SBJ SBD
STREET & SMITH'S SportsBusiness JOURNAL

SBJ/March 20-26, 2017/Olympics

How the IOC's global deals share the wealth

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Published March 20, 2017, Page 4

U.S. Olympic Committee CMO Lisa Baird was pretty sure she could sell cloud services as a standalone domestic sponsor category after the Rio Olympics. So when AT&T, which had cloud rights as part of its designation as communications partner, told her it wouldn't renew in September, Baird jumped at the chance.

But her first call wasn't to an AT&T competitor or any other prospect. It was to Timo Lumme at the International Olympic Committee.

What she learned caused her to back off her own efforts — and, no doubt, to smile.

Alibaba's Jack Ma (left) and the IOC's Thomas Bach announce their new partnership.
Photo by: GETTY IMAGES

The IOC was in the thick of negotiations with Alibaba Group Inc. to create the Olympics' first global e-commerce platform and become the cloud backbone of the IOC and future Games, taking over a sponsorship category previously sold at the national level and generating far more revenue than the USOC could have gotten on its own. With Baird's call, Lumme learned that he immediately could deliver exclusive sponsorship rights in the U.S., adding a new, lucrative dimension to the talks.

Four months later, Alibaba and the IOC announced a 12-year deal worth more than $800 million. Under revenue-sharing terms with the IOC, the USOC gets 20 percent of global sponsorship revenue until 2020, which works out conservatively to $50 million for the current quadrennial. Sold domestically, a cloud deal with the USOC would have been worth roughly one-third of that, and could not have gone past 2020 given the pending Los Angeles bid to host the 2024 Games.

As globalization and the digital economy create more chances to sell worldwide sponsorships, a smooth relationship between the IOC and major national Olympic committees is more crucial than ever to manage the transition.

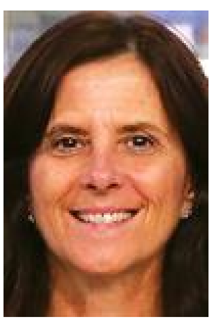
“This is an evolving thing, and sometimes you get a hot prospect,” said Lumme, the IOC’s managing director of television and marketing. “This was the case with Alibaba, and this became a focus because of the opportunity. It was a conversation that was then reignited with the USOC to make sure we’re aligned, and happily we were.”

Alibaba is the third new IOC global partner in a new category in three years, following Bridgestone (tires) in 2014 and Toyota (mobility) in 2015. In 2015, the IOC also considered selling global rights for professional services, another category already sold by the USOC.

Most experts believe more categories will evolve to the worldwide level as globalization marches ahead and the IOC seeks more expert help from sophisticated corporations seeking a worldwide brand boost. Engineering that transition can be complicated and touchy.

Like some of the NFL’s largest sponsorships in which the league bundles team rights, membership in the The Olympic Partner (TOP) program supersedes rights in all countries and specific Games. That means that to expand it, the IOC and its member Olympic committees — most importantly the USOC — must develop a seamless working relationship while also keeping an arm’s length in situations where a domestic partner has contractual rights to negotiate an extension first, like AT&T did. (Fanatics is a non-exclusive licensee, so its current role with Team USA’s online merchandise was not a hindrance to Alibaba’s e-commerce deal.)

Because of those limitations, sometimes they’re counting on a bit of synchronicity.


BAIRD

“Behind the scenes, we’re paying attention to the marketplace, talking to companies where we have openings, and we understand where the IOC is going,” Baird said. “But it really has to be those stars aligning: timing, category and opportunity.”

The Alibaba deal didn’t depend on the USOC standing down, necessarily. The IOC often structures deals to phase in global rights. For instance, Toyota was signed when BMW had nearly two years left with the USOC, so its rights didn’t become fully global until this year.

But the best, most valuable deals come with a clean slate.

The USOC and IOC’s ability to coordinate effectively improved substantially, Baird said, as a result of the groundbreaking 2012 revenue-sharing deal, which cooled tensions between the USOC and the rest of the Olympic world. Its precise terms have never been published, but the current deal that gives the USOC 20 percent of TOP deals expires in 2020. It will be replaced by a different system that guarantees the USOC a set amount ($410 million annually in 2012 dollars, adjusted for inflation), plus a share of revenue gleaned from new sources.

Baird said the most important part of the new relationship is more long-term, upfront coordination. While Baird did not know that Alibaba founder Jack Ma met with IOC President Thomas Bach in January 2016, kicking off talks, she did know the IOC’s broad outlines for TOP into the next decade.

“These are long-term deals for many years, and it pays to be in the conversations early with the IOC as we think about their vision and strategy,” she said.

Also, the IOC helped matters when it doubled the list price of a TOP sponsorship in 2014, meaning that global rights now cost at least $200 million over four years instead of roughly $100 million. USOC deals also have grown in price, but they haven’t doubled, meaning the marginal gain from shifting a category to global is much greater than it once was.

“On a straight apples-to-apples comparison, the USOC distribution from a new-era TOP deal will far exceed anything the USOC could get on their own,” said veteran marketing salesman Rob Prazmark, who evaluated TOP for the IOC in 2009.

National Olympic committees are protective of their blue-chip categories. Toyota, for instance, only passed muster as a global deal because the company paid a premium for rights to its hometown 2020 Tokyo Games.

Similarly, the merchandising revenue that could develop from an Alibaba-run global e-commerce platform is tantalizing, said Michael Payne, the marketing agent who helped Alibaba negotiate the deal. Today, the USOC generally cannot sell merchandise overseas, and Americans still find it difficult to buy other countries’ gear. “Do you want to keep selling 10,000 T-shirts, or do you want to sell 2 million T-shirts?” Payne said. “It’s not a long, complicated discussion.”

Globalization means that more companies and categories have global aspirations — only a decade ago, cars would have been seen as something too regional for TOP. Simultaneously, the IOC is growing more aware of its own logistical shortcomings and is searching for sophisticated, global business partners. Alibaba’s e-commerce chops are an example of that, along with the IOC’s truncated attempt in 2015 to find a global sponsor for professional services.

The prospect of Alibaba running the cloud infrastructure behind the IOC and specific Olympic Games is encouraging to Tim Crow, CEO of London-based sponsorship consultancy Synergy, who wants the IOC to take more control over executing specific Games. “Rio showed that the more global expertise plays out at the local level, the better,” Crow said.

However, the USOC’s domestic program isn’t in jeopardy by any means. While IOC deals have the biggest revenue figures, more than 60 percent of Team USA’s total sponsor roster is still at the domestic level.

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