Case Study

London's Financial Legacy

 

**Will London’s financial legacy be a Montreal or an LA? Exploring the Rising Costs to the Taxpayer**

Will the London 2012 Games live up to its legacy goals, in terms of generating social, financial and economic benefits? We look at the legacy of two Summer Olympic Games that have, historically, made their mark in Olympic history as a result of the financial and economic legacies that they imposed on the respective countries in which they were hosted. The first case study we shall consider is the 1976 Montreal Games, widely considered a financial disaster. The second, is the LA Games, an amazing financial success and a case study in innovative mega-event planning and funding.

**The 1976 Montreal Games**

Shortly after Montreal won the right to stage the 1976 Montreal Summer Olympic Games, the (then) Mayor Jean Drapeau made an important and somewhat historic budgetary announcement that the 1976 Montreal Summer Games would be the first "self-financing" Games in Olympic history.

Drapeau forecast that the Games would effectively finance themselves, via the sale of Olympic memorabilia, and via the sale of Olympic lottery tickets. Drapeau did not entertain the concept of a potential deficit, so confident was he in his financial planning. He even spoke about how a surplus of profits generated by the Games might then be spent to benefit Canada. Drapeau was spurred on by the success of Montreal Expo ’67 and the Mayor was resolute in his optimism that Canada would successfully fund and host a memorable Games.

The deficit, in reality, ended up being so huge that Montreal residents were paying back the debt – locally referred to as ‘The Big Owe’ for 30 years. This was partly attributed to bad planning, and the fact that Drapeau – himself a Mayor and not a specialist event planner – became the Project Manager for the event. His lack of experience and qualifications in the area meant that he was unequipped to manage the technicalities of construction, engineering and other aspects of the process. The architect for the Games lived in Paris so was often not onsite, further compounding problems.

A myriad of construction problems saw costs spiral, and in November 1975, a mere few months before the inception of the Montreal Games, control was taken away from Drapeau and handed over to a newly formed Olympic Installations Board. The work was frenetic, with (at one point) a 10,000 man crew working around the clock to complete the Montreal Olympic Stadium. Amazingly, the overall Olympic project was bought back onto schedule.

The original estimated cost of the Games was $156 million. However, the final actual cost was estimated at $2 billion. The Canadian taxpayer bore the brunt of the entire cost, which eventually took 30 years to pay back.

**The 1984 LA Games**

Following the financial disaster of the Montreal Games, and the political boycotts and controversy of the 1980 Moscow Games, many countries were seriously reticent in their desire to bid for future host city status. However, LA stepped up to the plate, redefining the financial and economic model upon which all future Games would be based, and ushering in the era of commercialisation.

Whilst many detractors argue that commercialisation has negatively affected the amateur status and ethos of the Games, it is nevertheless undoubted that it has led to renewed interest in, and greater profits for, those countries that have consequently won the right to hosting future Games.

The innovative financial approach to financing the 1984 Games was managed by Peter Ueberroth, a man who would consequently feature on the front cover of Time as Man of the Year for his ground breaking work in funding the Games so successfully. The LA Games generated a surplus of $225 million via the establishment of TOP (The Olympic Programme), and via the monumentally successful sale of media rights and ticket sales that together generated a total of $768 million in revenue. Ueberroth even sold the right to run part of the torch relay to ordinary citizens (as opposed to the usual athletes and celebrities) for $3000 per participant.

Total costs were $546 million, significantly lower than the disastrous financial legacy of Montreal.

Case Study

London's Financial Legacy

WOMENS PARTICIPATION IN THE OLYMPIC GAMES

 

The TOP Partner programme Sponsorship Programme effectively commodified the Olympic brand, offering a limited number of sponsorship opportunities at a high price to leverage up the perceived value of Olympic sponsorship. The price of acquiring these rights was high - $50 million per sponsor to acquire rights – in a particular category – for a 4 year period. The effective use of volunteers also contributed to keeping costs low and profits high.

**Summary**

The LA Games rewrote the way in which the Games were perceived and financed. Effectively commodifying the Olympic rings led to the potential for massive profits, opening the floodgates to sponsorship deals and lucrative sponsorship opportunities on a global scale. This model has been implemented by every successive Summer and Winter Games, often to great effect.

The London 2012 Games also stand to benefit from the impact of commercialisation, with brands such as Coca Cola, Cadbury and General Electric engaged in long-term sponsorship deals, alongside lucrative ticket sales and media rights sales. However, the impact of the economic crisis has caused concerns over the potential financial and economic impact of the Games. It will be interesting to see whether London 2012 is remembered as an LA or a Montreal in terms of the financial, social and economic legacy that it creates.

**Further Information**

**Marketing Fact File – International Olympic Committee:**

<http://www>.olympic.org/Documents/IOC\_Marketing/OLYMPIC\_MARKETING\_FACT\_FILE\_2011.pdf

Evangelia Kasimati (2003) **Economic Aspects and the Summer Olympics: a Review of Related Research.** International Journal of Tourism Research. Int. J. Tourism Res. Vol. 5, pp. 433–444.

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Case Study

London's Financial Legacy

WOMENS PARTICIPATION IN THE OLYMPIC GAMES

 

**14, pp.** 369–394

**Discussion**

* Discuss the benefits of commercialising the Games.
* Discuss the drawbacks of commercialising the Games.
* Why was Ueberroth able to effect such innovative and effective strategies in terms of funding the Games? Consider his professional history in your answer.
* How did Ueberroth effectively use the concept of managing scarcity to increase profits?

Case Study

London's Financial Legacy

WOMENS PARTICIPATION IN THE OLYMPIC GAMES

 

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