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Financial Management

IN THE

SPORT INDUSTRY

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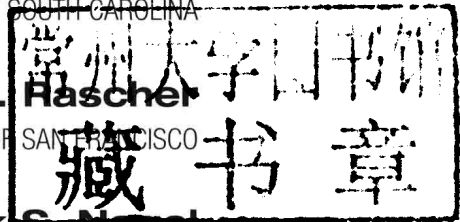
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Preface

I had been teaching sport finance for several years when the need for this text became apparent. During my time at Ohio University, the graduate and undergraduate Sports Administration and Facility Management programs evolved, and as students became grounded in introductory accounting, economics, and finance courses, it became apparent that there was a need for a text that truly explored financial management in the sport industry. At the time, most sport finance texts focused on revenue generation in sport, with little focus on financial management. Feedback from students and their quest for new knowledge moved us to write *Financial Management in the Sport Industry*.

In today's financial climate, there is a need for readers to understand finance and the importance of sound financial management. Over the past two decades, through periods of financial growth and turmoil, the sport industry has grown tremendously—the estimate of its growth and current value vary depending on the source, but we all agree it is large and growing. As the industry and the discipline of sport management have grown, the need to better prepare students to assume managerial roles in sport organizations has also grown. This need is underscored by the movement of several renowned sport management programs into business schools and the creation of specialized sport management MBAs. As mentioned above, we believe that change is also needed in books devoted to sport finance, which need to focus not only on revenue acquisition but also address basic financial management concepts in sport. In this book, we go even further to discuss how finance works in the sport industry.

Part I, Finance Basics, introduces sport finance and basic financial concepts and explains the tools

and techniques of financial quantification using industry examples. Topics covered in this section include the analysis of financial statements and ratios, risk, and time value of money. In Chapter 2 we use the financial statements of Under Armour as a basis for discussing balance sheets, income statements, and statements of cash flow, and we revisit these financial statements when discussing and calculating financial ratios. Chapter 3 relates risk to the revenue sharing model used by the National Football League. In Chapter 4, the time value of money is explored using examples such as deferred salary issues related to the Arizona Diamondbacks and Pittsburgh Penguins.

Part II covers the foundations of financial management—the decisions within sport organizations to ensure wealth maximization. Budgeting, debt and equity financing, and capital budgeting are addressed, using examples from the sport industry such as the Milwaukee Brewers receipt of \$3.85 million from the local government to operate Miller Park. This part segues between traditional texts on the fundamentals of financial management and a text on these fundamentals as applied to the sport industry. Here we go beyond just providing examples in a sport context to discussing how finance actually works in the sport industry. For example, we address how a team uses debt and equity financing and why one method over the other may be selected. We also explain the importance of capital budgeting when planning for a new facility.

Part III of this book applies financial management concepts to the industry through the examination of facility financing, valuation, feasibility studies, and economic impact. Much of this section is written based on our past consulting experiences with industry partners, including several professional teams,

various sports leagues, and several municipalities. Finally, Part IV examines financial management in three sectors of the industry: parks and recreation, collegiate athletics, and professional sport. We provide an in-depth analysis of the mechanics of financial management within each of these sport sectors.

This book is designed so that it can be used in either an upper level undergraduate or graduate course in a sport management program. Students do not need a previous background in finance to grasp the material. Part I, Finance Basics, provides the needed introduction to financial concepts. After reading the chapters in Part I, students will be prepared for material in the remaining sections.

The text can also be used by students in business schools in an upper-level finance course or students in an MBA/Sport Management program. Chapters 1 and 5 through 15 can be used for an in-depth study of sport finance. Part II, Financial Management, contains material that would be covered in a Principles of Financial Management course at either the undergraduate or first-year MBA level. However, the topics in these chapters are addressed from the sport industry's perspective, addressing what works and what doesn't work. Part III, Application of Financial Management in Sport, and Part IV, Financial Attributes of Select Sport Industry Segments, should be completely new material for most readers, providing a detailed view of financial management in those segments.

Special Features

In an effort to make this text useful and to facilitate understanding of financial management topics, the following features have been included:

Case Studies. When teaching sport finance, we have found that the case-based method is one of the best means to help students learn the mate-

rial. Each chapter contains a current case on a relevant topic, and, at the end of the cases, questions are provided to help students understand how financial management concepts have been or should have been applied in the given situation. These cases invite in-depth analysis and discussion of selected topics.

Sidebars. Throughout the text, sidebars are used to provide additional context. Often explaining a financial management concept is not quite enough for readers unfamiliar with finance to grasp a new concept. To reinforce the understanding and the application of concepts to the sport industry, sidebars offer additional examples, with topics ranging from the financial turnaround of an NCAA Division I athletic program to the financial practices of selected international sport organizations to the development of various professional women's leagues over the past twenty years.

Concept Checks and Practice Problems. The concept check questions and financial problems found at the end of the chapters emphasize key concepts and aid in the review of chapter material. Further, the practice problem section reinforces the use of numerous financial management tools and formulae in the sport industry including the creation of financial statements, the calculation of a capital budget for an addition of a fixed asset to a team's portfolio, and the application of time value of money principles when developing endowed programs at colleges and universities.

Glossary of Key Concepts. Key concepts are defined when they first appear in the text. They also appear in a glossary at the end of the text. Since financial concepts discussed in one chapter often apply to several chapters and topics in the text, the glossary will be helpful when readers need to review a concept presented earlier.

Acknowledgments

All of us wish to thank those who reviewed this book in various stages and offered suggestions for its improvement. Their input helped us to make this a better book. These individuals are: Jan Bell, St. Thomas University; Steve Dittmore, University of Arkansas; Joris Drayer, University of Memphis; Dianna Gray, University of Northern Colorado; Daniel F. Mahoney, Kent State University; Joel Maxey, The University of Georgia; J. Christopher McGrath, Georgetown University; John Miller, Texas Tech University; Michael Mondello, The Florida State University; Stephen Shapiro, Old Dominion University; Robert Taylor, California University of Pennsylvania; Nathan Tomasini, Virginia Commonwealth University; Galen Trail, Seattle University; Sharianne Walker, Western New England College; and Jason Winfree, University of Michigan.

I first wish to thank those students who pushed me to develop a better finance course and develop better materials, particularly the Ohio graduate and undergraduate classes of 1999 through 2005. I especially want to thank those 2:05 students for their enthusiasm and encouragement while I was at Ohio.

Next, this project would not have been possible without my coauthors, Dan, Mark, and Chad. It has been great writing with you over the years. I appreciate the quality of your work and most importantly your friendship. Completing this project has taken longer than anticipated to complete with job changes and additions to our families. Thanks for sticking with the project and seeing it through to completion.

I also must thank Tom Regan. Tom was one of the first to teach a sport finance course and much of what I teach today is based on his early work. Tom is a leading authority on financial accounting

and budgeting and wrote the budgeting chapter for this book (Chapter 6). He also was the chair of the Department of Sport and Entertainment Management at the University of South Carolina and was responsible for bringing me to USC. As chair, he gave me time to further develop my teaching ideas, refine course delivery methods, and dive deeper into research. Under his leadership, my research productivity and scholarship improved and developed. This text is better as a result.

To my friends and colleagues at Ohio and South Carolina, thank you for your friendship and support. Both Andy Kreutzer and Doc Higgins are great mentors, and they have helped shape and influence the sport industry. Frank Roach provided a teaching schedule that enabled me to focus on research and complete this work.

To my wife, Becky, and sons Jake and Luke, thanks for letting me sneak away to complete this manuscript. Your support at home is truly appreciated.

Finally, Colette Kelly at Holcomb Hathaway, Publishers has been extremely patient with us. Her edits, comments, and work on early drafts have been insightful and made significant improvements to the text. Colette, Gay Pauley, Sally Scott, and the rest of the Holcomb Hathaway staff have been great to work with and we appreciate all they have done to make the project a reality. I am glad that my friendship with Chella and his relationship with Holcomb Hathaway made this all possible.

MTB

Many people were involved, either directly or indirectly, in helping develop this book and its content. The reason for writing this book is, of course,

because of the enthusiastic students who want to understand all there is to know about managing sport organizations. I must thank those students who read earlier versions of the chapters and asked questions that led to clarifications. I also learned a great deal more during this process than I thought I would, by forcing myself to be clear about various ideas and concepts, and also reviewing my coauthors' chapters.

I want to thank my wife and partner, Heather, for helping with the gathering, organizing, checking, and cleaning data for some of the chapters, but more importantly for her patience and encouragement. Along the way, she produced two beautiful boys, Aidan and Lucas, which of course added to the amount of patience she needed in supporting me in the book's final stages. I hope Aidan and Lucas enjoy sport as much as I have, both on and off the field.

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The most satisfying part of this has been my work with my coauthors, Matt, Mark, and Chad. I want to thank them for having me be a part of this team. Matt, especially, carried the burden of moving us along. My friendships with each of them will be the most important and long-lasting outcome of this book. Thank you all for your excellent work.

DAR

I would first like to thank my family and close friends, who have provided continual support for

this project. There would have been no way to complete a book of this magnitude without my loved ones providing the time needed to focus on writing and editing. My wife Leslie has been especially patient as this book moved from rough idea to finished manuscript and through production. I was extremely fortunate to work with esteemed coauthors on this book and other projects. Matt, Dan, and Chad consistently challenge me to think and inspire me to see what can be accomplished. My colleagues in the Sport and Entertainment Management Department at the University of South Carolina have also provided consistent support. It is a blessing to be able to come to work with people who are not only dedicated professionals but also wonderful friends. The students I have had the privilege to teach throughout my career have provided an outlet for my (sometimes) crazy ideas. I hope that I have been able to teach them as much as they have taught me. Colette Kelly and the staff at Holcomb Hathaway remained patient throughout our endeavors and for that I will be forever grateful.

MSN

I would like to thank all those involved in publishing this book. Colette Kelly and the staff at Holcomb Hathaway were excellent to work with. Thanks as well to the many reviewers who provided excellent advice on how to improve the text.

Thank you to all of my students and colleagues at Illinois State University. Because of you, coming to work each morning is a pleasure. Helping our students grow, learn, and chase after their dreams of working in the sport industry is incredibly rewarding.

Thanks also to my wonderful family—to my wife Kerry for being so supportive and for being such a terrific partner and mother, and to our boys, Andy and Luke, who bring a smile to my face each and every day. I look forward to sharing my love of sport with you in the years to come.

Finally, thank you to Matt, Dan, and Mark for including me in this project. I appreciate both your collaboration and your friendship very much.

CDM

About the Authors

Matthew T. (Matt) Brown is the graduate director and an associate professor in the Department of Sport and Entertainment Management at the University of South Carolina. He teaches graduate and undergraduate sport finance courses and researches in the areas of sport finance and sport business. His current research focus is on the changing business practices of Asian professional sport leagues. Brown's research has led to publications in the *Journal of Sport Management*, *Sport Marketing Quarterly*, *Entertainment and Sport Law Journal*, *International Journal of Sport Finance*, and *Sport Management Review*. In addition, he has made more than 50 national and international research presentations.

Brown has been a consultant for a variety of organizations in the sport and tourism industries. His clients have included the Center for Exhibition Industry Research, the International Association of Assembly Managers, minor league hockey teams, minor league baseball teams, the Ohio Golf Course Owners Association, and the State of South Carolina. He currently serves as a consultant for the Columbia Blowfish, a wood bat baseball team in the Coastal Plain League. In addition to his work with the Columbia Blowfish, Brown has served as the chief financial officer of the Southern Ohio Copperheads and treasurer of the Board of Directors of the Southern Ohio Collegiate Baseball Club. He also has served as the treasurer of the North American Society for Sport Management. In 2003, Brown was named the Jefferson College Alumnus of the Year.


Brown received his doctorate in sports administration from the University of Northern Colorado. Prior to joining the faculty at the University of South Carolina, he was a faculty member in the

Sports Administration and Facility Management program at Ohio University. His primary teaching responsibilities were in the dual-degree MBA/MSA graduate program, where he taught sport finance and research methods courses to first and second-year MBA students.


Daniel Rascher teaches and publishes research on sports business topics, and consults to the sports industry. He specializes in economics and finance and more specifically in industrial organization, antitrust, valuation, economic impact, market readiness, feasibility research, marketing research, damage analysis, strategy, and labor issues in the sport industry. Rascher founded SportsEconomics to enable sports enterprises to capitalize on the sport industry's transition from hobby status to multibillion dollar industry. As founder and president of SportsEconomics, LLC, managing partner at OSKR, LLC, and former principal at LECG, LLC, his clients have included organizations involved in the NBA, NFL, MLB, NHL, NASCAR, MLS, PGA, NCAA, minor league baseball, NHRA, AHL, Formula One racing, Champ Car racing, Premier League Football (soccer), professional cycling, media, IHRSA, as well as sports commissions, local and state government, convention and visitors bureaus, entrepreneurs, and business-to-business enterprises.

Rascher received his Ph.D. in Economics from the University of California at Berkeley. He is director of academic programs and associate professor for the Sport Management Program at the University of San Francisco (USF), where he also teaches courses in sports economics and finance and sports business research methods. Prior to joining USF, Rascher was an assistant professor

at the University of Massachusetts, Amherst. He has authored articles for academic and professional journals, book chapters, and a textbook in the sport management and economics fields, and has been interviewed hundreds of times by the media regarding various aspects of the business of sports. Rascher has served on the editorial boards of the *Journal of Sport Management*, *Sport Management Review*, *International Journal of Sport Finance*, and the *Journal of the Quantitative Analysis of Sports*. He has been named Research Fellow of the North American Society for Sport Management. Rascher is also certified as a valuation analyst (AVA) by the National Association of Certified Valuation Analysts. He has testified as an expert witness in federal and state courts and in arbitration proceedings, and has provided public testimony numerous times to state and local governments.

 ark S. Nagel, Ed.D., became a faculty member in the Department of Sport and Entertainment Management at the University of South Carolina in 2006. Prior to joining USC, he was the director of the graduate sport management program at Georgia State University. At Georgia State he was responsible for all aspects of the sport management program including recruiting and advising students, developing and scheduling courses, identifying and supervising adjunct faculty, and maintaining alumni and sport business relationships. Nagel has also previously worked in sport management programs at the University of West Georgia and San Jose State University. He currently serves as an adjunct faculty member at the University of San Francisco and St. Mary's College, where he teaches summer courses in sport administration. Before pursuing a career in academia, Nagel worked in different areas of sport management—primarily in athletic coaching and administration as well as campus recreation. During his years as an assistant coach of the women's basketball team at the University of San Francisco, he helped lead the team to three NCAA Tournament appearances and a spot in the 1996 Sweet 16.

Nagel has authored or co-authored numerous articles in refereed journals such as the *Journal of Sport Management*, *Sport Marketing Quarterly*, *Entertainment and Sport Law Journal*, *International Journal of Sport Finance*, and *Sport Management Review*. In addition, he has published extensively in professional journals, written numerous academic book chapters, and given dozens of research presentations. Nagel also served as treasurer for the North American Society for Sport Management and the Sport and Recreation Law Association.

 had D. McEvoy is an associate professor at Illinois State University, where he is the coordinator of the sport management graduate program. Prior to pursuing a career in academia, McEvoy worked in marketing and fundraising in intercollegiate athletics at Iowa State University and Western Michigan University. He has conducted research projects for clients at various levels of sport, including professional sport, intercollegiate athletics, Olympic sport, and sports agency organizations.

McEvoy holds a doctoral degree from the University of Northern Colorado, a master's degree from the University of Massachusetts, and a bachelor's degree from Iowa State University, each in sport management/administration. His research interests focus on revenue generation and ticket pricing in commercialized spectator sport settings. McEvoy has published articles in journals including the *Journal of Sport Management*, *Sport Management Review*, *Sport Marketing Quarterly*, and the *International Journal of Sport Management and Marketing*. His research has been featured in numerous media stories and interviews including *The Wall Street Journal*, *Sports Illustrated.com*, *ESPN.com*, *Chicago Tribune*, *Philadelphia Inquirer*, *Atlanta Journal-Constitution*, *Portland Oregonian*, and *Kansas City Star*. McEvoy appeared as a panelist before the prestigious Knight Commission on Intercollegiate Athletics in 2008 and he served as the co-editor of the *Journal of Issues in Intercollegiate Athletics*.

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