

The Link between Fan Engagement and Economic Performance of Professional Sports Teams

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ABSTRACT

This research paper will investigate the relationship between sports fan engagement and the economic performance of sports teams. Understanding this relationship will allow sports teams to generate higher revenue and build brand loyalty among fans. My research process involves evaluating sports fan engagement data and its impact on team economic performance, including but not limited to price elasticity and revenue. Additionally, I will identify specific marketing and fan engagement tactics that teams are currently using and provide recommendations for improvement to maximize engagement. I will do this by analyzing financial and economic data, as well as fan engagement case studies.

Keywords: Fan engagement, Sport teams, Professional sports, Revenue, Economic performance

1. Introduction

1.1 Background and Significance of the Research Question

Professional sports teams operate in a highly competitive and performance-demanding industry, where success is measured by both a team's on-field performance and their off-field financial performance. In recent years, the sports world has increasingly focused on the influence of fan engagement on driving the economic success of sports teams. This is because highly engaged fans contribute to the exciting atmosphere during games and play a pivotal role in helping teams sustain and generate revenue through various streams. Gaining a thorough understanding of the relationship between fan engagement and economic performance for sports teams is crucial as it is a major factor in a team's revenue, profitability, and long-term brand loyalty amongst fans. To summarize, this research will help sports teams identify links between fan engagement and business performance and provide them with actionable insights and tactics that can improve their business.

1.2 Research Objectives and Purpose of the Study

The objective of this paper is to investigate the correlation between sports fan engagement and the economic success of sports teams. Delving into this relationship allows the average sports viewer to understand the financial incentives sports teams have when trying to retain their audience, and it also enables teams to develop an effective fan engagement strategy. Additionally, this paper seeks to identify strategies and tactics sports teams can leverage to increase fan engagement, and therefore economic success. Through evaluating various strategies to enhance fan engagement, sports teams can mimic, employ, or reference these recommendations based on their current business circumstances.

1.3 Methodology Preview: Analyzing Data and Case Studies

To accomplish these research objectives, an effective and comprehensive methodology will be utilized. The holistic approach will involve the use of both quantitative and qualitative analysis. For the quantitative approach, economic data, statistics, and trends will be examined to assess the relationship between fan engagement metrics and total team revenue. Additionally, the quantitative analysis will include the examination of historical financial data across various sports leagues around the globe. On the qualitative side, case studies of successful fan engagement and marketing campaigns will be examined to understand the underlying factors that contribute to the off-field success of a sports team. Lastly, by synthesizing both the quantitative and qualitative analyses, this research paper presents an accurate and complete representation of the crucial link between fan engagement and the economic success of sports teams.

1.4 Thesis Statement

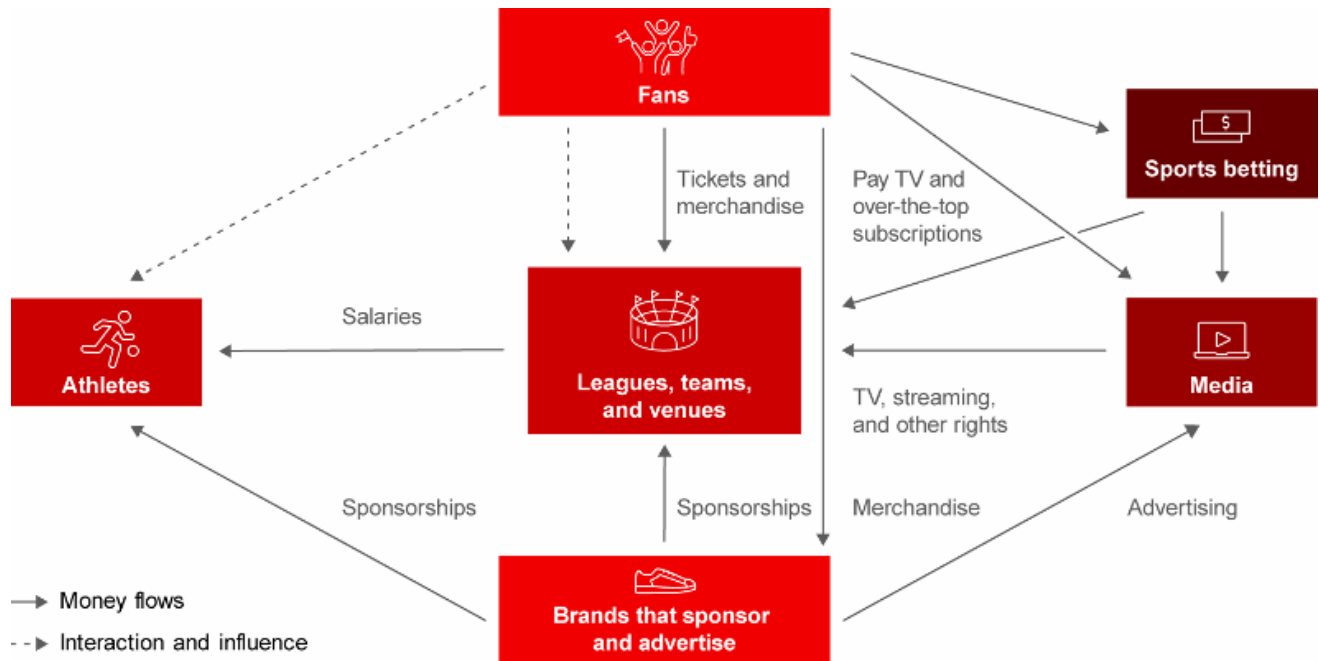
Overall, it is hypothesized that there is a positive correlation between fan engagement and the economic performance of professional sports teams. Specifically, sports teams can utilize successful fan engagement strategies to generate higher revenues, increase the number of revenue streams, and establish brand loyalty amongst fans.

2. Analysis of Sports Fan Engagement and Economic Performance

2.1 Data and Methodology (Research Design and Approach)

Professional sports teams rely on several revenue streams to support their businesses, all impacting their operations in different ways. As shown in figure 1, the money flow of professional sports can be traced through various revenue streams such as media rights, ticket and merchandise sales, and sponsorships.

Figure 1, showing money flow in professional sports¹



Source: Bain & Company

The significance of each revenue stream largely depends on factors such as the sport, team size, and market. However, the recurring theme is that ticket sales and media rights take up the largest percentage of the revenue pie for the vast majority of leagues and sports teams. Since fans are the basis for generating revenue, it is not surprising that traditional forms of revenue generation such as ticket sales and media platforms allow for substantial financial returns, making them a primary focus for teams seeking to maximize their revenue potential. Hence, this research paper focuses on these two key revenue streams when analyzing the relationship between sports fan engagement and the economic performance of sports teams.

The examination of ticketing revenue will involve considering the concept of price elasticity and its impact on ticket demand and spending. By incorporating relevant findings from studies such as "Fan Engagement: What's your Game Plan?" by Deloitte US, this research paper demonstrates the influence of fan engagement on ticket demand and spending patterns. Furthermore, the analysis will delve into teams' social media tactics and brand-building strategies, which play a crucial role in enhancing fan engagement and driving ticket sales. The study will also incorporate case studies, including the WNBA IsoFan case study, to explore

¹ "How Investment Is Changing Sports," July 22, 2021.

specific instances where fan engagement strategies have successfully increased ticket demand and spending.

Other than ticketing sales, this study will also evaluate the value of the media revenue stream to sports teams and leagues. This evaluation will involve analyzing financial data and impacts of media on fan engagement. This research paper will explore successful strategies to increase the value of media rights, including enhancing production quality, expanding global reach, and leveraging digital platforms. Moreover, the Formula 1 "Drive to Survive" series will be included as a case study to examine the impact of a documentary on viewership and media rights value in the real world.

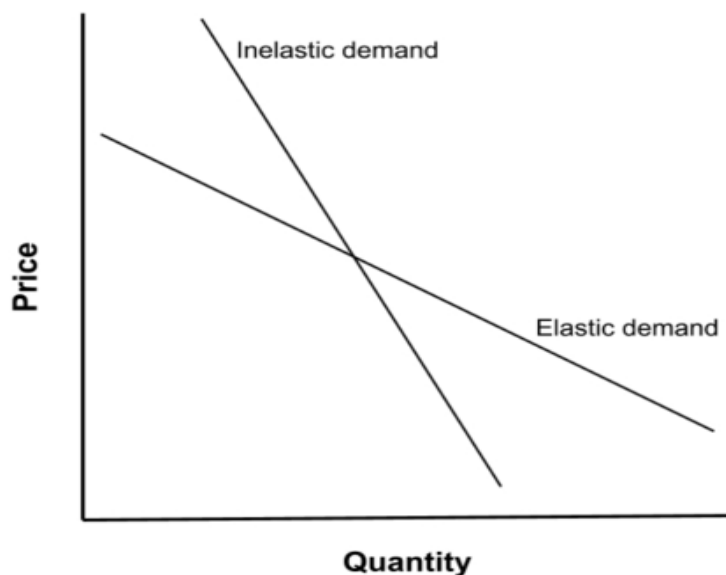
2.2 Fans and Ticketing: Price Elasticity and Revenue

i. Analysis of the Relationship between Fan Engagement and Ticketing Revenue

The relationship between fan engagement and ticketing revenue in sports is influenced by various factors, including price elasticity, ticket demand, and fan spending.

Price elasticity of demand, or PED, refers to the responsiveness of ticket demand to changes in ticket prices. In sports, price elasticity determines how sensitive fans are to price changes and how their behavior is affected by those changes. Understanding price elasticity is crucial for sports teams and leagues to optimize their ticket pricing strategies and maximize revenue.

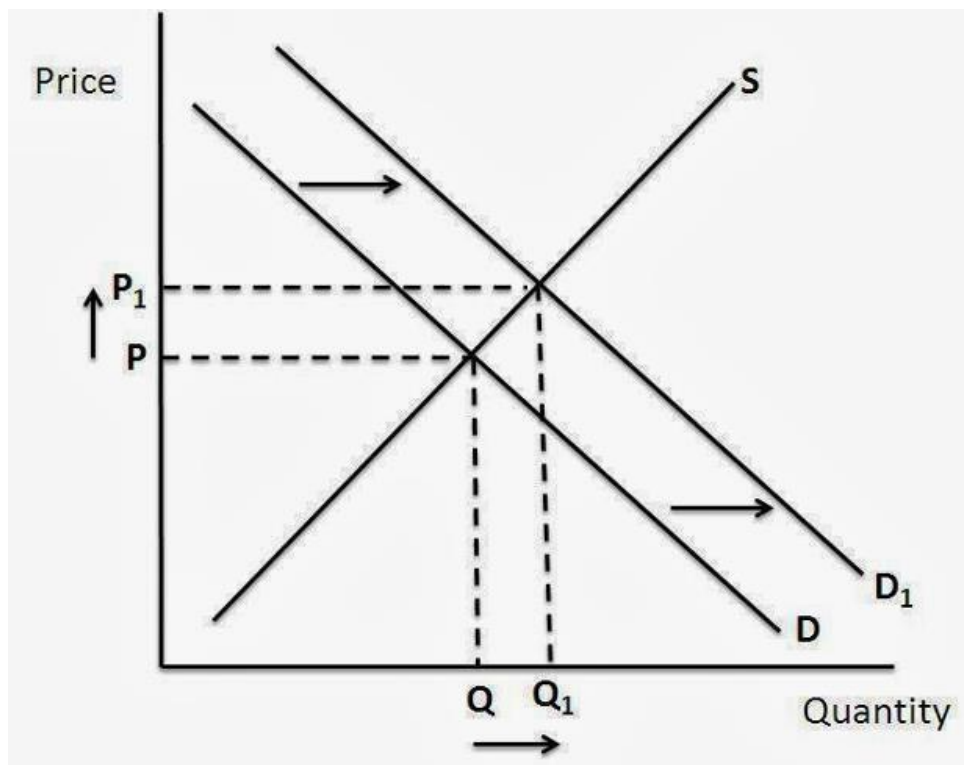
Figure 2, showing difference between elastic and inelastic demand



When the demand is inelastic for tickets such as NBA courtside seats, consumers are less sensitive to changes in price. Hence, an increase in price would lead to a proportionately smaller decrease in quantity demanded. This means that for inelastic demand, total revenue increases when price is increased and vice versa. When the demand is elastic for tickets such as nosebleed seats in a low stakes game, consumers are more sensitive to changes in price. Thus, an increase in price would lead to a proportionately larger decrease in demand. This means that for elastic demand, total revenue decreases when price is increased and vice versa. Consequently, sports teams should try to evaluate their own price elasticity of demand to maximize revenue through their pricing strategy.

Since, the relationship between price elasticity of demand and total revenue is complex and very difficult to determine, the most reliable strategy for sports teams to increase their revenue is to increase fan engagement, thereby increasing the demand for their tickets, merchandise, or other sources of revenue.

Figure 3, showing the effect of an increase in demand on total revenue.



As shown in figure 3, an increase in demand represented by the rightwards shift from demand curve D to demand curve D1 would result in an increase in revenue. The original revenue is calculated by the area $P \times Q$, while the revenue after the increase in demand is calculated by $P_1 \times Q_1$.

Q1. This shows that fan engagement has a direct relationship with the demand of products sports teams offer, which influences the total revenue sports teams receive. Consequently, increasing fan engagement should be considered a viable option for sports teams to increase total revenue and improve economic performance.

ii. Quantitative Data Supporting the Relationship between Fan Engagement and Spending

The Deloitte US study "Fan Engagement: What's your Game Plan?" provides several relevant findings, including quantitative data, regarding fan engagement in the sports industry.²

According to the study, self-described fanatics spend six times more than self-described casual fans annually. This highlights the significant difference in spending behaviors between highly engaged and less engaged fans. Therefore, fans who exhibit a deep and passionate commitment to a team or sport are more willing to invest in tickets, merchandise, and other related expenditures. The study also reveals that season ticket holders spend five times more annually compared to non-season ticket holders. Season ticket holders also demonstrate a higher level of commitment and loyalty to their favorite teams, leading to increased spending on tickets and other associated expenses throughout the season. Moreover, the study indicates that fanatics are about seven times more likely than casual fans to have a high engagement level. This suggests that highly engaged fans, characterized by their active participation, emotional attachment, and avid consumption of sports content, contribute significantly to both fan engagement metrics and team revenue.

Interestingly, the study highlights that fanatics are more valuable than casual fans, despite a similar distribution of income levels. This finding emphasizes that the level of fan engagement, rather than income alone, drives the economic value of fans. Highly engaged fans, even with similar income levels to casual fans, are more likely to spend more and have a greater impact on the revenue streams of sports organizations.

iii. Case Study: WNBA "IsoFan"

"IsoFan" is a unique challenge faced by the Women's National Basketball Association (WNBA). "IsoFans" are fans who attend games alone and do not have anyone to share their fandom with. A study conducted during the 2019 season surveyed approximately 700 WNBA fans, revealing that up to 28% of respondents identified as IsoFans, meaning that they lacked connections to other fans of the league.³

² "A Game Plan for Enhancing Fan Engagement," n.d.

³ "Solving the Mystery of the WNBA 'IsoFan,'" July 27, 2023.

Traditionally, the sports industry has operated under the assumption that fandom is a social activity, involving family, friends, or colleagues. However, the study challenges this assumption and highlights the significance of creating positive experiences for IsoFans. The research compares normal fans to IsoFans by suggesting that normal fans are more likely to have a higher level of identification with their favorite team, making them more likely to become fanatics.

Currently, WNBA teams are looking to cater towards IsoFans to improve their engagement, elevate their fan experience, and reach the objective of increasing total revenue. Various different strategies can be utilized to achieve this goal. Firstly, IsoFans can be identified at the time of ticket purchase or through fan surveys. This information can help teams analyze social media data and target those fans who are not actively engaged. Secondly, targeted experiences and communities for IsoFans can be created. For example, virtual platforms such as social media spaces can be used to connect geographically dispersed IsoFans.

2.3. Media as a Major Revenue Stream

i. Value of Media Rights and Impact on Sports Teams

Media rights play a pivotal role in the economic performance and revenue for teams. These rights include broadcasting, streaming, and distribution agreements, which allow teams to showcase their games and events to a wider audience. The revenue generated from media rights deals often represents a significant portion of a team's aggregate revenue, making it a crucial part of their financial operations.

Several factors influence the value of media rights. The popularity and demand for a particular sport or league play a significant role. Sports with large fan bases and a strong following tend to command higher media rights fees. Additionally, the team success, level of talent, and likability of a sports team can also contribute to the value of media rights.

To increase the value of their media rights, sports teams can employ various strategies. The most effective strategy in increasing the value of media is to increase fan engagement by expanding global reach and increasing viewership. Through this, sports teams can secure long-term financial success by attracting more viewers and thus increasing the demand for and value of their media rights.

ii. Case Study: Formula 1 – “Drive to Survive”

“Drive to Survive,” a popular Netflix series on Formula 1 car racing, is crucial for understanding fan engagement in sports. This series has been influential in increasing fan engagement in Formula 1 across broadcasting platforms. For example, the debut week of Season 5 attracted

nearly 570,000 viewers, a 40% jump from the Season 4 debut. When factoring in viewers catching up on past seasons, the total viewership exceeded 643,000 viewers. Also, the series is credited with boosting live race viewership on ABC and ESPN networks, leading to increased sponsorship revenue. A poll conducted among U.S. Formula 1 fans revealed that 53% of respondents attributed their viewership of F1 races to the influence of "Drive to Survive", which is an unbelievably high percentage.⁴

The popularity of the series may continue to contribute to the growth of Formula 1's live race viewership in the United States. The increase in U.S. fan growth since the debut of the Netflix series indicates a positive trend. Moreover, the addition of new races, such as the Miami and Las Vegas Grand Prix, further enhances the potential for growth in race viewership. Experts in the industry anticipate another ratings growth spurt of 15-20% because of the success of "Drive to Survive" and the subsequent increased presence of Formula 1 in the United States.

Overall, the massive success of the series "Drive to Survive" resulted in a great increase in fan engagement, especially in the United States. This has since caused a considerable increase in total revenue for Formula 1.

3. Recommendations for Maximizing Fan Engagement

a. Introduction

It is vital for sports teams to prioritize the fan experience and foster a highly engaging fanbase to boost revenues. Formula 1's "Drive to Survive" series is a successful example of expanding global reach and increasing viewership. Other unique fan engagement strategies have also shown to be effective in terms of their financial outcomes. In this section, I will suggest two different recommendations for sports teams based on conclusions drawn from the previous section. These recommendations will focus on strategies that can be implemented by sports teams to maximize their fan engagement, and therefore their demand and revenue.

b. Proposed Strategies and Recommendations for Sports Teams

i. Case Study Strategy:

Football team Ajax's fan engagement strategy has stood out from the rest. They melted down their championship trophy into 42,000 little stars and distributed a piece to each season ticket

⁴ Shea, "F1's 'Drive to Survive' Effect: Inside the Show's Ratings and Its Impact on Race Viewership," September 5, 2023.

holder. Not only did this unique strategy capture fans' attention, but it also earned prestigious recognition through winning the grand prix and sports category at The Drum Awards in 2021.⁵

Other teams can take inspiration from Ajax's success and replicate their approach. Firstly, other sports teams can offer customizable and unique items that hold significant sentimental value for their loyal fans. This establishes a deep connection with the fans as they feel exclusive and a part of the team. By leveraging iconic symbols associated with the team, they can reinforce fandom and create emotional ties with fans. Moreover, recognizing and rewarding loyalty is key. Bonds between sports teams and their fans can be strengthened by providing special rewards for season ticket holders and long-term business partners. Showing appreciation to season ticket holders and long-term business relations through special rewards or exclusive benefits strengthens the bond between the team and its fans. Additionally, sports teams can capitalize on their successful performance to give fans collectible memorabilia, further enhancing the emotional connection. Consequently, this makes the price elasticity of demand more inelastic, meaning that an increase in price will lead to an increase in revenue.

Lastly, participating in industry awards and recognition can bring visibility and prestige to fan engagement initiatives, as well as drive overall brand awareness among existing and new audiences. By submitting these initiatives for consideration, sports teams can gain positive publicity and enhance their reputation.

By implementing these recommendations, sports teams can take steps towards enhancing fan engagement, fostering loyalty, and creating memorable experiences that resonate with their supporters.

ii. Original Strategy: The Fan Loyalty Rewards Program

The Fan Loyalty Rewards Program is a unique fan engagement strategy that aims to incentivize and reward fan's loyalty with the end goal of generating a significant impact for sports teams. This strategy involves implementing a points-based system that allows fans to earn rewards based on their engagement, attendance, and support for the team.

Fans would sign up for the program through a dedicated mobile app or website. They would earn points for various activities such as attending games, purchasing merchandise, engaging with the team's social media content, participating in fan contests, and referring new fans to join the program. These points could be redeemed for exclusive rewards, including VIP experiences, meet-and-greets with players, merchandise discounts, and priority access to tickets.

⁵ Team, "5 of the Best Sports Campaigns That Won in 2021, Including Ajax and AB InBev," December 27, 2021.

Fan loyalty reward programs are quite widespread, but the unique concept of the use of dynamic valuation of points in these reward programs has rarely been considered. For instance, teams can offer more points to drive fan behavior at unpopular game times, similar to how teams dynamically price their tickets. This can provide meaningful incentives for fans to attend and engage with the team during low-stakes games.

The Fan Loyalty Rewards Program is supported by previous research that demonstrates the positive impact of loyalty programs on fan engagement and revenue generation. Studies have shown that offering rewards and recognition to loyal fans fosters a sense of appreciation and strengthens the emotional connection between fans and the team. Moreover, research suggests that fan engagement initiatives that incorporate gamification elements, such as points and rewards, have a significant impact on fan behavior. The Fan Loyalty Rewards Program taps into this concept by creating a sense of competition and achievement, motivating fans to actively participate and earn points. This increased engagement can result in heightened fan enthusiasm, word-of-mouth promotion, a sense of exclusivity that drives fan loyalty, and a more inelastic demand curve.

Additionally, the Fan Loyalty Rewards Program aligns with the current trend of personalized experiences and customized offers. By tailoring rewards based on individual fan preferences and behaviors, teams can create a more personalized and meaningful fan experience. This personalization has been proven to enhance fan satisfaction and deepen the emotional connection with the team.

Overall, the Fan Loyalty Rewards Program has the potential to create a more dedicated and enthusiastic fan base.

c. Future of Fan Engagement in Sports

The National Hockey League (NHL) has embraced artificial intelligence to enhance its fan engagement strategies, and this is a prime example of illustrating the inevitability that the future of fan engagement in sports will be shaped by technology.

The NHL has implemented an AI platform called Greenfly, which streamlines the process of sharing digital media content across various social media channels. This platform allows teams and players to quickly and easily access and distribute personalized content, such as photos and videos, to engage with fans on social media. The use of AI technology in the NHL's fan engagement efforts has significantly reduced the time and effort required to create and distribute content. With AI algorithms that automatically tag and categorize media assets, teams and

players can quickly find and share relevant content, providing fans with more frequent and timely updates.⁶

The AI-powered platform also enables teams and players to personalize their interactions with fans. By using AI-driven data analytics, the NHL can gain insights into fan preferences and behavior, allowing them to tailor content recommendations and engagement initiatives to individual fans' interests. Hence, it has expanded fan participation and increased the sense of community. Fans are now more encouraged to create and share their own content, which can be curated and amplified by the league and teams through the Greenfly platform.

The NHL's successful integration of AI solutions to fan engagement is just one of many examples that reveal the ongoing trend of the technological revolution in the sports industry. The discussion of the use of tools such as AI will quickly become reality, benefiting sports teams in leagues all around the world and becoming the new norm.

4. Conclusion

In conclusion, by examining the revenue levers of fans, ticketing, and media, this research paper has provided valuable insights into the role of fan engagement in driving the economic performance of professional sports teams. Not only this, but strategies for enhancing fan engagement to maximize revenues has been identified by considering the factors that impact the overall economics of a sports team.

One of the major findings of this research paper is that engaged fans have a much greater impact on a team's financial success compared to average fans. This is because fans who are loyal, engaged, and emotionally connected are much more likely to attend games, purchase merchandise, and promote the team. This underscores the need for fostering fan loyalty and creating a sense of exclusivity through strategies like Fan Loyalty Rewards Programs. The implementation of Fan Loyalty Rewards Programs allows teams to incentivize engagement and gather valuable data on fan preferences and behaviors. By personalizing the fan experience, teams can tailor their marketing strategies, offer targeted promotions, and optimize revenue generation efforts. This approach aligns with the growing trend of personalized experiences and gamification in the sports industry.

Furthermore, technology plays a pivotal role in shaping the future of sports fan engagement. For instance, the NHL's utilization of AI-powered platforms exemplifies how technology can streamline content creation and distribution, enabling teams to engage with their fans more

⁶ Minardi, "The NHL Leads with AI to Power Digital Media Access," November 17, 2023.

efficiently. AI-driven data analytics also provide endless possibilities as they allow for more personalized content recommendations and initiatives that enhance fan participation. As the sports industry continues to evolve, it is imperative for teams and leagues to not only stay at the forefront of technological advancements, but to also keep on pushing the limits of what is possible for improving fan engagement. By prioritizing fan engagement and implementing innovative approaches, sports organizations can build loyal fan bases, increase revenue streams, and create memorable experiences that deepen the emotional connection between fans and their favourite teams.

Overall, this research paper highlights the significance of fan engagement in the economic performance of sports teams and emphasizes the need for ongoing efforts to foster strong fan engagement. By doing so, teams can thrive economically and create meaningful connections with their fan base, ensuring future growth in the dynamic world of sports.

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