

Making Athletics Profitable

College athletic departments are constantly under financial scrutiny. Many universities feel that athletics are second to academics and therefore should be funded accordingly. If an athletic department could fund itself or even make a profit it would gain financial freedom from the university, which would allow athletics to be a part of more students' college experiences. In order to maximize profits of an athletic department, it is important to analyze the market and then, based on this analysis, find opportunities to maximize profits. The most basic and obvious factor in financial success is to have winning teams, but there are other things that a school's athletic department can do to raise profits. Partly because of scandals, the Ohio State Athletic Department's financial records have become easily accessible to the public. This paper serves as a letter to the athletic director of Ohio State University. It contains specific proposal for Ohio State University and also advice for Ohio State to suggest to the NCAA in order to increase profits for all athletic departments.

Six-Forces Analysis

In collegiate athletics, each university acts as an independent unit of operation. Many are part of a larger conference, which forms a structure in the league and acts for the common good of its members. Revenue is made through generous benefactors, and the sale of tickets, souvenirs, and broadcasting rights. A successful program requires not

only experienced coaching staff and talented athletes, but also clever marketing strategies in this unique industry.

New Entrants - Ohio State is a member of the Big Ten Conference, which includes other powerhouse athletics programs like Michigan, Michigan State, Illinois, and Northwestern among others. Ohio State has firmly established its position with these teams through countless face-offs in multiple sports since it joined the Big Ten in 1912. While there was a certain degree of dynamics in the earlier days of the Big Ten conference, Penn State's 1990 addition to the conference was the only change to the line up during the last half century. The threat of new entrants within the conference is therefore insignificant. Nevertheless, as seasons pass, the balance of power may change dramatically in the NCAA Division I. For example, Ohio State won the National Championship in Football in 2002 and has now fallen out of the top 10 in the nation. USC is now ranked number one in the nation while they were not even ranked in the top 25 in 2001. The volatility of sports makes the threat of new entrants considerable despite the small change in the number of actual participating teams from one season to the next. In such an unpredictable environment, a school can never for certain who its competitors will be more than a season in advance.

Buyer Bargaining Power – In the business of collegiate athletics, the buyers are the fans, the broadcasting companies, and the booster clubs. I will consider each of these separately. The fans have limited buying power because of loyalty. It is exceedingly rare that a person would change their allegiance with a college athletic program. Most people are fans of their school or that of their spouse or family. When times are rough for their

favorite team, fans stick with them regardless. Instead of giving up hope, the more common attitude is that “next season will be different.” Nevertheless, blind faithfulness is not a substitute for quality athletics. When a team does exceedingly well, demand for their events increase, which supports revenue via ticket sales. The financial support of broadcasting companies also has a limited correlation with the competitive success of athletic teams at any particular university. Pricing and scheduling of television coverage is often negotiated before the competition period even begins. Furthermore, the average success teams in the Big Ten is generally steady year to year despite the fact that some teams will surely do poorly while other will do unexpectedly well. However, the broadcasting companies have one element in their favor: high profile sporting events *must* be broadcast nationally, or at least regionally, in order to gain the essential public support for teams in the conference. Without it, the popularity and fiscal success of athletics would be surely crippled. Benefactors respond very well to outstanding success in athletic competition. When Ohio State won the football national championship in 2002, their support from booster clubs rose from \$25 to \$40 Million. When the total revenue of the Ohio State Athletic Department is approximately \$100 Million per year, this difference is huge. These benefactors have such a high power because their donations are often based on emotional decisions, not logical business analysis.

Supplier Bargaining Power – The suppliers for collegiate athletics are primarily coaches, staff, and athletes. A good coach makes all the difference in the world when it comes to winning teams. Historically, coaches can be just as legendary as star athletes. Knute Rockne, Bob Knight, Dean Smith, Joe Paterno and Bob Bowden among others

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have become household names because of their enduring successes as coaches in their respective sports. Universities recognize their importance, and offer astonishing salaries for good coaches. Thad Matta, the men's basketball coach at Ohio State, is receiving \$11 Million as part of an 8-year contract. This is more than even the highly-valued athletic director, Gene Smith, who earns a cool \$450,000/year as the head of all athletic operations at that same institution. Evidently, the coaching is more important than the management. The reason for this is because of the direct link between good coaching and athletic success. Given the necessary athletic talent, a good coach can hold a program together while though a good athletic director is worthless without a winning team. The athletes themselves are critically important considerations for the success of a team. However, their bargaining power is severely limited. NCAA rules prohibit bribes or salaries being awarded to athletes for their athletic performance. The most a university can offer them is a full scholarship, which is valued significantly lower than the outrageous salaries of coaches.

Substitutes – The consumer of NCAA Division I athletics is the enthusiastic fan. The fan uses athletic competitions as a form of entertainment. As exciting as it is to watch your home team win the championship, entertainment comes in many forms, and thrill-seekers have no shortage of alternative venues. The entire family can enjoy a collegiate competition, so the possible substitutes are endless. Primarily, substitutes for event tickets are movies, video games, television and theme parks among other things. When tickets to a football game can cost ~\$40-50 each, there is additionally a high incentive for people to switch to owner cost alternatives.

Rivalry – Collegiate Athletics is synonymous with rivalry when one thinks of competition on the field of play. However, competition in business is fierce as well. Only a few of the most successful programs will return a high profit. In 2002, when they won the National Championship in Football, Ohio State had total revenue of over \$100 Million and profit of over \$13 Million. However, this huge profit is not common. The cause of the brutal competition is simple. The suppliers are the same for every major university. A talented athlete would be an equally valuable asset for any team in the Big Ten. Furthermore, a highly-skilled coach will make a substantial contribution wherever he or she goes to work. Nevertheless, there are certain factors that mediate the ferocity of the industry. For example, athletes cannot be paid to play, and loyalty of fans restricts their ability to move from team to team.

Complements – On the supply side there are no significant complements for qualified coaches and staff. However, since athletes often experience no financial gradient from one college to another, they must weigh other factors when deciding which college to choose. For example, a scholar-athlete would consider the level of academics at any school where he or she might play and study. Collegiate athletes are at the beginning of their lives, and most recognize that athletics will not be a wise career choice after college. Therefore, the caliber of academics and career-building resources at universities can be a complement to athletics. Furthermore, a good quarterback is nothing without a good receiver. A good team is not built on one or two stars, but rather on a full line-up of quality players. Therefore, good athletes complement each other on the field of play.

Maximization of Value for Minor Sports

College Athletics is a business like any other. It is easy to make money on profitable sports such as football and basketball. For instance, Ohio State generated \$46 million in revenue. OSU football alone accounted for 44.5 % of the athletic department's total revenue. One untapped resource at Division I schools today is the enhancement of minor sports in an effort to make them more profitable. Ohio State has 33 sports which cost more than they earn. The average team makes \$98,802 while costs the school \$545,254 in expenses. Sports marketing involve the marketing of the sport itself as well as marketing through that particular sport. One way to market a sport is making the investment of hanging posters at local venues as well as handing out schedules. The local businesses that hang team posters and schedules would also be likely to invest in advertising in programs and signs at the sporting events. Ohio State University athletics adds over \$100.5 million a year to the surrounding area. Fans of OSU athletics spend \$7.4 million on dining, \$5.3 million on shopping and \$3.4 million on lodging while viewing OSU sports. It is profitable for businesses to support OSU athletics and encourage people to attend all of their athletic events because it leads to an increase in profits of that establishment. Another way to market the sport is to educate the public about the sport. For instance, most people have never seen a waterpolo game; a news paper article about the game will entice new people to come and watch.

Sports marketing also involve the endorsement of a product through the sport. Paid attendance is only a small part of sport profits; it can also come from corporate sponsors. One way to try to get corporate sponsors would be to try and make

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deals to not only advertise at football and basketball games, but minor sports as well.

Another way is to start out with local businesses and, once established, try to move on to bigger companies. The key to success is not only to have an Athletic Director at the school but also a person whose sole job is to market the sports at the school.

Another venue of money-making in sports is media coverage. If enough interest is shown in a particular sporting event and it has a fan base, TV stations will pay to broadcast it. For teams that are already broadcasted, like baseball, you could try not to overlap the Major League schedule as much and try to pull some of the similar fans. One option is to have baseball moved to a winter sport. This way it would be the only baseball on television while the Major League is on its break. For sports that are not currently televised, the sports can start on local networks with news stores. Once enough interest in the sport has accumulated, try to get a whole sporting event televised on a sporting network.

Success in college sports is based upon the athletes that play the games. A winning program is usually a profitable one. To get a winning program, you need to recruit the best athletes. One way to entice athletes to come to your school is to make the best athletic facilities. Make sure that interested athletes know that the school's facilities are the best and it will make them a better athlete. Another important aspect is to hire great coaches that stay involved in the recruiting process. Many athletes turn down full scholarships because feel they cannot work well with that particular coach.

One financial problem with Division I sports today is Title IX. This NCAA rule states that a school must have an equal proportion of each sex participating in a sport as

to that which attends the school. Some Division I schools find that they have to cancel some men's sports because not enough women are playing sports. One solution to this problem is to recruit women who will play sports to attend the university. This can be accomplished by sending letters to All-League athletes in high school. To accomplish this increased amount of work that would burden the current recruiting staff, the university could hire recent graduates or current students to help out. Writing personal letters to recruits, make sure that the students have hosts that will sell the university.

Possible Lobbying Opportunities

Unlike the government laws which control most industries, athletic departments are for the most part controlled by a separate agency, the NCAA. This means the laws and regulations are not as written in stone as certain federal and state laws, which opens the opportunity to change certain regulations. These lobbying opportunities should be brought up at the next Big Ten and or NCAA meeting.

A good way to make the athletics department profitable is to increase the market share for college athletics. Many promising young athletes have been deciding to enter the ranks of professionals either before they graduate or before they even enter college. Imagine the increased revenues if star NBA and NFL players had to graduate from college before they entered the professional ranks. Currently the NFL does not accept players into their draft until the player is two years removed from graduating from high school. If the other leagues could be convinced, especially basketball, to accept this regulation, college athletics everywhere would increase their profits. One of the problems with college sports is that as soon as a player becomes a star he or she

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immediately feels he needs to jump to the professional ranks. These new regulations would allow fans to become more connected to the players and also insure the athletes receive a college education. The Big Ten, as well as the NCAA, should fund lobbyist to change these policies.

Another way to increase the profits of the athletics program would be to revise Title IX. As it stands college athletic programs are required to provide in percentages of their student population the same amount of sports teams for women as it does for men. This system, while insuring opportunities for women, is devastating for many men's teams and also the finances of the athletic programs. Men's sports bring in the vast majority of a school's profits. Men's Football and Basketball alone dwarf all the revenue collected from all women's sports. It would be very beneficial if this regulation was revised. Ideally having absolutely no regulations on the sports provided would be the best. Decisions would then be based on a criterion of the school's choosing. Besides making athletics more profitable, revising Title IX also has the added benefit of making college athletics fairer. This would be a very good angle to play when trying to lobby the NCAA. The NCAA is much more responsive to legislation or revisions that concern insuring the integrity of the game while a policy dealing solely with increased revenues.

Another regulation which inhibits the amount of profits athletic programs can earn is the cap on the number of games teams can play. The NCAA has recently approved increasing the Football schedule to 12 instead of 11 games. The NCAA did not give a reason for this increase, but athletic directors around the country have been saying many athletic programs needed the extra game to increase their revenues because they

were losing money. If the NCAA is willing to increase the number of games played in a season why would they not be willing to institute a football playoff? The NCAA Men's Basketball tournament grosses a huge amount of money for the NCAA. There is no reason to think that a NCAA Football tournament would gross less money. Football has BCS games which makes a significant amount of money. A playoff would be better for everyone involved. Not only would it allow more games between premier teams it would also solve the problem of the BCS which is turning off many fans. In the 7 years the BCS has tried to pit the top two teams in a playoff there has been much more controversy than closure. This seemingly unfair practice turns off many fans who watch the game because they like the integrity and amateur quality of the games. Having a computer decide who plays in the championship game is a huge turn off to NCAA Football's fan base. The major complaint with the playoff system has always been that the added games would take too much time away from the athletes' studies. As it stood last year the championship game was not played until January 4, but the championship teams both ended their regular seasons schedule on December 4, leaving 4 weeks open in almost every football teams' schedule. People like to watch games with the best teams. A playoff system would let the best teams play longer and it would create games between the best teams in the country.

The playoff in football would also be beneficial for the Ohio State University men's football team. As it stands Ohio State plays in one of the toughest conferences in the country for football. In order to reach one of the premier B.C.S bowls Ohio State can lose a maximum of one game, with opponents such as Michigan, Wisconsin, and

Michigan State this is a very unlikely occurrence. The playoff system would allow Ohio State to reach the premier post season games more often. The playoff system would also allow Ohio State to host more games which would increase ticket revenue.

Methods to Differentiate the NCAA Division I Basketball

Industry

This analysis will focus on optimizing the Division I basketball program as a whole. The industry revolving around NCAA Division I athletics has seen tremendous financial growth in the last decade. Just 6 years ago, CBS Sports signed a \$6 billion, 11 year contract for the rights to broadcast the NCAA Division I Men's Basketball Championship. The value of these collegiate athletic contests specifically Division I Men's Basketball games which is clearly demonstrated by this contract is what make this industry so appealing for an analysis.

During last year's tournament, CBS reportedly sold \$380 million worth of advertising air time. What lies behind this \$100 million value of commercial time is the size of the NCAA's fan base. Enthusiasm for college basketball has spread throughout the country, and the schools that have consistently performed at the highest level draw a fan base that spans the country. Unlike NBA teams, where the majority of fans support the team that represents their city, college basketball schools tend to draw their fans from their students and alumni. Depending on their level of success, each school can draw proportionately large numbers of fans. Of course, a school that makes it to the Final Four boasts a considerably larger and more regionally diverse group of fans than a school that does not. The fan base is so crucial because it determines how much advertisers are

willing to pay for air time, which directly determines the price CBS will buy televising rights for. Therefore, a larger fan base directly translates into more money for the NCAA.

This begs the question of how differentiation can factor into the collegiate basketball industry. Are there ways aside from increasing a certain school's record to bring more money into the industry? The answer is found in analyzing how rivalrous college basketball is with a key competitor- professional basketball. The two styles of basketball are so different that it is almost as if they are different sports. Research shows that fans are split as to which form of basketball they would find more exciting to watch. The key reason NBA fans say they enjoy watching professional basketball- which is characterized by superstars with multimillion dollar contracts playing a much more flashy game – is that they know they are watching the best in the world perform. Indeed, both professional and college players play for their fans, but there is a striking difference seen when it comes to playing for the coaches. College basketball revolves around the coaching- players play to impress the coaches, because if they don't, they will be benched. Coaches play a much smaller role in shaping the game of many professionals, however. Fans of college ball uniformly agree that the NCAA is the only place where passion for the game still exists, and despite the fact the quality of play is lower, the players' enthusiasm, and the fact that they play much more as a team makes watching worthwhile.

There is nothing really that college players can do about the fact that the skill level of professionals is much higher. Indeed, professionals were largely chosen as the best players who played in college. However, there are still two key strategies that

differentiate the product in this industry, allowing an expansion of the market and bringing in more money to college ball. Both strategies involve establishing teams composed of NCAA players to promote college basketball.

Quality of play may appear to be a horizontal differentiator in this case (as there are fans who prefer different levels and styles of play), however it is really a vertical differentiator in the following sense- fans everywhere are attracted to flashy, show basketball. Everyone enjoys watching people perform while they play, and a dunk always brings excitement to the game. Since this is a key feature that college basketball lacks – and, in fact, a reason given by many fans for being more attracted to the NBA- an element of flashy basketball could be added to the NCAA.

The basketball clothing company And1 has assembled a team that tours the country that plays only very showy, artistic basketball. Characterized by flashy alley oops, impossible spinning dunks, unpredictable assists, and dribbling skills that would daze almost anyone, the team plays to impress its fans, and has gained enormous popularity. The NCAA undoubtedly has players with the skills to play flashy basketball, but they are constrained to play a very methodical, team-oriented version of the game by their coaches. The concept of assembling a team similar to the And1 team, but composed of NCAA players, has potential to draw in many of the fans that would be watching NBA basketball. If the NCAA allowed the team to tour across the country, and show off the skills of its players, it would not only be fun for the players and fans, but it would get their names out across the country, allowing fans to recognize and follow specific players

in real NCAA games. This would result in more people watching college games, thus leading to the NCAA gaining seller bargaining power when it sells broadcasting rights.

A second option to differentiate the product would be to extend the industry to the international circuit. The general consensus of foreign basketball fans is that the NBA is more exciting, simply because it has the best players in the world. Every 4 years the NBA assembles a basketball team to compete in the Olympics with Team USA. Earlier in the decade, this team was known as the “Dream Team,” and stirred excitement among fans worldwide. A possible application in college basketball could be realized by assembling a team of the NCAA’s very best- the cream of the crop of its basketball players. Picking a great coach for this mix of the league’s best players is key, especially with these athletes whose game is so coach-defined. After a few weeks of practice, and after having adjusted to the coach, this team could tour different countries in the off-season (summer, for example). In an attempt to bring recognition to U.S. college athletics, this “Collegiate Dream Team” would target the world’s biggest basketball cities, and play a team of similar university athletes. If the fans in each of the cities around the world remembered the U.S. players they saw in their hometowns, they would most likely be excited to watch them in their NCAA games. Drawing from the international fan base could be a major achievement of this team, and the value of the minutes broadcasted would be considerably increased if they were on an international scale. This would directly result in the NCAA conferences benefiting, as they could charge CBS more for the rights to broadcast the tournament. Therefore the enhancing of the audience as a result of this differentiation would help to optimize the industry.

Specific Advice for Ohio State

The athletic department of Ohio State brings its own perks and problems. Ohio State is one of the few athletic departments in the country that made a profit during 2003-04. The athletic department is also \$202.7 million in debt from building and renovating 10 facilities around campus. While the football team was extremely profitable last year, earning a profit of over \$22 million dollars, the other sports averaged a \$450,000 deficit. Also the \$13 million dollars in profit can be solely attributed to the \$15 million dollar increase in booster donations after the football team won the national championship. Subtracting a win in the national championship game in multiple over times the athletic department would be at the least \$2 million dollars in the red and still over \$200 million dollars in debt.

For the athletic department to keep ahead of debt, it must find ways to keep boosters' support high. Most boosters donate money so they can feel part of a school's success, so the easiest way to keep boosters donating is to keep teams winning. Winning teams come from having the best coaches and players, and the best coaches and players want the best facilities; so it seems logical to have boosters sponsor the building of state-of-the-art training rooms, weight rooms, and other athletic facilities. This would create an upward spiral of increased winning which leads to increased spending.

Donors also enjoy feeling connected to the project they are funding. Any program that allows them to step onto the field or personally meet the players would increase their connection and their spending. It would be beneficial to allow boosters to travel with the teams and allow them onto the sidelines during the game and onto the

field during halftime. Boosters also are very past-oriented people, so having ex-players as salesmen would appeal to them. Also, fundraising dinners with movies of the good old times would be cost effective. A special V.I.P. section should also be created at the sports games for boosters who have donated large sums of money. "Beat Michigan" rallies would also be a great opportunity to capitalize on the heated rivalry between the two schools.

It is also important to make sure the school has a clean image. Boosters do not want to fund a program that is cheating scarred with scandal. It should be stressed to all Ohio State coaches that actions deemed illegal by the NCAA should be given a wide berth because in the long term these actions are detrimental to the program even if it does convince recruits to commit. Ohio State had to forfeit the men's basketball postseason play for an illegal payment of \$6,000 to a recruit that never played a game for the school. The coach was fired and the program is now in freefall. It is better to just follow the rules and rely on legal donations from donors and superior facilities to attract recruits.

A radical strategy to decrease spending would be to scale back on the men's basketball team. The way the NCAA splits the profits from its television deal with CBS is to pay the conferences depending on how many tournament games the schools in the particular conference have participated in over the past six years. The Big Ten then splits those payments evenly among the 11 schools in its conference after it takes its cut. Whether or not Ohio State wins the NCAA tournament, or does not qualify does not make a huge difference in how much money the team grosses. Since the Big Ten is a

strong basketball conference, Ohio State could be better off just not stressing basketball and earning around the same amount payments from the tournament.

Conclusion

Through the six force analysis we can get a clear view of how college athletics is a business. Like many businesses, collegiate athletics can make improvements to boost revenue. Focusing on OSU, they could try to make the 33 “nonrevenue” sports break even or even return profits. OSU could also lobby for changes to the NCAA regulations that will lead to increased revenue. Finally, OSU could focus on making basketball a more profitable enterprise. By improving the college athletics program it will not only increase revenue but it will be better for the students, coaches and fans.

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