

## **ECONOMIC EXPEDIENCY OF MARKETING ACTIVITY OF ORGANIZING COMMITTEES FOR OLYMPIC GAMES (OCOG)**

Triboi Vasile <sup>1\*</sup>,

<sup>1</sup>*State University of Physical Education and Sport of Chişinău, Str. Aa. Doga 22, 2024, Republic of Moldova*

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### **Abstract**

Marketing in Olympic Sports represents strategy and tactics of participants' behavior and, first of all, of organizational structures of the Olympic Movement within market environment, as well as the totality of managerial technologies that make it possible to ensure performance of commercial activity taking into account interests of Olympic Sports. Features of marketing in Olympic sports derive from the principles of its organization. They include, first of all, the basic organizational principles of sports marketing with marketing in Olympic sports being one of its varieties.

### **1. Introduction**

Olympic Games are the global sports celebration. Unlike to any other international event, they attract enormous interest among various layers of the population all over the world (Guskov, 1996, pp.8-11).

In modern conditions, operation and further development of the Olympic Movement implies the constant search for additional sources of financing with sponsorship activity being one of them.

Today, television is still the main source of incomes during running of the Olympic Games, and this fact raises concerns within management of the International Olympic Committee. At his time, J.A. Samaranch was explaining this concern by International Olympic Committee dependence on mass-media representing possible threat for the Games to be transformed into a TV show instead of to remain an international holiday of youth. At that moment, all this has forced the International Olympic Committee to pay much attention to marketing (Guskov, 1996, pp.8-11, Future of the sports marketing, 1992, pp. 44 – 47, Mitchuda, 1995, pp. 133-137, International sports and Olympic movement, 1989, pp. 14-15, The Organizing Committee for the Olympic Games, 1997, p.16; Paund, 1989, pp. 4-6, Tomashevskiy, 2000, pp. 115-120). Organizational structures of the Olympic Movement pay more and more attention to advertising and sponsorship activities considering them as the most promising direction of

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\* *E-mail:* decansport@mail.ru

business activity development , which, with due attention, can in the nearest future not only come up by profitability to cooperation with TV, but get ahead of it (Guskov, 1996, pp.8-11; Paund,1989, pp. 4-6).

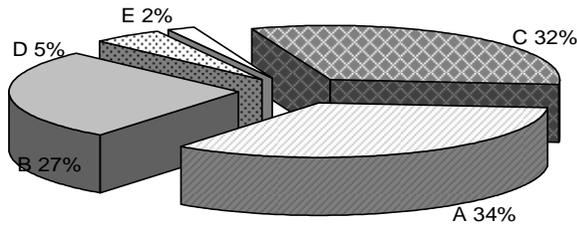
## 2. Material and methods

*Purpose of study.* To identify specific features, structure and ways for improvement of the OCOG marketing activity.

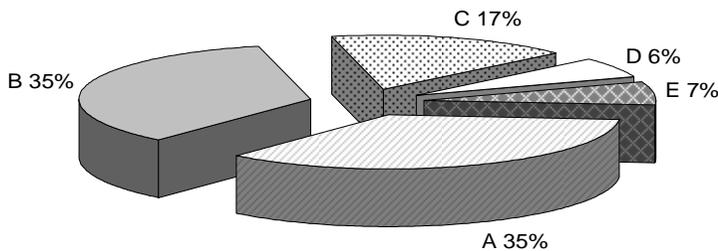
## 3. Results and Discussions

Structure of revenues derived from implementation of marketing programs of organizing committees for the Olympic Games is their important feature (Fig 1.). As seen from presented diagrams, in the 1990's of XX century, priority in the marketing strategy of organizing committees for the Olympic Games was placed on TV companies. Agreements concluded with them were providing 34% to 67% of their income. However, there is no significant merit of organizing committees in it, since agreements with TV companies were concluded by the International Olympic Committee.

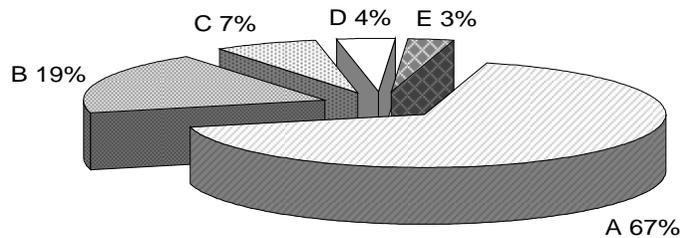
**XXV Olympic Games (Barcelona, 1992)**



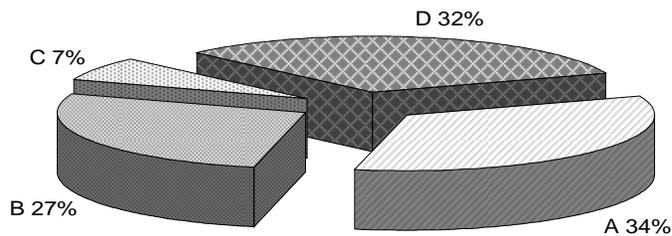
**XXVI Olympic Games (Atlanta, 1996)**



### XVII Winter Olympic Games (Lillehammer, 1994)



### XVIII Winter Olympic Games (Nagano, 1998)



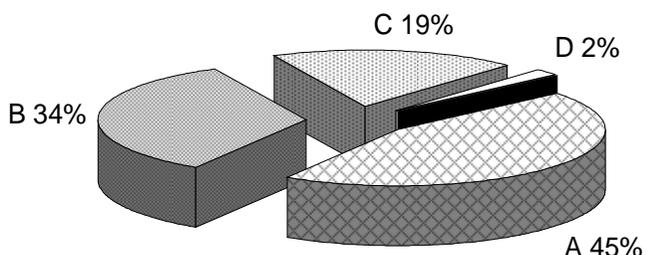
*Legend:*

- A – revenue from sales of rights to TV broadcasting;
- B – sponsor funds;
- C – revenue from sales of tickets;
- D – revenue from licensing;
- E – revenue from implementation of other marketing programs

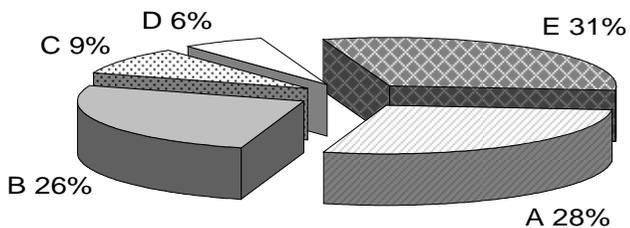
**Figure 1.** OCOG incomes structure in 1990's

The beginning of XXI century has not brought significant changes to the structure of incomes derived from the Olympic Games (Fig.2). Revenue from sales of TV rights was still holding leading position within the organizing committees for olympic games incomes. At the same time, their share in total revenues decreased slightly varying from 28% to 53%. Share of the revenue received from sponsors (16 - 37%) did not change practically. Against this background, incomes obtained by organizing committees for Olympic Games's from other sources became more stable. For example, 13.5% of revenues of the Organizing Committee for the XXVIII Olympic Games in Athens (2004) were constituted by state subsidies, while 10.8% represent the external financial assistance (Table 1) (Mitchuda, 1995, pp. 133–137, International sports and Olympic movement, 1989, pp. 14-15, The Organizing Committee for the Olympic Games, 1997, p. 16, Paund, 1989, pp. 4-6).

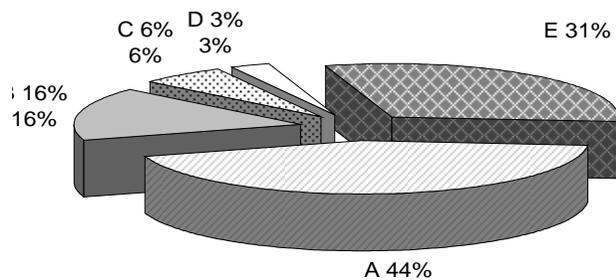
### XXVII Olympic Games (Sydney, 2000)



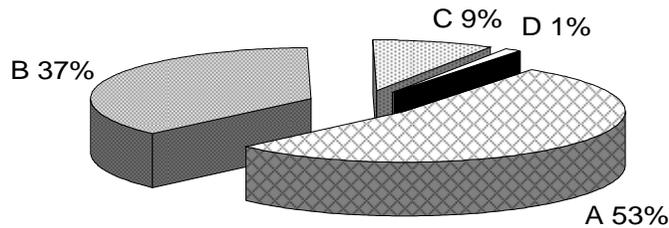
### XXVIII Olympic Games (Athens, 2004)



### XXIX Olympic Games (Beijing, 2008)



## XIX Winter Olympic Games (Salt Lake City, 2002)



*Legend:*

A – revenue from sales of rights to TV broadcasting;

B – sponsor funds;

C – revenue from sales of tickets;

D– revenue from licensing;

E– revenue from implementation of other marketing programs

**Figure 2.** *OCOG incomes structure in 2000's*

**Table 1** *Main revenue items of the Athens Organizing Committee*

Revenues	Sum	Revenues
Sale of rights to TV broadcasting	578.7	27.6
Sponsor funds	536.7	25.6
State subsidies	282.5	13.5
External financial assistance	226.0	10.8
Sale of tickets	194.1	9.2
Licensing services	119.7	5.7
Hotel accommodation services	113.7	5.4
Other revenues	47.0	2.2
<b>Total:</b>	<b>2,098.4</b>	<b>100.0</b>

Preparation and holding of the Olympic and Winter Olympic Games require the set of economic activities implying significant monetary costs to be implemented. They consist of two main types:

1) capital costs for the creation of sports and social infrastructure (investments);

2) current costs related directly with the Games holding.

Costs of the first type are borne usually by governments, authorities of the Games host cities, as well as sponsor companies. Costs of the second type are borne by organizing committees for the Games. In this case, OCOG's have to back up the financial resources to resolve the significant number of problems.

The idea on composition of costs of organizing committees for the Games is given in Table 2 demonstrating expenditures of the Organizing Committee for the XXIX Olympic Games (2008) in Beijing. The main expenditure items are: operating costs, as well as expenses for the provision of

activity of the Main Press Centre and the International Broadcasting Centre and for the running of sports events.

**Table 2** *Structure of expenditure budget of the Organizing Committee for the XXIX Olympic Games*

Item	Mount of expenditures	
	million US\$	%
Investments	190	11.69
Sports facilities	102	6.28
Olympic village	105	6.46
Main Press Center and International Broadcasting Center	405	24.92
Video picture library	13	0.80
Operating costs	1,419	87.32
Costs for running of sports events	275	16.92
Ceremonies and programs	100	6.15
Medical services	30	1.85
Supplies	51	3.14
Transport services	70	4.31
Security	50	3.08
Paralympic Games	82	5.05
Advertising and sales	60	3.69
Administrative charges	125	7.69
Pre-Olympic events and coordination	40	2.46
Other costs	101	6.22
<b>Total:</b>	<b>1,625</b>	<b>100.00</b>

In the OCOG budget, only part of the funds that are necessary for preparation and holding of the Games is reflected. The total sum of costs is determined by the number of factors. Main factors include availability of sports facilities corresponding with modern requirements, social infrastructure, conditions for accommodation of the Games participants and their provision with all requisites (food, transport, various services). Therefore, when the Olympic Games capitals are located in cities, where necessary conditions are already available, it is possible to deal with relatively low expenditures. This is evidenced by data shown in Table 3.

For example, costs for preparing and holding of the XXIII Olympic Games in Los Angeles (1984) were relatively small - 469 million USD. Organizers of these Games have confined mainly by reconstruction of sports facilities then available in the city, while during construction of new ones, an intention to save money was noticeable clearly. Existing student dormitories and similar facilities were used as the Olympic village.

**Table 3.** *Total costs for preparation and holding of the Olympic Games*

Year	Site of the Olympic Games	Costs, billion USD
1964	Tokyo	3.0
1976	Montreal	1.4
1980	Moscow	1.3
1984	Los-Angeles	0.469
1988	Seoul	2.5
1992	Barcelona	1.8
1996	Atlanta	1.72
1998	Nagano	1.14
2000	Sydney	1.5
2002	Salt Lake City	1.9
2004	Athens	12.0
2006	Turin	3.19
2008	Beijing	44.0
2010	Vancouver	1.8

At the same time, preparation and holding of some other Olympic Games have required often more significant material costs. For example, during preparation and holding of the XVIII Olympic Games in Tokyo (1964), it was spent approximately 3 billion USD; the XX Olympic Games in Munich (1972) has cost to their organizers 2 billion DM; the XXI Olympic Games in Montreal (1976) - 1.4 billion USD; the XXIV Olympic Games in Seoul (1988) - 2.5 billion USD (Platonov, 1997, pp. 11-28 Tomashevskiy, 2000, pp. 115-120).

Currently, many representatives of cities applying to host the Olympic Games understand already that the Games mean not only organization of competitions, which will attract attention of the whole world, but also the development of these cities for decades to come. That is why the number of candidate cities is growing.

Also, amount of expenditures is influenced strongly by political situation established in the country with a city authorized to be the capital of the Olympic Games. High costs of Tokyo (1964), Seoul (1988), Athens (2004) and Beijing (2008) were conditioned in significant degree by the fact that governments in these cases decided not to spare funds for the Olympic Games and use them maximally in order to enhance image of their countries on the international stage, to bring them out of partial political and economic isolation, etc. (Mitchuda, 1995, pp. 133-137; International sports and Olympic movement, 1989, pp. 14-15, The Organizing Committee for the Olympic Games, 1997, p. 16, Paund, 1989, pp. 4-6.).

The XIV Olympic Games in London (1948) - first once since end of the World War II - were held at a modest organizational and logistical level, and, due to this fact, brought a small profit.

Situation has changed in connection with holding of the XXIII Olympic Games in Los Angeles (1984), when idea of the private organizing committee for these Olympic Games has appeared.

In March, 1979 - 1951 days prior to the opening day of the Games, the private organizing committee of Los Angeles has started its activities without a cent on current account and with rather weak idea on the Olympic Games and requirements of the International Olympic Committee. Peter Ueberroth, the Chairman of the Organizing Committee for these Games, remembered that all activity of the Organizing Committee from the very first day of preparation for the Olympic Games was subjected to the only purpose: to hold the Games being cheapest for the last 25 years and to extract from them the greatest possible profit.

Analysis of the results of the work on preparation and holding of the Olympic Games in Los Angeles has shown that such a work could be performed only by competent and enterprising professionals in the field of business being deeply indifferent to the Olympic traditions and spiritual values of the Olympism. However, it is the economic program of the XXIII Olympic Games that became a good school of the Olympic marketing and sponsorship for specialists from different countries being in need of such an experience.

Along with the sale of rights for the Games broadcasting, sponsorship activity was considered as one of the most important funding sources for the Olympic Games in Los Angeles. Moreover, if the basic principles are considered, there is a record on holding of the least commercialized Games for recent years. The number of sponsor companies involved in the Olympic Games was the criterion of correctness of this principle. At the initiative of P. Ueberroth, their number in Los Angeles was limited to thirty (as compared with 380, for example, at the XIII Winter Olympic Games in Lake Placid, 1980). Only companies that guaranteed donations of at least 4 million USD were included in the number of sponsors of the XXIII Olympic Games, whereas the number of companies acted as official suppliers of these Games amounted to 50. Purposeful work of the Los Angeles Organizing Committee with sponsors has allowed to get from them 140 million US Dollars.

After all, the "least commercialized» XXIII Olympic Games in Los Angeles has brought unprecedented profits. According to the "Sports Illustrated" magazine, revenues have amounted to 619 million US Dollars, including 239 million from the sale of the rights to broadcast the Games, 151 million from sale of tickets to competitions, 121 million from sale of goods with the Olympic symbols, 28 million from the Olympic coins, and 80 million US Dollars from bank interest charges on capital (Mitchuda, 1995, pp. 133–137; International sports and Olympic movement, 1989, pp. 14-15; The Organizing Committee for the Olympic Games, 1997, p.16).

The costs for the XXIII Olympic Games holding amounted to 469 million US Dollars, including salaries of approximately 40,000 employees involved in the Games, 31 million US Dollars of administrative costs, 91.7 million USD for

the construction of sports facilities, 37 million USD for preparation of the Olympic facilities, and 30 million USD for preparation of student dormitories.

As a result, judging by presented data, the Organizing Committee for these Games has got profit in amount of 150 million USD, i.e. about 10 times more than scheduled one.

The experience of the XXIII Olympic Games in Los Angeles (1984) was developed in Seoul during the preparation and holding of the XXIV Olympic Games (1984). Directive of leaders of the Republic of Korea was extremely simple: when it comes to prestige of the country, the amount of expenditures does not matter. However, a well-developed economic program made it possible to gain total revenue from the holding of these Games in the amount of 987.5 million US Dollars, including 332 million from the sale of rights to broadcast, 175.8 million from sale of tickets and lottery, 199.8 million from sales of commemorative medals and balls, 118.4 million from sales of badges and souvenirs, and 161.5 US Dollars from the sale of apartments in the Olympic Village after the Games. In addition, the Organizing Committee for the XXIV Olympic Games in Seoul has received grants from the patriotic Koreans - residents of the Republic of Korea and other countries of the world - for the total sum of 355.4 million US Dollars (Platonov, 1997. p.11-28).

Thus, the total income of the Organizing Committee for these Games has amounted to 1 billion 342.9 million US Dollars. Costs of the Organizing Committee (excluding subsidies from the Government of the Republic of Korea) have amounted to 847.7 million US Dollars. Consequently, the XXIV Olympic Games Organizing Committee has received the net profit of 495.2 million US Dollars.

Under budget of the XXV Olympic Games in Barcelona (1992), revenues of 1.073 billion USD were provided. This budget was formed in order to address the dual challenge: to ensure costs related with holding of these Games to be covered by revenues obtained from the, on the one hand, and to make funds invested in these Games to be contribution to the development of the Barcelona infrastructure, on the other hand. Costs for holding of the XXV Olympic Games in Barcelona amounted to one billion 63 million US Dollars. It means that expenditures for these Olympic Games were compensated.

The above data evidence the complexity and labor intensity of economic programs for organization and holding of the Olympic Games. Each such program is implemented for a number of years, and its preparation begins long before the International Olympic Committee selects one or another city as a capital of the next Olympic or Winter Olympic Games. Fundamentals of economic program are developed at the moment when city is nominated as an organizer of the upcoming Games.

There are economic problems that remain unresolved following completion of the Olympic Games as well. This is because cumbersome, complex and expensive sports facilities require high costs for their maintenance. Therefore, the effective use of such sports facilities requires the high level

development of sports in the concerned country and high enough economic potential of society.

There is one more important detail: the analysis of economic programs of the modern Olympic Games makes it understandable why they have been never held on the African continent and why cities of economically developed countries are the prospective ones to obtain rights to host the Games.

In order to cover enormous expenditures for preparation and holding of the Games, their organizers have to seek appropriate sources of funding. Taking into account that the funds of the federal and local authorities are always strictly limited, the main way to solve financial problems of the Games is to use possibilities of the private sector companies (Platonov, 1997. p.11-28).

#### **4. Conclusions**

1. Analysis of the literature has demonstrated that preparation and holding of the Olympic Games is not possible currently without effective marketing activities of the OCOG's. Various aspects of this variety of the Olympic marketing are reflected in numerous publications. At the same time, emphasis on practical aspects of the OCOG marketing prevails in papers of the majority of authors.

2. It was established that, during holding of the Games, television occupies the leading position by profitability from the very beginning of implementation of marketing programs with sponsorship playing supporting roles, being a wallflower in cooperation with mass-media and rarely advancing to leading parts.

3. The study of the OCOG marketing activities has made it possible to assert that sponsors have no equal by the importance in organization of the Games, the development and implementation of cultural, entertainment and educational agenda of the Olympic Games.

4. It was established that fundamentally different approaches may be used during organization and holding of the Olympic Games: commercial and sportive one as during the Games in Atlanta with main purpose to make profit from the sale of sponsorship programs; or sportive and commercial one as in the case of the Sydney Games, when higher attention in the work with sponsors was paid to elaboration and implementation of programs directed toward support for athletes, spectators and mass-media.

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