

## **The Financial Games of the 2008 Olympics**

**George S. Swales, Jr., C. Edward Chang and John S. Bowdidge**

### **Introduction**

The standard American income statement begins with a listing of a firm's *revenues* B funds coming into the firm. At a later point in the document, there will appear *expenses* B funds leaving the firm in order to continue operations. As accounting students will remember, when *expenses* are subtracted from *revenues*, we obtain *net income*. That last figure can be positive or negative B hopefully *positive!*

Many firms would like to keep such figures within the firm, and not subject to public scrutiny. Such a protective approach is particularly true regarding the city having the honor to have staged the *Olympic Games*.

There is no way that the current study can forecast the final Income Statement for the Beijing Olympics of 2008. *But* it will be possible to begin the process of identifying *some* of the revenues and expenses of those games. A first step could well be to remember Athens.

### **A Quick Glance at 2004**

Approximately six weeks after the close of the Athens Olympics, *Sports Illustrated*, *Associated Press* and *CNN* put these words on their website:

It's no secret that several government officials have hinted that the final cost of the Olympic Games will be much higher than what was initially projected, said Platon Monokroussos, an economist with Greece's EFG Eurobank. Figures as high as \$9.9 billion and \$12.4 billion have been suggested. We are talking about a serious overrun, since the initial budget was about \$5.7 billion (Greece 2004)

To illustrate that final figures on Olympic expenses are hard to arrive at, one month earlier than the above report, Britain's *The Economist* sketched the Athens picture with these different figures:

By 2008, China aims to have spent \$37 billion on the games, dwarfing the \$8.7 billion spent by Greece (The road 2004).

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Possibly coping with such expenses are the *geopolitical* revenues from staging the Olympic Games.

### **Geopolitical Revenues for Beijing**

The *geopolitical* revenues that come from having your city picked for the Games cannot be measured in mere dollars. Pascal Boniface, writing in *Le Monde diplomatique* in August of 2004, applied this principle to the Games of 1936:

*...le choix de Berlin pour les Jeux de 1936 sera considéré comme la preuve que l=Allemagne est de retour sur la scène mondiale, après sa défaite en 1918. Cette décision avait été prise avant l=arrivée au pouvoir de Hitler. Ce dernier tentera d=utiliser l=événement pour montrer la supériorité du nazisme et de la \*race aryenne+. (Boniface 2004) ...the choice of Berlin for the 1936 Games is to be considered as proof that Germany had returned upon the world scene, after its defeat in 1918. This decision had been made before the arrival to power of Hitler. The latter attempted to use the event to show to the world the superiority of Nazism and of the \*Aryan Race+.*

Boniface went on to point out that the superiority of the \*Aryan Race+ stumbled somewhat when black American athletes did so well, especially track star Jesse Owens winning four gold medals! But having the games in Berlin was a geopolitical revenue for Germany!

Then, Boniface addressed the geopolitical revenue of the Beijing choice:

*Le choix de Sydney pour l=organisation des Jeux de 2000, au lieu de Pékin, fut vécu par les Chinois comme une non-reconnaissance de leur nouveau statut mondial. Affront réparé par l=attribution des Jeux de 2008, qui fut interprétée comme la consécration de la place retrouvée de la Chine comme grande puissance (Ibid.)* B The choice of Sydney by the [Olympic] organization for the 2000 Games, in place of Beijing, was seen by the Chinese as a non-recognition of their new world status. This affront was atoned for by the awarding of the 2008 Games, which was interpreted as the consecration of the place found by China as a great [world] power.

But it takes something more than *geopolitical* revenues if you=re going to stage a profitable Olympic Games.

### **Other Revenues**

It=s time to glance at dollar-denominated revenues coming to the Beijing Organizing Committee for the 2008 Olympic Games, now known worldwide as BOCOG.

#### *A Rather Pleasant Picture*

On December 22, 2005, *People=s Daily* (the official publication of the Central Committee of

the Communist Party of the People=s Republic of China) told of three categories of income to the People=s Republic:

The Marketing Program of the 2008 Olympics consists of three tiers: partners, sponsors and suppliers. Up till now, 10 partners have been signed up, namely Bank of China, China Network, Sinopac, CNPC, China Mobile, Volkswagen, Adidas, Johnson & Johnson, Air China and PICC P&C. The seven sponsors are UPS, Haier, Sohu, Yili, Tsingtao Beer, Yanjing Beer, BHP Billiton and Heng Yuan Xiang (China=s leading 2005).

Getting the first position at the top of the *sponsor* list was a well-known American firm, as reported in *Berliner Morgenpost*:

*Mit der Unterzeichnung eines Abkommens am 27. Juli in Peking ist der US-Konzern UPS der erste Sponsor der Pekinger olympische Spiele geworden* (UPS 2005) B With the signing of an agreement on July 27 in Beijing, the U.S. firm UPS has become the first Sponsor of the Beijing Olympic Games....

Shortly after learning this, one of the current authors met a UPS deliveryman in a doctors-building elevator and said: AWe hear your firm is a sponsor of the Beijing Olympics!@ The UPS man=s response was: AOur firm makes more deliveries in China than any other firm on earth.@ His comment confirmed what Ina Steiner had written for *Auction Bytes* in July 2005:

UPS announced Thursday it would offer express package service across much of China by September. The new UPS operation will initially link 23 major metropolitan areas with same-day service, and will expand further in the future.... The deal, reached with UPS=s long-time China partner Sinotrans, opened the way for operations in the 23 business centers to be transferred to UPS by this September (Steiner 2005).

In the category of *partner* we find another well-known American firm. Look at all the revenue this American firm is providing, according to *China Daily*:

Under the agreement, Johnson & Johnson will provide funding and services for the Beijing 2008 Olympics and Paralympic Games, BOCOG, the Chinese Olympic Committee, and for Chinese teams in the 2006 Turin Winter Olympic Games as well as the 2008 Games (Beijing Olympics 2005)

In the *sponsor* program, we have a well-known American firm B Coca-Cola. Here=s how *China Daily* wrote it up:

Forget about drinking Pepsi in the grandstands when you take in the Olympic Games, at least up to 2020. To quote the old advertising slogan, ACoke is it.@ Security guards will be asking sports fans if they are carrying Aknives, weapons or cans of Pepsi.@ Those who refuse to leave the banned refreshment at the gates will be shut out (Game Plan 2005).

The next paragraph should not be a surprise:

The company is not disclosing the value of the deal. The commitment includes cash and services from Coca-Cola in support of athletes and teams from nearly 200 countries and regions. (*Ibid.*).

Precise monetary figures are just not being announced *now* or perhaps *never*. Here's another example of that approach:

Heng Yuan Xiang, China's leading woolen wear producer, has been named non-sportswear sponsor of the 2008 Olympic Games.... According to the deal, Heng Yuan Xiang will provide funds, formal wear...and other textile products to the 2008 Olympics and Paralympics, BOCOG, the Chinese Olympic Committee and the Chinese sports delegations to the Olympic Games. Both sides refused to reveal the value of the contract (China's leading 2005).

Why is Heng Yuan Xiang limited to being a *non-sportswear* sponsor? That's because the German sportswear giant Adidas is coming in as a *partner* B the top level of the help program.

How much will all of this help the Beijing Games? Well, David Owen, writing January 16, 2005 for *Financial Times*, commented on **just one** of the categories, the *sponsors*: ACorporate sponsorship of the 2008 Olympics in Beijing is on course for a record figure of more than \$1 bn (1760m), confirming China's new-found status as a magnet for trade and investment@ (Owen 2005).

#### *A Pessimistic Glance B from the Outside*

No question about it. In the preceding paragraphs we have seen that Beijing and the BOCOG are finding enthusiastic *sponsors*, *partners*, and *suppliers* from outside the People's Republic of China. But Charles Hutzler, writing for the Associated Press from Beijing on November 8, 2005 indicated that foreign firms B including of course those from America B are not particularly interested in getting involved. Remember he's writing nearly three years before the event. Here's part of Hutzler's negative slant.

Australian and European architects, for example, are designing several venues, including the \$386 million National Stadium, the Games= signature architectural work.... But no American company has been awarded a sizable contract. What contracts foreigners have won pales in comparison with the huge sums involved: China is spending \$2.4 billion on Olympic venues alone and another \$35 to \$40 billion on remaking the city for 2008 (Hutzler 2005).

Such figures make the tiny positive involvement we've just read about by *sponsors*, *partners*, and *suppliers* seem like loose change. But the Xinhua news agency has informed us of yet another form of revenue

### **Expenses**

#### *Examining the Expense/Revenue Relationship*

As we shall soon see, billions of dollars in *expenses* will be incurred in Beijing between now and summer of 2008. As a comforting reminder that expenses can provide for *revenues*, we offer a January 5, 2006 headline from Amsterdam=s *De Telegraaf*: AGrootste reuzenrad ter wereld in China@ (Grootste 2006), meaning: ALargest ferris wheel in the world is in China.@ The specific ferris wheel mentioned by *De Telegraaf* is in Nanchang and stands 160 meters high. But on the drawing board is another such structure set for Shanghai with a height of possibly **230** meters. Here=s the story on it from *Boston.com* and *The New York Times*:

The Shanghai Star Ferris, due to start spinning by 2008 when the Chinese capital, Beijing, hosts the Olympic Games, will stand 200 to 230 meters (656 to 755 feet), stripping the world=s tallest title from the 135-meter London Eye (Shanghai 2005).

While on a visit to China for the Olympics, why not journey down to Shanghai and ride the wheel? This impressive new structure is expected to draw 12.6 million visitors per year, according to the *Shanghai Daily* (*Ibid.*). Adult admission fee to get on the London Eye is , 12.50. That translates to \$22.12. Assuming the same fee for the Shanghai structure, multiply that by 12.6 million riders and you have a revenue figure for each year of over \$278 million.

Yes, initial *expenses* to erect a ferris wheel can indeed lead to impressive *revenues*! Now, let=s consider some of those myriad *expenses*.

#### *Expenses B Look Out! Here They Come*

Of course, there is no attempt here to list all expenses related to the 2008 Games. Just a few reports will make the point. We work through the calendar year of 2005. *Berliner Morgenpost* on January 5 reported on stadium construction:

*Am Olympiastadion laufen Arbeiten wieder an. Noch keine Entscheidung über andere Sportstätten.... Die Kosten für alle 15 Bauten waren auf rd. 22 Mrd. Renminbi Yuan B 2 Mrd. Euro* (Am 2005) B Work begins on the Olympic Stadium. Still no decisions over other sports stadiums.... The cost for all 15 structures will be around 22 billion Renminbi Yuan (that=s 2 billion Euros) [\$2.4 billion].

Strange as it may seem to the reader, one venue (or stadium) as early as 2001 had already been picked, according to *The Economist*. The site for Beach Volleyball matches could very conveniently be the infamous Tiananmen Square (Putting 2001).

Great Britain=s *The Economist* on June 23, 2005 related that Beijing has kept expenses as low as possible in the acquisition of real estate on which to house the Games. And the citizens who have lost their property in the process are protesting:

But protests by these relatively affluent villagers can still be an embarrassment to the government. In the village of Maxinzhuang in Shunyi, one of Beijing=s rural districts, hundreds of peasants have been protesting for the past month over compensation for the requisition of their land to build a water-sports complex for the Beijing Olympic Games in

2008. AThere are no human rights,@ muttered one protester, after local police ordered your correspondent [from *The Economist*] to stop interviewing them. Several Chinese journalists have visited the village, but their reports have not been published. The authorities are clearly anxious to avoid tarnishing the image of Beijing=s Olympics preparations (Turning 2005).

In June, 2005, Mure Dickie reported from Beijing for *Financial Times*:

Beijing has delayed the start of initial construction work for a...\$604 million...rail link between its airport and the city centre that is one of the most high-profile projects planned as part of the Chinese capital=s preparations to host the 2008 Olympic Games (Dickie 2005).

In September of 2005, we learned of special *new* security measures for the Games; such security will require the *hiring* and *compensating* of new security personnel. Here=s how *Le Quotidien du Peuple*, French-language version of *People=s Daily*, handled the matter for the 56<sup>th</sup> National Festival in 2005:

*Les personnes participant aux grandes activités publiques durant la fête feront l=objet B pour la première fois B d=inspections de sécurité qui seront mises en place aux Jeux Olympiques de 2008* (Beijing mesures 2005) B People participating in the big public activities during the Festival will be the object B for the first time ever B of security inspections which will be put in place [also] at the Olympic Games of 2008.

On December 22, 2005, *People=s Daily* and *Xinhua* produced two reports indicating that construction would be starting soon on the Olympic baseball field and on the Olympic media village. Such construction, according to *Xinhua*=s French version, would give legitimacy to the following report:

*Les Jeux Olympiques de 2008 à Beijing devront créer 1,28 million d=emplois pour la capitale chinoise, a rapporté mardi le journal Beijing Morning Post...* (Les Jeux 2005) B The Olympic Games of 2008 at Beijing will create 1.28 million jobs for the Chinese capital...between 2004 and 2008...it was reported Tuesday by the newspaper *Beijing Morning Post*....

Creating those jobs and paying those workers will mean new expenses.

And during 2005, a whole new pocket of future expenses was revealed B the Environment.

### **Environmental Concerns Leading to Expenses**

The Paris daily newspaper *Le Monde* way back on January 3, 2001, reported on the competition for obtaining the Olympic Games:

*Pour obtenir les Jeux olympiques d=été de 2008, pour lesquels elle est notamment en compétition avec Paris, Pékin a lancé une vaste opération séduction.... Pékin promet un air \*aussi pur qu=à Paris+* (JO, 2001) B In order to get the Olympic Games of 2008, for which

it is notably in competition with Paris, Beijing has launched a broad seduction campaign... Beijing is promising air \*just as pure as that of Paris+.

As 2005 arrived, it became clear that such a seduction@ promise may be hard to keep. On September 2 of that year, Paolo Virtuani conveyed this unhappy information in Milano, Italy=s *Corriere della Sera*:

*Nube gigante di biossido d=azoto sulla Cina...in particolare sopra Pechino. Non è una buona notizia per gli atleti che parteciperanno alle olimpiadi del 2008* (Virtuani 2005) B There is a gigantic cloud of nitrogen dioxide over China...in particular over Beijing. That=s not a good sign for the athletes who will participate in the Olympiad of 2008.

Virtuani could not resist, however, indicating that the Acloud of nitrogen dioxide,@ produced by China=s tremendous and fantastic *industrial growth*, was a positive proof of the *Agrande balzo in avanti,@* or *Agreat leap forward@* predicted for Chinese industry by Mao.

On that same September date, the *Australian Broadcasting Corporation* and *Agence France-Presse* compared that Beijing air pollution with the same phenomenon in the U.S. and Europe:

Levels of NO<sub>2</sub> [that=s nitrogen dioxide]...have risen by about 50% over China over the past decade due to economic growth.... By comparison, concentrations of NO<sub>2</sub> have remained steady or declined over industrial parts of the US and eastern Europe (Smog 2005).

Two and a half months later, *Xinhua* announced that there would be help for Beijing from the United Nations Environment Program (UNEP) regarding the NO<sub>2</sub> problem:

Under the agreement, the UNEP will provide the Beijing Organizing Committee for the 2008 Olympics...with data and technical resources on environmental issues (China, UN 2005).

Is there to be *funding* with the Adata and technical resources@? *Funding* would help! And as early as 2001, Britain=s *The Economist* told of a possible B and extremely expensive B solution to the Beijing NO<sub>2</sub> challenge: APollution...which shrouds Beijing in haze for many days of the year, is to be controlled by moving factories away from the city@ (Beijing gets 2001). That would be quite an undertaking!

### Conclusion

As preparation for the Beijing Games became serious and intense, International Olympic Committee President Jacques Rogge made a most optimistic statement, quoted by the Chinese news agency *Xinhua* for its issue of New Year=s Eve, 2005:

*Je suis sans cesse impressionné par les efforts et la détermination de tous ceux qui sont chargés de faire de Beijing 2008 les meilleurs Jeux possibles pour les athlètes, les médias, les spectateurs et toute la famille olympique@* (Le président 2005) B AI am over and over again impressed by the efforts and determination of all who are in charge of making Beijing

2008 the best Olympics possible for the athletes, the media, the spectators and the whole Olympic family.®

Earlier, and more directly related to the focus of the current study, *People=s Daily* and *Xinhua* provided this happy forecast on December 12, 2005:

BOCOG=s marketing campaign has been so successful that the International Olympic Committee (IOC) predicts that Beijing 2008 is likely to break the record set in Los Angeles in 1984 for the most profitable Games in history (Beijing launches 2005).

Not until autumn of 2008 can we determine the validity of this prediction!

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