The Uniqueness of Spectator Sport from a Strategic Management Perspective: The Case for Spectatoritis

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The Uniqueness of Spectator Sport from a Strategic Management Perspective: The Case for Spectatoritis

This conceptual paper uses a strategic management approach to assess the unique structure of the business of spectator sport. We argue there is a lack of business competition because franchises are simultaneous co-producers, collaborators, buyers, and suppliers. Consequently, mainstream strategic management frameworks that rely on competitive environments are ill-equipped to evaluate the nuances of spectator sport. In response to these observations, we develop multiple new and modified frameworks, including a spectator sport supply chain that inextricably links the participatory and spectator sport segments. Through this hierarchy of training, participants evolve from paid customers to inputs to production. Spectator sport and its supply chain are then positioned in the center of a revised industry model to develop a theory of spectatoritis, which is a rational explanation for why spectator sport is not only a natural focus for research, but also furnishes considerable promise for the development of unique sport management theory.

Keywords: strategic management, competition, supply chain, value chain, theory
Chalip (2006) stated that ‘if the study of sport management is to position itself as a distinctive discipline, then it must take seriously the possibility that there are distinctive aspects to the management of sport’ (p. 3). There has been much written about what makes managing sport unique (e.g., Foster, Greyser, & Walsh, 2006; Hoye, Nicholson, & Smith, 2008) but less progress has been made on developing sport-specific theory on this uniqueness.

Early textbooks in sport management were focused on ‘how to organize athletic contests, how to manage intramural programs, and how to maintain inventories of athletic equipment’ (Slack, 1996, p. 97). These administrative tasks were, and remain, important for a segment of employees in sport-related businesses. But, when the founders of the North American Society for Sport Management (NASSM) framed and named the organization in terms of “sport management,” the focus of research began shifting away from administrative tasks towards a more traditional understanding of management and firms. Management involves the higher-level responsibility to set organizational policy, then organize, plan, control, and direct human, physical, and financial resources to achieve those policy objectives. More specifically, strategic management involves how to position a firm in relation to its competitors within its industry to achieve firm goals related to performance or growth (Porter, 1996).

While researchers have taken a strategic management approach to the study of sport (for a review see Shilbury, 2012), none have combined a strategic management approach with the uniqueness of sport to develop theory. In fact, according to Shilbury (2012), it is reasonable ‘that any defining features of sport management are likely to be grounded in competition and should emerge in the conduct of strategy research, and an analysis of the sport related strategy literature’ (p. 3). While we agree with Shilbury (2012) that the defining features of sport management are derived from strategic management, we contend that it is a lack of competition in the business of
spectator sport\textsuperscript{1} that cultivates those features.

The goal of this conceptual paper is to provide a strategic management assessment of the sport industry, with specific emphasis on the unique features of the spectator sport product, professional franchises that produce that product, and their position in the greater sport industry. Throughout this assessment, we advance novel perspectives plus new and modified conceptual frameworks that culminate in an a posteriori theory of spectatoritis. Although the term spectatoritis has historically implied a negative over-emphasis on spectator sport (Bowers, Green, & Seifried, 2014; Nash, 1932), we propose the theory of spectatoritis to justify not only why spectator sport has been a past focus for sport management researchers but also why spectator sport holds the most promise for future distinctive sport management theory generation, especially from a strategic management perspective.

The structure of this paper is as follows. First, we articulate the previously acknowledged unique components of sport in terms of the product and its consumers. From there, we examine the spectator sport franchise business model, value chain, competitive forces, and supply chain. This fundamental analysis positions spectator sport and its supply chain in the center of a revised sport industry model. We propose the theory of spectatoritis to explain why spectator sport is at the core of sport management theory development. Finally, we conclude with suggestions for future research that builds on the conceptual frameworks and theories that we develop.

1. What is the spectator sport product?

The business of spectator sport involves the production of a sporting contest (i.e., event, game, bout, race, or match) between individual athletes (e.g., tennis, golf, swimming, or track) or teams. The product is the contest itself, which can be amateur or professional in nature. Spectator
sport is broad, diverse, and can take various forms. Team-based contests are produced through a single entity that owns or operates multiple teams and organizes their competitions (e.g., XFL or MLS), open leagues (e.g., EPL or Bundesliga), or closed leagues\(^2\) (e.g., NFL or NBA). Because the majority of sport spectating involves team sports, we focus the reminder of this paper on team-based, professional sports in closed leagues. We do so with the understanding that the models and insights developed herein can be modified to other situations and that the unique features of the team-based context apply to most other forms of spectator sport.

The production of a team-based contest in a closed league requires two stand-alone business entities (hereafter referred to as \textit{franchises}) to jointly produce a single event making it an ‘indivisible product (once divided it is no product at all)’ (Neale, 1964, p. 5). Contrast this with firms in other industries or other sectors of the sport industry. For example, Li Ning produces shoes with its own human, financial, and physical resources, independent of Nike or other rivals. The joint production in team-based, spectator sport makes it different from any other industry.

Governing bodies (leagues or federations) coordinate the activities of multiple franchises in the joint production of live games, including scheduling, rules, joint distribution, and sales of nationwide sponsorships and media rights. This results in leagues that exhibit cartel behavior, allowing cooperating franchises to collude in pricing and act as monopsony employers, while also compelling member franchises to engage in the unique behavior of profit sharing (Hoye et al., 2008; Noll, 2003).\(^3\)

Because spectator sport is both indivisible and intangible, the Primary Sport Product (i.e., what is \textit{sold} by both franchises involved in its co-production) is the right to view the production in numerous experiential forms (see Table 1). The host franchise sells various levels of
segmented, live, in-person viewing to individuals and outside businesses. The league, and some franchises (where permissible), also sell the right to broadcast this product to media companies (satellite, cable, or local television), which then transmit the live product to individuals through paid (satellite or cable) or free (local television or digital) platforms. The league (and some franchises) further sell the live event to individuals through over-the-top (OTT) networks, smartphone or tablet software applications, and other live streaming options.

Whereas the Primary Sport Product involves selling various manifestations of viewing the live event production, the Secondary Sport Product refers to selling access to the team brand. Franchises sell access to the reputation and prestige of their brands in the form of sponsorships to other businesses, as licensed goods to individual consumers, and as licenses to producers of licensed goods. While the consumption of licensed merchandise is common in many industries (e.g., fans of Disney or the Grateful Dead), we rarely see sponsorship outside of sports or theater. Moreover, league structures and rules can sometimes create Tertiary Sport Products such as players, who may be sold or traded to rival franchises, and a franchise’s presence and prestige, which contribute to civic pride and economic wealth, may be exchanged for stadium subsidies (Mason, 1999). Although Secondary and Tertiary Sport Products make noteworthy contributions to the size and scope of the sport industry, we focus the remainder of this paper on the Primary Sport Product: that is, the right to view a spectator sport contest.
Table 1. Consumers and Sport Products in the Spectator Sport Industry

<table>
<thead>
<tr>
<th>Category</th>
<th>What is sold</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Sport</td>
<td>Ticket</td>
<td>Individuals</td>
</tr>
<tr>
<td>Product</td>
<td>Ticket</td>
<td>Businesses</td>
</tr>
<tr>
<td></td>
<td>Broadcast</td>
<td>Individuals</td>
</tr>
<tr>
<td></td>
<td>Broadcast rights</td>
<td>Businesses</td>
</tr>
<tr>
<td>Secondary Sport</td>
<td>Licensed goods</td>
<td>Individuals</td>
</tr>
<tr>
<td>Product</td>
<td>License to brand</td>
<td>Businesses</td>
</tr>
<tr>
<td></td>
<td>Sponsorship</td>
<td>Businesses</td>
</tr>
<tr>
<td>Tertiary Sport</td>
<td>Prestige</td>
<td>Cities</td>
</tr>
<tr>
<td>Product</td>
<td>Players</td>
<td>Rival Franchises</td>
</tr>
</tbody>
</table>

1.1. Features of the spectator sport product

Mullin, Hardy, and Sutton (2014) describe many of the unique features of the live spectator sport product. It is a non-necessary luxury good that is both intangible and highly experiential. Each live sport product (the contest) and each subcomponent of the product is entirely unique; a single shot on goal will never happen again in the exact same way with the exact same players. Moreover, the quality of the event production (the contest) greatly depends on the quantity sold (size and density of the crowd)\(^4\). Furthermore, the product is inconsistent, spontaneous, and unpredictable due to physical and emotional states of the athletes, weather conditions, and more. Identified by Rottenberg as early as 1956, the uncertainty of outcome of a sporting contest has been called the ““core” league product” (Mason, 1999, p. 405). Contrast this to an intangible, experiential, luxury good like theater where, notwithstanding situations when performers may forget their lines, a ticket holder reasonably expects to see the same product (e.g., lines, songs, and performances) as those consumers who preceded them. The patrons know the ending and would demand their money back if the performance did not conclude as expected.

Moreover, the spectator sport product is perishable and there is little value in the product after the contest is complete because the outcome is already known. Thus, profit maximization is
achieved through the broadest live, concurrent distribution (e.g., live, TV, radio, streaming apps, Internet) of the product. The simultaneous production and consumption of spectator sport is most similar to the live performance industry (theater, plays, and so forth), which now uses similar distribution strategies as sports (e.g., the New York Metropolitan Opera is broadcast live in cinemas throughout Canada and the United States). Not all perishable products require simultaneous production and consumption (e.g., flowers or food), though all require special attention to their supply chains to reduce waste and maximize revenue.

Finally, the name of the firm generally reflects the physical location of production and is designed to create a local public good. The promise of positive externalities from spectator sport events (e.g., civic pride, tourism, urban [re]development) leads taxpayers to construct and/or refurbish sport facilities and provide public subsidies in hopes of attracting professional sport franchises and/or mega-events (Coates & Humphreys, 2003).

Many products share some of the same features as spectator sport but no products share all of them. Lottery tickets and raffle tickets have unknown outcomes, participatory events are experiential, involve joint production, and have uncertain outcomes (e.g., triathlons, Little League Baseball, and go-cart racing), and reality television shows are unique and unpredictable with unknown outcomes. However, none of these products involve joint production, which makes spectator sport highly unique.

The production of live spectator sport has not fundamentally changed in the past century (except for minor rule changes) because, at its most basic level, event promoters still charge consumers for the right to watch a live sport contest. Clearly, changes have occurred all around the core sport product in terms of its inputs to production, distribution channels, technology, facilities, and the viewing experience. These unique features of spectator sport make it different
from any other product and lead to distinctive consumers and modes of consumption.

2. Consumers and consumption

There is considerable academic research on the demand, motivation, and features of avid consumers who consider their favorite team(s) as part of their social identities (Lock & Heere, 2017). Avid consumers become emotionally attached to their favorite teams and/or athletes through a process of psychological attachment that results in the purchase of licensed products to demonstrate their allegiances as well as a raft of other behavioral tendencies (Mullin et al., 2014). Depending on the degree of attachment, avid consumers may be unable or unwilling to switch brands, which affects demand. Although it varies from team to team and sport to sport, only a portion of the live sport audience is comprised of avid consumers (Fujak, Frawley, McDonald, & Bush, 2018). Less avid customers consume a variety of teams or sports, whereas non-fervent consumers can attend opportunistically as part of an organized group outing (for work, school, clubs, and so forth), with family or friends as a social outing, or to seek entertainment (e.g., Trail & James, 2001). Despite the fact that behaviors of avid sport consumers are studied more frequently in multiple different fields than consumers in most other industries, marketers still struggle to sell tickets for this luxury good. This is due to the immense complexity of sport spectators, which are comprised of avid consumers who are unwilling to replace one brand with another, less avid consumers who are willing to switch between brands, and non-avid consumers who willingly substitute between brands, sports, and other leisure activities.

Due to the unique features of the spectator sport product, the process of consumption is also unique. The producer dictates the day, time, and location of production and consumers make
themselves available at that moment to consume it. Consumption at the venue is a two-stage process: 1. tickets are generally purchased in advance, and; 2. the live product is consumed at a later time and/or date. Whether live in the venue or on a simultaneous broadcast, spectator sport consumption is often social (Mullin et al., 2014). Perceptions and interpretations of sport experiences vary from person to person, making the sport product subjective and heterogeneous (Mullin et al., 2014). Moreover, because sport is generally consumed in public, consumer satisfaction is invariably affected by social facilitation. Since no two live events are the same, demand for consumption depends on the variable product features, including the intensity of rivalry, day of week, price, competition level, giveaways, team records, star players, nostalgia, and facility, among many others. Finally, while it is typical to purchase plane or theater tickets in advance, a missed flight or performance can still be consumed at a later date. In contrast, missing a live sport event means losing out on a social experience and production that will never occur again, the ending for which you already know.

At its core, spectator sport is a perishable, intangible, inconsistent, luxury good that is produced and consumed simultaneously (Mullin et al., 2014). The consumption process is unique and demand for consumption depends on the interaction between individual consumer features and product quality through reference-dependent preferences (Coates, Humphreys, & Zhou, 2014). Thus, the unique features of both consumers and the consumption process factor prominently in the business model of spectator sport.

3. The spectator sport business model

According to Magretta (2002), ‘a good business model answers Peter Drucker’s age-old questions: Who is the customer? And what does the customer value?’ (p. 87). A typical franchise
sells its products in both business-to-consumer (B2C) and business-to-business (B2B) fashions. On the B2C side, what individual consumers value depends greatly on their level of avidity and their motivations for consumption, as described in Section 2. On the B2B side, sponsoring firms and cities generally value the prestige gained through brand associations or access to the franchise’s consumers. Alternatively, media companies and rival firms value strong inputs to their own production processes.

Building on information contained within Table 1 and presented in the above sections, Figure 1 visually illustrates what a single firm exchanges for monetary gain during each of its transactions (Ovans, 2015). The solid lines in this business model diagram indicate a franchise, its typical customers⁵ (both individuals and businesses), and the products they are willing to purchase: tickets to a live event, broadcast rights, and access to brand and prestige through sponsorships, licensed goods, players, and stadium subsidies. While it is technically a cartel, we include the league as a central component of the business model because it is also a customer through a typical exchange relationship as it mediates the sale of Primary, Secondary, and Tertiary Sport Products on behalf of member franchises. Finally, in an effort to more broadly illustrate the business model of a professional sport franchise, dotted lines represent peripheral transactions made by a sport franchise’s customers, but which are not technically part of the franchise’s business model. There are additional peripheral transactions involving the franchise’s customers that are not reflected in Figure 1 because they detract from the intended emphasis on the franchise’s immediate business model.
Figure 1. Business model of a professional spectator sport franchise.

Note: Solid lines represent transactions in the business model of a professional spectator sport franchise. Dotted lines represent some of the most prominent peripheral transactions made by the sport franchise’s customers, but which are not technically part of the franchise’s business model.

While Nike and Adidas share similar business models, unique to spectator sport is that business models change depending on a franchise’s location in the world and the rules and structures of the league in which it is a member. These rules and structures govern player transactions, sales, prices of inputs, maximum expenditures on athletes, media rights, licensing rights, and several other operational processes. Figure 1 reflects a standard business model for a single franchise in a closed, team-based, professional sports league where goods and services are exchanged for money.
In addition to identifying customers and what they value, Magretta (2002) stated that an effective business model ‘also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to consumers at an appropriate cost?’ (p. 87). To help derive the answers to these questions, we examine the value chain of a spectator sport franchise.

3.1. The value chain of a spectator sport franchise

Porter’s (1985) value chain is commonly used to identify those areas in which core competencies of a firm add value. In general terms, a value chain has two main parts: one that includes all activities associated with making a particular product and one that includes all activities associated with selling said product. The application of this framework to a spectator sport franchise is useful in highlighting the necessary components of production and the simultaneous operations and distribution of the Primary Sport Product. In working through this framework, we offer new insights into the ordering of activities and the extensive use of outsourcing in the spectator sport industry.

The inputs to the spectator sport industry primarily include players, coaches, and facilities (Miller, 1997), while the inbound logistics involve obtaining those inputs (see Figure 2). The book *Moneyball* (Lewis, 2004) is a clear illustration that although all franchises engage in these activities, they do so with differing abilities, which results in different product quality. Furthermore, the ability to add value is constrained by cartel rules on acquiring and controlling inputs (players) through standard player contracts, salary caps, and salary minima and maxima.

The traditional value chain assumes that products are produced and distributed, and subsequently marketed and sold (Porter, 1985). However, spectator sport events (and other
perishable live events such as theater) have a uniquely different process: live event consumption begins with *marketing*, followed by ticket *sales*, and ends with the simultaneous production and consumption of the event. This means the *operations* stage (or production of the event) occurs contemporaneously with *outbound logistics* (or distribution or consumption). Operations relies on the joint efforts of players, coaches, officials, stadium operations personnel, and media staff, among other critical human resources. As discussed previously, the monetization of the Primary Sport Product occurs through the broadest simultaneous *outbound logistics* of the product to various consumers, either in person or via a variety of franchise, league, or third-party broadcasts (see Figure 1). Finally, a number of *service* activities maintain and enhance the product’s value.

As noted in Figure 2, many outsourced, service-based vendors are responsible for providing value-adding activities because the core competency of a franchise is the production of the on-field contest. This illustrates another unique feature of the spectator sport industry: it involves many more firms than the franchises that co-produce the event.
**Figure 2.** Primary value chain activities for spectator sport franchises

<table>
<thead>
<tr>
<th>Inbound Logistics</th>
<th>Marketing &amp; Sales</th>
<th>Operations</th>
<th>Outbound Logistics</th>
<th>Service</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Adding Activities</strong></td>
<td><strong>Value Adding Activities</strong></td>
<td><strong>Outsourced Tasks</strong></td>
<td><strong>Outsourced Tasks</strong></td>
<td><strong>Outsourced Tasks</strong></td>
</tr>
<tr>
<td>- Scouting, recruiting, and developing player talent</td>
<td>- Channel selection, advertising, pricing, and production</td>
<td>- Primary and secondary ticketing</td>
<td>- Primary and secondary ticketing</td>
<td>- Broadcasts</td>
</tr>
<tr>
<td>- Obtaining coaches</td>
<td>- Maintaining fields and venues</td>
<td>- Variable and dynamic pricing</td>
<td>- Security</td>
<td>- Guest services</td>
</tr>
<tr>
<td>- Obtaining and maintaining facilities with an infrastructure to facilitate the movement of spectators</td>
<td>- Selling tickets</td>
<td>- Advertising agencies</td>
<td>- Videoboard</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Selling sponsorship</td>
<td>- Marketing agencies</td>
<td>- Parking</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Luxury seating sales</td>
<td>- Audio visual services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Naming rights consultants</td>
<td>- Wi-Fi</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Concessions and catering</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Medical</td>
<td></td>
</tr>
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<tr>
<td><strong>Outsourced Tasks</strong></td>
<td><strong>Outsourced Tasks</strong></td>
<td><strong>Outsourced Tasks</strong></td>
<td><strong>Outsourced Tasks</strong></td>
<td><strong>Outsourced Tasks</strong></td>
</tr>
<tr>
<td>- Talent identification</td>
<td>- Selling broadcast rights</td>
<td>- Servicing guests</td>
<td>- Talent identification</td>
<td></td>
</tr>
<tr>
<td>- Scouting and recruiting</td>
<td>- Maintaining content on apps and websites</td>
<td>- Servicing sponsors</td>
<td>- Scouting and recruiting</td>
<td></td>
</tr>
<tr>
<td>- Salary cap and signing bonus consultants</td>
<td>- Producing sport contests</td>
<td>- Season ticket holder relations</td>
<td>- Salary cap and signing bonus consultants</td>
<td></td>
</tr>
<tr>
<td>- Architects</td>
<td>- Hosting fans</td>
<td></td>
<td>- Architects</td>
<td></td>
</tr>
<tr>
<td>- Financial services</td>
<td>- Executing sponsorships</td>
<td></td>
<td>- Financial services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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</tbody>
</table>
Business models and the analysis of value generation focus on the internal features of a firm, but according to Magretta (2002), “they don’t factor in one critical dimension of performance: competition” (p. 91). Thus, in the following sections, we use insights obtained from the internal analysis of spectator sport franchises to strategically situate spectator sport franchises within the broader industry context(s) in which they compete.

4. Competitive Forces

From a strategic management perspective, competition refers to rivalry between businesses as they compete to sell products. This form of competition is entirely different from the on-field rivalry that occurs in the cooperative joint production of the live sport product (Mauws, Mason, & Foster, 2003). For instance, although Nike and Adidas differentiate their athletic footwear by price, performance, quality, and/or various other attributes, these competitive rivals attempt to sell products that serve the same intended purpose to the same potential consumer. In contrast, competitive rivalry for spectator sport franchises is more complicated because the Primary Sport Product is sold in the form of tickets (primarily to geographically-limited local markets) or broadcast rights (to local audiences). In reference to the sale of tickets, in closed professional sport leagues inherent to North America, Australia, Japan, and some other parts of the world, franchises operate as local monopolies and do not compete with rivals because there is generally only one franchise in each geographic market. In cities with multiple franchises in a closed league (e.g., Los Angeles or New York), the nature of the sport product as an experiential good tied to one’s identity means that few consumers purchase tickets to different franchises in the same sport in the same city, thus indicating a lack of competitive rivalry. Regarding the sale of broadcast rights, franchises such as the Golden State Warriors
compete on a global scale through worldwide marketing campaigns to generate consumers who will view broadcasts (and hopefully purchase Secondary Sport Products such as licensed goods), even if they will never have the opportunity to see a live game in person. Despite the handful of franchises competing globally in this manner, the vast majority of franchises compete locally due to league restrictions on marketing beyond a limited radius. Consequently, most consumers travel less than a half hour to spectate a sporting contest (Noll, 2003), leading to few cases of direct competitive rivalry in the business of spectator sport.

Whereas rival firms (e.g., Nike vs. Adidas) sell the same essential product to the same potential consumer, substitutes offer consumers the ability to achieve the same desired outcome with a different product. For example, a non-avid sport consumer seeking an evening of social engagement with friends might find it at a ballgame or a restaurant. In contrast, an avid sport consumer seeking eustress from the uncertainty of outcome of spectator sport will only find it by watching a game featuring their favorite team because there is no proximate substitute.

In practice, when evaluating spectator sport franchises, the distinction between competitive rivals and the threat of substitutes is an interactive function of the product being sold (i.e., tickets or broadcasts; see Mills & Winfree, 2016), the number of rival firms in the local market, and features of consumer attachment (see Section 2). For avid consumers, there is no competition for their favorite franchise because it is the only brand they will consume; less avid and non-avid consumers may substitute between different team brands within the same sport, other sports, or any other leisure activity. The influence of substitutes on profits varies from franchise to franchise because profits depend on the proportion of spectators who are avid consumers since they are less likely to be persuaded by substitutes (Mills & Winfree, 2016). Overall, less than 8% of buyers substitute within or between different sports (Mills, Winfree,
Rosentraub, & Sorokina, 2015; Winfree, 2009), which suggests that the bulk of “competition” for discretionary dollars is in fact substitution.

Given this general lack of direct business competition within live spectator sports (Mauws et al., 2003), it is instructive to assess the other competitive forces that shape strategy (Porter, 1979), since ‘the tug-of-war over profits…occurs not just between rivals but also between a company and its customers, its suppliers, makers of substitutes, and potential new entrants’ (Magretta, 2012, p. 212). The bargaining power of buyers, as another competitive force, exerts some degree of pressure on franchises because a full stadium can increase the quality of the Primary Sport Product (e.g., home field advantage); therefore, franchises are willing to make some concessions to individual buyers. On the contrary, since avid consumers are unable to switch their loyalties to different teams without compromising their social identities, and these consumers rarely act collectively, most individual buyers exert very little competitive pressure (Hoye, Smith, Nicholson, & Stewart, 2018).

The next competitive force, the threat of new entrants, is weak in North America because of the closed league structure. Although there have been several instances of rival leagues emerging to challenge incumbents in the spectator sport industry (e.g., XFL, WHA), they are rarely successful because of the extremely high barriers to entry (Hoye et al., 2018).

The final competitive force, the bargaining power of suppliers, is quite complicated in the spectator sport context. First, franchises generally outsource many essential functions for which they have no core competencies, such as ticketing, security, and concessions (see Figure 2). However, in some cases, these providers pay for the right to work with franchises (e.g., concessionaires), which suggests they are either a weak force or not truly a supplier. League governing bodies also supply services to professional franchises, but since professional sport
leagues operate as cartels, these governing bodies do not function as traditional suppliers either. The most important inputs to the production of live sport events are the athletes (Gerrard, 2001), who are acquired from a variety of sources. For example, the NFL obtains its players from an open market after prospects have been trained, cost-free, through a separate developmental system (i.e., the NCAA). Other leagues (e.g., MLB) purchase the rights to players and then incur the cost of developing them within franchises’ player development systems. Players can also be purchased or otherwise acquired from rival franchises in various ways (e.g., waivers), depending on the league structure. A clear indication of the relative bargaining power of other franchises as suppliers of playing talent is the high transaction costs associated with obtaining these inputs. Further complications to suppliers of talent are the cartel rules that affect the allocation of talent within professional leagues, the restrictions on payment to reduce horizontal competition (Hoye et al., 2008; Noll, 2003), and the impact that organized labor can have on the terms and conditions of employment for the athletes (Hoye et al., 2018). Consequently, other franchises in a league are co-producers (of the sport product), collaborators (in the league cartel), partial competitors (in the sale of licensed goods7), as well as suppliers and buyers. This complex organizational interconnectedness exists in no other industry8.

To expand further on the unique relationship of suppliers to professional spectator sport, we move from a discussion of firms supplying inputs to a discussion of the inputs (i.e. the athletes) themselves.

5. Participatory sport as the spectator sport supply chain

Chelladurai (2009) proclaimed that ‘…participant sport is the core of the sport industry, which spawns spectator sport, which in turn, supports (and is supported by) other related
industries’ (p. 11). Interpreted from a strategic management perspective, Chelladurai suggests the supply chain of spectator sport features a symbiotic relationship with participatory sport. Consider that participatory sport is serviced-based and geographically fragmented (Shilbury, 2000), whereas spectator sport is mature and product-based (see Figure 3). At first glance, it might seem obvious that we would not study these segments together given their differences in industrial organization. However, we contend that participatory and spectator sport are inextricably intertwined by the movement of athletes through a specialized hierarchy of training. This natural bridge between the participatory and spectator segments of the sport industry allows us to link multiple firms in the spectator sport supply chain into a new conceptual framework.

Consider a recreational youth soccer league that utilizes a B2C business model to sell services that provide participatory activities such as teaching sport-related skills and organizing games. A consumer can play in a recreational or competitive sports league from youth until adulthood, and each year purchase the same essential services of the league in organizing team play. Although it is not necessary, consumers can also move up the supply chain as they become more highly trained by competing on travel teams, club teams, and high school teams. This hierarchy of training is important as few 18-year-olds can compete on elite developmental or intercollegiate athletic teams without years of preparation. Businesses involved in this supply chain are exclusionary and only accept payments from consumers who are highly trained and prove their abilities through a competitive tryout process. At some point along this continuum (depicted by the gray overlap of industry segments in Figure 3), the former paying consumer becomes a paid input to production. At nearly the same point, these businesses are no longer participatory and instead become spectator sports.
The borders between participating and spectating are not finite, especially when these structures are embedded in educational institutions and are no longer stand-alone, profit-maximizing businesses (e.g., in American high school or university sports). Within Figure 3, it is clear that these businesses are involved in a hierarchy of training. It is also clear that it is at the intersection of participation and spectating where it likely depends on the sport, the coach, and the school as to whether the focus is on the athlete as a participant or the athlete as an input to a sport product that will maximize crowds and, thus, revenues\(^{10}\). The supply chain is complicated by multiple leagues and governing bodies at each stage that are generally specific to each country.

Through its reliance on highly trained human resources, spectator sport has an extended supply chain that requires years of training and development all within the same industry\(^{11}\). While the spectator sport supply chain illustrates the connection between different forms of sport production, a larger model is necessary to tie sport production to the myriad supporting firms throughout the remainder of the sport industry.

6. Sport industry model
The spectator sport supply chain framework illustrates that there is a wide variety of firms involved in producing sporting contests. In the two-sector model of the sport industry developed by Li, Hofacre, and Mahony (2001), these types of firms are positioned at the core of the sport industry. While we broadly agree with Li et al.’s (2001) model, we have demonstrated in earlier sections of this paper that the uniqueness of spectator sport affects other aspects of the sport-producing core. These observations lead us to develop a revised industry model that reconceptualizes the core sport-producing sector to generally align with Mason (2016), while clearly distinguishing between different firm types, and their unique profit motives and business models. Thus, in our revised sport industry model (see Figure 4), the core sport producers include:

- all firms involved in the spectator sport supply chain that range from service-based B2C businesses to elite, profit-maximizing spectator sports (both team and individual sports);
- firms that sell access to recreational sport designed for fun and play that are not designed to lead into the spectator sport supply chain, including private and public golf resorts, bowling alleys, or badminton classes through the local YMCA;
- fitness clubs, yoga studios, and other firms designed to increase health and wellness, and;
- firms that produce sport as a form of social good, including the Special Olympics, Street Soccer, Peace Players International, or Street Football World.

Surrounding the sport producing core, Li et al. (2001) placed several supporting and overlapping subsectors which indicate the relationships between the various firms as customers, suppliers, buyers, partners, subsidiaries, or parts of a larger diversified company. The hyphenated lines that link the various subsectors together demonstrate their interdependence.
and 5), and the passage of time, we have identified *Sport Performance* as a new subsector in our revised model of the sport industry. This new subsector is comprised of firms providing products or services designed to improve individuals’ sport performances through nutrition, training, wearable technology, virtual reality/augmented reality (VR/AR), biometric data, injury management, neuro-feedback, sport psychology, coaching instruction, live-in training academies, or assistive technologies for adaptive sports (see Figure 4).

Insights from the strategic analysis of the spectator sport value chain in Section 3.1 have also allowed for a reconceptualization of the subsector dedicated to Sport Management Firms by relabeling it as *Agencies, Consultants, and Service Providers*. This subsector now provides a conceptual home for firms involved in all of the outsourced tasks that we identified in Figure 2, as well as those providing such invaluable services as public relations, sponsorship sales, licensing, ticket sales consulting and training, television rights, radio rights, premium seating, event management, hospitality, fan analytics, and so forth.

Especially unique to spectator sport and its supply chain is an arrow in Figure 4 indicating the use of produced sporting contests as free inputs to the products and services of other firms (Shilbury, 2000). Historically, spectator sport franchises allowed print news the free use of their scores as a public good (Neale, 1964). Today, these inputs are not only provided to digital or print media, but also to firms in the fantasy sports, sports statistics, and the global sports gambling industries. Similarly, athletes and contests in the spectator sport supply chain exist as free inputs for firms that promote athletes to college recruiters, provide game stats, and report scores. Both participatory and spectator sports are also used as inputs to active, passive, and nostalgia sport tourism.
6.1. Seven observations on the sport industry model

From this revised industry model, there are seven important observations. First, there are industries such as primary and secondary ticketing, advertising, marketing, and concessions that sell to a variety of B2B customers, and only some of those customers are located in the sport industry. Although some of these service providers are a necessary input to the production of spectator sport (e.g., ticketing and concessions), they exist in their own standalone industries. Second, in Subsector 6 of the revised model, large sport agencies like Endeavor (formerly IMG)
and Learfield sell all or most of the services described by Li et al. (2001), while there are also robust niches related to single-services such as pre-game tailgate services. Third, firms in some subsectors provide products and services to all segments of the core sport-producing sector, whereas other subsectors focus on only a single segment. For example, some firms exist solely because of athlete development and sell their professional services only to recreational and participatory sport firms in the athlete development hierarchy. This includes apps to organize teams, league scheduling software, fundraising, team travel, stats for athletes to improve their chances of obtaining scholarships, and live-in athlete training academies. Fourth, many sport firms are vertically integrated (Stotlar, 2000). This can be witnessed through franchise ownership of (or by) a media entity that distributes live events, or through ownership of suppliers such as concessionaires or luxury suite sales experts. Fifth, many sport firms are highly diversified. For example, NBC Sports, Dick’s Sporting Goods, and Time, Inc. (owner of Sports Illustrated) have all purchased technology firms that build apps for youth sport registration and fee processing. Sixth, many industries adjacent to spectator sport have “standard” business models that are widely studied outside of the sport context. This includes manufacturing (e.g., sports equipment), retail (e.g., sporting goods), and service-based firms (e.g., fitness centers). Finally, the core sport-producing sector and all of the subsectors identified in Figure 4 can be segmented by sport type, geography (due to differing business models and league structures), and customer type.

The sport industry has changed dramatically since Li et al. (2001) proposed their two-sector model of the sport industry. While it remains one of the most comprehensive models, we believe our reconceptualization better captures the current state of the sport industry, and these seven observations help to better understand the relationships between firms involved in producing sport and sport-related products and services.
7. **Academic research and the sport industry: the case for spectatoritis**

Why has sport management scholarship predominantly focused on spectator sport (Bowers et al., 2014)? Quite simply, spectator sport is where we find numerous elements that make sport management research distinctive. Spectatoritis embraces the scholarly focus on spectator sport as a rational pursuit of the elements that distinguish sport management from other scholarly fields. The theory of spectatoritis justifies the past focus on spectator sport and explains why there should be more research on spectator sport from a strategic management perspective.

Historically, there has been concern in the academy that spectator sport receives too much attention. One of the founding members of NASSM wondered why ‘most sport philosophy and social-science scholars assiduously avoid scholarly consideration of exercise and dance as part of their domain?’ (Bowers et al., 2014, p. 578). This over-emphasis on spectator sport in our academic journals could be due to a fascination with fame, fortune, and profits; that academics focus on what they see and read about in the media; or that data available for the study of professional and collegiate athletics are so readily available (Wolfe et al., 2005) that there is little incentive to gather data from other firms. Alternatively, we see from the preceding sections of this paper that a strategic management assessment of spectator sport reveals distinctive features and characteristics that do not exist in other industries or alternative forms of sport.

This same strategic management perspective allows us to distinguish between the study of exercise, dance, and play and the study of firms that sell services related to exercise, dance, and play. The former is the domain of other fields (e.g., teacher education, biomechanics, physiology), while the latter could involve sport management through the study of bowling alleys, golf courses, dance studios, ski resorts, fitness clubs, table tennis centers, and indoor
futsal arenas. These firms are typical service-based, B2C businesses (similar to music lessons or private tutoring) that do not have the unique products or business models that make them especially conducive to the development of unique theories. We agree that these firms ‘deserve to be “managed well”’ (Bowers et al., 2014, p. 575) and are an important part of sport management education in preparing students for working in and managing firms with a variety of business models. Similarly, from an industrial organization perspective, we can learn plenty from highly geographically fragmented industries like fitness or youth sports.

Although some may take issue with participatory and recreational sport being relegated to part of the spectator sport supply chain, a strategic management perspective allows us to see that, at least in the North American context, there is no other way to become an elite athlete. The case for spectatoritis as a useful focus of sport management research is not meant to imply that spectator sport has a dominant social position over participatory sport, or that participatory sport is somehow less deserving of research. Spectatoritis simply justifies the historical research emphasis on commercial sport, and away from exercise, dance, and play.

Moving into the future, spectatoritis also provides a rational explanation for why spectator sport should be central to the study of sport management. Chalip (2006) stated, ‘If we are to take seriously the possibility that sport management has distinctive elements, then we need to identify what those elements are and what difference they make’ (p. 4). Thus, spectatoritis is also a call to action for the development of unique sport management theory in both the non-competitive environment of spectator sport production, as well as other competitive segments of the industry that relate to spectator sport in the form of suppliers, partners, or customers. Although Hoye et al. (2008) stated, ‘managing sport organizations requires the application of management theories, principles, and strategies that are no different to managing organizations in
the corporate, government, or nonprofit sectors’ (p. 509), the strategic management perspective in this paper challenges these assertions by demonstrating that mainstream strategic management frameworks relying on competitive environments (i.e., Porter’s five competitive forces and value chain) are ill-equipped for the nuances of spectator sport and require considerable adaptation. In an effort to address the limitations imposed by existing management frameworks, we have created our own models and frameworks (i.e., business model, supply chain, industry model) that help us better understand the unique business of spectator sport and establish the foundation upon which future research may flourish.

Scholarship within sport management has lagged in terms of unique strategic management theory generation (Chalip, 2006); therefore, the remainder of this section discusses avenues for future research from a strategic management perspective by integrating more management theory in both competitive and non-competitive environments (Slack, 1996; Zeigler, 1987).

7.1. The absence of competition: the case for studying spectator sport from a strategic management perspective to generate additional unique sport theory

Shilbury (2012) contends that competition is ‘the heart and soul of sport management’ (p. 2). While this is inherently true for most subsectors of the sport industry, previous sections of this paper have shown that it is the lack of competition in the production of spectator sport that defines sport management as a distinctive discipline. In this section, we explain how researchers can extend the models developed in this paper to generate unique theories and frameworks in the non-competitive production of spectator sport.

First, Porter’s (1979, 1985) strategic frameworks assume competitive environments with
separate suppliers, buyers, rivals, and entrants. Previous sections of this paper have illustrated how these are inadequate for the spectator sport context. Our spectator sport-specific solution explicates a framework where rival franchises share profits and are simultaneously suppliers, buyers, and joint producers. We encourage additions to this model to include a new view of joint collaboration and pseudo-competition through the lens of a cartel. While Brandenburger and Nalebuff (1995) encouraged both cooperative and competitive ways to create value within an industry and have even had their co-opetition framework applied to spectator sport (e.g., Dobbs, 2010; Robert, Marques, & Le Roy, 2009), their strategic approach falls short because these franchises do not compete with one another in business (despite what happens on the field of play).

Second, the spectator sport business model presented in Figure 1 is limited to closed, team-based, professional sports leagues. Multiple unique business models in the spectator sport industry can be built upon and expanded from Figure 1, including individual and team-based sport leagues in different countries. A member-owned, club-based franchise in an open league would have a similar structure but could include paid supporters/owners or shareholders in the business model. In the context of American college athletics, the NCAA replaces the league, and then an additional league-like administrative layer is added as conferences coordinate event schedules and sell collective media rights. Of course, spectator sport does not originate solely from franchises. Additional business models originate from international sport federations selling competitions featuring teams from different countries and from governing bodies that sell competitions between individuals, as is witnessed in sports such as tennis or golf.

We may also derive an exceptionally rich area of study from examining the supply chain in Figure 2 that connects the participatory and spectator sport spheres. Research on industrial
clusters (e.g., Gerke & Dalla Pria, 2018) and business ecosystems (e.g., Joo & Shin, 2018) may be extended to generate sport-specific ecosystem models. Moreover, given the sweeping legal and financial implications, the gray area in the supply chain where a buyer becomes an input to production while simultaneously the business shifts from being participatory to spectator in nature is another fruitful avenue to be pursued by sport management researchers. Finally, the reliance of a spectator sport franchise on multiple specialists in the value chain (Figure 2) requires strong competencies in integration. Extended enterprise models (Visnjic, Neely, Cennamo, & Visnjic, 2016) could be used to build spectator sport-specific integration models.

7.2. The presence of competition: the case for broader study of the sport industry

Whereas the previous section described the potential for additional unique sport management theory development based on frameworks developed in the absence of competition within spectator sport production, the remaining subsectors of the sport industry identified in Figure 4 are characterized by traditional business competition. Thus, the final extension of our models involves the study of sport management beyond spectator sport franchises (c.f. Pitts, 2001; Slack, 1996) to involve competition and its management.

As examples, the firms in Subsectors 2 and 6 provide incredibly rich opportunities for management research but are among the least studied within the sport industry. These firms are highly innovative, often vertically integrated, generally located in highly fragmented industries (by segment or geography), involve considerable amounts of private equity investment, often on the cusp of technological innovations, and subject to high rates of mergers and acquisitions. All of these features provide a compelling landscape for studying a variety of management issues.

Vertical integration in sport has primarily focused on sporting contests as an input to
media distribution (Smith & Stewart, 2010; Stotlar, 2000), although a fascinating opportunity for further research exists among sporting goods companies that diversify into youth league management software. Likewise, the theory of client-led diversification (Mawdsley & Somaya, 2018) can be tested with firms that offer outsourced services such as marketing and media rights, and then diversify into sponsorships, naming rights, and other professional services. The recent diversification of the NBA into competitive esport gaming lends itself to a qualitative comparison of value chain alignment versus brand platform ecosystem optimization (Zheng & Mason, 2018) in predicting new horizontal and vertical integrations within and among spectator sport firms. Sport is also a fantastic context for the study of emerging industries or subsectors, whether it pertains to player tracking data, registration software, digital ticket sales, or the application of VR/AR to spectating and training. Research on fragmented industries would benefit from the study of youth sport leagues, fitness clubs, or indoor athletic facilities. The role of technology in affecting product supply through media (Smith & Stewart, 2010) seems especially salient in light of ESPN launching a streaming service that will replace live sport as the foundation of the cable industry (Perez, 2018), and Major League Soccer replacing local cable rights with digital only local rights on platforms such as YouTube TV and ESPN+ (Ourand, 2018). Research on the differential effects of cooperation and competition in strategic alliances and joint ventures (Arslan, 2017; Babiak, Thibault, & Willem, 2018) applies to the many such structures in the sport industry, such as the Olympic Channel (a USOC and IOC joint venture).

8. Conclusion

In summary, Chalip (2006) stated ‘if sport management is to be anything more than the
mere application of general management principles to the sport context, then there must be something about sport that renders distinctive concerns, foci, or procedures when sport is managed’ (p. 3). In the application of strategic management principles to professional spectator sport, we identified myriad distinctive elements in its product, joint production, consumers, business model, value chain, cooperation, competition, industrial organization, suppliers, vertical integration, monopsony employment, and supply chain. These fundamental strategic concepts helped illustrate how spectator sport is unique from any other industry, and that mainstream strategic management frameworks relying on competitive environments are ill-equipped to evaluate the nuances of spectator sport.

Throughout this assessment, we advanced novel perspectives by noting critical differences (competitive forces), adapting common management frameworks (value chain, industry model), and creating our own frameworks (business model, supply chain) to better understand the business of spectator sport. All of these contributions to the strategic management of spectator sport culminated in an a posteriori theory of spectatoritis that provides a rational justification for why spectator sport has been a natural focus for research within sport management and why it provides the best opportunity to ‘construct theory that is grounded in the management of sport’ (Chalip, 2006, p. 4).
References


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In this paper, spectator sports refer to those that are designed for spectating elite athletic performance. For more details on the differences between open and closed leagues see Noll (2003). One could argue that because a league is a necessity, it should be the unit of analysis instead of the franchise. However, the league cannot be the unit of analysis because, by definition, a cartel is simply an association. It cannot produce anything on its own and instead regulates the production of its members. Even though cartel membership is required, franchises in closed leagues are uniquely incorporated, stand-alone business entities. We thank an anonymous reviewer for helping us clarify this issue.

Research on the home advantage demonstrates the importance of crowd size (e.g., Nevill, Newell, & Gale, 1996) and density (e.g., Agnew & Carron, 1994) on the outcome of sporting contests.

The term ‘customer’ refers to both individuals and other businesses, while ‘consumer’ refers to the end user.

Considerable research in the sport economics literature has investigated the nuanced differences in substitution between different leagues (for a summary, see Mills & Winfree, 2016).

As noted earlier in this section, franchises compete globally and locally to create avid fans who will only purchase one brand, but franchises also compete for the attention of less avid fans who are willing to purchase licensed goods of various franchises. In some cases, leagues pool licensing revenues, but in most, franchises are incentivized to spread their brand through licensed sales.

This discussion of the competitive environment is focused solely on the Primary Sport Product in the B2C landscape; however, the B2B side of the business has similar competitive features. In selling broadcast rights, the same suppliers are necessary to produce the live product. As a local monopoly in nearly every market, there are no rival franchises selling broadcast rights and a limited threat of new entrants. A media station that wants to broadcast local sports could substitute with another local professional franchise in the same or different sport, if one exists. Furthermore, franchises can forward integrate and create their own local networks if rights fees are deemed too low, leaving buyers with little bargaining power.

Although participatory events can be spectated, this is primarily parents in support of their children and is not the intent of the business.

Not surprisingly, it is at this intersection of the supply chain model where we also witness numerous legal challenges to the notion of “amateurism” in the NCAA (see Porto, 2016) and other developmental leagues, such as the Canadian Hockey League (see Cribb, 2014)

Though other industries require human resources with lengthy training periods (e.g., medicine, law, higher education) this training begins with elementary school education, which is a non-profit government service (i.e., public good) and not a B2C industry like participatory sports (private schools being an exception to this).

The subsectors in Li et al.’s (2001) model include: (1) administrative and regulatory athletic associations (e.g., NCAA, MLB, NHL); (2) sporting goods manufacturers, wholesalers, and retailers (e.g., Adidas, Li Ning, Dick’s Sporting Goods); (3) sport facilities and buildings (e.g., London Stadium, ESPN Wide World of Sports); (4) sports media (e.g., Sky Sport, TenCent, YouTube); (5) sports management firms (e.g., Endeavor, Wasserman), and; (6) state, municipal and county sport councils and authorities (e.g., Florida Sports Foundation, Niagara Sport Commission). See Li et al. (2001) for a more detailed description of each sub-sector.

Of course, alternate paths to becoming an elite athlete exist in other parts of the world, such as official government training academies in China or Russia, which illustrates the complexity of the sport industry.