benz Stadium(a) (Atlanta)	Atlanta Falcons; Atlanta United FC(b); Chick-fil-A Peach Bowl	27 years / \$324.0 million
Chase Center(a) (San Francisco)	Golden State Warriors	20 years / \$300.0 million-\$400.0 million
Videotron Centre (Quebec City)	QMJHL Quebec Remparts	25 years / \$237.5 million(c)
U.S. Bank Stadium(a) (Minneapolis)	Minnesota Vikings	25 years / \$220.0 million
Nissan Stadium (Nashville)	Tennessee Titans	NA
National Car Rental Stadium(d) (St. Louis)	St. Louis Rams	20 years / \$158.0 million
Golden 1 Center(a) (Sacramento)	Sacramento Kings	20 years / \$120.0 million
Spirit Communications Park(a) (Columbia, S.C.)	Class A Columbia Fireflies	10 years / \$3.5 million
Silverstein Eye Centers Arena (Independence, Mo.)	ECHL Missouri Mavericks; MISL Missouri Comets	10 years / \$2.75 million
MUSC Health Stadium (Charleston, S.C.)	USL Charleston Battery	5 years / \$925,000
T-Mobile Arena(a) (Las Vegas)	TBD	Just under 15 years(e)
Vivint Smart Home Arena (Salt Lake City)	Utah Jazz	10 years/NA
SNHU Arena(f) (Manchester, N.H.)	ECHL Manchester Monarchs	10 years/NA
Dort Federal Credit Union Event Center (Flint, Mich.)	OHL Flint Firebirds; MASL Waza Flo	NA
Jimmy Johns Field(a) (Utica, Mich.)	United Shore Professional Baseball League (Independent) Utica Unicorns	NA
Mapfre Stadium (Columbus)	Columbus Crew	NA
Target Center(g) (Minneapolis)	Minnesota Timberwolves; Minnesota Lynx	NA

(a): Under construction

(b): Expansion team scheduled to begin playing in 2017

(c): Converted Feb. 16 at a rate of \$1 Canadian = \$0.719657 U.S., per XE.com.

(d): Announced as an incentive to keep the team in St. Louis. However, the Rams will begin play in Los Angeles this fall.

(e): According to a SportsBusiness Journal source familiar with the deal

(f): Begins Sept. 1, after the current 15-year naming-rights contract with Verizon Wireless expires.

(g): Extension

NA: Not available

Source: SportsBusiness Journal research

Types of Advertising

- Sponsorships
 - Sponsorships of sporting events
 - E.g. 2011: the Discover Orange Bowl, the Allstate Sugar Bowl, the AT&T Cotton Bowl. The Citrus Bowl is now the Capital One Bowl. The Chick-fil-A Peach Bowl, the AutoZone Liberty Bowl
 - Exceptions: the Rose Bowl and Grand Slam Golf tournament have not sold naming rights
 - Exceptions in tennis: the Australian Open, French Open, Wimbledon & the US Open
 - Exceptions in NASCAR: the Daytona 500
 - NFL protects its sponsors: rules forbidding the players from wearing non-sponsor logos. 2007: Brian Urlacher (linebacker for the Chicago Bears) wore a cap with vitamin water logo & paid \$100,000 fine (Gatorade was the official NFL drink).
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Types of Advertising

- Endorsements
 - Industries/firms can endorse players
 - E.g: Nike endorsement of Roger Federer (tennis, \$1 mln per year, then extension with \$13 mln per year), Albert Pujols (baseball, 3-year deal), Matt Fraser (Crossfit)
 - Endorsements can be discontinued if a player disgraces themselves (steroid and hormone use, charges, infidelity, and more).
 - E.g. Nike stopped endorsing Michael Vick, NFL (dog-fighting charges).
 - E.g. Magic Johnson, NBA (dropped by Converse & Pepsi in 1991 after revealing he was HIV positive)
 - E.g. Oscar Pistorius, Olympic & Paralympic games (dropped by Nike & Oakley after he killed his girlfriend)
 - Others: Maria Sharapova, Kobe Bryant, Manny Pacquiao, Barry Bonds, Lance Armstrong, Tiger Woods, Mike Tyson

FIRM 2

FIRM 1

Another
Advertising
Dilemma with
Soda
(middle of
page)

Breakdown of
minutes in a
typical football
game

Game Theory & Advertising

TOURNAMENT SCHEDULE



DATES	TOURNAMENTS	NETWORK	DEFENDING CHAMPION	FEDEXCUP POINTS	LINKS
Jan 4 - 7	<a>Hyundai Tournament of Champions Plantation Course at Kapalua, Kapalua, Maui, HI Purse: \$5,700,000	GOLF NBC SIRIUS-XM	Dustin Johnson \$1,140,000	500	<a>Tickets ▶ <a>Hotels ▶ <a>Flights ▶ <a>Cars ▶
Jan 10 - 13	<a>Sony Open in Hawaii Waialae CC, Honolulu, HI Purse: \$5,600,000	GOLF SIRIUS-XM	Russell Henley \$1,008,000	500	<a>Tickets ▶ <a>Hotels ▶ <a>Flights ▶ <a>Cars ▶
Jan 17 - 20	<a>Humana Challenge in partnership with the Clinton Foundation PGA West (Palmer Course), La Quinta, CA Purse: \$5,600,000	GOLF SIRIUS-XM	Brian Gay \$1,008,000	500	<a>Tickets ▶ <a>Hotels ▶ <a>Flights ▶ <a>Cars ▶
Jan 24 - 27	<a>Farmers Insurance Open Torrey Pines (South Course), La Jolla, CA Purse: \$6,100,000	CBS GOLF SIRIUS-XM	Tiger Woods \$1,098,000	500	<a>Tickets ▶ <a>Hotels ▶ <a>Flights ▶ <a>Cars ▶
Jan 31 - Feb 3	<a>Waste Management Phoenix Open TPC Scottsdale, Scottsdale, AZ Purse: \$6,200,000	GOLF NBC	Phil Mickelson \$1,116,000	500	<a>Tickets ▶ <a>Hotels ▶ <a>Flights ▶ <a>Cars ▶

Other Event Sponsorships

Sponsorship of NASCAR races

2014-2015 Bowl Schedule

Professional Bull Riders Rodeo Schedule

Sponsorships