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Industrialization of Sport

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INDUSTRIALIZATION OF SPORT

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ABSTRACT

Sport in U.S. society has evolved into a major component of the business institution. The culture has embraced sport as a dominant element that influences consumer decision. This study was undertaken to identify a framework to examine the impact of the industrialization of sport. Such a framework is essential to understanding the new infra-structure that is developing and driving the "new global economy".

INTRODUCTION

Sport as a business institution within our society is becoming an important economic element. The growth of sport business is a direct result of the popularity of sport which has become symbolistic and iconic to our society (4). This popularity has propelled the sport business into the vortex of our economy. The growth of sport and its related industries has increased exponentially through the past 30 years (19). The business of sport includes clothing, equipment, media, transportation, arenas, merchandising, financial institutions, players, teams, and leagues. Sport and the business of sport is competitive and successful. Competition is the driving force behind sport as well as all business institutions within American society. It is an easy transition from competition on the field to the arena of business. Competition as a motivator and the win as a prize drive most American business institutions to reach full growth potential. Individuals who understand performance, competition, and the win-loss column can be very successful in the world of business. Businesses that are directly related to sport consistently outperform the average value of the Standard and Poors Index. Performance, competition, and winning defines success on the field or in the board room.

Sport industries are complex, multifaceted, and layered. A simplistic view of the sport industry is defined as only those businesses that are directly related to the generation of revenues from the game and/or events. These direct revenues of gates, media, and stadia incomes when valued as a percentage of growth have also outperformed the Standards and Poors Index (16). Most of the professional teams are held in private ownership and it is difficult to value and compare these private institutions with public held companies on the stock exchanges. Another measure of value that has continued to outperform the Standard and Poors Index is the appreciation value of the professional teams over the past 30 years (16, 17). When direct revenues and appreciation value are used as index, the growth of the direct sports business has an expediential rate of growth. Direct revenues are defined as those monies that are generated from the from the game and/or event. The preceding explanation represents the first classification for defining a vortical model of global economy.

Many businesses support sport or are in an ancillary position to the direct revenues. These companies are both privately held and publicly owned. The second classification of companies is defined as supportive revenues. Examples of these companies are concessions, parking, security, and souvenir kiosks. Trusts and holding companies may confound the simplicity of the supportive revenues. It is difficult to isolate and identify revenue centers.

The third classification is described as doing business with sport and is defined as indirect revenues. Any company in the world could be part of this grouping based on commodities, communication, and culture. In the past, the structure of the sport business was not influenced by the supporting or indirect industries, but in today's business market, these supporting and indirect industries are the infrastructure of sport business.

The public's primary sports are baseball, football, basketball, and hockey. These sports are showcased by the media. Other sports such as horse racing, boxing, auto racing, tennis, and golf are specialized sports and media profile is high on individual performance and global business revenues are phenomenal. Amateur based sports have been popularized through such events as the Olympics. These highly competitive sports also command the attention of direct, supportive, and indirect revenue industries. Industrialization of all of these sports may be different in tenor, but the industries that surround them are well developed and sophisticated (19). The greater the popularity of a sport, the more the direct industry has flourished and the more supportive and indirect industries have developed.

The inter and intra relationships within the direct sport business create a complexity within the infrastructure of supportive and indirect industries (6). In high profile sports the infrastructure is clouded by contracts, transfers, and trusts. Many individuals, especially labor in the high profile sports, want to obtain a clear understanding of the revenues generated from their sports, but complexity of the infrastructure does not make information readily accessible (6).

The supportive and indirect businesses are a collage of owners, including team and/or arena owners, entrepreneurial, and Fortune 500 companies. The direct, supportive, and indirect businesses are continuously changing in order to reposition, to generate additional dollars, and to obtain a larger share of the market. It is difficult to create a competitive or open system because most structures are de facto monopolies or oligopolies. As a result, the infrastructure of sport has shed emphasis to the supportive and indirect industries even though team ownership is in demand. This demand for team ownership has increased the appreciation value of the professional team significantly. Another trend that has influenced the structure of the sport industry is that of sponsorship. The sponsors have realized the potential revenue generation of the supportive and indirect businesses. Sponsors are pursuing ownership opportunities to do business on sport and use sport as a vehicle for popularization of their products.

CONTEXTUAL ANALYSIS

There has been little empirical research on development of infrastructure of sport industries. Stock prices, market value, appreciated value, or revenues can be used as indicators to examine the infrastructure of sport. These indices are a barometer for economic forecasting. A more thorough investigation of each company is needed to determine how business is done within the sport institutions. Company profiles must be analyzed to understand the dynamic relationships among the direct, supportive, and indirect businesses. These relationships are critical for isolating developmental influences.

The Nike company will be profiled to determine feasibility of using a case study methodology for developmental models. This company was selected because the consumer goods are representative of direct, supportive, and indirect sport industry in the U.S. and global markets (6). The Nike company is a cultural icon. It is a representative company that will give a general indication of the types of relationships that exist within the sport industry (1).

CASE STUDY

Although stocks are a general indicator of daily performance of a company, a profile of a company is needed to determine the relationships of companies from within the corporation as well as competitive entities. The comprehensive information offers an acumen to the infrastructure of sport. Various measures are used to determine the health of a company: 1) stock, 2) gross profits, 3) net income, and 4) profit margin. Analysis of any company identifies the component divisions and estimates the profit margin by calculating net income ratioed to sales revenues.

The Nike Corporation has been chosen as a sample company for this case study. The Nike stock performance will be discussed as a general indication of the health of a company when compared to the Standards and Poors Index (12, 13, 14). Nike stock performance and their revenues have been consistently between 10% and 30%. This performance indicates that there has been consistent growth, especially in the later years of approximately 30% per year. The critical element is the observation of consistent growth of Nike stock as compared to the Standard and Poors Index.

The downturn in 1992 and 1993 are only a reminder of the competitive nature of the market. You are only as good as your last performance (9, 20, 21). In 1987, 1988, and 1989, Nike stock prices rebounded through more advertisement, restructuring, and diversification (2, 8, 21). They have realized that this time there is going to have to be restructuring through centralization and modularization, especially in distribution (11, 21).

The other critical element is the market share that Nike has maintained. Nike's competitive shoe companies are Reebok, Puma, Converse, Adidas, L.A. Gear, and Timberland. Nike's market share in the U.S. is 30% (3, 7). Other major markets where Nike has been a leader are Canada, Europe, the Pacific rim, and South American countries.

Nike is a global company and a cultural icon that has been organized, developed, and endorsed by athletes. They are interested in developmental relations with universities to increase their pipeline to endorsements (6). Nike is recognized as a major world-wide institution that has popularized sport fashion. Nike is an aggressive company that constantly seeks new markets and develops new ideas to maintain their market share and competitive edge.

Nike was founded by Phil Knight and Bill Bowerman in the early 1960's (15). The original company was called Blue Ribbon Sports. The original product was running shoes. The idea was to develop a superior shoe for runners. Nike has continued to develop shoes for specialized markets utilizing new technologies to improve performance. Retail stores were the backbone of the company through the mid-1960's. By the early 1970's Nike had earned a reputation among runners and in the early 1970's they had changed their trademark as well as their name to reflect a growing specialty. Their first endeavor beyond track and running shoes was into the area of soccer and football. Also, in the early 1970's Nike was developing markets in Japan and Canada. Nike's aggressive marketing campaign began in the late 1970's with the original signing of John McInroe to endorse Nike products and has continued. In 1985 Nike continued its star campaign by signing Michael Jordan for endorsements. The product promotion through endorsements peaked in 1988-1989 with the signing of Bo Jackson, the famous "Bo-Knows" commercial.

In reviewing Nike stock prices from 1983 through 1993, it was found that the critical years for Nike were 1989 when their stock price doubled (18). In the preceding year stock prices were split, and in the following year the stock price per share achieved the same range as in 1989. It should be noted that in the 1988-1989 sponsorship year, the Bo Jackson commercial as well as Agassi's commercial were released. The effect of these commercials on the increase in stock prices is related.

In the late 1980's and early 1990's Nike moved into different kinds of footwear, dress and casual shoes under the name Colehann. They also moved into merchandising specialty products within the sports industry under the name Sports Specialties. The Nike company develops a quality product that anticipates the market. Competition is the element that drives the athletic shoe industry. They are moving through integrated marketing to saturate and penetrate nontraditional markets (5). Nike has aggressively responded to this competition through retail development of

Nike town stores and diversification strategies into theme parks. Nike is not only reconceptualizing the product but also restructuring the organization to centralize operations through their new distribution center in Memphis, Tennessee. This new hub will allow products to be delivered more efficiently. The ultimate goal is the improvement of performance. Other components of Nike have been flexibility with the use of business strategies and marketing concepts and research and development. Nike has the flexibility to anticipate trends for redevelopment of its manufacturing and distribution process.

CONCLUSIONS

When Nike is used as a model, there are three developmental designs to success in the sport business: commodities, communication, and culture. Competition is the driving force that is the primary design that motivates, structures, and propels a business. Commodities, an important element in the triangle of success, relates to competition because it is the product's quality that ultimately determines its longevity in the market. Nike's extensive research and product development, and aggressive marketing are two key elements within the developmental design of commodities. The desire to be number one necessitates a quality product both in the U.S. and the global markets. Communication and cultural interests create a base for the company's strategies, competitive edge, and global acceptance. Nike is successful in communicating sport as a medium, relating product to culture, and interpreting clients effectively (10). Nike has a continuity of message because the line of communication is acceptance of the product by star endorsement and reinforced at the local level with shoe contracts. Sport as a universal medium is the vehicle for the popularization of products, companies, and people. The popularization process gives a company the opportunity to reach global markets, span cultural interests, and engrain the product's image. In an unstable world market, sport helps to institutionalize and stabilize a company. The cultural acceptance of sport provides a company the opportunity to diversify its products and increase the volume of products in the global market.

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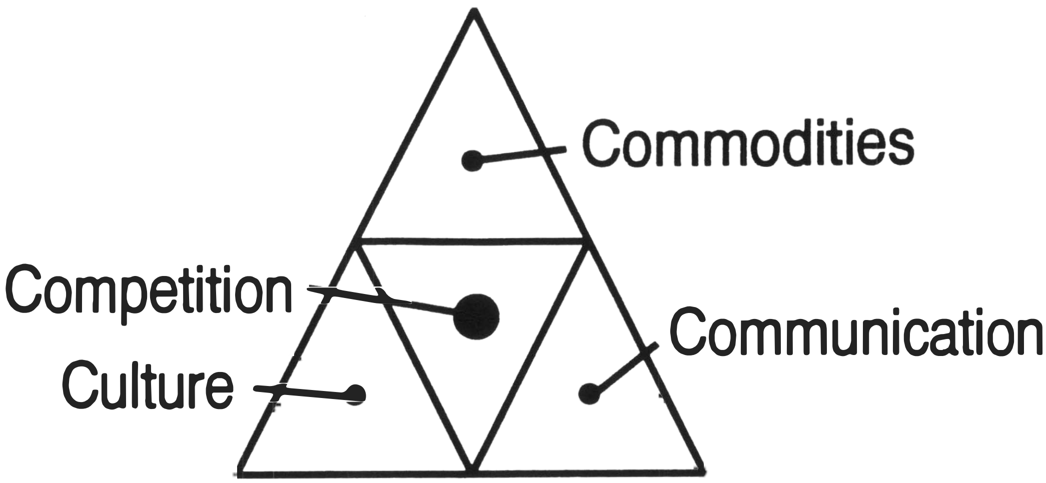

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