

# *10 Minutes on Sport*

*November 2016*



# Introduction

Welcome to the November 2016 PwC “10 Minutes on Sport”. This publication provides an overview of current issues and trends in the sport sector which are of relevance to the business of sport.

In this edition we focus on three areas: integrity, trade facilitation and sponsorship.

The problems associated with integrity in sport are dominating conversation and social media everyday around the world. More is being asked of what management (and governing bodies) are doing to prevent recurring reputational failures. Organisations need to embark on building a new disciplinary culture which promotes socially responsible conduct, strong ethics and discipline. Players and coaches need to own their decisions, good and bad and understand the significant impact they have on the future of sports.

This is addressed in our first article titled ‘Integrity in sport – Keeping sport on the back page’. In this article we discuss that sport has always dominated the headlines, but of recent years this has all too often been with negative news stories. The spotlight is on the integrity in sport with the challenge to respond on players, clubs, codes and governing bodies. There is still a lot more to be done in the prevention, detection, governance, investigation and response to integrity related issues.

Our second article ‘Trade Facilitation’ focuses on how Free Trade Agreements (FTAs) can boost margins and can be better utilised by businesses in the sporting sector. Duty can comprise as much as 5% of the cost of goods, a precious contribution to margin. Combined with accreditation to the ‘Australian Trusted Trader’ programme (ATT), organisations can simplify and expedite the international supply chains of ‘trusted’ Australian importers and exporters.

Finally, ‘Sport Sponsorship’ discusses the emergence of “Ambush Marketing”, where organisations ‘associate’ themselves with a sport, even if they are not a formal sponsor. Sporting bodies now walk a fine line: should they encourage engagement with the sport, or should they protect the value of sponsorship by challenging ambush marketing?

I am sure you will find these three topics of interest. For a deeper discussion on how these issues affect your business, please don’t hesitate to reach out to the PwC Australia Sports team.

I hope you enjoy “10 Minutes on Sport”.

*“A key to **integrity**, therefore, is consistency of actions that are viewed as honest and truthful to inner values. A **sport** that displays **integrity** can often be recognised as honest and genuine in its dealings, championing good sportsmanship, providing safe, fair and inclusive environments for all involved.”*

Australia Institute of Sport.

[http://www.ausport.gov.au/supporting/integrity\\_in\\_sport/about/what\\_is\\_sport\\_integrity](http://www.ausport.gov.au/supporting/integrity_in_sport/about/what_is_sport_integrity)



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# Integrity in sport

## Keeping sport on the back page

### *Sport on the front page*

Sport has traditionally occupied the back pages of the newspapers, where results are celebrated and injuries mourned. Increasingly though, sport has dominated the headlines, with the spotlight on integrity in sport raising its ugly head, including

- Maria Sharapova's drug ban and recent appeal
- The conviction of players and a coach from the Southern Stars Victorian Premier League soccer club for involvement in an international match-fixing syndicate
- The recent sex scandal involving All Blacks player Aaron Smith
- Cronulla Sharks player Andrew Fafita's public show of support for convicted friend Kieran Loverage
- The worldwide tennis match-fixing claims that rocked the start of the Australian Open
- The Parramatta Eels salary cap scandal
- The ASADA drug bans of AFL and NRL players.

The problem of corruption and risks to sport integrity is not limited to individual athletes, coaches, officials, clubs or teams nor limited to the local level – in recent years we have seen it extend to the global, governing body level

***“Sports do not build character.  
They reveal it.”***

*- John Wooden, American basketball player  
and coach, 1910 – 2010*

### *What's at stake?*

The words cheat, drugs, doping, scandal, bribery, tanking, match-fixing, fraud, corruption go against the fundamental principles of sport and fair play. Such conduct rob athletes and teams of prize winnings and sporting glory, puts sponsorship dollars and gambling stakes at risk, and causes countries to lose out on rights to host major sporting events, or lose their investment in sending athletes to compete on the world stage. More broadly, threats to the integrity of sport also have the flow on effect on society in terms of organised crime, good role-modelling and public confidence.

### *Threats to the integrity of sport*

As competition for selection, sponsorship dollars, success, the right to host intensifies so too does the threat to the integrity of sport. Those involved in the industry need to be aware that the rules of the game extend beyond the rules within the sporting arena, and abiding by only those rules is not enough. Risk areas include

- The use of illicit and performance enhancing drugs
- The use of hormones and other means that can avoid detection with present anti-doping lab processes
- Financial vulnerabilities and gambling habits of the athlete and athlete's circle of influence (including player agents)
- The pay and selection of referees and match officials

- Competitions where individuals can easily influence the outcomes (eg tennis, golf, horse racing)
- Pressures on the make-up and selection of teams
- The manipulation of salary caps and the use of third party deals
- The leakage of inside information
- Inadequate or ineffective monitoring and sanctioning of integrity related issues by governing bodies
- Conflicts of interest involving outside contractors and stakeholders
- Gambling and betting.

Local and international crime syndicates.

Many of these risks have been exacerbated by the advance of technology, global broadcasting, social media, and international appeal of sport which has

- Enabled performance enhancing drugs and hormone growths to avoid easy detection
- Opened up the sports market internationally to spectators, offshore betting operators, and crime syndicates
- Facilitated the ease by which online gambling, money laundering is possible
- Opened up the possibility of online in-play sports betting especially with unregulated offshore betting operators.

# Integrity in sport

## Keeping sport on the back page (cont'd)

### Responses

The traditional responses to minimise and manage integrity issues have been to introduce rules, codes of conduct, ethics, good governance structures, education, background checks, monitoring and auditing, and impose sanctions.

However, it is clear from the number of headlines that this has not been enough. Many sports and clubs have therefore more recently undertaken additional measures including:

- Whistleblowing policies and hotlines
- Athlete education and awareness of corruption and integrity issues
- Reviewed and improved their culture, governance, monitoring, processes and control measures
- Improved background checks on recruits and new hires
- Engaged external consultants to assist with governance, compliance and risk factors
- Established integrity units to handle integrity issues
- Engaged with government authorities, regulators, sports governing bodies to discuss or advocate for further legislation and regulation to govern these issues
- Set up internal monitoring and investigation processes
- Considered best practice governance measures from the corporate world and internationally.

### Challenges ahead

Despite the additional measures taken, there remain some challenges to combatting threats to the integrity of sport. There are rules in play intended to preserve the integrity of the sport. However, there are still threats and debates as to dealing with, preventing and detecting problems with integrity in sport. These include debates and issues as to:

- Responsibility: should sporting boards and governing bodies police and prevent integrity issues, or should there be Government involvement? For example, in May 2016 the Victorian State Government provided a report and recommendations on integrity in racing;
- Internal or external involvement: should integrity issues be dealt with within the sport? How should sports handle the level of engagement and cooperation with the National Integrity of Sport Unit, Australian Federal Police, WADA, ASADA? Should there always be an external audit or overseer on the award of major sporting event bids?
- Culture and governance: what are the weaknesses in sporting bodies which make them vulnerable to exploitation by criminal syndicates? How can this be effectively reviewed and what level of transparency is required to detect weaknesses?
- Anti-bribery, corruption and anti-money laundering: how are players, clubs and sports placed to prevent and detect any illegal activity infiltrating their sport?

- Online sports betting: how can online betting agencies be regulated? Should sports or clubs be allowed to be sponsored by bookmakers (worth approximately \$4 billion annually to the industry (Australia Sports Commission))? Should in-play betting be legalised to allow for better monitoring and detection of integrity threats linked to gambling, as favoured by the Coalition of Major Professional and Participation Sports Incorporated (made up of Australia's leading sports bodies)?
- Legislation: should manipulating sports outcomes be further criminalised?
- Appeals processes: what appeal processes are appropriate when internal regulatory show cause notices or sanctions are imposed?

### Advice and representation

PwC can provide assistance and advice relating to the prevention, detection, governance, investigation and response to integrity issues in sport.



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## Trade facilitation

### The role of trade strategy in boosting margins – Trade facilitation opportunities for the sporting goods sector

#### **Both retailers and wholesalers of sporting goods in Australia face some challenging times ahead ...**

Modest annual growth rates of 1.5% over the next 5 years are anticipated due to slower expected growth in discretionary income and continued declines in sport participation. Competitive pressures will continue as e-commerce activity of consumers heightens and large department stores expand their ranges into sporting goods.

The battleground for market share in this industry will no doubt be price, product and service. As an industry with traditionally low profit margins many businesses will be scratching their heads looking for even more operational/cost efficiencies to boost margin so that investments in price and customer service can be made in order to remain competitive.

With some 80% of the goods in the wholesale segment imported, international trade strategies such as the utilisation of trade facilitation schemes present opportunities to reduce COGS and supply chain costs.

#### **Free Trade Agreements**

Free Trade Agreements (FTAs) between Australia and its trade partners present an opportunity to drive margin improvement through the ability to significantly reduce Cost Of Goods Sold (COGS) from an elimination/reduction in the duty paid on imported goods.

While a number of FTAs have been in place for some time, the savings available under the recent China Free Trade Agreement (ChAFTA) are far greater given the large % of goods sold in Australia still sourced from China.

Unfortunately free trade agreements are often under utilised by businesses, in most cases due to a lack of understanding the process, regulatory and system requirements needed to take full advantage of the preferential duty rates available.

Given that duty can represent up to 5% of the cost of goods, businesses not utilising free trade agreements are leaving precious margin on the table.

To realise the opportunity, businesses should:

- Assess top value suppliers to quickly engage
- Develop a detailed list of products within the mix of the identified suppliers

- Determine the treatment of goods under ChAFTA and the duty savings opportunity
- Determine the appropriate tariff classification of the goods
- Determine the applicable rules of origin for those key categories of goods
- Prepare supplier questionnaires to obtain the necessary information to demonstrate the goods meet the ChAFTA rules of origin; and
- Investigate options to prepare one Origin Advance Ruling application. This includes supplying Australian Border Force (ABF) with the information verifying how the goods are sufficiently manufactured in China to meet the terms of the various ChAFTA rules of origin in place for the goods.

#### **Australian Trusted Trader programme**

The rise of global value chains has transformed the nature of international trade and has led to more complex supply chains and a significant increase in trade volumes.

In response other countries have implemented Authorised Economic Operator (AEO) facilitation programmes. These are designed to enable their border protection authorities to focus their precious resources on high risk cargo, and not the cargo of businesses with a history good trade compliance and strong supply chain security.



## Trade facilitation

### Trade facilitation opportunities for the sporting goods sector (cont'd)

Although late to adopt a 'like' scheme, the Australian Government through the Australian Border Force (ABF) launched the 'Australian Trusted Trader' programme (ATT).

Like other AEO's globally, ATT is designed to improve compliance at the border but also speed up the international supply chains of 'trusted' Australian importers and exporters.

Accreditation to the schemes is reserved for businesses who demonstrate high standards in controls, systems, policies and procedures associated with trade compliance and supply chain security.

ABF has spent the last 12 months testing the programme with a select group of pilot participants (see below), officially opening the programme to all importing and exporting businesses from July 2016.

#### Pilot participants



#### Benefits available

Accredited Australian Trusted Traders programme will be afforded preferential treatment at the border, which presents a range of international trade benefits:



**Reduced lead times**



**Supply chain cost reduction**



**Improved access to export markets**



**Government certified supply chain**



**Duty deferral**



**Priority trade services**

The programme is voluntary, requiring business to express interest with ABF who will then assess the business against their strict trade compliance and supply chain security.

As a first step, PwC recommends that businesses first weigh up the benefits and costs of the programme, and test their trade compliance and supply chain maturity before lodging interest.



#### Burning platform

Since the launch over 300 business have expressed interest, placing significant workload on the ABF and heightening the risk that the processing applicants may be delayed.

Interested businesses can avoid being caught in the queue by being well prepared, with a high quality submission at the point of application.



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# Sport sponsorship

## The value of sponsorship

### Sponsorship is a changing market

Sponsorship is an important part of the business of sport. For sporting bodies it is a key source of revenue. For sponsors, it provides an opportunity to enhance brand and present its product to a wide sporting audience.

Sponsorship arrangements are becoming increasingly complex, particularly as:

- Broadcasting rights are becoming segmented
- The avenues for communication with sporting audiences are numerous
- Sponsorship-of-sponsorship becoming a strategy in the market.

These complexities have resulted in opportunities for organisations to ‘associate’ themselves with a sport, even if they are not a sponsor (known as “ambush marketing”).

Sporting bodies now walk a fine line: Should they encourage engagement with the sport, or should they protect the value of sponsorship by challenging ambush marketing?

### Ambush marketing

Opportunities for ambush marketing are rife throughout sporting seasons – through social media posts, hashtags, posting or ‘liking’ articles in addition to the traditional advertising avenues.

The Rio Olympics provided a prime opportunity for advertisers to reach audiences nation, and world wide. Olympic Committees internationally rallied to protect the Olympic IP, for example:

- The US Olympic Committee (USOC) sent letters to sponsors of athletes, who were not also official Olympic sponsors, warning them not to post on social media about the Olympics or use ‘official’ Olympic hashtags. Zerorez, a small carpet cleaning business in Minnesota, has challenged the USOC’s policies and letters, claiming that the letters had the effect of “chilling, silencing and censoring Zerorez’s [free] speech about the Olympics on social media”. Social media posts and hashtags are the key driver of traffic to websites
- The Australian Olympic Committee took action against non-sponsor Telstra for its Olympic-themed ads highlighting its support of Seven Network’s “Olympics on 7” app. This matter remains ongoing.

Other key examples exist:

- In American Football, where in 2014, players were banned from wearing Dr Dre’s Beats headphones after reaching a sponsorship deal with Bose
- In Soccer, where players are frequently sponsored by footwear and underwear companies that are not sponsors of their team or the code.

### Where to from here?

Sport brings people together, and community engagement – by individuals and organisations – is essential to the success of a sport. Ambush marketing is a reflection of community engagement, but can have the effect of reducing the value of formal sponsorship.

To avoid the impact on sporting revenue, it is useful for sporting bodies to determine where the line is between engagement and value, and develop risk mitigation strategies to protect against the dilution of sponsorship value.

PwC can assist in setting a sponsorship strategy and protecting sponsorship value through IP protection and the consumer law.



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