



The Knowledge to Decide

www.spireresearch.com

The Beijing 2008 Olympics

China's hope and pride

The Beijing 2008 Olympics

Excitement has been mounting since the countdown to the Beijing 2008 Olympics began when China won the bid seven years ago. The 2008 Games represent more than just a sporting event. The Games will provide a significant boost to business and consumer spending in China – and by implication the world. At stake may be the financial and economic prospects for the world's fourth largest economy.

Betting on “8”

With eight months to go until the Beijing 2008 Olympics, all eyes are on China as the nation steps up its preparations for the biggest international event in its history. The auspicious date has been set – on a Friday, at 08:08:08 in the evening of the 8th day of the 8th month of the 8th year of the 21st century.

Being homonymous with the word “prosper” in Chinese, “8” is generally considered to be the luckiest number among the Chinese. Can China bet its luck on “8” for the success of the Beijing Olympics next year?

After losing to Sydney back in 2000, China went all out to outbid Paris, Toronto, Osaka and Istanbul to gain host city status for the 2008 Olympic event, based on a combination of themes – going green, advanced technology and embracing people as the centre of the Olympics.

Playing host

China has allowed the expenditures for the Beijing Games to exceed the budget allocated, even surpassing that of previous host cities' (see Table 1).

Table 1: Cost of hosting Olympic Games

The Olympic Outlay in US dollars*	
Barcelona 1992	7.5 billion
Atlanta 1996	1.8 billion
Sydney 2000	5 billion
Athens 2004	12 billion
Beijing 2008	> 36 billion
London 2012	> 9.7 billion to date

*Includes estimated total spend on hosting the Games

Source: Olympic Outlay - Cushman & Wakefield's February 2007 Asia Report on "After the Games Are Over – Feast of Famine?"

Beijing may be spending only USD 2.6 billion to construct Olympic venues – this is only half of what Athens spent for the 2004 Games – but USD 200 billion has been set aside to give the capital a major pre-Games makeover, including permanent upgrades to the city's transportation and communications infrastructure¹. Despite multiple revisions to bring down the total outlay for the Olympics, China remains on a building spree, clocking total fixed asset investments to-date at USD 36 billion, thrice its commitment budget.

Clearly, China is staking a great deal on the success of the Games, and money seems to be no object. In the context of prickly trade relations with the West, rising cross-Straits tensions and a growing domestic income gap, not to mention the shadow of the Tiananmen Square incident in 1989, a successful Olympic event will be a great boost to China's prestige in all quarters.

While the Games bring national pride to the host country, China has also recognized and prepared for the financial consequences. Recent host cities had difficulty recouping their total investment – in particular, Athens and Montreal plunged into a financial slump after their Olympic outlays.

However, the cup is only half empty. The demands on the government budget do not tell the whole story. The other half of the equation is the impact on the economy.

Official figures state that the Beijing economy can attribute 2.07 percentage points of growth solely to the projects created by the Olympic Games. The programs already implemented are generating over USD 1 billion a year in municipal spending. Most of this outlay has been government spending but companies have also been adding to the investment².

Moreover, China will benefit from the infrastructural legacy of the Olympics. After the Games, Beijing's Olympic facilities will be used for trade and entertainment as well as for sport, following Australia's example where the Sydney Olympic centre was used for a wide range of activities including the annual agricultural show.

Throw in the rights to television broadcasting, add sponsorship incomes and money from ticket sales and Beijing will come out of these games a much improved city. And, very possibly, turn a tidy profit.

The Business of the Games

The 2008 Olympics is projected to be the most lucrative Games ever, with gross total surplus from revenue (ie. excluding fixed asset investment) estimated at USD 300 million. The ardent embrace of the Olympics by the Chinese

¹ Asia Times Online, "Beijing 2008: perhaps the last hurrah", 18 May 2007

² China Economic Review, "Olympics bill will be astounding. So will the benefits", 28 May 2007

government – and, by extension, its citizens – also promises to raise the profile of the campaigns surrounding the Games.

Skyrocketing sales

China is geared up to sell over 7 million tickets for the Olympic Games, worth an estimated USD140 million. Tickets are so popular that the second tranche of ticket sales was closed hours after the ticketing booths opened on 30 November 2007. That day alone, China's ticket sales website registered 8 million hits while the hotline was inundated with 3.8 million queries³.

Additionally, the tourist inflow will be massive. Government officials, delegates, athletes, the media and spectators will be flying in by the droves, trailing business and consumer spending in their wake (see Table 2).

Table 2: Estimated tourism receipts from Beijing Olympics 2008

Revenue from Olympics Tourism	Government Officials	Athletes/ Delegates	Journalists	Local Tourists	OECD Tourists	Emerging Economy Tourists	Total
Inflow of People	200	10,600	20,000	1,000,000	200,000	600,000	1,830,800
Total Spending (USD)	580,100	28,112,000	53,040,800	1,092,000,800	436,801,300	1,310,400,800	2,920,935,800

Source: Analysis from Spire Research and Consulting, based on multiple public sources and assumptions (see Appendix Table 4)

China is obviously confident of sales – it has committed to channeling revenue surpluses from the Games to set up an Olympic Friendship and Co-operation fund that will finance sports undertaken in developing countries.

Unprecedented level of sponsorship

In as early as the third quarter of 2003, 53 commercial sponsors were already lined up, fulfilling the sponsorship goals for the 2008 Olympics. And this list has yet to include the 12 official sponsors of The Olympic Partner Programme (see Table 3). Beijing has since attracted more than USD 1 billion in sponsorships, a figure substantially higher than the historical peak hit during the Athens' Games.

³ AHN News, "Beijing Olympic Ad Spending, Viewership Expected To Break Records", December 6, 2007

Table 3: Sponsors of The Olympics Partner Programme (TOP)

The 12 TOP sponsors	Atos Origin
	Coca-Cola
	GE
	Johnson & Johnson
	Kodak
	Lenovo
	Manulife
	McDonald's
	Omega
	Panasonic
	Samsung
	Visa

This is hardly surprising. The Olympics is a major event that elevates the status of featured products and brands. According to a recent study, 68 percent⁴ of Chinese sports fans are more likely to buy brands that sponsor the Olympic Games.

Marketing the Olympics brand

China's marketers are also revving up their engines for the Games. China online advertising spend alone is forecast to grow some 50 percent in 2008, from USD 731 million this year⁵.

Historical precedents suggest that global sporting events like the Olympics can boost demand for certain products and services:

- When India hosted the Asian Games in 1982, it sparked a huge demand for color televisions and marked an inflexion point after which color TV penetration in India rapidly increased.
- Television sets and VCR sales soared to record levels in Japan during the 1997 Nagano Winter Olympics.

After a slump during the early part of 2007, LCD TV panel producers are expecting over 27 percent growth in total global shipments to tip 102.5 million units in 2008⁸. Sales of other digital media devices such as mobile smart-phones and outdoor plasma TV screens are also poised to ride the tide of pre-Games anticipation.

⁴ Asia Times, "Beijing 2008: perhaps the last hurrah", 18 May 2007

⁵ Deutsche Bank estimate, as cited in VNUnet.com, "China online ad spend to top \$1.79bn", 3 August 2006

⁸ Beijing 2008 Olympics official Website, "Beijing Olympics Boosting LCD TV Demand", 30 September 2007

The commercial opportunities presented by the Olympics have not been lost on Chinese firms. Many aspiring Chinese Multi-National Companies are racing to compete with their global peers in what they consider to be a rare opportunity to raise their brand profiles on the international stage.

- Lenovo has worked the Olympics logo into a complete range of products inspired by the Games. The first of these products is the notebook *Xiang*, which has the same graphic pattern found on the Olympic Torch. An auction of Lenovo's *Tianyi* notebooks with autographs by the athletes of the Games is also in the works⁹.
- ANTA Sports Products aired commercials featuring athletes from the Olympics, such as Wang Hao, a table tennis player. The exposure is expected to help the company in its initial public offering (IPO), which may raise as much as 3.17 billion Hong Kong dollars¹⁰.

China embraces a new future

With the promise to promote the environment, technology and people, the Beijing 2008 Olympics has been a catalyst for a cleaner, friendlier environment. Environmental-friendly measures have been taken in the months leading up to the Olympics next year, such as:

- Installing 14 wastewater treatment facilities ahead of the games, with the intention of achieving a 90 percent treatment rate in Beijing and nearby towns
- Replacing coal-burning boilers within the city with natural gas-fired boilers
- Planting trees inside the city to improve the supply of oxygen
- Closing down 1,000 small coal mines; various sources say the city may also attempt to limit production at coal-fired power plants in surrounding towns
- Banning of cars on the roads during the days of the Games

Although these are stop-gap measures for the Games, China is likely to advance governmental efforts to combat environmental problems even after the event. The Olympics present an opportunity for the government to emphasize the problem and gain cooperation from companies.

The Games will also boost the adoption of new media amongst the Chinese people – IPTV, mobile telephones, outdoor and many other forms of new media will be utilized to levels that could launch China into the forefront of new media development globally. China Unicom, for example, has launched a mobile phone newspaper in cooperation with People's Daily¹¹. There is talk that affiliated

⁹ MediaPost Publications, "Lenovo To Auction Off Olympics-Themed PCs For Fundraiser", 7 Aug 2007

¹⁰ International Herald Tribune, "Anta Sports, Chinese shoemaker, plans IPO", 20 June 2007

¹¹ China Tech News, "China Unicom Launches Mobile Phone Newspaper with People's Daily", 17 December 2007

newspapers like Global Times and Beijing Times will be introduced to mobile phone users in the near future.

In terms of supporting services, hosting of the Games will also help Beijing foster superior English conversational skills among its residents, especially amongst the local police and taxi drivers, many of whom have enrolled in language courses. English language abilities are likely to trickle down to other services industries and the public sector. Customer service is slated for further enhancement with mass training of hotel, restaurant and other related industry staff.

After the last whistle is blown

It is almost certain that China will achieve many of its goals in hosting the Olympic Games. While the government expenditure has been massive, the national economy, and particularly the economy of Beijing, will receive a significant stimulus from the Games, amounting to almost USD 3 billion from tourism alone. The economy will also benefit in the long-term from the infrastructural legacy of the Games as well as the after-effects in terms of new media and product adoption.

For marketers, Beijing 2008 promises commercial opportunities unsurpassed in the recent history of the Olympic movement. This is primarily because of the opportunity to broadcast product and brand messages to consumers in the world's fastest growing major economy. Both Chinese and international firms are seizing on the Olympics to showcase cutting-edge products as well as world-class marketing acumen.

However it is too early to speculate about the role the Games will play when the history of China in the early 21st century is written. The Games are taking place amidst issues of some importance:

- Rising cross-Straits tensions, in the context of plans to hold a referendum in Taiwan on whether it should bid to join the UN with the name "Taiwan"
- A widening income gap between rich and poor and between urban and rural residents within mainland China
- Economic imbalances, including a speculative bubble in A shares on China's stock exchange as well as property price bubbles in some cities
- Environmental problems, including serious air and water pollution concerns

Historians will look back on the Beijing Olympics and decide if it was a distraction from the broader effort to address these issues, or a catalyst in determining fresh and successful approaches to their resolution.



.....
Annex

Table 4: Notes on Beijing Olympics Tourism Inflow model

	Explanatory Notes
Inflow of Athletes/Delegates	10,600 athletes from 203 countries
Inflow of Journalists	China is establishing an information database of over 20,000 foreign_journalists interested in covering the Beijing Olympics.
	The Main Press Centre (MPC) will be the work place for the 5,600 accredited print and photographic press covering the Beijing 2008 Olympic Games
Inflow of Tourists: local vs foreign; OECD vs Emerging	800,000 foreign visitors and 1 million domestic visitors to Beijing
	Assume 1:3 visitors coming from developed vs developing Economies

Source: Analysis from Spire Research and Consulting, based on multiple public sources