

Relationships as Strategic Assets: Conceptualizing Sport Fan Equity

Young Do Kim, Florida State University
Yukyoum Kim (Advisor), Florida State University
Marshall Magnusen (Advisor), Baylor University

Marketing

Thursday, May 30, 2013

**20-minute oral presentation
(including questions)
(Room 412)**

Abstract 2013-040

1:20 PM

When it comes to entertainment in the United States (US), one of the most popular recreational activities for consumers is sport spectating. The Sport Business Research Network (2012), for example, reported that in 2011 more than 90.9 million fans attended games in the “Big 4” US leagues (i.e., MLB, NBA, NFL, and NHL). As well, personal consumption expenditures on spectator sports in 2011 were estimated to be around \$25.4 billion, a total which has grown at a rate of roughly 6.4% over the last five years (W.R. Hambrecht & Co., 2011). Given the impressive growth and soaring popularity of watching live sporting events, sport organizations continue to search for ways in which they can maintain, if not improve, the current trajectory of sport spectating. One significant and ever more advocated approach for sports organizations to remain competitive and sufficiently meet the demands of the sport marketplace is shifting their marketing efforts from a brand-oriented paradigm to a sport consumer-oriented paradigm (Kim & Trail, 2011; Magnusen et al., 2012). Indeed, sport organizations are more and more compelled to adjust their marketing activities from simply selling goods and services (i.e., single transaction approach) to building long-term relationships with sport consumers (Gladden & Sutton, 2009; Rust et al., 2000). At the forefront of this shift to long-term relationships is the concept of customer relationship management (CRM).

Customer relationship management combines the potential of relationship marketing strategies and information technology to help business firms better understand their most profitable customers, invest in them more effectively, and then maximize their customer loyalty through individually tailored marketing activities and offers (Blattberg & Deighton, 1999). The value of CRM to business firms is that it provides them with improved opportunities to develop customized relationships with profitable customers, which should then increase the likelihood of long-term relational success (Payne & Frow, 2005). Given the importance of CRM to businesses across numerous industries (including the sport industry), the related concept of customer equity (CE) has grown in popularity among marketing scholars because it provides managers with a detailed way to gauge the true value of a customer’s current and lifetime profitability for a business organization (Rust et al., 2001). An adolescent MLB baseball fan, for example, will have a low current value to MLB teams in terms of revenue generated. Yet, in the future, the one-time adolescent fan is likely to get a job, possibly have a family, and thus, provides numerous opportunities for growth in cash flow to MLB, as well as sustainability of that growth.

Interestingly, despite the importance of CE to marketers (Bayón et al., 2002; Hogan et al., 2002), minimal attention has been paid to this concept in sport consumer behavior contexts. By comparison, brand equity, which is focused mainly on business organizations’ physical product values based on customers’ perceptions, has been studied at length in the sport management literature (e.g., Gladden et al., 2001; Ross et al., 2008). Therefore, given the impressive growth and widespread popularity of sport spectating, as well as its value to sport organizations, the purpose of this study is to develop a conceptual framework of sport fan equity (SFE). The proposed model, which depicts a sport-based advancement of the CE concept, includes four key components: demographic value, financial value, behavioral value, and psychological value. The inclusion of these components is based largely on customer asset value research conducted by Ryals (2008) and McDonald’s (1996) sport industry research. Beginning with demographic value, each SFE component is discussed next.

The demographic value component of SFE includes factors such as gender, age, ethnicity, level of education, and marital status. Understanding the demographic characteristics of a sport organization’s fan base is important because it provides an organization with pertinent information about a key marketing area that can significantly influence sport consumption behaviors, and, by extension, a sport organization’s bottom line (Heere & James, 2007; Wann et al., 2001). For instance, if sport teams are able to provide detailed information about profitable age-based and ethnic-based segments of their fans bases, they may be more able to attract high quality advertisers and sponsors as well as garner favorable media coverage (McDonald, 1996).

2013 North American Society for Sport Management Conference (NASSM 2013)

Secondly, the financial value component of the SFE refers to customers' past and current profitability levels that directly impact a sport organization's bottom line (Vogel et al., 2008). This component consists of factors such as recency (time of most recent purchase), frequency (number of prior purchase), and monetary value (average purchase amount per transaction) (Ryals, 2008). Financial value is an essential component of SFE because it is a useful marker of customer purchasing patterns and anticipated future consumption behaviors. A fan that purchased a game ticket and had a good service and game experience, for instance, is highly likely to buy another game ticket (Yoshida & James, 2010). Therefore, financial value as a tangible source of true asset creation can contribute to on-going cash flow for sport organizations.

Third, the behavioral value component refers to committed and loyal fan behaviors that contribute to sport organizations by maximizing cash flow, as well as reducing the costs associated with acquiring new customers (Kumar, 2008). Sport fans who are truly impressed and pleased with how they have been treated by sport organizations are likely to demonstrate analogous sport fan behaviors, including: (a) positive word of mouth (WOM), (b) willingness to pay (WTP) for media consumption and licensed products, (c) cross-buying, and (d) upgrading (Kwon & Armstrong, 2002; Madrigal, 1995; Matsuoka et al., 2003). Additionally, committed fans are likely to increase sport product and process innovations by generating improved feedback loops for their favorite teams (Kim, Trail, Woo, & Zhang, 2011).

Fourth, the psychological value component refers to the expected emotional commitment and attachment that sport fans have with their favorite sport organizations. A psychologically attached fan base (e.g., self-connection, intimacy, trust) generated by strategic relationship building efforts plays an imperative role in improving consumer retention rates (Kim & Trail, 2011; McDonald, 1996). Retention rates are important because they can have a significant, longitudinal impact on sport organization revenues due to frequent, long-time customers being less sensitive to price changes and more likely to engage in repeat purchase behaviors (Kim & Trail, 2011). Hence, psychological value, in similarity to the other three components of SFE, is a key source of true asset creation because it can significantly impact monetary gains for sport organizations.

In closing, relationships are strategic assets to sport organizations. The sport fan, which is an economic asset value for sport organizations, should be measured, managed, and maximized just like any other asset. With that observation in mind, this study explores SFE through the development of a four-fold conceptual model, and also discusses matters of empirical assessment and future research opportunities. Given that CRM is highly salient to a myriad of businesses across various industry sectors (Rust et al., 2001), the value of the proposed conceptualization of SFE to sport managers is that it provides their respective sport organizations with an explicit way to operationalize and evaluate the general concept of CRM. Understanding SFE equips sport managers with a tool that can be used to identify and monitor key components of their fan bases, especially as it pertains to the expected asset values from sport customers. Assessing SFE components also serves as a foundation for sport organizations to build more powerful customer-centric marketing actions, as well as determine how to manage those planned marketing actions in order to develop a maintainable, ardent fan base. Further, the proposed conceptualization of SFE serves as a yardstick for sport organizations to longitudinally evaluate and then compare the long-term value of various customers within their collective fan base across four distinctive areas.