

12-2010

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Recommended Citation

Ratzloff, Gratia, "Going For The Gold: The United States Olympic Committee As A Non-Profit" (2010).
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GOING FOR THE GOLD:
THE UNITED STATES OLYMPIC COMMITTEE AS A NON-PROFIT

Gratia Ratzloff
December 2010

Senior thesis submitted in partial fulfillment
of the requirements for a
Bachelor of Arts degree in Economics
at the University of Puget Sound

I. Introduction:

The modern Olympic Games, first held in 1896, began as an effort to emulate the ancient Olympic Games of Greece that were held from 776 B.C. to 393 A.D. Occurring every two years, alternating between the Winter and Summer Olympics respectively, the purpose of this international competition is “to bring together sport, culture and education for the betterment of human beings” (The Olympic Museum, 2007). This is further emphasized by the Olympic creed that states, “The most important thing in life is not the triumph, but the fight; the essential thing is not to have won, but to have fought well,” stressing the importance of success in terms of effort as opposed to victory (The Olympic Museum, 2007).

The Olympic Movement consists of international sports federations (IFs), National Olympic Committees (NOCs), and organizing committees for each specific Olympic Games. In the US, the NOC operates under the title of the United States Olympic Committee (USOC) and acts as the coordinating body of all Olympic-related activity in the United States. This involves providing funds, training facilities, and support staff for athletes representing the US in the Olympic Games. The mission statement of the USOC is “to support U.S. and Paralympic athletes in achieving sustained competitive excellence and preserve the Olympic ideals, and thereby inspiring all Americans” (United States Olympic Committee, 2009).

The USOC operates as a non-profit organization, falling under the tax-exempt Internal Revenue Code 501(c)(3) as an organization that fosters national or international amateur sports competition (IRS, 2008). In 1978, the US Congress passed the Amateur Sports Act, chartering the USOC as the sole entity responsible for coordinating all Olympic-related activity in the US. The bill also granted the organization with the exclusive rights to the words “Olympic,”

“Olympiad,” and “Citius Altius Fortius,”¹ in addition to the use of any Olympic-related symbols in the United States (United States Olympic Committee, 2009). Thus, the United States Olympic Committee acts as a monopolist of all Olympic-affiliated activity in the United States.

Moreover, while the ideals of the Olympic Movement emphasize the importance of participation rather than winning, past Olympic Games show the success of a nation’s team in terms of its gold medal count take precedence over the founding ideals of the competition (Ging, Hoffmann and Ramasmay, 2002). As a result, the desired outcome emphasized by the USOC does not necessarily adhere to the stated mission of the founding Olympic ideals. In fact, such a strong emphasis on winning closely resembles the actions set forth by many for-profit sporting firms. This being said, in combination with the USOC’s monopolist control over Olympic activity in the US, the question is raised as to why the USOC operates as a non-profit organization. While many papers have sought to discover the specific economic factors that affect the success of the United States Olympic Committee and other NOCs, there has been little research conducted as to why the USOC operates as a non-profit organization. This paper seeks to examine this question. In the following section of this paper, the economics behind the United States Olympic Committee are evaluated and a theory about the operation of the organization is developed. Next, this theory is analyzed and discussed. Lastly, I conclude.

II. The Economics of the USOC

As its mission statement declares, the purpose of the United States Olympic Committee is to assist US athletes in achieving competitive excellence in the Olympic Games. This indirectly

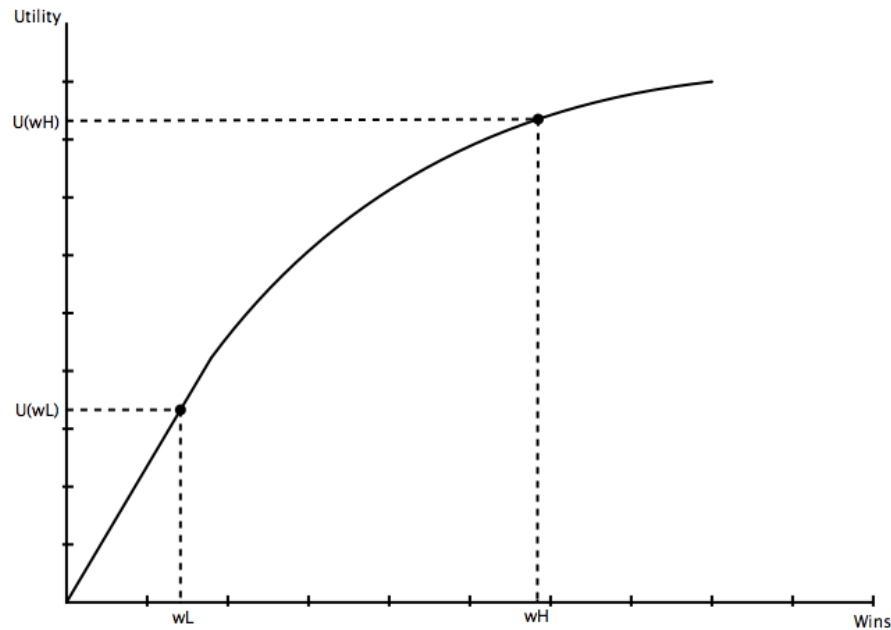
¹ Olympic motto meaning “Faster, Higher, Stronger”

implies that the USOC wishes to maximize gold medal counts for US athletes and that Olympic success is a measure of the number of gold medals won at the Games.

When the United States Olympic Committee pursues its mission statement so that American Olympic athletes win gold medals, the organization is a producer of positive externalities, for the celebration of Olympic success (gold medal attainment) is a pure public good. Olympic success is both non-rival and non-excludable in that “one’s consumption does not reduce the consumption of others and all can consume Olympic success at the level of its total supply” (Groot, 2008, p.3). American citizens will “talk about their team, cheer for its success, and celebrate its victories and may do so without buying tickets or making any payment to the team” (Johnson, 2001, p. 7). As the US wins more gold medals, it is likely that more and more citizens will take an interest in the success of US Olympic teams and feelings of American pride will increase, creating increased amounts of public goods.²

Additionally, as gold medal counts increase, the utility of American citizens will increase as they benefit more and more from the public goods fostered by Olympic success. This relationship is displayed below.

² It is important to note that the public goods qualities of Olympic success is of limited benefit, for not all US citizens take an interest in the Olympics or derive positive feelings from the success of American teams.

Figure 1:

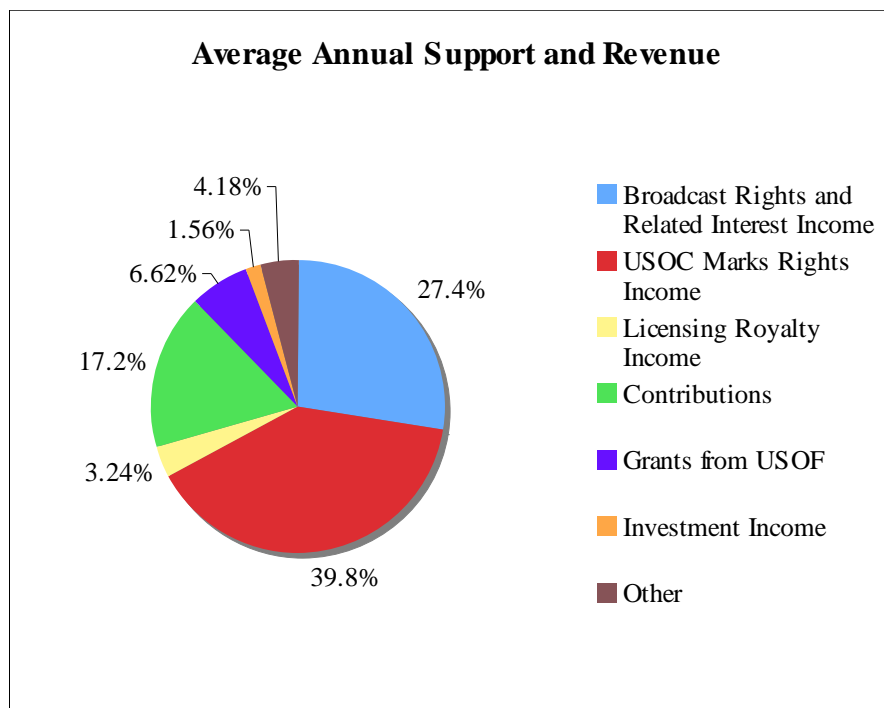
As the number of gold medals captured by US athletes climbs from w_L to w_H , the utility felt by American citizens increases from $U(w_L)$ to $U(w_H)$. This movement along the utility curve makes them better off as the gold medal count rises for the United States.

The increase in utility experienced by American citizens who value the success of the US in the Olympic Games can have a very powerful effect. The rise in utility acts as a signal to private firms that associating with the United States Olympic Committee could produce private benefits for their own businesses. This is due to a reputational halo effect: US citizens who take interest in the Olympic Games may see the name of a firm that is tied to the USOC, create a positive association with the firm, and thus purchase a good or service from that firm in the future (Hurley and Wally, 1998). Thus, by becoming a corporate sponsor of the United States Olympic Committee, firms are likely to benefit from an increase in revenue caused by the positive association in the eyes of the public. Consequently, many firms are willing to spend large amounts of money in order to be corporate sponsors of the USOC as to respond to the

larger amounts of utility associated with American Olympic success, therefore heavily influencing the revenue of the organization.

Currently, the United States Olympic Committee earns revenue from six main sources: Broadcast Rights Income, USOC Marks Rights Income, Licensing Royalty Income, Contributions, Grants from the United States Olympic Foundation, and Investment Income (United States Olympic Committee, 2009). The following graph displays the percentage of average annual revenue brought in by each source.³

Figure 2:



Source: United States Olympic Committee Annual Report (2009)

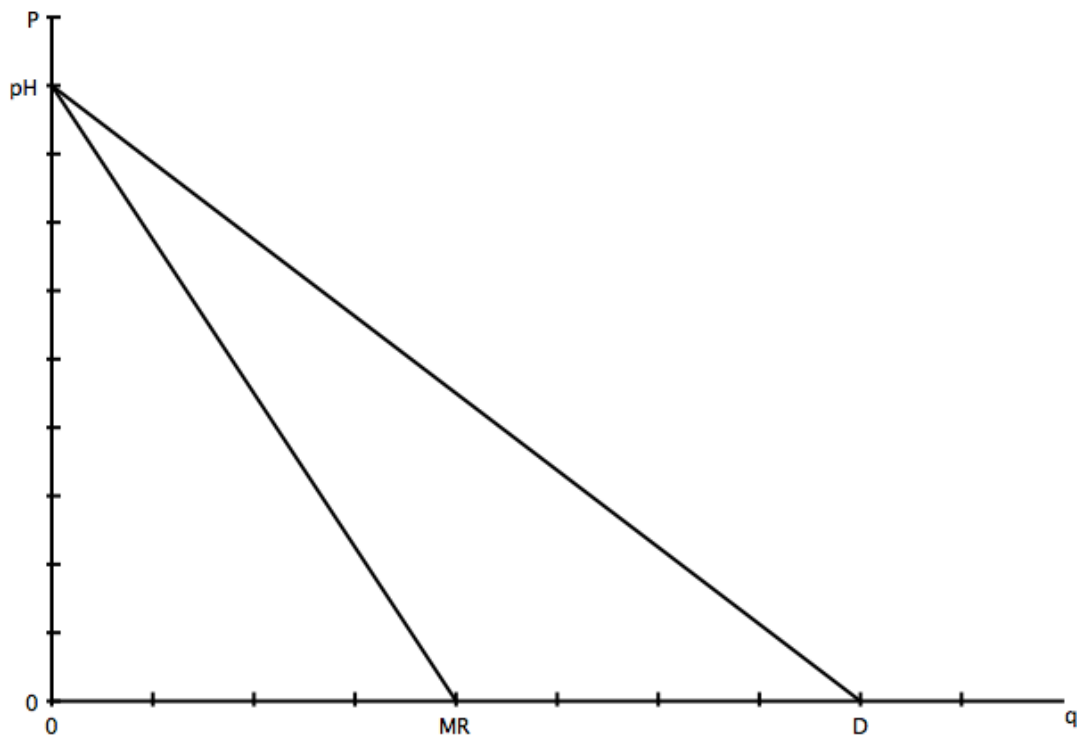
As indicated on the graph, over 70 per cent of the USOC's revenue comes from sources related to corporate sponsorship that pay to be associated with the organization. These sources

³ These percentages are based on the average revenues from each source between 2006 and 2009 and include both Winter and Summer Olympic years (Torino Winter Olympics in 2006 and Beijing Summer Olympics in 2008) in order to balance the averages.

include Broadcast Rights Income (27.4%), USOC Marks Rights Income (39.8%), and Licensing Royalty Income (3.24%). Based on a four-year average, over \$133 million of roughly \$190 million the USOC experienced in revenue came from these sources.

Because the United States Olympic Committee has a monopoly over the Olympic industry in the US, they are able to act as price discriminators when setting the price for the right for a firm to associate themselves with the organization. I theorize that the USOC only benefits from these associations if the revenue generated from the partnership is enough to increase its marginal output of another gold medal win for an American athlete or team. Therefore, there is a minimum price the organization is willing to accept in order to offer its partnership with a firm. The following graph depicts the demand curve for firms seeking partnerships with the United States Olympic Committee.

Figure 3:

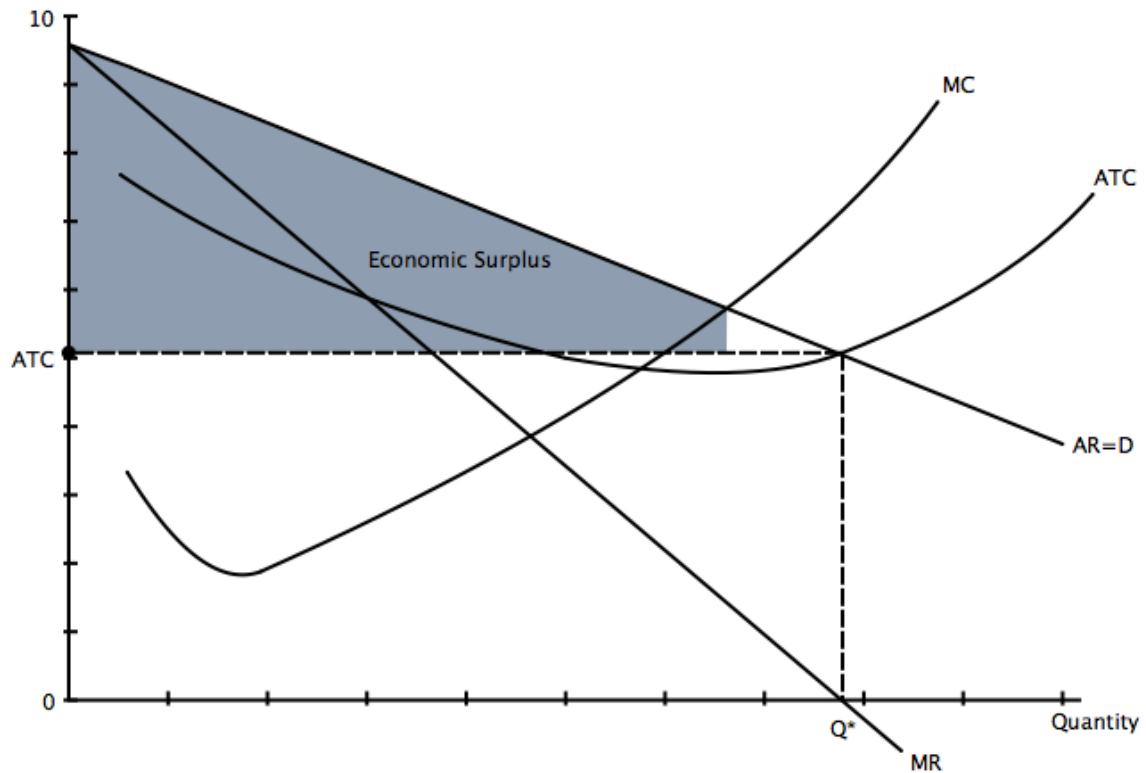


The demand curve is downward sloping because as the price the USOC is willing to accept falls, more firms are willing to pay for the partnership. Because the USOC has the market power to set a different price for every bidder and demand is downward sloping, the marginal revenue curve falls below the demand curve. Price p_H represents the maximum price a firm is willing to spend in order to gain an association with the United States Olympic Committee.

Real GDP is the best single predictor of a country's Olympic performance because countries with higher real GDP are more likely to channel significant funds towards its NOC as to encourage Olympic success (Bernard and Busse, 2004; Ging, Hoffmann and Ramasamy, 2002). The United States has the highest real GDP in the world (World Bank, 2010). Therefore, funds collected by the United States Olympic Committee have a direct effect on its mission: the more revenue the USOC has, the better able the organization is to support American athletes in achieving Olympic success by producing gold medals. Because revenue from corporate affiliations makes up the largest portion of the USOC's total revenue, it is assumed that these sources are the largest contributor to US Olympic success.⁴ The graph below exhibits the optimal level of output the USOC produces as a price discriminating monopolist based upon revenue generated from these sources.

⁴ Though an increase in utility of American citizens may cause an increase in contributions by citizens to the USOC, average annual revenue generated from this source only accounts for roughly 17% of the organization's total revenue. Therefore, it is assumed that these contributions have minimal effects on the output of gold medals for American athletes.

Figure 4:



As the graph illustrates, the USOC will invest in the Olympic success of American athletes up until the point where average revenue (AR, also equal to the demand for gold medals) from an additional gold medal is equal to the organization's average total cost (ATC), producing Q^* gold medals. This is also where the marginal revenue curve (MR) hits the x-axis, showing that further output of gold medals for the US would produce negative returns. Therefore, the United States Olympic Committee would only accept bids for corporate sponsorship up to the point where Q^* gold medals are produced. Because the organization is a non-profit, it seems logical that the USOC would be willing to accept these sources of revenue infinitely as to increase its funding. But because of the USOC's monopoly power over the Olympic industry in

the United States, the organization is able to turn down offers for sponsorship, acting more like a for-profit organization.⁵

Moreover, the shaded area on Figure 4 (page 9) represents the economic surplus earned by the USOC when the organization is producing the optimal level of gold medals. This economic surplus appears to be quite large. Since the United States Olympic Committee is a non-profit organization, they must adhere to the non-distribution constraint and use any economic surplus to support the mission of the organization: to produce gold medals for the US at the Olympic Games. But, as output level Q^* signifies, the organization is already producing the optimal number of gold medals, again suggesting that the United States Olympic Committee may be better suited as a for-profit organization. The following section lends evidence to this theory.

III. The USOC as a For-Profit Organization

A for-profit operation of the United States Olympic Committee would be beneficial for many reasons. The organization would have the freedom to distribute its economic surplus as it pleases, likely to satisfy many employees and athletes of the organization through increased income. Additionally, it would be both favorable to American taxpayers. As a 501(c)(3) non-profit organization, the United States Olympic Committee receives many tax incentives that are often at the expense of US citizens. As a for-profit organization, the USOC would be responsible for paying taxes, which would minimize the economic tolls placed on the American public for

⁵ This may help to explain why Contributions make up only 17% of the USOC's total revenue. Corporations may only be willing to contribute to the USOC in exchange for an official partnership, thus explaining the significance of partnership revenue in the production of gold medals for the USOC.

the operation of the United States Olympic Committee.⁶ Therefore, both the USOC and American citizens privately benefit from a for-profit status.

Not only would the operation of the United States Olympic Committee as a for-profit organization be beneficial, but it is also very plausible. In fact, the USOC already shares some significant similarities with the idiosyncratic operation of many for-profit sporting organizations. Parallel to the goals of the United States Olympic Committee, many for-profit sporting organizations operate using a similar win-maximizing model. As microeconomic theory suggests, for-profit firms should operate as to maximize profits. But Andrew Zimbalist (2003) argues that many owners and investors in the for-profit sporting industry are not typical businessmen. Profits are not their primary drive, which sharply juxtaposes sports economics with for-profit economic models. This changes the structure of a team or club's optimal level of output, which, in terms sports economics, is most commonly seen as the number of wins. If club owners are profit maximizers, then they will invest in team success up to the point where the expected marginal revenue from an additional win is equal to the marginal cost. If, on the other hand, club owners wish to maximize wins, then they are likely to invest beyond this point (Zimbalist, 2003). As Figure 4 on page 9 illustrates, the United States Olympic Committee operates using a comparable approach, showing that the organization does not need to operate using a profit-maximizing model in order to survive in the for-profit sector.

This fact is further outlined by the economic history of many sporting franchises. For-profit sports franchises can often reap substantial capital gains even if they are not operating as

⁶ Though as a for-profit organization the USOC would no longer be entitled to tax incentives associated with a 501(c)(3) non-profit status, governments often subsidize the building of arenas and stadiums for many for-profit sports organizations. In 2001, it was estimated that government sources would account for two-thirds of the \$21.7 billion spent on the building and renovation of major league sports stadiums and arenas (Groothuis, Johnson and Whitehead, 2001, p. 5). Thus, the USOC would still receive substantial benefits from the government.

profit-maximizers. As estimated by Rodney Fort (2002), during the 1990s, the MLB had an average annual rate of franchise appreciation equal to 11.3 per cent, while the rate for the NBA was equal 17.7 per cent, 10.7 per cent for the NHL and 12.7 per cent for the NFL. The capital gains from sporting franchise appreciation allow for increased profits, offsetting the losses associated to the win-maximization model.

Even before obtaining capital gains, owners of for-profit sports teams or clubs are often willing to operate using win-maximization in order to receive the positive externalities that are created upon the win of their team. Psychological reasons such as the want for status, the propensity to group identification and the feeling of loyalty that are produced upon the success of a team are what drive owner investment (Sloane, 1971, p. 134). Upon interviewing owners and executives of US baseball clubs, Jesse Markham and Paul Teplitz concluded that owners “were motivated to enter the baseball industry more out of reason of personal gratification, love of the game, devotion to professional sports generally, or out of civic pride than by the prospects of profits” (1981, p. 26). Walter A. Haas, Jr., the owner of the Oakland Athletics baseball club from 1980 to 1995, is an excellent example of this type of owner. He regarded professional baseball ownership “as a kind of public trust” and “was willing to lose millions to field a competitive team that would do Oakland proud,” acting more like a philanthropist than a businessman (Zimbalist, 2003, p. 505).

These cases exemplify the mission statement of the United States Olympic Committee, as the organization functions in order to inspire Americans through the success of American Olympic participants. As for-profit sports owners invest in order to seek pride and pleasure from the wins of their teams, the USOC wishes to create these feelings for the American population. Thus, for-profit sports organizations are also producers of public goods. And, as with the USOC,

the public goods created in the for-profit sports industry can be a catalyst for an increase in utility for their fans. This rise in utility has the same signaling effect as with the USOC, creating revenue for the sporting organization in terms of increased sponsorship.⁷ Corporate sponsors of the USOC are likely to associate themselves with the organization regardless of its non-profit status, which is very significant seeing as though the USOC receives a majority of its funds from sources related to corporate sponsorship. Sponsors and affiliates of sporting organizations (both for- and non-profit) mainly seek private benefits through their associations with a sports organization. This is because corporate sponsors of sport are often able to reach their target markets in a more direct and cost-efficient way than traditional forms of mass advertising (Copeland and Frisby, 1996). Also, “the image of products, services, or brands can be enhanced when a company aligns itself with the positive characteristics of a sport event or successful sport athletes” (Copeland and Frisby, 1996, p. 33). Therefore, the incentives for associating with the United States Olympic Committee would be present regardless of its non-profit status.

IV. Conclusion

In this paper, it was discovered that the operation of the United States Olympic Committee is very atypical to what is expected from a non-profit organization. As a non-profit that earns a majority of its revenue from corporate affiliations, it would be expected that the USOC would be willing to offer its official partnership with any corporation as a way to increase the organization’s funding and further invest in the success of American athletes at the Olympic

⁷ An increase in utility in the for-profit sports sector may also cause a growth in future ticket sales for sporting events. If the USOC were to be for-profit, a rise in utility of fans is less likely to produce an increase in ticket sales because of the nature of the Olympics. The Olympic Games are an international event that does not always take place in the United States, making it difficult for those who receive utility from American success at the Olympics to actually attend the Games.

Games. But because the United States Olympic Committee has a monopoly on the Olympic industry in the United States, it is not willing to accept all bids for corporate sponsorship, suggesting that the United States Olympic Committee is better suited as a for-profit organization more so than a non-profit. If the USOC were to function as a for-profit, this paper suggests that the organization would reap significant financial benefits, as well as produce benefits to the American public. These benefits can be seen upon the comparison of the USOC to many for-profit sports organizations, for the USOC already shares many parallels with the distinctive operation of for-profit sporting organizations.

Based on research of the for-profit sports industry in the United States, this paper theorizes that the United States Olympic Committee would still receive revenue from corporate affiliations regardless of its non-profit status. Future research should empirically investigate the significance of non-profit status of a sporting organization as a determinant of the organization's success. Using non-profit status as an explanatory variable would offer evidence as to the degree to which the non-profit status of the USOC affects its revenue and, in turn, its production of gold medals for American Olympic athletes. If the variable is insignificant, this further supports the theory present in this thesis that the United States Olympic Committee can and should function as a for-profit organization.

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