

## Welcome to IF Consulting's weekly e-mail newsletter

August 13, 2004

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

### Franchising in the Big Leagues

If the export-tax legislation currently before Congress is passed, owners of professional sports teams stand to gain tens of millions of dollars in the values of their franchises – and all because of just one little sentence buried in amongst the copious papers associated with the bill. Introduced originally to overcome a trade dispute with the European Union, the legislation has been added to significantly in order to cover a vast range of franchises.

A small part of the proposed legislation contains a change to current law that would allow sports team owners to write off the full value of their franchises over 15 years. Currently, teams are generally limited to writing off only the value of player contracts over three to five years. The expanded write-offs would have the greatest impact on television and radio contracts.

Experts say the change could add 5 percent to sports franchise values, representing a US\$2 billion windfall. Although the precise effects of the measure cannot be calculated without knowing each team's financial details and each owner's tax situation, experts predict that the new law would be of greatest benefit to sports teams with higher values, longer-term ownership plans, and larger broadcast contracts.

This is a summary of an article that appeared in *The New York Times* on August 2 entitled "Bill Would Raise Franchise Value of Sports Teams" by Duff Wilson

### Comment

Many business commentators focus their franchising analysis on the traditional industries of fast food and services. You don't have to look very far to find 'expert' comment on the business models behind the big names of McDonald's and Krispy Kreme. Surprisingly, the world's largest franchised industry rarely hits the headlines in the business section of the papers. Why is the business of sport so often overlooked?

The reason for this neglect may be found in the pages of franchising's early history. Franchising has always been sold as the small businessperson's dream. Franchising offered potential small business people, the 'Moms and Pops', the opportunity to be 'in business for yourself but not by yourself'. In some cases, this catchphrase was true. In many, it was not. Early American franchising (post World War 2) was as notable for its cons as for its successes. As a result, major corporations looked on franchising as a dirty word and very few used the term to describe their contractual relationships, even though the world's largest companies, the oil and automobile colossuses had been franchising since the early 1900s.

Sports franchises, whose structures are little understood by the general public, are based on the premise that exceedingly wealthy team owners enjoy the benefits associated with a high profile, celebrity team, an appreciating asset, tax breaks and broadcasting rights. Sport is big business – the USA'S National Football League is probably the world's largest and most



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lucrative franchise business. Franchises change hands for \$500 million or more and some players can earn over \$100 million during their careers.

Mom and Pop are still with us, but look for many more franchises to join the big leagues

## Snippets

Video rental giant Blockbuster plans to start offering its services online. With the traditional video rental business slowing down in the past few years, the company decided to offer a deal to its customers. Subscribers of the online program will not be subjected to late fees or shipping costs when renting a movie. The deal also provides renters with in-store coupons and 25,000 movies titles to choose from

<http://dallas.bizjournals.com/dallas/stories/2004/08/09/daily29.html>

The Progressive Corporation, an Ohio based umbrella company for a group of insurance companies, has revealed that it is to test a new innovative auto insurance scheme in Minnesota. The scheme proposes to reduce insurance costs by tying in monitored driver dynamics to premiums. Customers who register a vehicle in the TripSense pilot program plug a data-logging device into a port in their car. The device, called TripSensor, collects information about the vehicle's use. The scheme proposes to reduce insurance costs by tying in monitored driver dynamics to premiums.

<http://www.datamonitor.com/~d63cf1af8bbf4a9b8ff9d812689d078f~/industries/news/article/?pId=F7EDF3AC-C598-4D48-8595-CAC523E9F414&type=NewsWire>

R Toys Us? Faced with aggressive discounting by competitors, the number two toy seller in the US, Toys R Us, announced this week that it is exploring the possible sale of its global toy business as it pursues separating its toy and baby product divisions.

[http://www.usatoday.com/money/industries/retail/2004-08-11-toys\\_x.htm](http://www.usatoday.com/money/industries/retail/2004-08-11-toys_x.htm)

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