

CREDIT CRUNCH: THE US ANGLE

Barry Wilner on the potential effect the slumping economy could have on the playing fields, courts, rinks and tracks of America.

NBA COMMISSIONER David Stern was the first executive of a major league to address the fiscal challenges facing his organisation and every sports group. Yes, every group, including the NFL, the King of Beasts in the pro sports zoo.

"Our revenue targets are still being met," Stern said. "But we know that there's going to be enormous pressure on those targets in the next year or two, based on the country's deteriorating economic circumstances."

"I think it's fair to say that a sporting event may well define disposable income."

With the US middle class having such disposable income squeezed to, well, the penny, the repercussions will almost certainly be felt everywhere in sports. That means in marketing platforms, endorsements, sponsorships, stadium construction, merchandising, on-site attendance, and ticket pricing.

Already, Major League Baseball has fallen short of its projection of a record 80 million in attendance. The NBA projects a falloff in season ticket sales of as much as two per cent. NFL owners have opted out of their collective bargaining agreement with the players.

The PGA Tour has felt the fallout from Tiger Woods' absence since June after knee surgery, as well as from the FedEx Cup's lack of buzz. Daimler-Chrysler announced it was dropping Dodge's involvement in Nascar's Craftsman Truck series, where that vehicle had been dominant for years.

"My radar will be up in the sports financing sector and what the banks' appetite will be for loans and financing," said Peter Stern, the president of Strategic, a New York-based sports and entertainment marketing agency. "And particularly the new stadium construction area; we will watch that very closely."

magnitude of a financial crisis that will cause tough decisions by those institutions."

At least one segment of the sports market though is accustomed to such dire predictions: the auto industry. Detroit might be the home of three winners - the Stanley Cup champion Red Wings, the NBA's Pistons and MLB's Tigers - but the main car manufacturers have seen few positive developments even before the economy went into the tank.

With the exception of their multi-million dollar affiliations with auto racing, particularly NASCAR's top levels, the car manufacturers will barely have a presence on the sports landscape. They won't bail from NASCAR because that is one area where, regardless of the economy, the automakers believe they can count on a return for their huge investment.

"Research tells us you've got 75 million fans, of which 45 million are diehard," Ford Racing marketing manager Tim Duerr said. "They watch the races on TV, they attend the races, they buy the merchandise related to NASCAR. Also, NASCAR research will tell you that these are the most brand-loyal fans, loyal to the drivers, to the sponsors and to the manufacturers, in any sport. "We need to be there, because those fans are so loyal."

But a repositioning is also in order, particularly with the cost of primary sponsorship of race teams skyrocketing over \$20 million a year, something many companies were rethinking even before stocks on Wall Street plummeted through the Manhattan concrete.

Maybe FedEx and Dupont, Lowe's and Home Depot are in the Sprint Cup for the long run, but many others are not so enamoured with such a costly sport during such an economic downtime.

Another major shift in the offing could come on the golf tours, where banks, lending companies and

investment firms have a leading role. About 25 per cent of network advertising time for golf comes from financial institutions and a third of the PGA Tour events have sponsorship from this category.

The biggest concern is that tournament sponsors will be forced to pull out, endangering an event on next year's schedule.

AIG, in the midst of a government takeover, is one of the most involved of golf advertisers, but has mentioned cutbacks.

"We have operating reserves that we can draw upon," PGA Tour commissioner Tim Finchem said. "In a normal year or year's cycle we would let the market just support any kind of issues we had with sponsors. If this downturn is extended or causes deeper problems for an extended period of time, that may be more difficult."

"If we have an additional downturn the situation might be different, but right now, I think ... we can absorb a certain amount of falloff if it were to happen."

"But even with reserves, I mean, in a worst-case economic scenario we could face retrenchment. I don't see that happening at this point, because even though there are parts of the economy that are very, very challenged, there are other parts that continue to do quite well."

One of those would seem to be the NFL. According to Forbes, 19 NFL franchises are worth at least \$1 billion and even the least-valuable team, the Minnesota Vikings, are worth \$839 million.

Three of the showcase franchises (Cowboys, Giants and Jets) will move into new stadiums by 2010, where personal seat licenses (PSLs) will fill their vaults even before a ticket is actually sold.

So where is the NFL potentially hurting? In the stadium area, actually, because so many teams are heavily in debt for stadia built in the last decade or so. Those debt services in a

weakening economy can become an albatross on team operations.

And in revenue-sharing, because franchises such as the Cowboys, Redskins, Patriots and New York teams can attract far more outside income than clubs in smaller markets. The richer teams keep nearly all of that money and use those funds to build bigger and better facilities, particularly for training, making them more attractive destinations for top free agents.

While that doesn't negate the sharing of the huge pot of gold from the TV networks, it does separate the haves and have nots even further.

NFL commissioner Roger Goodell has been proactive, urging teams to keep expenditures down while seeking new avenues of revenue. In a darkening economy, such new avenues could be marred by potholes or detours.

"No industry is bullet proof, but I think clearly sport has a softer landing than other areas of the marketplace because it delivers proprietary content," explains Stern.

In a difficult economic atmosphere, the NHL could appear vulnerable. It still hasn't completely recovered from the 2005 lockout.

But NHL Commissioner Gary Bettman notes that ticket sales are up more than four per cent, promising considering the average ticket price is nearly \$50.

NHL players are concerned that the salary cap will drop next year; it's already set for the 2008-09 season at \$56 million.

"Well, ultimately the cap will be determined by whatever the revenues are," commissioner Gary Bettman said. "I would be extremely surprised if the slowdown in the economy was severe enough that it got to that point (of the cap diminishing)."

"Having said that, sponsorship is still out there. It seems to be a little slower, both at national and

club level in all sports leagues ... "I think it's too early to speculate as to what the impact will be, but we're keeping an eye on it, and we'll keep an eye on it in terms of expenses and everything else. And the economy is a twofold issue: It's people's ability to spend - and we're very sensitive to that - and it's the cost of doing business.

One area likely to suffer will be the outlandish hospitality attached to many sporting events. While the Super Bowl might be exempt, most games, tournaments and races won't be so fortunate.

"With increased regulations as more of the financial institutions are acting as banks, I think that could put scrutiny into hospitality at these (sporting) events," Peter Stern said.

And if sponsors, marketing partners, TV networks and even communities themselves are struggling in the difficult economy, the so-called 'fringe' sports, including Major League Soccer, Arena Football and even the LPGA, could suffer more than any.

"If you look at MLS, they compete in major markets and consumers will decide how far their dollars will stretch for entertainment programming," Peter Stern said. "The question becomes is the more affordable sport a benefit that can take away fans from leagues that are more marquee, or will they feel the effect of choice, with those fans opting for the more major (sports)? My gut tells me that the MLS would be in one of those places where consumers will be making some difficult decisions."

So where can US sports organisations turn? Abroad, many observers believe. The NBA is already an international force (see basketball feature, page 36) and the Beijing Olympics were a tremendous boon for the sport. In the near future, the NFL will be playing more than one regular-season game outside the US.

Goodell wants to add a 17th week to the season, which will mean every team will play a neutral site contest outside the US. Ice hockey has a strong following in Europe, baseball is popular in Central America, the Caribbean and Asia.

So the secret to economic stability for most US sports might lie, ironically, outside the US.

Rick Horrow and Karla Swatek of Horrow Sports Ventures ask: Elite Expansion or Hardwood Heresy? This season, basketball in Europe is looking much more... American

AS I SETTLED IN to watch an early pre-season match between the NBA New Jersey Nets and Miami Heat - played not in Florida or Jersey but at London's O2 Arena - I almost missed a quiet but compelling aside from NBA Commissioner David Stern.

As Stern promoted the league's long-anticipated new partnership with Anschutz Entertainment Group (AEG) to build and operate a dozen-odd arenas in China, its largest foreign market, he also noted that the NBA would likely be playing regular-season games in London and elsewhere in Europe ahead of the 2012 Olympic Games.

On this issue, of course, Stern is coming off the bench well behind several NBA players, who in the last year (as I noted in my September column) have opted out of NBA contracts to play in Greece, Russia, and Spain.

Yet even more than those veteran players, 19-year-old Brandon Jennings, the latest American hoopster to land a European deal, commands the attention of other key parties beyond the NBA.

Jennings, who earlier this year signed a contract with Lottomatica Virtus Roma in the European League instead of playing for the University of Arizona, where he signed a letter of intent, is the first American kid to play pro ball in Europe directly out of high school.

If Jennings works hard and performs well in Rome, more American high school players may take the Continental route come next year - though as the New York Times points out, "the flow of players to Europe is expected to be a trickle rather than a flood."

Here are three other parties watching closely:

The NCAA

Myles Brand, President of the National Collegiate Athletic Association (NCAA), isn't about to sit idly by and watch the value of the NCAA's \$6 billion "March Madness" college basketball tournament be diminished by star would-be collegiate players running off to Europe. The annual tournament is the primary revenue generator for the majority of American collegiate sports conferences - the "Big East" conference alone received \$14.85 million from last year's event.

Brand, for obvious reasons, has been a major supporter of the NBA's 2005 so-called "One and Done" requirement that players must be 19 years old and at least a year removed from high school graduation to be drafted by the league, supposedly to impart upon them the value of at least a year's university education.

Jennings' landmark decision has the potential to end the NBA rule; you can bet that Brand will quietly cheer every setback the young man straight outta Compton, California encounters, signaling to other elite players that competing for an American university for even one year is the road better taken.

The Apparel Companies (aka The Shoe Guys)

The biggest apparel news flash of the season also comes from Jennings. Under Armour signed Jennings to a four-year, \$2 million, incentive-based deal specifically to penetrate the basketball market. Jennings was initially expected to lose millions of dollars in endorsements deals because his visibility overseas would be "insignificant" relative to the exposure had he stayed in the US for college.

The Under Armour shoe deal, coupled with his Italian salary, will allow Jennings to make \$1.2 million this year, comparable to that of a top NBA draft pick.

In 2008, no shoe company has given more than \$1.5 million to a top NBA draft pick, preferring to focus more heavily on the Olympic Games. Adidas ponied up more than \$80 million to become an official partner of the Beijing Games, focusing nearly all of its Olympics TV ad budget on China.

The company's China sales should surpass \$1.58 billion before 2010. Likewise, adidas subsidiary Reebok, which normally focuses on the UK and North America for growth, unveiled a limited-edition Yao Ming sneaker for the Games, and is opening a Chinese store every two days on average, with more than 1,300 shops to open over the next four years.

Nike hit \$1 billion in Chinese sales in fiscal 2008, a year ahead of schedule, and has also used its existing deals with national sports federations to gain access to Olympians. Yet Nike is still looking for all possible avenues to leapfrog adidas/Reebok and Puma in the European market. The Beaverton, Oregon company will be watching Jennings - and his appeal to the critical worldwide 18-34 consumer demographic - with an eagle swoosh eye.

So, did Under Armour do the right thing? The company is taking a gamble on a kid with no experience playing professional ball. If Jennings has a great season in Italy, the deal could prove to be a steal for UA. Until then, however, Under Armour will have to rely on a marketing strategy that factors in a spokesman nowhere to be seen in the US.

AEG

AEG, owners of the Los Angeles Staples Center, the London O2 and the Berlin O2 World Arena among other properties, is currently focused on China, where its arenas could potentially form the infrastructure for an NBA-branded league.

But AEG's current arena portfolio includes more than 90 arenas and facilities around the globe and AEG President and CEO Tim Leiweke has stated that the company's long-term arena-building goals extend well beyond Asia. A boost in basketball's popularity in Europe, led by Jennings and the handful of veteran NBA players competing there, will only heighten AEG's expansion strategy on the Continent. Just call it O2 to the secondary (school) power.