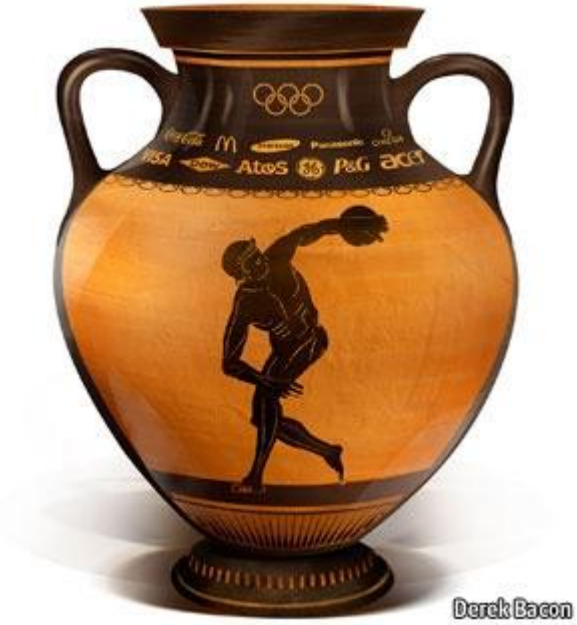
Victors and spoils

The Olympic games are big business. Who wins, and who loses?



IN ANCIENT GREECE it was impossible to stitch a sponsor's logo to an Olympic athlete's singlet or shorts, because the competitors were all naked. In today's London it is still impossible. Though clothing is now allowed at the Olympics—indeed it is compulsory—so is a veneer of amateurism. No advertisements are allowed in the stadium; no logos may be emblazoned on the athletes' kit (except at the Paralympics: see article).

Behind the veneer, commercial interests are vying furiously for gold. The sums involved make Russian weightlifters look insubstantial. The British government's budget for the games has risen to £9.3 billion ($14.5 billion) from an initial estimate of £2.4 billion. The International Olympic Committee (IOC) has raised $4.87 billion in broadcast fees and sponsorship for the four-year cycle that includes the London summer games as well as the Vancouver winter Olympics of 2010. The London Organising Committee of the Olympic and Paralympic Games (LOCOG), which is actually in charge of staging the games, has raised another £700m in sponsorship; it is raking in pots more by selling tickets and licensing souvenirs.

Five rings to bind them

Eleven global sponsors (known as top Olympic partners, or TOPs) pay fat sums to the IOC for the right to use the Olympic brand. Only one TOP sponsor is allowed in each commercial category: Coca-Cola for soft drinks, Panasonic for televisions and so on. This business model dates back to the 1980s. Before then, the Olympics were a commercial mess, with lots of sponsors paying small sums to borrow the Olympic brand in a few cherry-picked markets. Now, the IOC sells much bigger contracts to fewer sponsors. Top-tier deals are long-term (at least eight years) and global. The size of each deal is secret, but the total for all 11 for 2009-12 is $957m.

Sponsors can pay in cash, in kind, or both. For example, Atos, a French consultancy, is a top-tier sponsor. It also manages the information technology for the games. In its command room overlooking London's Docklands, 450 technicians and support staff hunch over screens. Among other things Atos handles the accreditation system for all 250,000 athletes, trainers and hangers-on. This means creating a big database for personal information for people from all parts of the world. It has to hook up with the British immigration authorities,

so everyone who needs a visa gets one. And it has to be secure: visiting prime ministers don't want their private data published on WikiLeaks.

The pay-off for Atos comes from proving it can do all this. "It's the only project of this magnitude that has a deadline you can't change at all," says Patrick Adiba, Atos's man on the spot. There is also no room for serious errors, he says: "You can't ask Usain Bolt to rerun the 100 metres because the technology didn't work." So every system has backups: some have four.

All this is costly. But it lets Atos boast to potential customers: if we can handle both the summer and winter Olympics, we can probably handle your project. The Olympics generate hundreds of millions of euros of new business for Atos every year, reckons Mr Adiba.

The risk is that if you mess up, you do so very publicly. G4S, a British-based security firm, was hoping that handling security for the games (which it, too, sponsors, though not at the top level) would gild its reputation. "If we can do it for the Olympics, we can do it for you," said Ian Horseman-Sewell, G4S's director of events, on June 21st. Shortly afterwards, the firm discovered that it couldn't do it for the Olympics, having failed to train anything like enough staff. G4S's share price did a passable imitation of an Olympic diver (see article).

Most top-level sponsors, such as McDonald's, Omega, Panasonic and Procter & Gamble, are not trying to prove their prowess. They are just trying to look noble and global by association in a way that wows and woos customers. How they do so reveals the brilliance of the IOC's stand against the "crass commercialism" of corporate ads and logos at the games. Unable to advertise inside, the sponsors must advertise outside, by way of posters and packaging and every other platform at their disposal. And to reap the benefit of their sponsorship, this advertising must be linked back to the Olympics: so every billboard and chocolate bar and television set carries the Olympic logo. It is hard to walk down a high street anywhere in the world without being reminded of the Olympics.

In effect, the sponsors are paying to provide publicity for the Olympics. This is a fantastic deal for the IOC. Is it also good for the sponsors? "I don't know," admits the boss of one big sponsor.

A study by Jonathan Jensen of Columbia College, Chicago and Anne Hsu of Relay Worldwide, a sports-marketing firm, has found that in general companies that sponsor generously tend to do well. They looked at the 51 American firms that spent more than $15m annually on sponsorship (mostly of sports) between 2005 and 2009. Net income at these firms grew faster than at S&P 500 firms in general (7.8% to 6.5% per year). The biggest sponsors did even better: the top 16, which spent on average $160m a year on sponsorship, saw net income grow by 22.1% annually.

The authors do not claim that sponsorship makes businesses more profitable. Rather, big sponsors tend to be firms with brands that are already well-known. Lesser-known firms buy ads to explain to customers who they are. The likes of Coke and IBM back athletes to make consumers feel warmer about their brands. There is evidence that such backing can work, at least on a team-by-team level. Jorg Henseler of Radboud University has found that in the Netherlands sponsoring football teams makes brands more valuable. And even if there is no such direct effect from sponsoring the games, there is an indirect benefit: you raise ever further the costs of entering the global market. It is spending like this that makes competing with Coke hard, even when making fizzy drinks is easy.

Winners and losers

Top Olympic Partners (TOPs)

Name *(since)*	Annual share-price growth rate v S&P500, % point difference: in 10 years before becoming TOP sponsor	since becoming TOP sponsor
Coca-Cola *(1986)*	-1.6	4.6
Visa* *(1986)*	*na*	24.2
Panasonic *(1987)*	6.6	-11.1
McDonald's *(1997)*	14.5	-1.2
Samsung *(1997)*	13.3	12.7
Atos *(2001)*	6.6	-6.4
Omega† *(2003)*	*na*	*na*
GE *(2005)*	4.2	8.8
Acer *(2009)*	9.0	-10.8
Dow *(2010)*	-2.2	-4.2
P&G *(2010)*	4.4	-1.3

Sources: International Olympic Committee; Thomson Reuters

*Visa listed in 2008
†Not listed

It is hard to argue the case for Olympic sponsorship from any effect it has on the share prices of the TOPs (see chart). But the companies must believe they are getting a good deal; otherwise they wouldn't keep doing it, and indeed upping the ante. The IOC's revenue from TOP sponsors rose 10.5% in the 2009-12 quadrennium. Visa ran Olympic-themed promotions in 45 countries in 2008; this year it has 71 in its sights. It is also passing on the rights to use the Olympic brand to the banks that issue its charge cards: some 950 financial institutions will join its marketing push.

Visa's first Olympic campaign was brutal. Having displaced American Express as the official payment card, its ads crowed: "At the 1988 Winter Olympics, they will honour speed, stamina and skill—but not American Express." Its recent Olympic ads conform more closely to the generic feel-good norm. One shows Nadia Comaneci, a gymnast, scoring a perfect 10. Morgan Freeman's soothing voice-over encourages viewers to cheer for perfection.

Big boys' games

Because the games are truly global, they offer a plausible springboard for regional brands that want to conquer the world. Samsung is perhaps the best example. It was once a big dog only in its native South Korea. In 1997 it pipped Motorola to become a global Olympic sponsor. The American mobile-phone maker, a longtime second-tier sponsor, wanted to upgrade but demanded a big discount. The IOC was so annoyed that it turned to Samsung, which quickly agreed to pay full whack. Motorola's managers realised they had been supplanted only when they read the headlines. Such ruthlessness keeps sponsors in line.

Samsung's sponsorship covers just mobile phones. But if the Olympics burnish the Samsung brand, that should help the Samsung Group sell televisions, ships and insurance, too. It is now the second-most-valuable Asian brand (after Toyota), according to Interbrand, a consultancy. "Being seen alongside Coke gives them global credibility. It shows they are at the top table," says Clifford Bloxham of Octagon, a consultancy. Indeed, five out of the 11 top-tier Olympic sponsors are in Interbrand's global top 20.

Below the global sponsors are the domestic ones: some 44 companies, from BP to Cadbury, have signed deals with LOCOG that cover only Britain. As well as dealing with these

domestic sponsors, LOCOG hires contractors to help stage the games. A separate body, the Olympic Delivery Authority (ODA), is in charge of building the venue.

Between them, LOCOG and the ODA have awarded more than 2,000 contracts, big and small. Some firms follow the games wherever they are staged: Mondo, an Italian maker of running tracks, is there every four years. For others, it may be a one-off. Touch of Ginger, a British design firm with 12 staff, is making Olympic-themed trinkets such as stainless-steel fish-and-chip forks that pop out of a credit-card-sized piece of steel. Gary Moore, the co-founder, laments that retail sales have been slow. But corporate sales have been brisk. Sponsors such as Lloyds Bank are snapping them up to hand out as gifts.

The eyes are the prize

Pierre de Coubertin, the idealistic Frenchman who founded the modern Olympics in 1896, did not approve of betting. Heaven knows what he would have made of the bets that broadcasters make on the games. For 2009-12, they have stumped up $3.91 billion for television rights, up from $2.57 billion for 2005-08.

Such huge fees make bidding for the rings highly risky. NBC Universal, an American TV company, lost $223m broadcasting the Vancouver winter Olympics, and expects to lose money in London, too. Having paid $1.18 billion for the right to broadcast the London Olympics in America it has so far booked only $950m in advertising. It will sell more ads at the last moment. But it will also spend a fortune on cameras, servers and breathless commentary, leaving it $100m-200m in the red, by one estimate.

Comcast, the cable firm that owns NBC, is confident that the bet will eventually pay off. NBC will pay $4.38 billion to broadcast the games from 2014 to 2020. NBC hopes the Olympics will boost adverts on its free channels, hook more subscribers for NBC Sports (a pay channel) and popularise its digital offerings.

NBC wants the Olympics to help it take on Disney's ESPN, the giant of American sports broadcasting. This will be hard. The games are usually in an un-American time zone, and involve dozens of sports, many of which make Americans shrug. It is hard for broadcast highlights on a network to make the most of it all. Technology may be coming to NBC's aid. It plans to offer 3,500 hours of live coverage via 40 online streams, allowing people to watch on their computers and mobile phones while waiting for the bus or pretending to work. When people are desperate for distraction even dressage has its place.

Some worry that digital streaming will hurt the prime-time broadcasts that command the highest advertising rates. After all, who will bother to watch a race when the result is already online? But Michael Payne, a former Olympic official and the author of "Olympic Turnaround", a book about the games' commercial revival, downplays such concerns. He thinks that all those digital offerings will create buzz. "With 26 sports, there's enough news to keep people interested. They'll watch the games on multiple platforms and then go into the office and talk about it," he predicts. He may be right. Olympic organisers once fretted that the first radio broadcasts would depress ticket sales. They didn't.

For advertisers, the Olympics should be a bonanza. Martin Sorrell, the boss of WPP, a British ad firm, often talks of the boost the global ad market receives when the Olympics, an American presidential election and the Euro football tournament more-or-less coincide every four years. Michael Nathanson of Nomura, an investment bank, predicts that the Olympics will pump up the American ad market by between $800m and $1 billion this year. The global bump in advertising will be $1.3 billion, reckons Jonathan Barnard of ZenithOptimedia, a consultancy.

Others are more cautious. Non-sponsors assume that, if they advertise during the games, their message will get lost in the hubbub, says Ian Whittaker of Liberum Capital, a bank. He

predicts that many will wait until September, and that the Olympic boost will be less than expected.

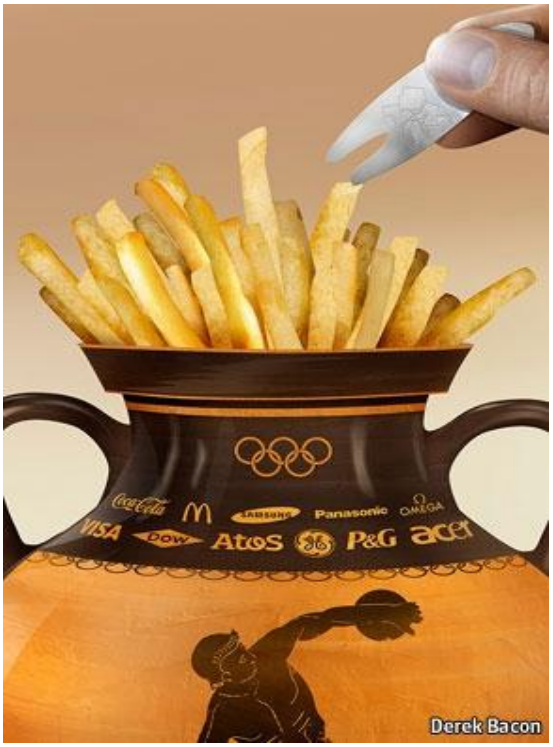
Governments of countries that host the Olympics usually boast that the games will generate vast economic returns for the nation. David Cameron, Britain's prime minister, promised to "turn these games into gold for Britain", to the tune of £13 billion over four years (see article). Several studies suggest that is unlikely. Victor Matheson of the College of the Holy Cross in Massachusetts finds that organisers of big sporting events tend to overestimate the benefits and underestimate the costs.

They are particularly bad on opportunity costs, counting every penny that sports-mad tourists spend while forgetting that others will cancel trips to avoid the crush. South Korea attracted lots of football fans during the 2002 World Cup, but because so many non-fans stayed away total arrivals were the same as the previous year. Some of those who pitch up for a sporting event have merely rescheduled a trip planned for another date, and should not count as extra arrivals. Mr Matheson concludes that, though the gross economic impact of big sporting events is large, these losses mean the net effect is negligible.

It may even be negative. Host governments spend vast sums on building stadiums and sprucing up nearby railways and roads. The Olympic authorities could pick host cities that already have the necessary infrastructure in place, and in such places the games might turn a profit. But the IOC likes host cities to erect grand edifices with the Olympic name on them.

The billions that Britain has spent on revamping bits of east London will generate benefits; but so would spending such sums on many other things. London's Olympic aquatic centre looks great, but it cost £269m—a great deal more than most public swimming pools. The roads built for the games may prove useful, but other projects might have done more good. They might have been cheaper, too; Olympic infrastructure tends to break budgets even more than infrastructure projects in general do. A recent working paper by Bent Flyvbjerg and Allison Stewart of the Saïd Business School at Oxford University found that every Olympiad since 1960 has gone over budget and that the average overrun, at 179%, was worse than for any other kind of mega-project.

When the consumer sits down to watch the games, though, he is not interested in efficient infrastructure investment. He wants to see something that lifts his spirits. This cannot be guaranteed—but unlike other purported benefits, it is at least not ruled out by the data. A study by Stefan Szymanski of the University of Michigan and Georgios Kavetsos of the Cass Business School in London finds no statistically significant upswing in national happiness attributable to hosting the Olympics (in this it comes a poor second to the football World Cup). But it doesn't seem to do any harm. And maybe this one will be particularly uplifting. After all, what could be more fun than watching athletes sweat while eating fish and chips?



Adversity and adverts

Sport for the disabled can be lucrative, too

OTTO BOCK'S testing laboratory is like a Monty Python animation. Wherever you look, disembodied feet come stomping down as machinery puts the firm's prosthetic legs through their paces: 2m paces in 21 days.

Such legs are tougher than international standards require. But those standards were set in the days when disabled people were less active. A couple of decades ago, it was novel to see people with artificial legs hiking in the countryside, running for buses or playing tennis. Now, in rich countries, it is common.

Hans Georg Nader, who runs Otto Bock, thinks the Paralympics must take some of the credit. They have shown viewers that disabled people can sprint, ride horses and play wheelchair rugby (also known as "murderball", because it gets so rowdy). "It takes away the stigma of being handicapped," says Mr Nader. "It shows what is possible."

Otto Bock has sponsored the Paralympics for 24 years. It supplies carbon-fibre blades for sprinting and ultra-light wheelchairs with cambered wheels that let them turn on a dime. It will send 78 technicians from 20 countries to the London Paralympics, which begin on August 29th. "It's like a world fair of orthopaedic technology," says Rüdiger Herzog, a company spokesman. Technicians from Germany, Japan and Australia swap tips on fixing problems, and the company learns from their exchanges.

Prosthetics for athletes are, surprisingly, less sophisticated than those used by ordinary amputees. A sprinting blade must cope only with a flat track. A normal prosthetic must cope with cobbles, stairs and mud. So the Paralympics are not like Formula One, developing cutting-edge technology that trickles down to production cars. On the contrary: the microchip that tells a prosthetic knee it is climbing stairs would be an illegal performance-enhancer in the games.

Backing the Paralympics promotes Otto Bock's brand to a global audience. There is plenty of room for makers of posh prosthetics to grow—even big ones like Otto Bock, which shifted €583m ($811m) of health-care products last year. The biggest prizes will be in emerging markets. Most of the world's disabled people cannot yet afford a €12,000 intelligent knee joint, but more will be able to as time goes by.

The other Paralympics-only sponsor is Sainsbury's, a British supermarket not noted for selling orthopaedic technology. Jat Sahota, Sainsbury's head of sponsorship, offers two explanations. First, company researchers have found that mothers, who do a lot of grocery shopping, respond warmly to the Paralympic ideal of triumph over adversity. Second, in Britain the Olympics are televised by the BBC without ads. The Paralympics are shown by Channel 4, a private station, with plenty of commercial breaks. So Sainsbury's can plug its (non-global) brand as energetically as Tatyana McFadden will pump her wheelchair down the track in pursuit of gold.

Fonte: The Economist, London, v. 404, n. 8794, p. 20-23, July 21th - 27th 2012.