



Beyond retrospective assessment. Sport event economic impact studies as a management tool for informing event organization



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ARTICLE INFO

Article history:

Received 6 March 2015

Accepted 12 May 2015

Available online 6 July 2015

JEL classification:

L83

Keywords:

Local event management

Event promotion

Motor sports

ABSTRACT

Sport event promoters aim to organize them to get the best return on their investment. The purpose of this study is to learn better how to manage the event to maximize the benefit to the host area. Most studies on economic impact of sporting events focus on mega events or look for an impact in medium to large size cities. This study estimates the effect of a two-day event, the Rally Ourense, that takes place in a small town in Spain. Economic impact is estimated based on surveys of spectators and interviews of competitors in the 2009, 2010, and 2011 editions of the rally. The results show that the race has favorable effects, but also suggest that the impact could be increased with some simple changes to the event structure.

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1. Introduction

The economic impact studies determine the profitability of an investment for a territory and its inhabitants. In the field of sport, such studies are performed for sporting events, facilities (infrastructure) or sports associations.

Sport events are typically regarded as major generators of economic activity and jobs (Dwyer, Forsyth, & Spurr, 2005). Often estimating the economic impact of these events justifies their implementation based on economic and social reasons. However, many authors point out that an economic impact assessment alone cannot justify public support for hosting sporting events (Barget & Gouguet, 2011). Furthermore, misinterpretations and miscalculations of these studies are well documented in the literature (Baade & Matheson, 2006; Késenne, 1999; Taks, Kesenne, Chalip, & Green, 2011).

Economic impact studies of sporting events are increasingly demanded by policy makers and cities considering a bid to host large-scale events. Tyrrell and Johnston (2001) assert that policy makers often rely on the results of economic impact analysis to assess economic consequences of major events. Barajas, Salgado, and Sánchez (2012) state that the validity of economic impact

results depends on a variety of methodological issues, including the type of competition, geographic scope, duration, participants, federation, spectators, location, infrastructure needs and schedule. Based on these features, events can be classified within a typology proposed by Gratton, Dobson, and Shibli (2000) and later expanded by Wilson (2006).

The characterization of sports events helps in the selection of the methodology to study impact; Li and Jago (2013) offer a review of the most common methods. The classification of sport events also provides information on their positive aspects and what to focus on to generate profits, and those facets that are not as beneficial and can improve or change.

To date, the literature on small-scale sport events is sparse (Gibson, Willmin, & Holdnak, 2003; Lee, Harris, & Lyberger, 2010) with the focus of impact studies on large scale or mega-events. The lack of studies of small-scale events is a consequence of the difficulties in carrying out studies as the size of the event decreases, as indicated by Mondello and Rishe (2004) and Matheson (2006). Nevertheless, Higham (1999) and Coates (2012) suggest that small-scale sports events might have positive effects for host communities. There also are few ex post studies of small events, also because of problems related to their size.

One last aspect that should be pointed out is related to studies that require surveys. The degree of difficulty in carrying them out during the event should not be underestimated. For example, surveys conducted in open spaces, like at cycling and road rac-

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ing events, are more difficult to implement than those at events confined to an indoor venue (Desbordes, 2007). Possibly for this reason, economic impact studies of these events are not as frequent as in other sports. Nevertheless, there are examples like those by Hassan and McCulloch (2007) and Hassan and Connor (2009) on rallies, Chmura Economics and Analytics (2011) and Collins, Roberts, and Munday (2012) on cycling events or Barquet, Brida, Osti, and Schubert (2011) and Kruger, Botha, and Saayman (2012) on marathons. This study analyzes an event with these characteristics: a Rally included in the Spanish National Championship that takes place in an area not densely populated, the Rally Ourense.

There are two main reasons for analyzing this sport event. First, this event happens on a regular basis having been held more than 40 times. The authors have collected data for three consecutive years which allow for more accurate inferences about the impact of the event, and lessons for how to improve its impact. Second, while it is a small event, it is part of a national competition attracting spectators and competitors from outside the area. Most studies on economic impact focus on the estimation of the impact or methodological issues but they do not extract practical conclusions about how to use the study to enhance the event's creation of value for the host community. For that reason, the present paper draws experiences to design better this kind of analysis and to learn about the key elements on which to act for increasing the value for the area. Therefore, our study consists not only in the presentation of the main results of the economic impact of Rally Ourense for three years but how this kind of research could be used as a management tool by organizers and policy makers.

2. Key issues in economic impact studies

Taks et al. (2011) compare and contrast the standard economic impact analysis (EIA) and a cost-benefit analysis (CBA). They consider the opportunity cost, among the costs, and the increase in the consumption of locals and the consumer surplus on the benefit side. Preuss, Könecke, and Schütte (2010) maintain that only the spending produced by viewers who stay in town for the event and visitor spending should be taken into account in the analysis as a positive effect. They also remark that there is a negative cash flow when residents travel outside the region for attending events. However, gathering the information about the spectators that attend the same kind of event outside the town requires a different survey design. Moreover, for a small event in a small town, it is likely that the figure for travelers is small.

In line with Lee and Taylor (2005) and Baade and Matheson (2006), the direct expenditure should be taken as a starting point for calculating the economic impact of a sporting event. This direct expenditure includes spending by the (out-of-town) spectators, competitors and the organizer as generators of economic impact. This study estimates the direct monetary effect of the event. We do not attempt to estimate either the opportunity cost or the consumer surplus attributed to the event. For a cost-benefit analysis (CBA) of the Rally, both opportunity cost and consumer surplus are necessary (Taks et al., 2011), but we are only interested in the economic impact analysis in this study. So, we consider only tangible direct effects related to cash inflows and outflows from the main actors related to the event.

2.1. Identifying the sources of cash flows

The first step in order to estimate the economic impact of a sport event is to identify the agents that are going to bring or draw money to the selected area of study. In a small event like a Rally, this task may be relatively easy as the sources of cash flows are the spectators, competitors, media staff, and organizing committee. Of these

four groups, the last three are easily identified and, in most cases, detailed information about them can be obtained. This is not the case for the spectators. For them it is necessary to estimate attendance. This estimation is simple in an indoor event or an event where the organization sells the seating or standing tickets in a specific space. The problem arises in sports like road cycling or rallies. In these types of events, the estimation of attendance can be a real challenge.

In most ex ante analyses, attendance may be set using a rule of thumb. In their assessment of the impact on Richmond, Virginia from hosting the 2015 World Road Cycling Championship, Chmura Economics and Analytics (2011) apply directly the figure from the International Cycling Union (UCI from *Union Cycliste Internationale* in French). The justification is based on the estimation for the Melbourne Championship in 2010 (300,000 visitors) and a survey conducted in Hamilton, Ontario, Canada, which hosted the 2003 World Road Cycling Championships. In the case of Richmond, a more populated area closer to Europe, the UCI increased the figure to 452,580.

Hassan and McCulloch (2007) present a report on the socio-economic impact of the World Rally Championship. They include the study of 5 rallies throughout 2007. For the *Rally Deutschland*, the number of spectators is not available. The data for the *Vodafone Rally de Portugal* are given and in the Rally New Zealand the estimation method is not reported. Police forces and the organizers provide the estimated figure for Rally Ireland. The *Rally RACC* (Catalunya) is the only case in which the authors offer estimation based on the increases in hotel occupancy. Nevertheless, with this method the day visitors and visitors that spend the night in other kind of accommodation are not accounted for.

Even though the estimation of the number of spectators can be difficult in an event like a Rally, there is a method for estimating that figure. The race takes place in branches of roads distant from the populated areas. The spectators have to arrive mostly by car to the zones enabled to attend the pass of the competing vehicles. So, an accurate estimation can be done measuring the length of the roads with parked cars in every access to the tranches. Then the number of cars can be estimated considering the average length of a vehicle. Asking the questionnaire about the number of occupants in the respondent's cars and multiplying the average occupancy obtained by the estimated number of cars produces an approximate number of spectators for each tranche. Unfortunately, simply adding together the number of spectators at each tranche could result in double, or multiple counting of a single spectator, as an individual can attend the race in different tranches. Spectators may view a tranche of the race, then drive off to another location to see another tranche. If that person viewed several tranches, he could be counted many times in the attendance figure. For that reason, the survey includes a question asking about the tranches the individual plans to visit. To avoid this double counting of visitors, we multiply the total number of attendees by a coefficient that is the ratio of the number of non-locals that responded to the survey to the total number of tranches that they indicated they were going to visit. So, with this coefficient the number of attendees for each tranche can be estimated avoiding duplicates.

A further difficulty in estimating the non-local attendance arises because the organizers of the Rally, looking to attract spectators, include street shows in the town. With these street shows, an attendee can arrive by foot or public transport which means the estimation of attendees cannot be done in the same way as with the out of town tranches. Nevertheless, this number can be obtained from the data on the other tranches and the responses in the survey about the intention of attending the race in town using the coefficient explained in the previous paragraph.

A final issue with the measurement of non-local attendance must be addressed. Spending from non-locals may be the result

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