

SPECIAL FEATURE: London 2012 Olympic Games

Olympic Games Set to Break \$8bn Revenues Barrier in Four-year Cycle Ending with London 2012



London mayor Boris Johnson with the Olympic flag at the 2008 games in Beijing

| by **Callum Murray**

The Olympic Games look set to break the \$8-billion barrier for commercial revenues for the first time in the four-year games cycle that includes the 2010 winter Olympics in Vancouver and the 2012 games in London, thanks in part to a massive, 52-per-cent increase in the value of the games' media rights compared with the previous four-year cycle.

The media rights for 2010 and 2012 have together brought in \$3.91 billion, compared with \$2.57 billion for the previous cycle. The increase means that media rights are now worth over four times the \$957 million brought in by the IOC's top-tier TOP sponsorship programme for the 2010 and 2012 cycle. The media rights and TOP sponsorship figures together, plus \$989 million from the Vancouver 2010 organising committee's commercial programme, and an estimated \$2.14 billion from the London 2012 programme, mean that the games will be worth a staggering \$8 billion in the present cycle.

The media rights fees for the 2010 and 2012 games include: \$2 billion for the US rights from NBC, the national network; €560 million (\$703 million) from the European Broadcasting Union for the rights in Europe (excluding Italy, which opted out because of a financial crisis at Rai, its public-service broadcaster); and \$412 million for the Japanese rights from The Japan Consortium comprising broadcasters NHK, NTV, TV Asahi, Fuji TV, TBS and TV Tokyo.

The 52-per-cent rise in the overall value of Olympic media rights can be attributed to:

- The maturing of new television markets, such as China, where CCTV paid \$99.5 million for the rights, compared with the previous cycle in which CCTV was part of an Asia-Pacific Broadcasting Union deal which acquired the rights across the whole of Asia, including China and Hong Kong, for just \$17.5 million (before the 2008 games had been awarded to Beijing)
- Increased competition in mature markets, such as USA, where NBC's \$2-billion rights fee compares with \$1.5 billion in the previous rights cycle, and Europe, where the EBU's \$703-million fee (excluding Italy) compares with \$578.4 million for the previous cycle (including Italy)
- The increasing role of pay-television: Sky Italia in Italy acquired exclusive rights for €112 million (\$141 million), on condition that it sub-licensed a minimum number of hours of coverage to a free-to-air television rival (Rai, which is paying Sky Italia \$37.8 million for a total of 315 hours of coverage of the 2010 and 2012 games); ESPN acquired 'non-standard' (pay-television) rights in Latin America for \$9.5m; and ESPN Star Sports acquired pay-television rights in Asia for \$5.2 million
- The developing market for broadband and mobile rights (Terra Latin America is paying \$8 million for broadband and mobile rights only in Latin America – excluding Brazil)
- The added allure of an Olympic Games in London, a time zone more suited to many of the main Olympic Games television markets than Beijing, in the previous rights cycle (however, it should be noted that some media rights deals for the 2010/2012 cycle were agreed before London was chosen as host city in 2005, including the NBC deal which was concluded in 2003)

Top broadcast deals by value for 2010/12 Olympic Games cycle

Rights holder	Territory	Rights fee (US\$)
NBC	USA	2bn
European Broadcasting Union	Europe (excl Italy)	703m (incl an estimated \$100m contribution from the BBC in the UK)
The Japan Consortium (NHK, NTV, TV Asahi, Fuji TV, TBS, TV Tokyo)	Japan	412m
CTV/Sportsnet/TSN/OLN/V consortium	Canada	153m
Sky Italia	Italy	141m
Foxtel/Nine Network	Australia	126m
CCTV	China	99.5m
Record	Brazil	60m
SBS	South Korea	33m
Arab States Broadcasting Union	Middle East	21.2m (2012 games only)
SABC	South Africa/Sub-Saharan Africa	16m/2m
i-CABLE Sports	Hong Kong	14.9m
Sky Network Television	New Zealand	10.5m
Asia-Pacific Broadcasting Union	Asia (incl India, Indonesia, Malaysia, Pakistan, Singapore, Sri Lanka and Thailand)	10m
ESPN Latin America	Latin America (excl Brazil) - 'non-standard' rights only	9.5m
Terra Latin America	Latin America (excl Brazil) - broadband/mobile rights only	8m
ESPN Star Sports	Asia - pay-TV rights only	5.2m

Source: Sportcal

Currency conversions into US dollars are as of June 18, 2012, so do not take into account currency fluctuations since the deals were originally agreed.

The \$8-billion overall revenues figure is made up of:

- \$3.91 billion from the sale of media rights
- \$957 million from the IOC's top-tier 'TOP' sponsorship programme (the IOC had hoped to sign a 12th TOP sponsor in time for the London games, taking the total over the \$1-billion mark, but was ultimately unsuccessful in this ambition)
- \$989 million in commercial revenues from the Vancouver organising committee, comprising: \$688 million from its domestic sponsorship programme; \$250 million from ticket sales; and \$51 million in licensing (merchandise) income
- An estimated \$2.14 billion raised by the London 2012 organising committee, comprising: \$1.08 billion from domestic sponsorship; \$931 million from ticket sales; and \$125 million from licensing (the stated targets of the organising committee)



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Olympic Games commercial rights values and increases for five quadrennial periods

Games quadrennium	Media rights value (US\$)	% increase	TOP sponsorship value (US\$)	% increase	Total marketing value (incl domestic sponsorship, ticketing and licensing) (US\$)	% increase
2010/2012	3.91bn	52.1	957m	10.5	8.00bn (est.)	46.8 (est.)
2006/2008	2.57bn	15.2	866m	30.6	5.45bn	30.1
2002/2004	2.23bn	21.2	663m	14.5	4.19bn	11.1
1998/2000	1.84bn	47.2	579m	107.5	3.77bn	43.3
1994/1996	1.25bn	-	279m	-	2.63bn	-

Source: Sportcal/Olympic Marketing Fact File

Over 90 per cent of commercial revenues from the games are distributed to "organisations throughout the Olympic movement," such as national Olympic committees and international sports federations, according to the IOC, with under 10 per cent being used for the operational and administrative costs of governing the Olympic movement.

About half of the revenues from the IOC's top-tier TOP sponsorship programme go to the games organising committees to assist them with their costs, while since the Vancouver 2010 winter Olympics the IOC has also entirely funded the host broadcaster operations, managed by Olympic Broadcast Services.

Costs The \$8-billion overall revenues figure does not, of course, take account of costs: virtually all of the London 2012 organising committee's \$2.14 billion in revenues will go towards staging the games, for example.

In April, Paul Deighton, chief executive of the organising committee, said that the organising committee was on track to meet its target of raising £2 billion in commercial revenues to meet the operational costs of staging the games.

Deighton told Reuters: "I broadly expect us to break even. One way I describe our project is trying to land about £2 billion of revenues, with about £2 billion of costs. We have got committed just over 92 per cent of the revenues we need."

Deighton, who said that the remainder should come from ticket sales and merchandising, described as "gravity-defying" the £700 million that had been raised in local sponsorship in the face of the worldwide economic crisis of the last few years.

Ticket sales are expected to top £600 million, compared with a target of in excess of £400 million, after unprecedented demand.

A further £9.3 billion of (mainly) public money has been budgeted for associated infrastructure work and other costs involved in staging the games in what was a derelict part of east London.

In June, the UK government announced that uncommitted contingency funds totalling £476 million were still available ahead of the July 27 opening ceremony.

Sports minister Hugh Robertson said: "All being well we should be able to hand half a billion pounds back to the Treasury."

The £9.3-billion 'non-organising committee' budget, which included a £2-billion contingency, was set in 2007 and was almost four times the estimated cost at the time London handed in its bid to host the games in 2005.

The budget was revised upwards after taking into account previously overlooked costs such as VAT, increased security costs, and an expanded brief for the Olympic Delivery Authority to regenerate the lower Lea Valley area.

Robertson said that the latest figure for the games was "a great advert for the British construction industry, for sport and for UK Plc."

Jeremy Hunt, secretary of state for Culture, Olympics, Media and Sport, said that the country had proved it can deliver "big construction projects on time and on budget."

The Department of Culture, Media and Sport has long stated its confidence that the Olympics would be delivered under budget, despite the Public Accounts Committee, the government spending watchdog, declaring in March that the full cost to the public of the games and legacy projects would be nearer £11 billion because of wrong estimates over the cost of security.

London 2012: sources of funding for non-organising committee budget

Funding source	Amount (US\$)	Proportion (%)
National Lottery	3.41bn	23
London (Greater London Authority and London Development Agency)	1.37bn	10
Central government	9.79bn	67
Total	14.57bn	100

Source: London 2012 Olympic and Paralympic Games – Quarterly Report December 2011

IOC sponsors In July 2010, the IOC said that it was to seek one more top-tier 'TOP' sponsor, to take the total to 12, having signed a new 10-year deal with Procter & Gamble, the consumer products giant.

The USA-based Procter & Gamble, which has 4 billion consumers and 127,000 employees across the globe, as expected, became the IOC's 11th worldwide partner and its contract runs up to and includes the 2020 summer Olympics.

The deal, which included sponsorship of the new Youth Olympic Games, came in the wake of a similar 10-year tie-up with Dow Chemical, another USA-based consumer products manufacturer, earlier the same month.

At the announcement of the Procter & Gamble deal in London, Gerhard Heiberg, the chairman of the IOC's marketing commission, said that a \$1-billion TOP sponsorship target for the period of the 2010 and 2012 games had yet to be reached as the two most recent deals had "come at a late stage of the quadrennial" and did not include the winter Olympics in Vancouver, so the major financial benefits would not be realised until the next four-year cycle.

However, the figure could have been surpassed if the IOC had been successful in securing a 12th and final sponsor. Heiberg said that "under no circumstances" would there be more than a dozen sponsors as the IOC did not want to "dilute" the Olympic brand.

McDonald's is thought to be paying up to \$200 million for its new eight-year TOP sponsorship deal ending in 2020 and covering the Sochi winter Olympics in 2014, the Rio games in 2016, the PyeongChang winter games in 2018 and the 2020 games, for which a host has not yet been chosen.

TOP sponsors are paying an average of between \$80 million and \$90 million in the present four-year cycle.

The IOC earned \$866 million from 12 sponsors in the previous four-year cycle, covering the 2006 Turin winter Olympics and the 2008 Beijing summer games.



IOC TOP sponsors for 2012 Olympic Games

Company	Category	Year joined programme	Year current deal expires
Acer	Computing technology equipment	2009	2012
Atos Origin	Information technology	2001 (as Schlumberger Sema)	2016
Coca-Cola	Non-alcoholic beverages	1986	2020
Dow Chemical Company	Official chemistry company	2010	2020
General Electric	Various	2005	2020
McDonald's	Retail food services	1997	2020
Omega	Timing, scoring and venue results services	2003	2020
Panasonic	Audio/TV/video equipment	1987	2016
Procter & Gamble	Personal care and household products	2010	2020
Samsung Electronics	Wireless communications equipment	1997	2016
Visa	Consumer payment systems	1986	2020

Source: Sportcal /Olympic Marketing Fact File

Domestic sponsors The London 2012 domestic sponsorship programme exceeded its target last September after signing up Westfield, the shopping centre company, as a partner.

The original revenue target from domestic sponsorship was between £650 million and £700 million, and the tier-three deal with Westfield took the total beyond £700 million, the games organisers confirmed.

Deighton said: "We have a fantastic group of world-class sponsors on board, now joined by Westfield, working with us to stage spectacular games next summer. We are very grateful to all of our sponsors for helping to provide the people, products and services we need to stage the Olympic and Paralympic Games next summer."

Domestic sponsors are divided into three tiers:

- Top-tier 'London 2012 Olympic Partners': Adidas, BMW, BP, British Airways, BT, EDF and Lloyds TSB
- Second-tier 'London 2012 Olympic Supporters': Adecco, Arcelor Mittal, Cadbury, Cisco, Deloitte, Thomas Cook and UPS
- Third-tier 'London 2012 Olympic Suppliers and Providers': Aggreko, Airwave, Atkins, The Boston Consulting Group, CBS Outdoor, Crystal CG, Eurostar, Freshfields Bruckhaus Deringer LLP, G4S, GlaxoSmithKline, Gymnova, Heathrow Airport, Heineken UK, Holiday Inn, John Lewis, McCann Worldgroup, Mondo, Nature Valley, Next, Nielsen, Populous, Rapiscan Systems, Rio Tinto, Technogym, Thames Water, Ticketmaster, Trebor and Westfield

Top-tier sponsors are thought to be paying between £50 million and £80 million, with second-tier supporters paying about £20 million, including value in kind, and third-tier suppliers paying about £10 million, including value in kind.