



## **Mainstream Expansion and Strategic Analysis**

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## **1. Introduction**

The Ultimate Fighting Championship (UFC) started in 1993 as a mixed martial arts (MMA) tournament on pay-per-view to determine the world's greatest martial arts style. Its main draw was its lack of rules. Weight classes did not exist and rounds continued until one of the competitors got knocked out or submitted to his opponent. Although the UFC initially achieved underground success, it was regarded more as a spectacle than a sport and never attained mainstream popularity. The perceived brutality of the event led to political scrutiny and pressure.

Attacks from critics caused the UFC to establish a set of unified rules with greater emphasis placed on the safety. The UFC also successfully petitioned to become sanctioned by the Nevada State Athletic Commission. However, these changes occurred too late to have an impact and by 2001, the parent organization of the UFC was on the verge of bankruptcy. The brand was sold to Zuffa LLC, marking the beginning of the UFC's dramatic rise in popularity. Over the next eight years, the UFC evolved from its underground roots into the premier organization of a rapidly growing sport.

## **2. Market Analysis**

### **Overview**

The MMA industry is estimated to be worth over one billion dollars [1]. The main organizations in the U.S. market are the UFC, Affliction, and Strikeforce. Among these, the UFC is by far the largest and most profitable organization. It accounts for ninety percent of the industry revenue and generates \$250 million annually [1].

The industry operates on a pay-per-view model. Seventy-five percent of the UFC's revenue comes from monthly events which sell tickets and pay-per-views [1]. Recent events have generated live gate revenues in excess of 4 million dollars and over 1 million pay-per-view buys [2]. In addition to the UFC events, the UFC also has a four year \$100 million contract with Spike TV to air small events, promotions, and a reality show [3].

The MMA industry has grown significantly since its inception and is expected to continue growing for the near future. According to one study which measured the number of visitors to professional sports organizations' websites, interest in the UFC increased 107 percent from 2006 to 2007 [4]. The number of visitors to the UFC website was comparable to that of the NHL, and exceeded that of the PGA and ATP.

### **Buyers**

The UFC's two main customers are Spike TV and MMA fans.

Spike TV purchases exclusive broadcasting rights for UFC programming such as *The Ultimate Fighter*, a reality show featuring aspiring fighters competing for contracts, and *Fight Nights*, non pay-per-view events featuring rising fighters. These shows are very popular among Spike TV's target demographic and have drawn strong ratings for the network. Thus there would be high switching costs for Spike TV if it dropped UFC programming from its lineup. On the other hand, the UFC could easily switch networks once its current contract expires since MMA fans would likely be indifferent to which network broadcasts the shows. With respect to the network buyers, the UFC holds most of the bargaining power.

MMA fans purchase live tickets and pay-per-views for UFC events. These customers are more price sensitive than the networks since MMA is a form of entertainment and has elastic demand. Customers would also be unlikely to pay more than the standard prices established by similarly structured events such as boxing and WWE. Thus with respect to the fans, the UFC holds little bargaining power. It is notable, however, that consumers are willing to pay for superior quality events from the UFC despite the existence of lower quality free alternatives.

### **Fighters**

The quality of fighters serves as the primary differentiating factor in the industry and has a large impact on fan interest in an MMA event. However, most fighters have historically had little bargaining power. This can be attributed to the UFC's dominance in the industry. For example, in a controversial move, the UFC forced several fighters to sign away the rights to their likenesses for all future video games by terminating the contracts of fighters who refused. There are also a large number of fighters hoping to join the UFC. Over a thousand people attended tryouts for the reality show *The Ultimate Fighter 9* in order to compete for one UFC contract [5].

The most popular fighters have recently gained some bargaining power with the rise of competitor Affliction, whose strategy is to price compete with the UFC for the best talent. However many top fighters in the UFC are signed to long term contracts which lock in their salary and prevent them from moving to a different organization.

### **Substitutes**

The main demographic of MMA, males aged 18-34, has many substitutes for MMA events. These include other sports such as baseball, hockey, football, basketball, boxing, kickboxing, or professional wrestling. They could also spend their time watching movies, surfing the web, or playing video games.

### **Complements**

Complements include mixed martial arts classes, tournaments, gear such as boxing gloves, video games and movies, fighter action figures, gyms, and sports supplements.

### **3. Competitive Analysis**

#### **Entry**

The primary barrier to entry is the recruitment of high-quality fighters. A new entrant would need at least a few well-known fighters in order to generate interest in its events. Acquiring such fighters would require substantial resources since most established fighters already have contracts with existing organizations. An unproven new entrant would have to offer much greater compensation in order to lure top fighters away.

Another barrier for entry is that the market may only be able to sustain one league profitably. A similar situation can be seen in other sports leagues such as the NFL, NBA, and MLB which have monopolized the talented athletes in the sports they represent and have virtually no competitors. The UFC is currently well positioned in this respect, as it has the majority of marketable fighters.

#### **Strengths**

A key strength of the UFC is its strong brand recognition. For many people, MMA is synonymous with the UFC. Combined with a first mover advantage, this brand recognition has allowed the UFC to recruit the best fighters in the sport. This brand recognition has also led to greater gate revenues and allowed the UFC to attract high-profile sponsors such as Harley-Davidson [6] and Bud Light [7].

Another strength of the UFC is its exclusive contract with Spike TV. Spike TV reaches 96 million households and targets the same demographic audience as the UFC, giving the UFC national exposure [3]. At the same time, UFC programming is a big ratings hit for Spike TV. There are two main UFC programs on Spike TV. The most popular is the reality show *The Ultimate Fighter* which showcases the lives of new fighters as they compete on the show for UFC contracts. The show is unique in that it allows new fighters to gain a fan base before actually starting in the UFC. Another show, *UFC Unleashed*, features old UFC fights and highlight clips. Through Spike TV, the UFC is able to promote its pay-per-view events, replay old content, and introduce new fans to MMA.

#### **Weaknesses**

Fighters in the UFC are compensated relatively poorly when compared to similar sports such as boxing and competitor organizations such as Affliction. This reduces fighter loyalty to the UFC and has caused a few prominent fighters to leave the organization and publicly voice their

dissatisfaction. The top fighters in Affliction can make up to five times as much in salary as compared to the top fighters in UFC [8][9]. The UFC is still able to maintain its fighter quality because of its current market position and practice of signing fighters to long term contracts [10]. However, it puts rivals in a position to lure away top talent from the UFC by offering more lucrative contracts.

Another weakness of the UFC is MMA's violent perception. Critics contend that the MMA is still too brutal to be considered a sport. This is reflected in the fact that MMA is still banned from twelve states [11]. This presents an image problem for the UFC and hinders it from becoming as popular as family-friendly sports like football or basketball. It also makes it more difficult for the UFC to attract mainstream sponsors.

The UFC also lacks the benefits of free marketing which many sports enjoy. For example, anyone can participate in football or basketball since these sports are widely accessible through schools, gyms, and amateur leagues. Consequently, this involvement increases the possibility that a person becomes a fan and supports his sport's professional league. Currently, there are very few places to learn or participate in MMA. Thus the UFC is missing out on many potential fans.

## **Competitors**

Affliction is a recent entrant in the MMA industry. It competes with the UFC for pay-per-view sales and has run two events in the United States so far. Affliction's strategy focuses on aggressively recruiting established fighters by offering higher salaries. Following this strategy, Affliction has recruited heavyweight star Fedor Emelianenko and former UFC champions Tim Sylvia and Andrei Arlovski [12]. This has helped Affliction generate interest in its events and allowed it to become a legitimate competitor to the UFC.

Strikeforce is another competitor in the industry. Unlike the UFC and Affliction, its business model does not include pay-per-view events. Instead, Strikeforce events feature less popular fighters but are broadcast for free through multiple networks including NBC, Showtime, and HDNet [13].

DREAM and World Victory Road are organizations based in Japan. Their fights are aired on the HDNet channel in the United States [14] [15].

Another emerging threat is the World Alliance of Mixed Martial Arts (WAMMA). WAMMA was formed to unite the belts of the competing MMA organizations, including Affliction, Strikeforce, and DREAM [16]. The UFC declined to take part in this organization, which is part of its strategy to not recognize the legitimacy of its rivals.

## **4. Strategy Analysis**

## **Response to Competitors**

The UFC has the option of taking either an accommodation or dissuasion strategy against its competitors.

There are two accommodation strategy options. The first option is that the UFC could allow competitors to enter an underground niche of mixed martial arts focused on even greater violence and fewer rules, while the UFC itself transitions towards mainstream acceptance. This would reduce competition between the UFC and rival organizations through product differentiation. However, this strategy has distinct disadvantages. Many UFC fans that supported the organization since its inception may prefer a more violent product and begin supporting the niche competitors, thus splitting profits. Niche competitors may also become threats in the long run if they gain market share and decide to expand. The second option for the UFC is to acquire its competitors. The UFC has used this strategy in the past when it acquired competitors WEC in 2006 [17] and PRIDE in 2007 [18]. These acquisitions gave UFC control over the contracts of many prominent fighters and boosted the brand strength of the organization. Today, no acquisitions would have a similar positive impact since the UFC controls 90% of the market [1] and offers a superior product due to the quality of its fighters.

The UFC should instead pursue a dissuasion strategy and adopt tactics to outcompete its rivals. One tactic the UFC should adopt is aggressive poaching of the few star fighters currently signed with rival organizations. For example, the UFC should pursue Fedor Emelianenko, the current WAMMA Heavyweight champion because he is Affliction's only real draw. Another tactic the UFC should adopt is scheduling blockbuster events to conflict with competitor events. This would decrease the profits for both organizations involved due to split viewership, but the UFC benefits since it is in a stronger financial situation than its rivals. For example, Affliction has not been profitable from its first two events, as its first event fell 150,000 pay-per-view buys short of breaking even, and its second event also missed its pay-per-view goal [19]. This makes Affliction a prime target for this strategy. In the short term, dissuasion tactics will hurt profits with price competition. However, in the long term, such tactics will force competitors out of the market, dissuade new entrants from entering, and solidify the UFC's dominance and profitability in the MMA market.

## **Gymnasiums**

A natural expansion opportunity for the UFC would be to partner with existing gyms to create a place where people can discover and participate in MMA. UFC gyms would also increase brand exposure and create an additional revenue stream. The gyms would likewise benefit from the ability to provide more options for its members.

The main component of this plan would be the offering of martial arts classes at these gyms. These classes should target a wide audience and aim to be accessible to young kids who want to learn self defense as well as aspiring mixed martial artists.

Expanding into gyms would allow the UFC to gain exposure to new customers, which increases awareness of the sport and makes MMA more accessible to the public. In addition to these classes, the UFC could sell licensed gloves and other equipment needed for the classes as a way to increase revenues and promote the brand as well as advertise upcoming UFC events.

The UFC could also host local tournaments for fighters to show their skills. If enough fighters train at these gyms, the UFC could develop a scouting program for gyms to evaluate talent. The gyms could aid in finding untapped talent and the next generation of stars in the UFC.

Many gyms could benefit from a partnership with the UFC. Offering courses in MMA could be a large differentiation factor for the gyms and lead to an increase in memberships. In terms of bargaining power, the UFC should use its brand recognition in exchange for partnerships with these gyms, since the UFC brand would draw increased interest to the gym.

In reality, the UFC has decided not to go with the partnership approach, instead choosing to build its own brand of gyms. This is a very risky venture as starting a gym has large infrastructure costs, and the UFC has little experience in the fitness industry. The UFC also intends for its gyms to be hardcore MMA training facilities with state of the art equipment and an atmosphere similar to a real UFC event [20]. This is the wrong approach because it targets a small group of fighters as opposed to introducing MMA to the general public.

### **International Expansion**

Another opportunity for growth would be to reach out into foreign markets, as international participation would help legitimize MMA as a sport. Japan is already known to have a large MMA fan base, which makes it a good target for expansion. In particular, Japan was home to the PRIDE Fighting Championships, a now defunct organization that was bought by the UFC. PRIDE was exceedingly popular in Japan, but it failed because it breached its TV contract. Finally, two competitors to the UFC, DREAM and World Victory Road, are based in Japan. International expansion gives the UFC an opportunity to steal their market share, which aligns with a policy of dissuasion against its competitors.

To move into the Japanese market, the UFC will need to bring its events to Japan. Before this happens, the UFC needs to recruit famous Japanese fighters that viewers can relate to. The UFC could bring Norifumi Yamamoto into the lightweight division, as he is one of DREAM's top fighters. The UFC also has PRIDE's top fighters, many of whom still have large Japanese fan bases. A UFC event in Japan headlined with top Japanese talent and former PRIDE champions would gain a lot of attention.

Recent events suggest that now would be a good time for entry into the Japanese market. DREAM has low television ratings [21], and its ally organization, US-based EliteXC no longer exists [22]. The UFC would mainly have to compete with World Victory Road, a new organization which has only hosted two events and whose fighters are not well known. If the UFC can win a television contract in Japan, it can create a Japanese version of *The Ultimate Fighter* to help recruit foreign talent and increase the UFC's awareness overseas.

### **Star Promotion**

A sport is often defined by its stars. Boxing had Muhammad Ali, basketball had Michael Jordan, and hockey had Wayne Gretzky. These individuals were so successful that they attracted millions of new fans to the sport they represented. In this regard, the UFC should do more to build the star power of its roster. One way to do this is to recruit fighters from other sports who already have fans. The UFC already managed this with great success when it recruited Brock Lesnar from World Wrestling Entertainment (WWE) into the UFC. Lesnar was already highly popular, and his first few fights set records for most sales in a UFC event.

The UFC should repeat this strategy by going after talented boxers and other highly regarded fighters. For instance, it could recruit Bobby Lashley, another WWE star. He is already involved in small MMA leagues and was a standout in college wrestling [23]. A fight between Brock Lesnar and Bobby Lashley could draw many of the WWE's fans, who are used to paying for pay-per-view events.

Another way for fighters to build star power would be to make cameo appearances in movies, music videos, and TV shows. *Never Surrender*, a movie about MMA, is coming out this year and features the biggest stars of the UFC [24]. In the near future, a UFC video game is scheduled for release in 2009 entitled *UFC 2009: Undisputed* [25]. The UFC should continue to showcase its stars in popular forms of media in order to legitimize the sport and increase recognition.

### **National Television**

Expansion into national television, though it seems to move the UFC towards the mainstream, would not be optimal. This is because the UFC's existing partnership with Spike TV has many benefits.

For instance, most of Spike TV's viewers match UFC's ideal target demographic, males 18 through 34. Also, since it is cable, Spike TV has much more freedom in the content that it broadcasts. If the UFC were to move to NBC or CBS, fights and shows would be late at night because MMA is still viewed by many people to be too violent. For instance, Strikeforce shows on NBC are broadcast mostly between 2 and 4 am [26]. With Spike TV, the UFC can be on primetime television, when more viewers are awake. There is a modest difference in viewership numbers. Spike TV reaches 96 million households [3] which is only 16 million fewer than NBC [27].

Finally, the UFC has a four year, \$100 million contract with Spike TV [3], while Strikeforce will only make roughly \$25 million dollars for its upcoming three year contracts with Showtime and CBS [28]. Although the UFC has superior fighters, the UFC would not be as profitable on national television as on Spike TV, because of a difference in viewer demographics and a poor timeslot on national television.

## **5. Conclusion**

The UFC has established itself as the dominant organization in MMA with its brand recognition and elite fighters. However, there are two challenges it should address: dealing with its competitors and moving MMA towards the mainstream.

The first major challenge lies in how the UFC should address its competitors. The UFC has taken over the market using dissuasion tactics, and it should continue this strategy. In the short term, dissuasion tactics will lower profits, but in the long term, such tactics will cement the UFC's dominance in the MMA market.

The second major challenge lies in bringing MMA mainstream. One way for the UFC to accomplish this is by increasing the star power of its fighters. The UFC can do this by importing stars from other sports and inheriting their fans in the process. The UFC can also move towards the mainstream by expanding internationally towards Japan. Japan has a strong MMA fan base, and its Japanese competitors are currently vulnerable. The UFC can exploit these weaknesses with its roster of PRIDE champions by holding events in Japan. A long term strategy to help it become more mainstream is the creation of UFC gyms, which would also serve to increase participation in the sport. However, instead of founding its own chain, it should partner up with existing fitness companies to offer MMA classes. The gyms will serve as a way for the UFC to create the next generation of fans and fighters, as well as allowing it to sell UFC merchandise and promote its events.

If the UFC can meet these two challenges, the UFC can stay the MMA leader as the sport grows into a multi-billion dollar industry.

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