

## Does This Add Up? Sochi 2014, the Winter Olympics

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### ABSTRACT

Sport industry revenue has grown to an estimated 460 billion US\$ in 2024 (Gough 2024). The Olympic Games are announced years in advance to drum up excitement, and they are enjoyed by billions of spectators around the globe. The Winter Olympics are typically of a somewhat smaller scale but are still a worldwide sport phenomenon. The 2014 Winter Olympics in Sochi appear to be unusually expensive per athlete for an Olympics event. The real-world expected costs, unexpected realities, and revenue of the 2014 Winter Olympics are examined in this case.

Keywords: Marketing, international marketing, Olympics, sport management, sponsorship, IOC.



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## INTRODUCTION

“Have you looked at that Olympics case yet?” Curt (fictitious name) was chatting with a classmate in his international business course before the lecture began. “The way the Olympics are marketed is more complicated than I realized, but that’s not what’s bothering me,” he said. “What’s bothering me is that I can’t get the numbers to add up, and I can’t figure out why.” “No, I haven’t even read it yet,” his classmate replied. “Which summer did those take place?” “Not in the summer, the case is from the Winter Olympics a decade ago, in 2014. You’d think the financials would all be done by now, but I just can’t figure it out.”

## BACKGROUND

The modern Olympic Games and Winter Olympics each occur once every four years, staggered so that “that every other year in the even-numbered years there is a large Olympic event somewhere in the world” (Elam and Hamakawa 2017, p. 134). The XXII Olympic Winter Games, also known as the 2014 Winter Olympics or Sochi 2014, were held February 7-23 in and near Sochi, Russia. Winter Olympics tend to be somewhat smaller than the Olympic Games which take place during the summer. For example, Winter Olympics typically have fewer than 3,000 athletes competing, whereas recent Olympic Games can have more than 10,000 athletes in competition (FAQ 2024). Winter Olympics since 2002 have hosted about 15 different types of sports (luge, snowboard, etc.) while Olympic Games tend to have more than 30 different types of sports (equestrian, rhythmic gymnastics, etc.) (Factsheet 2021 and Sports 2024).

There are similar disparities if the number of folks watching the Olympics, rather than the number of folks competing in them, are compared. For example, there were approximately 3.6 billion viewers worldwide for the 2008 Olympic Games in Beijing. Viewership went down to 1.8 billion for the 2010 Winter Olympics in Vancouver, up again to 3.6 billion for the 2012 Olympic Games in London, and down again to 2.1 billion viewers for the 2014 Winter Olympics in Sochi (Olympic 2016 p. 21).

Even for a “smaller” winter event, the infrastructure needed to host the Winter Olympics is substantial. Many of the nearly 100 events included in the 15 sport disciplines included in the 2014 Winter Olympics required very specific types of arenas, including those for ice sports, Nordic events, and alpine, skiing, and snowboarding events (List, n.d.). Sochi 2014 was the first time Russia had hosted the Winter Olympics, although Russia had previously hosted the summer Olympic Games in 1980. Alexey Voevoda earned a Gold medal at Sochi 2014. He said, “About 10 years ago, I would not have imagined that the Olympic Winter Games would take place here in my hometown of Sochi. It was a town with only one road leading to the mountains where two cars would have trouble passing each other, but now it resembles a beautiful European city and I’m very happy” (IOC 2014, p. 14).

## ORGANIZING FOR OLYMPICS

There are at least three different levels of nonprofit organization required for any Olympics, whether summer or winter. These are the International Olympic Committee (IOC), the National Olympic Committee (NOC) for each country participating, and an Organizing Committee for the Olympic Games (OCOG) that’s created for each new Olympic event (Elam and Hamakawa 2017). In addition, there are also seven International Federations (IFs) for

Olympic winter sports, each of which works to develop its particular sport worldwide (Olympic 2014). Each of these different levels of organization have well defined roles, ways to coordinate with the others, costs and benefits.

The IOC is often seen as the umbrella organization, as its brand name is on all Olympic events. This nonprofit, non-governmental organization has been headquartered in Lausanne, Switzerland since 1915 (FAQ 2024). The primary objectives of the IOC are to ensure that Olympic Games continue to take place, to support the other organizations already identified, and to encourage what have been called “Olympic Values” (IOC 2014, p. 43). The entire list of objectives are outlined in the following quotation, taken from the 2020 Edition of the Olympic Marketing Fact File (p. 5):

“The IOC coordinates Olympic marketing programmes with the following objectives:

- To generate revenue to be distributed throughout the entire Olympic Movement – including the OCOGs, the National Olympic Committees (NOCs) and their continental associations, the International Federations (IFs) and other recognized international sports organisations – and to provide financial support for sport in emerging nations.
- To build on the successful activities developed by each Organising Committee for the Olympic Games (OCOG) and thereby eliminate the need to recreate the marketing structure with each Olympic Games.
- To ensure that the Olympic Games can be experienced by the maximum number of people throughout the world principally via broadcast coverage.
- To protect and promote the equity that is inherent in the Olympic image and ideals.
- To control and limit the commercialisation of the Olympic Games.
- To create and maintain long-term marketing programmes.
- To enlist the support of Olympic marketing partners in the promotion of the Olympic ideals.”

### **IOC, Broadcasting and the TOP Program**

The IOC contributes about 90% of the funding it gathers from several sources to the NOCs, OCOGs and IFs (Olympic 2020, p. 7). Ever since Vancouver 2010 the IOC has had sole control of all broadcast operations. In 2009 the IOC rolled out a new Olympic Broadcasting Services organization to manage global broadcasting. This not only gave the IOC control over coverage and content, it also allowed the IOC to ensure global media coverage for the most possible viewers of the Olympics. The summer Olympic Games have enjoyed global coverage since 2000, the Winter Olympics have also enjoyed global broadcasting coverage since 2010. Not surprisingly, revenues from broadcasting went up more than 50% for the IOC compared to Winter Olympics coverage before 2010 (Olympic 2016, p. 24). All monetary units will be reported here in U.S. dollars. Broadcast revenue for Sochi 2014 was \$1.3 billion, the most ever for a Winter Olympics up until that point (Olympic 2016, p. 24).

Another global revenue source for the IOC is The Olympic Partners Program (TOP Program). The TOP Program was created by the IOC in 1985 to streamline two things regarding sponsorship. The first focus of the TOP Program was to reduce the number of different potential sponsoring companies that the IOC had to work with to something under 20 sponsors, down from potentially several hundreds of companies in the early 1980s. The second focus of the IOC

when creating the TOP Program was to ensure longer-term commitments from these major sponsors. Prior to 1985, each company could choose to sponsor one single Olympic Games during the year in which the event took place, then provide no sponsorship money for another four years until the next Olympic Games. The TOP Program asks global sponsors for large contributions to be spread over at least four years, rather than all at once. This way, the IOC has guaranteed revenue for a four-year cycle – which the IOC calls a quadrennium. Each quadrennium would include both a Winter Olympics and a summer Olympic Games, but the revenue would be stable from these major sponsors over the entire four-year span. The IOC is careful not to divulge how much each TOP Program sponsor contributes. For the 2013-2016 quadrennium – which includes Sochi 2014 – there were 12 TOP Program partners, and more than \$1 billion in revenue (Olympic 2020, p. 15). That implies an average contribution of more than \$80 million per partner.

### **IFs, NOCs and OCOGs**

Bidding to host an Olympic event – summer or winter – is usually done seven years in advance. The IOC requires certain assurances as part of that bidding process. One of the requirements is that the NOC and the OCOG guarantee that they – the host cities and government – will be responsible for any cost overruns. This means that if anything changes, the IOC has no responsibility for covering the costs of those changes (Müller 2015).

The IFs received \$199 million of this TOP Program and broadcast revenue for the 2014 Winter Olympics (Olympic 2020, p. 8). In addition, the IOC allocated another \$199 million for the Russian and other NOCs for Sochi 2014 (Olympic 2020 p. 10). In return the NOCs are expected to develop and maintain their own national Olympic teams and training programs. Those national training programs also usually start at local levels, so TOP Program money can even benefit athletes who are merely Olympic hopefuls through IFs as well as through NOCs. All NOCs are also required to work with OCOGs in their own country to coordinate marketing programs, and they are allowed to have their own revenue generating commercial programs.

The Sochi OCOG was allowed – as all OCOGs have been in recent Olympics – to create its own individual city's OCOG logo (see Appendix 1) and Olympic characters (see Appendix 2). The Sochi OCOG coordinated a national contest resulting in three mascots – the Hare, Polar Bear, and Leopard (IOC 2014). Sales of plush mascot souvenirs alone were the highest ever for an Olympic event with some 3.6 million plushies sold (IOC 2014, p. 102). The NOC and OCOG together had given official permission for some 5,000 different types of souvenir items which resulted in approximately \$500 million (IOC 2014, p. 102). This included philatelic and numismatic programs that NOCs and OCOGs have been allowed to generate in recent decades. According to Dmitry Chernyshenko, President of the Sochi 2014 OCOG, “Since it was launched in 2009, the Sochi 2014 Marketing Program has attracted over \$1.3 billion in investment – a record figure for the Olympic Winter Games” (IOC 2104, p. 84). The eight principle domestic sponsors included five companies that were partially or wholly state owned (Sberbank, Rosneft, Russian Railways, Aeroflot and Rostelecom) and three companies that were not directly owned by the state (MegaFon, luxury retailer Bosco Di Ciliegi, and Volkswagon Group Rus) (IOC 2014, pp. 86-93).



## TICKET SALES AND OTHER LICENSING

Tickets sales are typically managed by the OCOG for each Olympic event. Some OCOGs have the goal of keeping ticket prices low to encourage low-income residents close to the Olympic venues to attend, as happened for the Olympic Games in Beijing in 2008. In that case, revenues from ticket sales were understandably the lowest ticket revenue since 1992. In 2014 revenues from ticket sales contributed \$205 million to the Sochi OCOG (Olympic 2016, p. 28).

Licensing of additional materials (clothing, stuffed animals and so on) are managed by each OCOG for its own Olympic event. The IOC oversees licensing managed by each OCOG, to ensure that product quality and branding do not damage the images of the Olympics or the IOC. In 2014 there were 49 licensees approved, resulting in \$35 million in revenue to the Sochi OCOG (Olympic 2016, p. 29).

## COSTS AND OTHER PROBLEMS

Sochi was not the most obvious choice for a Winter Olympics. After all, Sochi is a regionally popular beach resort town on the Black Sea. Average February temperatures (in degrees Fahrenheit) are close to 50 during the day, and close to 40 overnight (Weather 2024), not an ideal climate for outdoor snow sports. One of the largest snowmaking systems was developed for Sochi 2014, and in addition, “710,000 cubic meters of snow collected during the winters of previous years leading up to the games” was stored under massive covers in the mountains (Geere 2014). Trying to build a winter sport showcase in an area that does not always have winter weather drove costs up dramatically.

The area did not previously have Olympic-level winter sport facilities, although the Alpine Ski World Cup races took place an hour away in 2012. Almost all of the housing accommodations for the athletes and the competitive areas/courses had to be created “from scratch.” If the Russian government intended to use the Olympics as an excuse to build a winter resort adjacent to this beach resort city, then the result worked well. As noted by Baade and Matheson, “The desire to host the Games may be driven by the egos of a country’s leaders or as a demonstration of a country’s political and economic power. It is difficult to explain Russia’s \$51 billion expenditure on the 2014 Sochi Games or China’s \$45 billion investment in the 2008 Beijing Summer Olympics otherwise” (2016 p. 213).

Some researchers have said, “the Sochi 2014 Winter Olympics are the most costly Games ever, even when compared with the Summer Games” (Flyvbjerg, Budzier and Lunn 2021, p. 236). One went on to say that Sochi 2014 was, “the most expensive Olympic Games ever – Summer or Winter. The figure most frequently cited for total costs is \$51 billion (1526 billion rubles), although the actual figure is around \$55 billion (1651 billion rubles)” (Müller 2015, p. 628). The organizers of Sochi 2014 “declared a profit of \$261 million,” but it’s unclear how such a profit is possible, if the public and private debt is to be repaid (Müller 2015, p. 639).

## CONCLUSIONS

With the information provided thus far in the case, Curt was having trouble reconciling the financial information included. If all of the revenue sources are combined, and the estimated costs are removed, did the published profit numbers make sense? This raised an even larger question during his analysis – if hosting the Olympics tends to cost so much, is it even worth it?

What would need to change for cities to be interested in hosting Olympic events in the future? He decided that there's not one "right" answer to this case study, and prepared a discussion on the three points he thought would be most important for his responses.



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## APPENDICES

### Appendix 1

Sochi 2014 logo. Source: Olympic (n.d.)



### Appendix 2

Sochi 2014 characters. Source: The Mascot (n.d.)

