Module 4. Vertical & Horizontal Integration in the Sport Industry – Capitalising on Economies of Scale and Scope

The previous module (i.e., 3.3) taught you about the use of brand extensions to secure sport business growth. Particularly, that module focused on **diversification strategies** in the sport industry (i.e., using your sport brand to enter new sectors or product categories). Now, this module (3.4) again focuses on sport business growth. However, this time your learning will be focused not on diversification strategies – but, instead, on **integration strategies**. Integration strategies can provide sport organizations with enormous new streams of revenue growth – as well as deliver cost savings.

Over the course of this module, you will become familiar with new terminology, frameworks, concepts, and theories relating to integration strategies in the sport industry – and their impact on sport revenues. You will learn how to define, understand, and recognise examples of both vertical and horizontal integration strategies. You will also learn the connection between integration strategies and the related concepts of economies of scale and economies of scope. Those concepts will also be defined, explained, and highlighted using examples from the sport industry. Finally, you will learn about how sport finance can be used to help fund the different growth strategies and concepts covered throughout this module (i.e., 3.4).

Module Overview

First, in section (i) you will learn about the theory and practice of the 'value chain' in the sport industry. This lays important foundations upon which you can build your learning of integration strategies. Your learning will begin with you exploring (ii) the history – and theory – of vertical integration in the sport industry. You will then move on to learn about (iii) contemporary practices of vertical integration in sport business strategy.

Next, you will learn about (iv) a brief history – and theory – of using horizontal integration in the sport industry. Again, this helps prepare you to better understand – and appreciate – contemporary praectices of horizontal integration strategies in sport, which follows in section (v). Of course, vertical and horizontal integration strategies are not mutually exclusive. Sport organizations who are seeking aggressive growth may choose to pursue both forms of integration simultaneously. This is explained in section (vi) and made easier

to understand with the use of a case study from the sport industry. Structural innovations of this kind, in the sport industry, make it critical for new sport managers to understand **both** the **theory** and **practice** of integration strategies.

In section (vii) two deeply related concepts, economies of scale and economies of scope, come to the fore. They are introduced, defined, and explained with the use of examples from various areas of the sport industry. It is important to understand these concepts, as they will also further enrich your understanding of both vertical and horizontal integration strategies. More specifically, you will gain a much greater understanding of how sport organizations garner greater value from their investments – and generate significant new revenues. As sport organizations (and the sport industry) become better at engaging with these strategies and concepts, then they will be much better positioned to maximise profits.

Finally, in section (viii) you will learn about sport financing, that focuses on how sport organizations can leverage various financial tools to raise new capital that – in turn – can be used to pursue the growth strategies outlined earlier in this module. Having the necessary financial capital is, of course, critical to implementing new growth strategies that are used to unlock significant new streams of revenue generation. As sport organizations become better structured to consistently generate significant new revenues, then, of course, there is an interest from financiers in owning a piece of those organizations. Although sport teams' listings on stock exchanges are still relatively rare, there will likely be new opportunities in the coming years. Throughout this module, you will be introduced to a range of examples and student exercises to ensure that you understand – and can then demonstrate your engagement with – the core teachings.

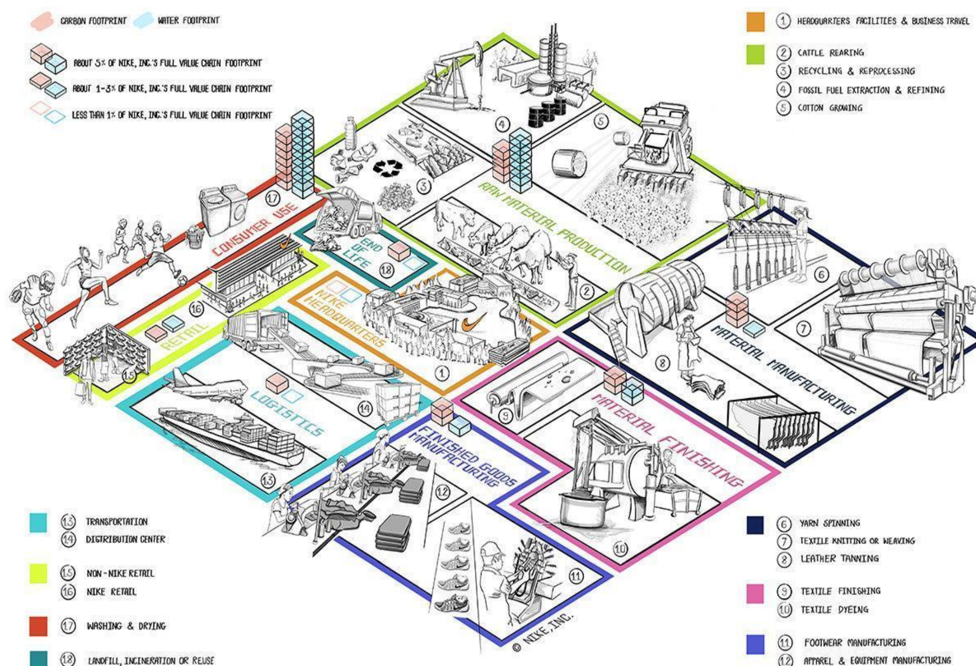
Unit 4.1 The Theory & Practice of the Sport-Industry 'Value Chain'

To understand the many opportunities for sport organizations to generate alternative revenue sources, it is helpful to visualise the sport industry as a long chain with a series of links. At the start of the chain there is a broad range of activities focused on providing supplies, infrastructure, or support products and services that will help facilitate the delivery of a sport product or service (Westerbeek & Smith, 2004). For example, **before** Nike can deliver consumers with new trainers, they are reliant on farmers to grow cotton and rear cattle (to later make leather). Next, they need yarn spinners and leather tanners to produce the textiles which they require to make their products. Then they are reliant on textile dyers and finishers to make sure their materials are the right textures and colours. All these activities form the start of the value chain; they are used to making Nike products, so they are seen 'upstream' value chain links.

In contrast, at the end of the value chain, there is a broad range of activities focused on different value-adding activities. These usually include business sectors or organizations which provide distribution services, marketing, or customer relationship (e.g., after-sale services) products to other sport organizations (Westerbeek & Smith, 2004). For example, after Nike manufactures its new runners, they still need packaging and transport services, distribution channels including networks of retailers (only some of which Nike owns), and finally – recycling or landfill services. All these activities, provided **after** Nike produce its runners, are called 'downstream' value chain links.

Throughout this process, you can see how a sport product transitions from raw materials (i.e., inputs), to production (i.e., throughputs), to end-product delivery and usage (i.e., outputs). Each of these stages involves a lot of 'value adding' activities, as new sport products or services move along the sport industry value chain, from upstream to downstream. The Nike example used above is a simplification to help you better understand the theory of the value chain process. Nike has acknowledged that their sport-industry "value chain is deep and complex; it involves many stages, from raw material extraction to products' end of life" (Nike, n.d., para. 1). They also specify that there are many links in their value chain where they have less control or influence. To help explain this, they created an infographic (see Figure 1 below) to help people understand the many links that make up their value chain.

Figure 1: The Nike Sport-Industry Value Chain



Source: Screenshot from Nike's website (https://purpose.nike.com/value-chain-stages)

Beyond the individual example of a Nike trainer (above), or even Nike as an entire organization (as in Figure 1), it is also important to consider the sport industry more

broadly. To help you do this, please take some time to consider Figure 2 (below). It is a more detailed example, rich with many useful examples, of specific activities that take place across the sport-industry value chain – from upstream to downstream. To understand the figure, you should read it from left to right; that is, from 'supplies and inbound logistics' across to 'marketing and after-sales' (Westerbeek, 2010).

Figure 2: The Sport Industry Value Chain

Government Federal, State Ministries of Sport Local Government Authorities Legislation Physical Infrastructure					
Supplies and inbound logistics	Production, infrastructure and support services	Sport organization and operations	Sport delivery and activity	Media and Broadcasting facilities and venues	Marketing and after-sales
Construction Manufacturing Equipment Apparel Food, drinks and Supplements Consulting services	Fitness Centres Heath and Medical Recreation Agencies Trainers and coaches Sponsors Education services Research services Sport development institutes Intellectual property Information technology	National sport organizations State sport organizations Non-government sport agencies and organizations Events Leagues and competitions Sport festivals Education institutions	Private and membership clubs Athletes Sport development programmes Community sport programmes Development through sport programs	Print Television Pay television Internet Gaming and gambling Private and public facilities Public centres Parks and gardens	Consulting Advertising and public relations Event support services Athlete management Sport law Hospitality

Source: Westerbeek, 2010, p. 1296

After you have taken time to examine Figure 2, you will see that many of the activities that we consider to be sport business (e.g., leagues, events, competitions, clubs, athletes, and state sport organizations) are just one part of a much larger sport-industry value chain. Each of these sport business activities are reliant on upstream and downstream value-chain activities to be successful. Furthermore, it is also important to acknowledge the top layer of Figure 2. It represents organizations and processes that further impact all stages

of the value chain; either by providing financial or physical resources, or by influencing processes through policy or legislation (Westerbeek, 2010). Overall, Figure 2 is a very useful starting point to help students visualise the many stakeholders and processes in the sport value chain.

Unit 4.2 The Sport Industry Value Chain & Vertical Integration: A Brief History

Now that you understand the sport-industry value chain, you can begin to learn about the opportunities this presents for sport managers to create new sources of revenue generation. Understanding the value chain helps sport managers anticipate the very many links, or stages, at which they can 'add value' – and, thus, capture new revenue streams.

What is Vertical Integration?

Vertical integration is a strategy for organizations to grow by taking control of other entities in their supply chain (Stotlar, 2000). By efficiently controlling more of their production and distribution activities, vertical integration allows for organizations to reduce their overall costs, to increase their sales margins, and to maximise profits (Cerato & Peter, 1991).

Sport organizations could vertically integrate 'upstream' (i.e., toward their source materials) or 'downwards' (i.e., towards their customers). For example, in 1990, Nike recognised how reliant they were on a plastics manufacturer to supply them with product for use in their Nike Air sole. So, in 1991, Nike purchased Tetra Plastics, the company that produced the plastic film used in the production of their Nike Air cushioning (Slack, Kenyon, & Manoli, 2020). This is a classic example of how a sport apparel company can cut costs (e.g., pay less for their raw materials) and generate new revenues (e.g., generated from their new plastics business) by making the strategic decision to 'add value' earlier in their supply chain (e.g., by manufacturing the plastics themselves). This example highlights 'upstream' vertical integration because Nike took control of its raw material supply line (i.e., upstream) to secure its own supply of plastic. Of course, vertical integration can also occur downstream. For example, in the early 1990s Nike also bought some distribution operations; taking greater control of more of their downstream activities (i.e., downstream integration) (Slack, Kenyon, & Manoli, 2020).

A Brief History of Vertical Integration: The Media & Sport Industries

Beyond the example of Nike, another important area for vertical integration in the sport industry has been with the media. For example, in the 1990s and early 2000s Disney took ownership of two professional sport teams: the Anaheim Angels (Major League Baseball) and the Mighty Ducks (National Hockey League) (Stotlar, 2000). This brought Disney

closer to its consumers of sport content. Disney wanted to own and control more of their entertainment content (e.g., sport) which its consumers desired when purchasing Disney subscriptions. A Disney executive once said that their content (e.g., sport) is like having "a rolling stone covered in Velcro that picks up dollars as it rolls through the distribution chain" (cited in Stotlar, 2000, p.1). In their value chain, Disney not only owned sport teams but also a broad array of tv networks, sport networks (e.g., ESPN), news channels, sport facilities, entertainment complexes, and film studios. Can you begin to see how these other Disney assets would benefit from Disney's sport teams (and vice-versa)? You can clearly see the links when you consider that their National Hockey League team, the Mighty Ducks, even took their name from Disney's 1992 film of the same name.

Disney was not the only media organization to vertically integrate into sport teams. For example, News Corporation vertically integrated with Major League Baseball's Los Angeles Dodgers, basketball's New York Knicks, as well as ice hockey's New York Rangers and Los Angeles Kings. That provided significant regional sports coverage/content for their Fox Sports Networks (Stotlar, 2000). AOL Time Warner vertically integrated with basketball's Atlanta Hawks and ice hockey's Atlanta Thrashers (Hoehn & Lancefield, 2003). Across the EU, there was also a trend for media conglomerates to vertically integrate into sports teams. At various points in the 1990s and early 2000s, BSkyB vertically integrated with Manchester United; NTL Europe vertically integrated with Aston Villa; Canal+ vertically integrated with Paris St Germain, and M6 vertically integrated with French football team Bordeaux (Hoehn & Lancefield, 2003).

However, over the last 20 years, many of these media organizations either chose to, or have been forced to, sell their stakes in sport teams. For example, in the UK, the Competition Commission blocked BSkyB from wholly purchasing Manchester United as they ruled it would not be in the public interest (Stotlar, 2000). They stated that it would dampen the competition for TV rights (Hoehn & Lancefield, 2003) if the same parties took control of both the sport teams and the media companies that pay for the rights to show sport events. For example, if BskyB paid $1 billion to purchase Premier League television rights and say, £100 million of that money would go to Manchester United, then BskyB would only – in effect – pay £900 million for those rights. This would make it less likely that other broadcasters/media companies could compete with BskyB.

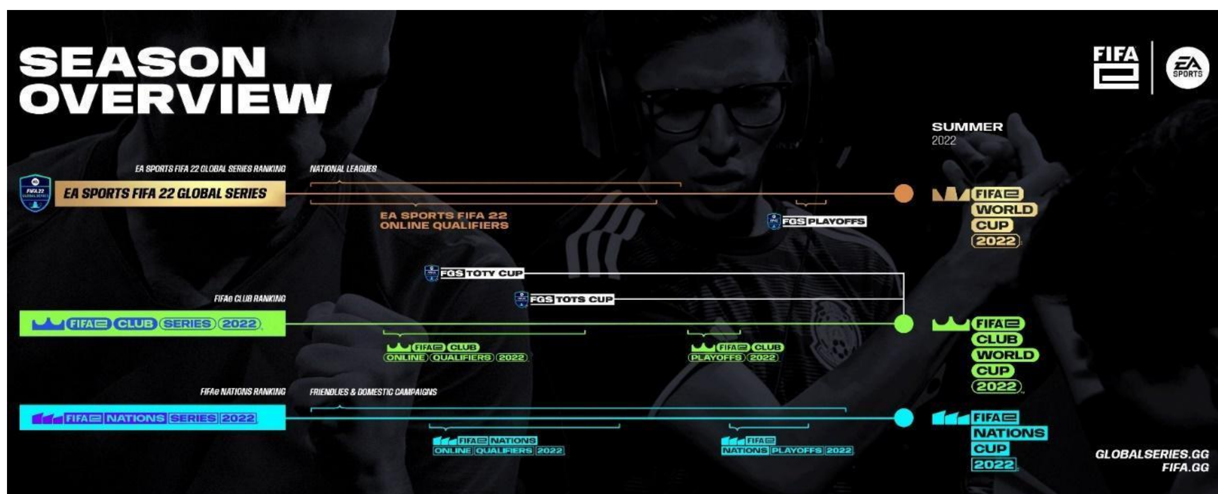
Unit 4.3 The Sport Industry Value Chain & Vertical Integration: Contemporary Practice

Regulatory and economic shifts (since the 1990s/early 2000s) resulted in many media companies selling the stakes they had taken in sport teams (i.e., downward integration) to improve their value-chain supply line to reach their customers. However, beyond the connection between media and sport, vertical integration is still a significant part of contemporary sport-industry strategic practice. For example, in 2019, the sport

technology company Garmin announced that it was taking control of Tacx, the Dutch maker of trainers, water bottles and tools popular among cyclists (Slack, Kenyon, & Manoli, 2020). This contemporary example of vertical integration illustrates how a sport technology company can develop a range of sport products – further downstream. They can produce new sport products that use their Garmin technology – further expanding their role (downstream) in the sport industry value chain (Slack, Kenyon, & Manoli, 2020).

The rapid growth of revenues in the esport industry has also resulted in many contemporary practices of vertical integration. For example, Electronic Arts Inc. (the owner of EA Sports) produces a broad range of sport games (e.g., FIFA, Madden NFL, F1) for consoles, mobile devices, and personal computers. In essence, you can understand their games business as upstream products/services that facilitate the operation of professional esport teams, competitions, and leagues. Electronic Arts Inc. stated that they wanted to expand their role in the esport ecosystem. You should now be able to recognise that this means that they wanted to expand their operations further downstream. In 2021, they announced a new 'EA Sports Esport Program' (https://news.ea.com/press-releases/press-releases-details/2021/Electronic-Arts-and-FIFA-Announce-Expanded-EA-SPORTS-FIFA-22-Esports-Program/default.aspx). Figure 3 (below) maps out their new esport program – including a diverse set of newly created esport competitions (which EA Sports owns and controls) to cater to esport players around the world, professional esport organizations, and real-world football clubs. They stated that their new initiative would attract tens of millions of players and viewers – which, of course, will also create many new revenue streams for EA Sport and their parent company of Electronic Arts Inc.

Figure 3: Overview of EA Sports' New Esport Program



Source: [online image of EA Sports' New Esport Program Overview], (n.d.), https://bit.ly/3xtVgsr

Your Challenge

Build upon your learnings on the sport-industry value chain and opportunities for vertical integration. Choose any sport product or service, anywhere in the world, and consider where they sit in the sport-industry value chain. Think through the following questions:

- Which other activities or providers is your sport product or service reliant on to continue to successfully generate revenues?

- Can you find examples of your chosen sport product or service engaging in vertical integration?

- Which of your examples would you classify as 'upstream' vertical integration (i.e., at the start of the value chain), and which would you classify as 'downstream' vertical integration (i.e., at the end of the value chain)?

Unit 4.4 The Sport Industry & Horizontal Integration: A Brief History

Now that you understand vertical integration in the sport-industry value chain, you can begin to consider which other form of integration sport managers might use to create new sources of revenue generation. For example, sport managers might decide that it would be more beneficial to integrate horizontally rather than vertically.

What is Horizontal Integration?

Horizontal integration is a strategy whereby an organization adds more products or services, often those of a competitor in the same business, to their own operations (Slack, Kenyon, & Manoli, 2020). To better understand this definition, let us consider a small-scale example from the sport industry. AstroTurf manufacturer – Balsam – acquired other smaller artificial turf producers and competitors such as All Pro, Omni Turf, and Super Turf (Slack, Kenyon, & Manoli, 2020). This is an example of horizontal integration in the sport industry.

A Brief History of Horizontal Integration: Sport Apparel

Now, let us consider a large-scale example from the sport apparel industry. In 2005, Adidas paid $3.8 billion to buy Reebok. Both companies are sport apparel manufacturers. However, Adidas wanted to generate more revenues from the discount sport apparel market; something Reebok was already successfully doing (Slack, Kenyon, & Manoli, 2020). In just one year, after their acquisition of Reebok, Adidas' sales revenues shot up by 52 percent. In addition to generating lots of new revenue, and winning over new customers, horizontal integration can also save Adidas a lot of money in the long run. For example, operating functions at Adidas and Reebok were merged. Both upstream and downstream activities (see 3.4.1) were shared and so, overall costs were reduced. These activities included, for example, sourcing raw materials, information technology, human

resources, production factories, warehousing, transportation, and retail networks (https://www.adidas-group.com/en/media/news-archive/press-releases/2006/impact-reebok-and-adidas-supply-chain-integration-on-factory-workforce/).

Student Exercise

The possibilities for horizontal integration in the sport industry and endless. Consider the example of the Fenway Sports Group (FSG) in the United States. They describe their business as a global sport, marketing, media, entertainment, and real estate company. FSG's strategy of horizontal integration of sport teams means that they now own Liverpool F.C. (in English Premier League Football), the Boston Red Sox (in Major League Baseball), and 50% of RFK Racing (a NASCAR team) – as well as a host of other related businesses (see Figure 4).

Figure 4: FSG Describe their Integrated Portfolio of Sport Businesses as Members of 'The FSG Family'

Source: Screenshot from Fenway Sports' website (https://fenwaysportsgroup.com/)

Your Challenge

Imagine you are a sport executive at Fenway Sports Group (or any other company that owns multiple sport teams). To further your learning of horizontal integration in the sport industry, you should now consider the following questions:

- What other sport entities might be a good fit for your employer to try to acquire if they want to further expand their horizontal integration strategy?

- If your employer successfully acquired your recommended sport entities, what new revenues (and cost savings) might they expect to see returned?

Unit 4.5 The Sport Industry & Horizontal Integration: Contemporary Practice

As you were working on your learning challenge above (3.4.4), on horizontal integration across organizations which own multiple sport teams, perhaps the City Football Group (CFG) came to mind? They are another excellent example of how horizontal integration continues to evolve – in practice – in the contemporary sport industry.

Sport Teams: Emerging Trends in the Contemporary Practice of Horizontal Integration

The City Football Group is a holding company in the sport industry. It was created in 2008 to facilitate the takeover of the English Premier League club Manchester City. It is owned by the Abu Dhabi United Group. Since their creation, CFG has aggressively pursued horizontal integration as a core growth strategy. They now own 11 different, but horizontally integrated, clubs in global football. Figure 5 (below) identifies and maps out the different clubs under the group's ownership.

Figure 5: The City Football Group's Horizontal Integration of 11 Football Clubs Around the World

Source: Sky Sports, 2021, https://bit.ly/3GW8WAp

Slack, Kenyon, and Manoli (2020) identify CFG as one of the strongest powers in the world of sport business. Although they acquired Manchester City in 2008, their dominant global status emerged, chiefly, between 2013 and 2021. In 2013, the Group became the owner of Major League Soccer's 20th team, New York City FC, with 2015 being their first season in the league. In 2014, the CFG acquired the Australian A- League club Melbourne Heart FC, and quickly renamed it Melbourne City FC. In 2014, CFG took a minority share in the

Japanese team Yokohama F. Marinos, which plays in the J1 League. In 2017, the Group acquired Uruguayan team, Club Atlético Torque. They were then renamed Montevideo City Torque. At the time, some people criticised this acquisition, believing that the Uruguayan club might be used to process South American players so they could be transferred to play at other football clubs belonging to the Group. Later in 2017, the Group acquired 44.3 percent of the Spanish club, Girona FC.

In 2019, CFG first took control of Chinese Sichuan Jiuniu FC – before acquiring 65% of India's Mumbai City FC later that year. In 2020, the City Football Group took a majority share in Belgian club, Lommel SK, and French club Espérance Sportive Troyes Aube Champagne (ESTAC). Most recently, in 2021, Bolivia's most decorated club, Club Bolivar, became the City Football Group's first official Partner Club. This new 'Partner Club' arrangement is described by the City Group as an agreement to give Club Bolivar "access [to] a wide breadth of expertise, proprietary technology, best practice, and strategic advice developed by City Football Group over the past seven years through its multi-club structure" (City Football, n.d., para. 2).

What is clear is that the City Group's portfolio of football club investments is an excellent example of horizontal integration in the global sport industry. Each club, horizontally integrated into their group, opens up a series of new revenue streams. They also become part of a sport business that cut their total operational costs by running the clubs more efficiently; as compared to the costs which would be incurred if each club were run separately. Ferran Soriano, Chief Executive Officer of City Football Group, has stated they their increased global presence allows each of their football clubs "to draw down on and utilise the wide range of football industry expertise developed by City Football Group" (Sky Sports, 2021, para. 7). Furthermore, CFG also learns from each of their clubs – strengthening their network across, and knowledge of, the global football industry (e.g., talent spotting/scouting, player development, etc.).

Unit 4.6 Using Horizontal and Vertical Integration Simultaneously

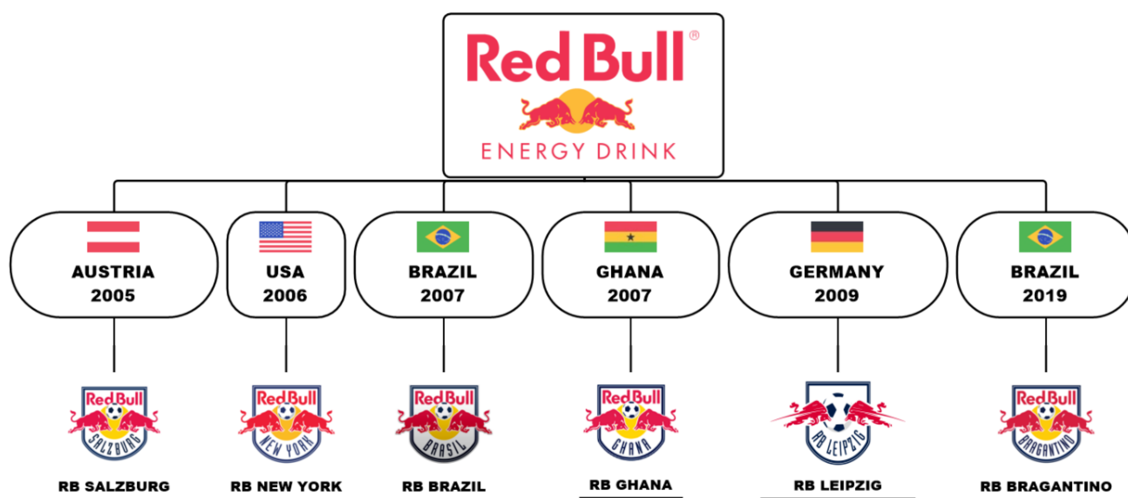
Although vertical (3.4.2-3.4.3) and horizontal (3.4.4-3.4.5) integration were defined, explained, and exemplified **separately** (above) – they could, of course, be pursued **simultaneously**. Although that would require a very ambitious, or even aggressive, growth strategy in the sport industry. For example, as well as the Fenway Sport Group (FSG) horizontally integrating – with sport teams around the world (see 3.4.4) – they have also engaged in vertically integrated growth strategies. Beyond their horizontally integrated sport teams (i.e., Liverpool F.C., the Boston Red Sox, and RFK Racing), FSG also own a sport TV network, a real estate company, and a sports marketing firm. When you think back to the sport value chain (see 3.1.1) then you will see how FSG have also engaged in vertical integration. For example, FSG's sport marketing company "specializes in

partnership sales, consulting, and the creation of unique and memorable events and experiences" (Fenway Sports Management, n.d., para. 1). It handles all the sponsorship sales for FSG's sport teams, as well as representing FSG's network of properties. FSG says that their business fuses the history and tradition of sport teams with the modern innovation of investment and sport business. Next, let us also consider the case study of Red Bull as another excellent way to understand the pursuit of simultaneous horizontal and vertical integration.

Red Bull: Pursuing Growth Using Both Horizontal and Vertical Integration

Red Bull is a brand that has grown enormously over the last two decades – with a strategy that aggressively pursues **both** horizontal and vertical integration. Although Red Bull's sport empire is too vast to comprehensively review here, let us first exemplify its horizontal integration in the business of football team ownership. Between 2005 and 2019, Red Bull took control of six football teams across four continents (see Figure 6 below).

Figure 6: A Timeline of Red Bull's Horizontal Integration of Football Teams

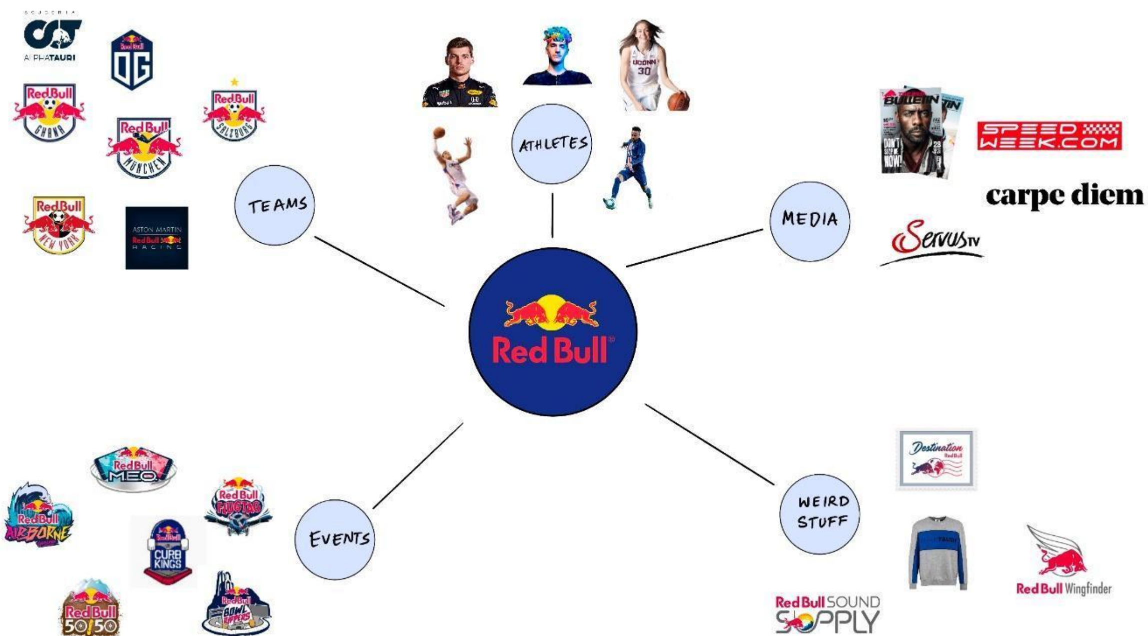


Source: Footurelab, 2020, https://bit.ly/3x9EHll

Red Bull's acquisition, in 2005, of Austria Salzburg established their new model. They changed the club's name (to Red Bull Salzburg), logo, colours, managers, and staff. They replicated this operations model in the United States, Brazil, Ghana, and Germany (as shown in the timeline above – see Figure 6). Furthermore, Red Bull also made other changes to the clubs they horizontally integrated. They turned their first club in Brazil into a development team, and they ceased operating the club in Ghana (it was merged with another club before being sold to another sport organization). Beyond football, Red Bull horizontally integrated a whole array of other sport teams. Gabrielle (2021) notes that Red Bull also owns a Formula One team, two esport teams, an ice hockey team, and a NASCAR team.

Now, let us consider Red Bull's vertical integration. It started as an energy/sport drink. However, as Figure 7 (below) identifies, Red Bull now controls not only an energy/sport drink and a group of football sport teams, but they also own and control other sport businesses.

Figure 7: Examples of Red Bull's Various Forms of Vertical Integration



Source: Gabriele, 2021, https://bit.ly/3NV6I6W

What becomes clear from Figure 7 is that Red Bull did not only pursue horizontal integration. They have vertically integrated into a broad range of 'value added' activities across the sport industry value chain (see 3.4.1). For example, Gabriele (2021) identified that Red Bull also owns a sport event management firm, sport leagues and competitions (ranging from youth tournaments to professional competitions), an athletic sponsorship business, a sport apparel line, a travel agency, a careers' website, a music platform, dozens of media companies (including a record label, magazines and content sites), and a TV channel (https://www.readthegeneralist.com/briefing/red-bull).

Student Exercise

The following 'student exercise/challenge' is an optional task to deepen student engagement and learning.

You can now clearly see that Red Bull has created its own high-profile, and distinct, sport business empire. You should now be able to see the similarities between Red Bull's pursuit of horizontal and vertical integration in the sport industry. Both clearly contribute to their growth strategy – but in different ways. You should also be able to clearly see the difference between pursuing integration strategies in sport rather than the more widespread use of companies simply sponsoring sport teams, jerseys, or stadia.

Your Challenge

Take a moment to consider the Red Bull sport empire. Make a list of ways that you think that Red Bull:

- Can capture new revenue streams by pursuing **both** horizontal and vertical integration simultaneously

- Can save money on operating costs by pursuing **both** horizontal and vertical integration simultaneously

Unit 4.7 The Sport Industry, Integration, and the Importance of Economies of Scale & Scope

To help you to answer the questions asked in the student challenge above (3.4.6), it is important that you learn about (A) 'economies of scale' and (B) 'economies of scope' in the sport industry. In this section, we will introduce these concepts, define them, and present you with examples from the sport industry.

(A) Economies of Scale in the Sport Industry

Economies of scale can be defined as the cost advantages which an organization gains when they are able to produce individual goods cheaper (price per unit) as their total output of goods increases (Besanko et al., 2010; Wicker et al., 2014). This happens because the organization's fixed costs are shared across their total output of goods/units.

To help you better understand this definition let us apply it to some of the examples that have already been discussed in this module. For example, you will remember from section 3.4.2 that Disney vertically integrated and took control of both a baseball and an ice hockey team in the United States. Disney was able to use their other facilities and services to help run both organizations over each sport's split summer and winter seasons (Stotlar, 2000). They were also able to use Disney's corporate personnel, for example – in human resources, to help take care of each sport team's additional staffing needs. These are just small examples that show you how larger sport organizations enjoy cost advantages over

smaller organizations – because they can produce more things (or run sport teams) more efficiently than their smaller counterparts. This is due to economies of scale.

Next, let us return to the Red Bull example (see 3.4.6) and their various football teams which they control around the world. Footure Lab (2020) identified the advantages that Red Bull gain from operating a combined data network for scouting, profiling, recruiting, and developing football players – globally. They do not see a problem with selling players to bigger clubs if they have cost advantages in brining adequate replacement players though their network. Here again you can see economies of scale at work. Red Bull has cost advantages over single, or smaller, clubs (e.g., sharing technology and databases across their organization). Their advantages mean they are able to develop new professional players more efficiently – as their total global operation grows.

Finally, let us return to the horizontally integrated City Football Group (see 3.4.5). In June 2020, the CFG brought all their clubs (at that time it was 8 clubs), from across the world, together to host an EA SPORTS FIFA20 challenge. This global event (see Figure 8) brought together professional FIFA players and their esports teams, with professional footballers from across the men's and women's game. In addition to controlling professional football clubs, the City Football Group also have two esport teams (in South Korea and China) and 16 professional FIFA players to represent them at all major FIFA tournaments around the world.

Figure 8: The City Football Group's Global FIFA 2020 Challenge Event

Source: FC Business, n.d., https://bit.ly/3mhItUq

The event was a global exhibition of skills to entertain fans. Here, again, you can see how the City Football Group enjoyed costs advantages – or economies of scale. They were able

to share the costs by bringing their eight football clubs – and two esport teams – together to run one global event. Each club and esport team, as part of the City Football Group, were able to access a large global customer base at a substantially cheaper cost than if they had had to fund the entire event separately and by themselves.

(B) Economies of Scope in the Sport Industry

Economies of scope can be defined as the cost advantages an organization achieves as it increases the variety of different goods and services it produces (Besanko et al., 2010; Wicker et al., 2014). The total combined costs of producing those goods or services are reduced because of the synergies across the different offerings. So, for example, when a swimming club chooses to expand its products or services by offering aqua aerobics and aqua gymnastics (i.e., a greater variety of goods and services) then it achieves economies of scope (Wicker et al., 2014). The club's total combined costs will likely only increase by a tiny amount (or not at all) because they already own swimming facilities and employ staff to run swimming activities. As sport clubs add new sport offerings – both the cost per member and cost per sport decrease (Wicker et al., 2014). In simple terms, these additional sports contribute to economies of scope when existing facilities or staff can be used (i.e., when clubs benefit from synergies across their various sport offerings).

The same is true when pitch and putt courses choose to include additional offerings such as 'footgolf' or 'Frisbee/disc golf'; sometimes referred to as 'multi golf' services (see Figure 9).

Figure 9: An Example of a 'Multi Golf' Sport Offering

Source: [online image of An Example of a 'Multi Golf' Sport Offering], (n.d.)https://www.discgolfpark.com/multigolf/

Here again, the club's total combined costs will likely only increase by a small amount (or not at all) because they already own the land and facilities and employ staff to run golfing activities. After a small initial layout for equipment, to allow for some minor adaptations, they are ready to attract new customers and open up new streams of revenue.

At a larger, global scale, you can also use Red Bull as an example of economies of scope. Given that they already invested so much money in sport infrastructure, networks, knowledge, expertise, and technology. For them to add a new sport event – say, for example, in snowboarding or skiing – to their organization is relatively risk free. To implement this new event the additional costs would be negligible; because the organization already owns an event management firm, an athletic sponsorship business, a travel agency, and media companies.

Unit 4.8 Sport Financing: Raising Revenues Through Share and Bond Offerings

Although many industries regard issuing shares or bonds as an inevitable stage in large-scale companies, there have been relatively few sports teams who have raised finance this way (Goode, 2014; Oh, 2019). For example, at present, in North America, only two MLB teams (i.e., the Atlanta Braves and the Toronto Blue Jays) are publicly traded – with shares sold in the teams to raise revenue (Minkoff, 2021).

Sport Financing: A Brief History

Goode (2014) identified that football clubs in the UK which were once publicly traded (i.e., they issued shares in their club that were traded on the stock exchange) have since delisted their shares due to insolvency issues (e.g., Leeds United and Queens Park Rangers) or a change in ownership (e.g., Chelsea and Bolton Wanderers). However, there is still clear evidence of sport teams who have sold equity in their organizations and successfully raised revenues from financiers and financial markets. For example, in 2011 Formula One's Williams Racing team sold shares in their team – on the Frankfurt Stock Exchange – to raise €60 million in new capital. The then CEO, Adam Parr, specifically said they chose the stock market because it gave the team more stability as it ensured the team would not be bought by a Russian oligarch who might later withdraw support (Goode, 2014).

In 2012, Manchester United's owners – the Glazer family – offered shares in the club on the New York Stock Exchange (see Figure 10 below). Again, this move netted a lot of new financial capital for the team owners. The Glazer family were estimated to receive approximately £200 million from the club's Initial Public Offering (IPO) (i.e., when shares of a company are launched for sale to investors) in the United States (Ozanian, 2012). However, their share offering has been deeply unpopular with fans of the club – with

some boycotting the club at the time – and many fans still protesting against the Glazers a full ten years later.

For more information on this subject, you can check out the following articles:

Reuters Staff. (2012, August 3). Angry Man Utd fans call for sponsor boycott over IPO. *Reuters*. https://www.reuters.com/article/uk-manchester-united-ipo-boycott-idUKBRE87215X20120803

Jackson, J. (2022, April 11). Manchester United supporters planning Glazers protest before Norwich match. *The Guardian.*

Figure 10: Manchester United IPO'd on the New York Stock Exchange in 2012

Source: [online image of Manchester United IPO'd on the New York Stock Exchange in 2012], (n.d.) https://www.cbsnews.com/news/no-win-in-the-manchester-united-ipo/

Beyond share offerings (as above), sport teams can also use bond offerings to raise new revenues. To put it simply, a bond is a loan between an investor and an organization. Investors can loan sport organizations money for an agreed period of time. In return, those investors receive periodic interest payments from the sport organization. For example, in the UK, in 2014, Lancashire County Cricket Club raised £ 3.4 million by issuing bonds which investors or fans could buy to help the club pay to build a new hotel at its cricket ground. The investors' and fans' money was locked away for five years while the hotel was being developed. During this time, investors and fans were given 5% interest per year (paid in cash) as well as an additional 2% interest per year (which was paid in vouchers). Vouchers could be used to buy cricket tickets, or food and beverage products at the ground.

Figure 11: Lancashire County Cricket Club Raised £ 3.4 million Issuing Bonds

Source: Screenshot from Memery Crystal Website (https://www.memerycrystal.com/lancashire-county-cricket-club-cricket-bond/#:~:text=In%20detail,and%202%25%20in%20Credit4Cricket%20Units).

Sport Financing: Fresh Trajectories

There are signs, more recently, that sport organizations might use share or bond offerings more frequently in the future as sport matures into a more commercialised industry. For example, in 2022, a new consortium of sport owners and executives (operating under the name Counter Press Acquisition) raised £75 million through an IPO on the Nasdaq exchange in New York (Coffey, 2022). They believe that professional football teams, and related businesses in sport media or sport data analytics, have been too heavily hit during the COVID pandemic; thus, making them a prime target for new investors to take control. They are not alone in this thinking. There are at least five other acquisition corporations that are using IPOs to raise funds to take control of sport teams – with an estimated $1.2 billion already secured from their investors.

Furthermore, there is also recent evidence to suggest that sport organizations and athletes may be able to use their popularity to raise capital and revenues to fund new ventures tangentially related to their sporting fame. For example, in 2022, in the United States, the Andretti family – famed for their motor racing successes – were part of an IPO which raised $200 million on the New York Stock Exchange (see Figure 12). The money will fund a new business venture – operating under the name of The Andretti Acquisition Corp.

Figure 12: In 2022 the Andretti Family Helped Raise $200M through an IPO on the New York Stock Exchange

Source: Brown, 2022, https://bit.ly/3NpmJCd

In conclusion, the financial markets are yet another area that 21st century sport managers need to be knowledgeable of if they are to be fully equipped to secure new revenue sources for their sport organizations.

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