



“To what extent is merchandising beneficial for the sports industry?”

Kush Mehra

Delhi Public School, R. K. Puram, New Delhi, India

Abstract

Marketing is important for all industries. The sports industry is no exception. Of all the marketing techniques, merchandising is especially useful for sports teams and athletes. From a general perspective, merchandising is all about promoting products in retail stores and influencing consumer behaviour to increase sales. This research paper looks at the actual production and sale of sports merchandise by different sporting teams and the licensing process that is at the foundation of the same. The paper also evaluates sports merchandising by considering both the advantages and drawbacks of the same to the various stakeholders involved to provide an answer to the research question at hand.

Introduction

“Promote Goods, Attract Customers and Influence their decisions” - this is the mission statement of any merchandising industry (Hayes, 2019).

Merchandising is a concept that has existed for many years and thus, has been defined in a number of ways in the literature. The most simplified definition of merchandising is that it refers to the promotion, marketing and advertising of products intended for sale. As a field, merchandising includes many different tasks including determining quantities, setting prices for goods, creating display designs, developing marketing strategies, and establishing discounts or coupons. Merchandisers adopt several different strategies from the window and in-store displays to the strategic grouping of items in a bid to influence a customer's decision and attract them to make purchases. It is, therefore, no surprise that merchandising directly impacts sales and customer retention.

Whilst merchandising proves to be important in many industries, the sports industry, particularly benefits from it greatly. Merchandising is a part of sports marketing - a marketing strategy which aims to promote sporting events, equipment or products and services using an athlete or a team (Hayes, 2019). Using an athlete or a team name/logo in products and services has an important objective wherein the athlete or the team can act as an influencer, capturing the response of the public and facilitating a greater level of brand awareness, association and purchase. For example, it has been reported by many studies that football clubs benefit greatly from the sale of merchandised shirts wherein they negotiate the commissions to be earned with the manufacturers. Liverpool's new five-year \$200 million dollar deal (\$30 million dollar a year), for instance, reportedly sees them take 20 percent commission from sales (Kelly, 2020).

Although merchandising can help bring in customers and has a direct impact on sales, its effect is only sometimes advantageous. More sales and deliveries need more customer services and more working hours which lead to hindrances in the path of a successful merchandising industry. Merchandising industries are not always able to fulfil the expectations of consumers and keep a steady stream of new customers coming in. The expense of installing new fixtures, creating new signage, advertisements etc. adds up quickly. It has been analysed that although successful merchandising can lead to profitability in the long run it is likely to cost a lot of time, money and effort in the short run (Morello, 2019). Based on the aforementioned, this research paper aims to answer the question **“To what extent is merchandising beneficial for the sports industry?”**

Merchandising in the sports industry - a closer look at the licensing process

Early morning, when the sun is out, a person starts getting ready for a workout. Putting on his Nike or Adidas shoes, he finishes his workout and then regains energy by drinking his favourite energy drink Gatorade used by athletes all around the world. Do you see a common thread between them? This thread is created as a result of *sports marketing*. Marketing is important in any industry especially the sports industry because it allows a connection between the athlete and the team or the fans (Rana, 2021). Sports marketing is a way to connect with potential customers through a shared love of sports. By using sports as a platform, businesses can reach out to people who might not otherwise be exposed to their brand. Sports marketing can take many forms, from sponsoring a team or athlete to advertising at a sporting event. In basic terms, Sports Marketing is a combination of planning, executing, and advertising sporting events. The development of a sports marketing plan begins with answering a few questions such as budget estimations and resources. Sports marketing is often very costly. So, companies need to make wiser use of the available resources. In order to do this, the company needs to conduct extensive market research in a bid to understand the needs and wants of its target audience and then subsequently find the best ways to connect/reach them.

One example of a commonly used sports marketing strategy is the creation and sale of ‘sports merchandise’ - “any item featuring a professional team or players logo, mascot, or name” (Mertes, 2020). By integrating some aspects of

an athlete or a team into products, consumers can be influenced greatly to make purchases. The main reason for the aforementioned is that loyalty to a sport is sky-high among fans. Fans look up to their athletes whether it's the attire they're wearing to the food they are consuming. Therefore, when these very consumers are provided with items that have some element of the athlete or team they follow, a sense of closeness is created with a subsequent desire to continuously own more of such items. Promotions of such merchandise prove to be very beneficial to the companies selling them, especially during sporting events. When this advertising is done by the athlete themselves then the returns can be remarkable because of the great reach that they have on many platforms including social media. Using merchandise to increase and improve the loyalty of fans and keeping them happy eventually also leads to raising brand exposure, increasing website traffic, and exposure to new markets.

Merchandising in the sports industry is mainly facilitated by the licensing process. Essentially, it is most evidenced that the original rights holder may apply licensing rights to the third parties who wish to produce products with the original owner's trademarks, copyrights etc. aka the merchandise. It is this scenario which involves the use of a merchandising agreement. These agreements contain a license given from the owner of a particular brand to the licensee, allowing the licensee to develop, manufacture and sell products using the relevant branding. Licensees use third-party branding to make their product desirable and hence boost sales. Thus, the licensor not only benefits from financial rewards, but it also leads to better brand recognition through wider distribution and a wide range of products. Moreover, the licensor usually has sole control of how and where that brand is used. For example, there are a lot more prospective licensees for merchandising opportunities, and a licensor will frequently be able to pick and choose which licensees it wants to work with in specific markets and product categories, as well as primarily dictating the terms of an agreement. In choosing the licensee, some points that should be considered are what type of products the licensor wishes to have its branding appear on, competing products in the market etc. Therefore, the licensor must ensure that it has appointed the strongest licensee for its product, with genuine production expertise and settled sales channels.

With regards to working out the deal, there is nearly always scope for negotiation, and for these agreements to work successfully and achieve the aims of both the rights holder and licensee, several important issues must be considered both at the outset and over time. One of the most prominent issues is clearly defining what the implications are for both the licensor and licensee with regard to what rights are being granted or received and for what purpose. For example, in the context of a football club, is the club entitled to license the right to use the images of its players, and on what basis? Once the scope of owned/controlled rights has been established, the licensor needs to decide which of those rights it is prepared to licence – e.g., trademarks, trade names, images and/or slogans? (Linton, n.d.)

Best examples of merchandising and an evaluation

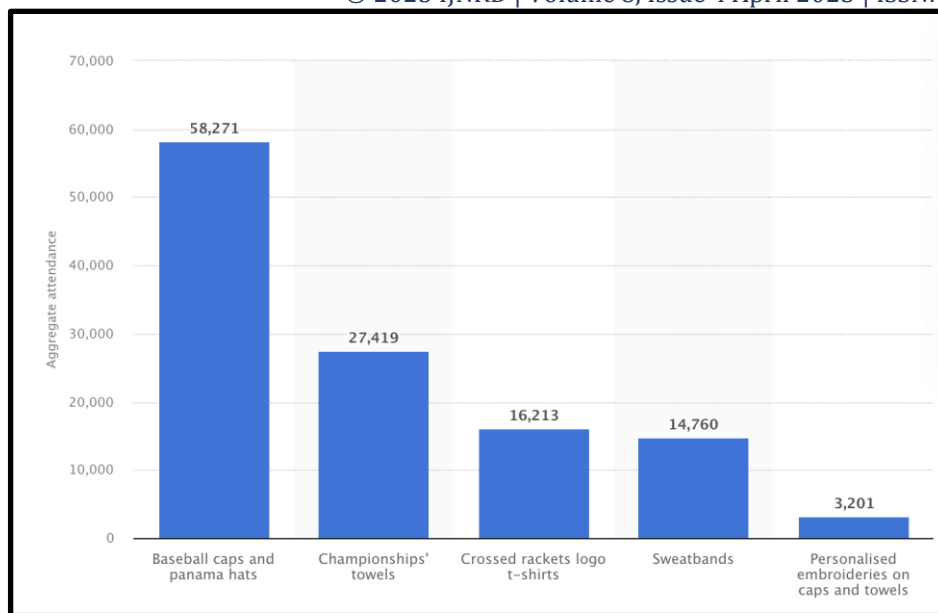
FIFA world is a global sensation, viewed by almost half of the world's population. During this time, popular sports brands like Nike, Adidas and Puma sponsor various teams and sell their products through effective marketing

strategies. In 1992, Reebok advertised its product at the Summer Olympics by inventing a fake rivalry between decathletes Dave Johnson and Dan O'Brien. It was a hugely successful marketing effort. Coca-Cola promoted their beverage with the tagline "Have a Coke and a Smile." Footballer Joe Green was seen in the advertising signing an autograph for a little admirer (Nwadike, 2022). There is therefore no doubt that sports marketing is incredibly crucial for all stakeholders in the industry.

Now let's take a specific example of merchandising in the case of a sport like Football. The merchandising revenue earned by football clubs depends on various factors such as the number of shirts sold and the commission rate they try to work out with the providers. Even the largest teams in the world only earn a little portion of the money made by jersey sales, often between 7.5 to 15%. According to reports, Liverpool's new five-year, £150 million (\$200 million) contract with Nike apparently includes a 20% commission on sales (Kelly, 2020). Consider the sale of one million Liverpool jerseys at a cost of £80 a piece for the 2020–21 season. Since 20% of £80 equals \$16, Liverpool would make £16 million from those transactions (Kelly, 2020). That figure is in addition to the £30 million that Nike paid them that year as part of their agreement and £64 million in sales (though production and distribution costs would eat into that). Similarly, Adidas also agreed on a 10-year deal with Manchester United which made the football club more than 750 million euros over the decade (Kelly, 2020).

NBA is known as the most innovative North American Sports League, earning revenue from a combination of sources, including television rights, merchandising, and ticket sales. Over a billion dollars are spent on merchandise each year, and in the 2017–18 NBA season, teams wore ads on their jerseys for the first time ever. Since the start of the jersey patch programme in 2016, clubs have received \$9.3 million in revenue from the ads on the jerseys (McFarlane, 2021). Early in 2019, the NBA decided to continue the programme due to its early success. The NBA had already brought in more than \$150 million in new income up to that time. General Electric, Walt Disney, and the Japanese e-commerce firm Rakuten are a few of the marketers. The teams gain as well; for instance, the Golden State Warriors have gotten an estimated \$20 million a year from Rakuten (Barrabi, 2019).

Wimbledon may be the most recognised tennis event in the world, but it intentionally lags in terms of money. Wimbledon made \$289 million in revenue in 2017, which is 6.5% more than the previous year, according to official financial documents published by Companies House (Minassian, 2018). It was reported that around \$160 million of Wimbledon's revenue comes from the sale of television rights, \$47 million from ticket sales, \$47 million from sponsorships, and \$35 million from concessions and retail sales.



Adding further context to the merchandise sold at Wimbledon, the above graph from Statista (2022) represents the total number of merchandises sold at The Wimbledon Championships in 2019. It can be inferred that baseball caps and Panama hats were the most popular among fans. Following baseball caps are Championship towels sold almost twice as compared to Sweatbands. However, personalised embroideries on caps and towels were the least sold among all the items.

Sometimes sports brands also design their products to pay tribute to well-known players. When Tom Brandy, a legend of American Football announced his retirement, teams like The New England Patriots and Tampa Bay Buccaneers launched a campaign named 'Thank You Tom (Baker, 2022)'. Fans can find various merchandise such as T-Shirts, Sweatshirts, and Footballs that were made to pay tribute to him.

On the whole, sports merchandising can increase the number of fans who create genuine connections with teams and athletes. This bond that is created can then enable long-term inflows of extra revenues for the teams who are investing in merchandising. However, it is not all that straightforward. Merchandising comes with extensive legal costs amidst other expenses such as the cost of manufacturing products, more demand for expertise, etc. Thus, although it can lead to large amounts of profits over time, it is likely to cost a lot of time, effort, and money in the short run (Morello, 2019).

The future of merchandising

As has been discussed, merchandising has existed for many years and has been and continues to be incredibly beneficial, particularly, for the sports industry with regards to its ability to keep teams and players connected with fans as well as providing an extra revenue flow for many of the teams (Rousseau, 2020).

However, much like most industries, even the sports industry was greatly impacted in the wake of the COVID-19 epidemic - with the most prominent impact being the significant drop in consumer demand for almost all sporting goods and services as a result of the varying restrictions imposed. On the basis of an article published on LinkedIn (Rousseau, 2020), this has had a significant impact on sports merchandising. The prediction moving forward, therefore, is that powered by their extensive global reach and enormous audience, confident in their ability to inspire passion, engage devoted fans, and sell anywhere in the world, stuck by long-term agreements with top sports brands, the Big Ones like the NBA (125M\$ per year until 2026 with Nike), NFL (estimated 200M\$ per year until 2028, Nike), Real Madrid (120M€ per season until 2030 with Adidas), etc, can maintain patience and let difficult moments to pass. This exclusive club is only open to titans with a passion for sports marketing, worldwide brand visibility, and the pursuit of team-obsessed customers. Fans of teams before COVID-19 will still support their teams today. However, typical sponsorship agreements could change to more licensing-focused ones, like the LFC x Nike arrangement. Depending on merchandising sales, Marquee Teams may potentially outperform their prior results through higher royalty rates (10–12% to more than 25% in some cases, like Disney licences), but with less money guaranteed upfront (lump sums, retainer fees, licence minimum guarantee, etc.) than in prior agreements.

Moreover, there are also some newer trends emerging in the wider merchandising domain which will play an important role in sports merchandising. For example, digital merchandising is a newer and upcoming concept and has already started to make a mark in the sports industry. NBA Top Shot, for instance, is an NFT MARKETPLACE where sports fans can buy, sell and trade basketball video clips. Launched in 2020, NBA Top Shot is a partnership between the NBA and Dapper Labs, the creators of CryptoKitties. High-profile investors include the NBA legends Michael Jordan, Kevin Durrant and Klay Thompson. The video highlight reels marketed as NFTs on NBA Top Shot are called Moments. Each Moment is an NFT that is legally licenced by the NBA and minted with a unique serial number and data, including game and player information. These NFTs reflect real-world goods such as art, in-game products, and music. Moments' value rises with rarity, much as traditional sports trading cards. Rare Moments from elite players can fetch high prices, while some just fetch a few bucks. For example, a LeBron slam against the Houston Rockets last year brought in \$387,600. A LeBron dunk from a game on November 15, 2019, with 49 mints, is one of the most lucrative NBA Top Shot Moments, according to the website Cryptoslam! Currently, one of those newly created Moments is being offered for \$1 million (Conti, 2022).

What makes a platform such as NBA Top Shot even more popular is that one doesn't need to know about blockchains or crypto. All one needs is a love for basketball and a suitable understanding of supply and demand. Moments are digital and stored online, so they can't be damaged or stolen, nor will they degrade over time like physical cards. NBA Top Shot generates all the Moments it mints and licences, managing the flow of goods into the market. This could help prevent the kind of market overstock that was seen with baseball cards in the 1990s, which would otherwise result in a rush of identical items onto the market. However, a lengthy verification process could cause collectors attempting to profit from a quick sale to lose out. Moments' values are often fluctuating so delays could be costly.

There is always a possibility of losing money on NBA Top Shots. Sometimes the moments inside purchasing packs are worth less than the cost of the pack itself. It also cannot be ensured with a hundred percent guarantee that the seller will be able to sell the moment to a buyer willing to pay the asking price. NBA Top Shot is not for people looking to get rich quickly. Investors and collectors seeking to diversify their holdings may consider taking a small position in NFTs.

Conclusion

Merchandising is not straightforward, especially in the sports industry. Instead, merchandising is a very lengthy process involving a thread/combination of planning, executing and advertising. The process is made even more complex with the importance and reliance on a strengthened licensing system. However, when it is all correctly executed, there is no doubt that merchandising can be seen as a lottery ticket for the sports industry. Since merchandising allows the creation of a link between fans and athletes through products, there is a great demand for the same which directly impacts sales and customer retention in a positive manner.

On the whole, it can be concluded that merchandising is beneficial for the sports industry to a great extent. In fact, sports merchandising has existed for many years and is expected to go away no time soon. Much like many other things, even merchandising seems to be keeping up with the trends taking place in the macroenvironment. With regard to the aforementioned, this paper discussed the increasing importance of the digitized world and used the example of NBA's Top Shot - an NFT Marketplace - to prove how sports merchandising is embracing newer ways to maintain relevance.

Bibliography

Baker, M. (2022). *What Goes into Sports Merchandising?* [online] ZD Blog. Available at: <https://www.zilliondesigns.com/blog/sports-merchandising-promoting-logo/>.

Barrabi, T. (2019). *NBA jersey patch sponsorship program expands as league scores new revenue.* [online] FOXBusiness. Available at: <https://www.foxbusiness.com/sports/nba-jersey-patch-sponsorship-program-2019>.

Conti, R. (2022). *Guide To NBA Top Shot.* [online] Forbes Advisor. Available at: <https://www.forbes.com/advisor/investing/cryptocurrency/nba-top-shot/>.

Hayes, A. (2019). *How Merchandising Works.* [online] Investopedia. Available at: <https://www.investopedia.com/terms/m/merchandising.asp>.

Kelly, R. (2020). *How much money do football clubs make from shirt sales?* | *Goal.com*. [online] www.goal.com.

Available at: <https://www.goal.com/en-ae/news/how-much-money-do-football-clubs-make-from-shirt-sales/gv14e9wc0vny1vtyr0rxqqan5>.

Linton, I. (n.d.). *Main Goals & Objectives in Sports Licensing*. [online] Small Business - Chron.com. Available at:

<https://smallbusiness.chron.com/main-goals-objectives-sports-licensing-37071.html>.

McFarlane, G. (2021). *How The NBA Makes Money: The Second-Largest Sport in the Country*. [online]

Investopedia. Available at: <https://www.investopedia.com/articles/personal-finance/071415/how-nba-makes-money.asp#toc-nbas-merchandise-deals>.

Mertes, A. (2020). *What is the History of Sports Memorabilia? - Quality Logo Products*. [online]

<https://www.qualitylogoproducts.com/>. Available at: <https://www.qualitylogoproducts.com/promo-university/history-of-sports-merchandise.htm>.

Minassian, G. (2018). *Why Wimbledon Leaves \$60 Million On Centre Court*. [online] Forbes. Available at:

<https://www.forbes.com/sites/graceminassian/2018/06/27/why-wimbledon-leaves-60-million-on-centre-court/?sh=206d9dc8c68e>.

Morello, R. (2019). *Advantages & Disadvantages of Merchandising*. [online] Small Business - Chron.com.

Available at: <https://smallbusiness.chron.com/advantages-disadvantages-merchandising-48578.html>.

Nwadike, P. (2022). *SPORTS MARKETING: Types, Examples & Strategies*. [online] BUSINESS YIELD.

Available at: <https://businessyield.com/marketing/sports-marketing/>.

Rana, K. (2021). *What Is Sports Marketing?* [online] Feedough. Available at: <https://www.feedough.com/sports-marketing-101-what-is-sports-marketing/>.

Rousseau, C. (2020). *Sports Licensing & Merchandising : and now, what's next ? Part 2/3*. [online]

www.linkedin.com. Available at: <https://www.linkedin.com/pulse/sports-licensing-merchandising-now-whats-next-part-23-rousseau/>.

Statista (2022). *Wimbledon: merchandise sold 2019 statistic*. [online] Statista. Available at:

<https://www.statista.com/statistics/957311/wimbledon-championships-merchandise-products-sold/>.

Wagner, N. (2017). *Advantages and Disadvantages of Merchandising*. [online] Bizfluent. Available at:

<https://bizfluent.com/info-8546784-advantages-disadvantages-merchandising.html>.