

The Covid-19 crisis

**THE WORST CRISIS
SINCE
SECOND WORLD WAR**

An abstract graphic consisting of several overlapping, curved, wave-like shapes in various shades of blue, positioned at the bottom of the page.

“Alone we can do so little. Together we can do so much”, as Helen Keller said, this is the only way the Coronavirus crisis can be overcome. We are living in an ultra-connected globalized world, where something happening in the Far East can impact the full world. We find ourselves in what seems to be the worst global crisis since the Second World War, yet its full impact is still to be discovered.

The Covid-19 crisis impacts can be split in three broad categories: sanitary, social and economic. Let's take a closer look at each and the impact it is having on the sports world in general.



SANITARY CRISIS – WILL THE GLOBAL HEALTH SYSTEMS SURVIVE THE STRESS TEST?

The health systems of most of the countries affected by Covid-19 are at risk. There are a number of challenges the sanitary systems are facing:

- The number of unknowns around the virus (e.g. immunity, real fatality rates, seasonality, time to vaccine).
- The high rate of virus transmission leading to an increasing rate of infected people.
 - Despite strict confinement and social distancing, infection rates have remained relatively high.
 - Lack of relevant preemptive medical equipment across the countries (e.g. protection masks, disinfectant gels, etc.) facilitate virus spread.
- The share of critical patients amongst the infected being relatively high (especially in the older segments), leading to a high number of critical patients needing intensive care.
- The capacity of hospitals to take care of patients of all degrees of complexity, however, this issue becomes more visible in the capacity to accommodate critical patients.
 - There are not many available ICU beds.
 - There are not many ventilators, a critical element to give care to critical patients.
 - The human resources are also limited and getting infected.

SANITARY CRISIS: IMPACT ON SPORTS

All the above has impacts across all industries. In specific, the sports industry has been severely affected:

- The only way to avoid spread is through social distancing, at least until the vaccine is found. Therefore, most sports events are being cancelled or suspended across the globe. A big question here is when will this be able to resume? And when it does, in what form? See Annex 2 for additional details on a list of sports events affected.
- Due to strict confinement, athletes (both professional and amateur) face strong challenges to do specific training, which is expected to eventually impact competition performance whenever it resumes and could also lead to competitor's injuries.
- The pandemic is strongly affecting government budgets to fight against the virus in the short-term and to stimulate the economies during the current confinement period, but also, once confinement is over, given the recession countries have gotten into. This may affect, especially local governments' ability to support larger scale as well as smaller local sport events. Many of them typically depending on public money for 15 to 30% of their budget.

SOCIAL CRISIS – IS THIS THE END OF GLOBALIZATION & SOCIETY AS WE KNOW IT?

Social distancing and confinement have become the new rule across many countries. The fact this is having a significant impact in the short-term is clear (work from home, no outdoor activities, closure of many non-essential services, etc), however, it is also expected to have a strong impact in the long-term, potentially affecting structurally human and societal behaviors.

Experts, such as the economist Federico Steinberg, believe that this crisis will lead to a deglobalization phase: reduction of international trade, increase of border and travel controls, supply chain regression to a national level, etc. He also believes a normal life (as people were used to live it) will be difficult to recover, mainly driven by the lack of vaccines and the belief that infection risk is still high. So even when

the virus is virtually gone, people will have changed their behaviors to minimize the potential infection risks, especially taking into account that there are many asymptomatic cases constantly discovered everywhere.

The most direct impact will be on industries where there is a high level of interactions among consumers or between clients and providers – such as food and beverage, events, tourism, travel, hotel business and so on – where uncertainty and price sensitivity will significantly affect the consumption trends. The question is until when? And how deep will the impact be?

SOCIAL CRISIS – IMPACT ON SPORTS

There are a number of negative implications on the sports industry:

- Beyond the current cancellation of sports events, and given the fear of infection, there is uncertainty if people will continue attending mass events (if permitted) even when the confinement is over.
- If tourism is expected to suffer because of higher restrictions to travel and the psychological fear, sports tourism expected to be strongly impacted.

On the positive side, consumers who stay home are willing to get some content, and this means that any type of organized event should have a significant viewership from home, especially in an environment where there are no events going on.

ECONOMIC CRISIS – HOW LONG WILL THIS CRISIS BE?

No one argues the fact that there is already an economic impact. Just to simplify, the strict confinement is almost equivalent to pressing pause in the affected country's economy but with aggravated impacts – especially, in all the business where significant people's interaction is required.

There are a significant number of studies predicting a significant impact across many economic levers:

- Decrease in affected economies GDPs (cut expected of 2% to 3% per month of confinement).
- Driven mainly by a drop in internal and external consumption and investments.
- The government spend is probably not going to be enough to compensate.
- Significant increase of unemployment (both in the short-term, but also in the long-term), driven by the drop in consumption and investments.
- An economic destructive cycle is currently taking place due to the Covid-19, where there is a significant cut in supply (global supply chain and labor supply), that leads to a cut in demand (decreased purchasing power, increased savings proportion, etc.), followed by additional cuts in supply (decreased purchasing power in clients leading to liquidity issues forcing some bankruptcies).

The questions that still remain unanswered are: How much will the impact be? How long will this last? Will the government actions be effective and allow for a relatively prompt recovery?

ECONOMIC CRISIS – IMPACT ON SPORTS

There are many question marks with regards to the impact the economic downturn will have on sports, but some points seem obvious:

There will be impact in the **short-term, while different countries fight against the virus:**

- Sponsors & Hospitality buyers are facing turbulent times; therefore, marketing spend could be the first to be cut if budget restrictions are.
- Ticket sales are expected to drop due to the decreased purchasing power and the fear to attend mass events.
- Individual sports athletes (such as tennis or golf players) are as well suffering a significant economic impact on their revenues, especially the ones that have not reached a professional earning level. While they remain inactive, they will not generate any income.
- Broadcasters will see a drop in their advertising revenues due to companies budget cuts and freeze during the current crisis.
- Broadcasters will face issues due to the rearrangements of the different schedules (e.g. ATP, Olympics, Golf, Basketball, F1, Moto GP, soccer, etc.) to fit it in their programming.
- E-sports industry as a promising alternative to maintain fan engagement for sports leagues, teams, institutions and athletes during the confinement period -and probably beyond.
- There is a scenario where some events may be done behind closed doors – does the current business model allows for this or significant changes are expected?

In the long-term, the impact will also be notorious across many sports elements:

- Sponsors and hospitality buyers expected to further prioritize client interaction over brand visibility, with the objective to achieve a faster return on their investment. To some extent this trend was already happening with budgets moving from marketing to sales as companies look for more direct investment on clients providing a more immediate return.
- Some sponsors may still be willing to invest in events as they have to compete harder for the consumer with decreased purchasing power in a downturn scenario.
- Despite the willingness of broadcasters to acquire content, it is expected they will pay less for the rights given the impact in their advertising revenues. To what extent subscription revenues can offset this decline will depend on the type of players and their business model going into this crisis.
- As mentioned earlier, public institutions to relocate their budgets and therefore, decreased support for mass events.



HOW IS ALL THE ABOVE IMPACTING THE TENNIS INDUSTRY?

No doubt that COVID-19 is not only affecting sports at large but also tennis specifically. Not only the sport itself is impacted but also the business of tennis is suffering. Impact in the short term needs to be addressed and implications and expected changes in the long term identified and anticipated.

In a recent webinar, Tennium brought together different experts and stakeholders from the sport. Some relevant insights and conclusion related to different parts and stakeholders of the sport are outlined below.

The main discussion topics were around the following questions:

- Will tennis go back to normal as we used to know, or will there be significant changes?
- What is the expected long-term impact on the business model of events?
 - How will event organizers be affected and how do they need to evolve their business to remain competitive and profitable in the long term? What is the expected long-term impact on the business model of events?
- How are tennis players being impacted and what are the repercussions they may experience as they come back to the sport and compete again in the future?
- What is the impact on the sponsor's businesses and financials and how will they approach sponsorships in the future?



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KEY CONSIDERATIONS FROM THE WEBINAR - COVID-19: THE WORST CRISIS SINCE WORLD WAR II

Impact on the tennis events and tournaments' business model and related implications:

- A negative impact is expected on several of the main tournament revenue drivers. The short-term impact on event day income as well as hospitality revenues seems obvious. In the mid-term though, question is how the current crisis can impact business in general and what implications this may have for sponsorships and different types of corporate partnerships. While many companies may see their budgets cut, others may see the crisis as an opportunity to step into the sport and replace certain players who may have locked up categories for a long time at certain events. The other big incognito is what will happen to media rights in the mid to long-term. While certainly demand for premium live sports content is expected to continue to increase, at the same time, broadcaster's advertising revenue will be under pressure, potentially impacting what they can pay for sports rights.
- In terms of cost, no doubt events will have to become more creative in optimizing costs while certainly they face increased costs for security and different health care measures required.
- Within this context of concern, there is a strong conviction though that tennis is a great product, a great sport, and that it will survive this crisis in the long term, with fans and corporate clients coming back to the sport. If anything, tournaments will need to continue to push for an improved fan and corporate experience and continuing to set the bar high to fulfill client expectations and assuring that they bring everyone back to the stadia.

Stephen Farrow said: "We do have a fantastic product and I fully believe that tennis will be back stronger. For now, it's difficult to estimate when people will be comfortable again attending sport events and overcoming fear of contagion and related health risks. We just need to make sure we convince them to do come back and enjoy the sport of tennis again. Continued innovation in our offer, in the experiences we create and in the value we provide to our partners will be critical in rebuilding not only what happens on the court but assuring also events' success off the court."

Impact on event organizers' long-term sustainability and profitability and related implications:

- The need for increased innovation as well as efficiency and event optimization drive the need for increased scale. This was a trend which could already be seen in tennis in the last years. If anything, the recent crisis is accelerating this trend.

The current COVID-19 crisis creates the need for consolidation from an industry top down perspective but probably also from a bottom up perspective as the demand for such consolidation will be driven by what may be a difficult situation for many smaller event organizers and agencies. According to Kristoff Puelinckx: "For many companies that have only one event or a smaller player business it may be impossible to operate successfully in such a challenging environment. As such, several of them can be expected to look to team up, creating new platforms and more powerful players in the industry together."
- From a business activity perspective, for many companies in the space, the current crisis situation is creating the need for companies to further reinvent themselves and strengthen their assets and capabilities across a number of dimensions:

OPERATIONAL

- More innovation needs to be sought, both from a fan / sponsor experience perspective as well as digitally through creativity and investment in IT platforms.

- As an example of modernization and technology, Feliciano López in his role as Tournament Director, commented on the innovative idea of organizing the Virtual Mutua Madrid Open, which despite facing some technical and usability challenges, has delivered significant PR value, new content and awareness to the event and therefore, its sponsors and fanbase.

- According to Kristoff Puelinckx "Event organizers will need to become more efficient operators to try to optimize their events but also to streamline their company operations and processes. Additionally, centralized knowledge management and deeper functional expertise development will become increasingly important as event companies look to create synergies across events and activities versus the traditional model of isolated local event project management."

FINANCIAL

- Short term cash requirements will have a strong impact across all event organizers; smaller scale companies may face more difficulties to survive the situation.
- The need for capital investments in infrastructure, innovation and technology points again to the need for scale to be able to amortize investments over a larger number of activities.
- Larger scale and investment needs come with larger capital requirements, which larger platforms or global companies may find easier to raise than local, smaller players.

Impact on the tennis players and direct implications for their game and business model:

- It is not really clear how players will come back from confinement but it may be fair to assume that younger players are more likely to come back quicker to pre COVID-19 levels of fitness, ready for competition at top performance levels as opposed to older players who may need some more time and could potentially be more susceptible to injuries early on. Having said that experienced players may have an angle over the Next-Generations as they have managed highs and lows as well as potential longer downtimes in their careers and have the mental maturity to manage this situation.
- According to Feliciano Lopez: "Players are eager to get back on court. Tennis is not only what we love but also our job. Players need to generate an income and become active again. Having said that, let's make sure we do it under the right circumstances and not rush into things as the negatives may outweigh the positives of getting back on court too early."
- With regards to their business model, players may see income from sponsorships impacted in the short-term and with changes in the way they work with their corporate partners in the future. Similar to events, players will need to be aware of the fact that sponsors will look for more than a logo on a shirt but will expect increased engagement and experience generation from their sport ambassadors as they try to increase the ROI of every dollar invested into the sport.
- Obviously, the other relevant driver for players' business cases across all levels is prize money. Given the challenging economic situation, the trend of ever-growing prize money may need to be reversed as tournaments can no longer swallow this level of costs as they face revenue challenges. Also, a redefinition and flattening of prize money distribution within events may need to be considered so lower level players can be assured to continue to make an acceptable income within the broader challenging economic context.

Impact on Sponsorships

- No doubt the broader economic situation is having a very significant impact on business worldwide. By definition this will impact not only the level of budgets companies will be able to dedicate to sports but specifically how they will look to generate a return on the investments they are making. In tennis this will be no different.
- So as we look at the impact of the crisis on sponsors, several considerations need to be made.

SPONSORSHIP BUDGETS:

- A critical question most sponsor companies are facing is: when will consumers start consuming again and how will they do it? This will be the main driver impacting how they set budgets for investments in sports sponsorships within the context of broader marketing budgets.
- In recent years, already a move could be seen with budget re-allocations from pure brand investments to more direct client investment through hospitality and fan experiences and activations onsite. This is driven by a broader trend in many businesses where increase power (and money) is moving from the marketing department to the sales departments. Companies do not only want higher returns on their investments but want them quicker. Arguably they have become more tactical in their spent and sport including tennis should get used to it.
- The expected shake-up across all industries and companies' budgets may offer opportunities for new sponsors to enter in categories that have been blocked for a long time at specific events. No doubt some sponsors will leave the sport but equally others can be expected to step in and increase their share of voice at the expense of others.

ACTIVATION STRATEGIES AND ACTIVITIES

- Sponsors will increasingly look to find new and more creative ideas to activate their sponsorships. This may become even a greater challenge if some events were to be held behind closed doors. Clearly event organizers and sponsors will need to work closely together to drive innovation and assure ever more attractive fan and hospitality experiences.

Adding to the discussion, Martijn Van Erdee, from Maui Jim, mentioned: "We would like to continue in tennis, we love the sport and its values align very well with the value of our brand. Tennis has provided us a strong platform for brand exposure, and we expect it will continue to do so. For us our investment into tennis is very much about interacting with an audience, creating experiences onsite and doing PR together with events to create maximum brand impact. Obviously if there are going to be

events without an audience, our collaboration and activation models will need to be reviewed, to see how we can continue to engage with the fan as we will continue to look to grow our brand globally."

In summary, a lot of effort and navigation through uncertainty is yet to be made. But as Hellen Keller said, "Alone we can do so little. Together we can do so much."

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GLOBAL TENNIS PLATFORM

ANNEX

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COVID-19: THE WORST CRISIS SINCE WORLD WAR II

IMPACT ON THE TENNIS INDUSTRY

by  **tennium**
GLOBAL TENNIS PLATFORM

MAY 7, 16:00h CET

The Covid-19 crisis came unexpectedly and is causing much distress across human health and sanitary systems, social standards and economies. We want to shed light on some questions about the future impacts on the tennis industry:

- Will tennis go back to normal as we used to know it, or will there be significant changes?
- What is the expected impact long term on the business model of events?
- How will event organizers be affected and what can they do about it?
- How are tennis players being impacted and what are the repercussions they may experience?
- What is the impact on sponsor businesses and financials and how will they approach sponsorships in the future?

Join this high-profile roundtable and get their exclusive insights



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The webinar "COVID-19: THE WORST CRISIS SINCE WORLD WAR II. **IMPACT ON THE TENNIS INDUSTRY**" will take place on May 7 at 4:00pm (CET)

You can access to the webinar directly using this link: <https://www.youtube.com/watch?v=jO9juMjRfz4>

For further info please contact info@tennium.com

ANNEX 2: RECAP OF THE DIFFERENT IMPACTS ACROSS CATEGORIES

	GENERAL IMPACT	IMPACT ON SPORTS
<p>SANITARY</p> 	<ul style="list-style-type: none"> — Health system weaknesses such as hospital overcrowding and supplies shortage. — Lack of any vaccination to prevent Covid-19 or cure for the disease. — High rate of virus transmission leading to an increase rate of infected people. — High share of critical patients amongst the infected. 	<ul style="list-style-type: none"> — Most sports events are being cancelled or postponed across the globe. — Athletes are facing strong challenges to do specific training, which may eventually impact on competition performance and lead to possible injuries when competing. — Budgets for sports expected to suffer in the short and in the long term due to the main focus on a bigger investment on the sanitary system and economies' stimulation.
<p>SOCIAL</p> 	<ul style="list-style-type: none"> — Crisis will lead to a deglobalization phase. — Normal life will be difficult to recover -even when the virus is gone-, mainly driven by the lack of vaccines and the belief that the infection risk is still high. — Most direct impact on industries where there is a high level of interactions among consumers or between clients and providers. 	<ul style="list-style-type: none"> — Uncertainty if people will continue attending mass events (if permitted). — Sports tourism expected to be strongly impacted. + Consumers who stay at home are willing to get new content.
<p>ECONOMICAL</p> 	<ul style="list-style-type: none"> — Worst case of global unemployment ever. — Decrease in affected economies GDPs. — Significant cut in supply that leads to a cut in demand. 	<p>IN THE SHORT TERM</p> <ul style="list-style-type: none"> — Sponsors and hospitality buyers facing turbulent times. — Ticket sales expected to drop due to the decreased purchasing power. — Individual sports athletes suffering a significant economic impact on their revenues. — Drop in broadcasters' advertising revenues. — Broadcasters will face issues due to rearrangements of the different schedules. — Some events may be done behind closed doors. + E-Sports industry as a promising alternative to maintain fan engagement for sports. <p>IN THE LONG TERM</p> <ul style="list-style-type: none"> — Sponsors and hospitality buyers expected to prioritize client interaction over brand visibility. + Some sponsors may still be willing to invest in events to compete harder for the consumer with decreased purchasing power. — Broadcasters will pay less for media rights given the impact on their advertising revenues. — Public institutions to relocate their budgets. Less support for mass events.

ANNEX 3: IMPACT OF COVID-19 OVER MAJOR SPORTS CATEGORIES

ATHLETICS



- Olympics and Paralympic Games 2020 moved to 2021.
 - Paris, London, Edinburgh, Barcelona and Boston marathons postponed.
 - Rome marathon and NYC half marathon canceled. Poland half marathon postponed.
-

BASKETBALL



- NBA 19-20 season was suspended until further notice.
 - NCAA (National Collegiate Athletic Association) canceled remaining winter and spring championship.
 - European Leagues and EuroLeague suspended.
 - International Basketball Federation suspends all competitions from March 13 th.
-

CYCLING



- Tour de Yorkshire, Tour of Flanders, Giro D'Italia, Paris-Roubaix and Liege-Bastogne-Liege postponed.
 - Tour de Suisse, due to have taken place from 6-14 June, canceled.
 - Fifth round of the UCI Mountain Bike World Cup in Fort William, and final stage of the Paris-Nice race canceled.
-

FOOTBALL



- Champions League and Europa League suspended.
 - Euro 2020 and Copa America 2020 postponed until 2021.
 - Europe's top leagues suspended.
 - Summer transfer window will be moved and contracts ending on June 30 th will be extended for a short period under terms agreed by football's major stakeholders.
-

GOLF



- The Masters at Augusta moved from April to November.
 - US PGA Championship in San Francisco postponed.
 - US Open is being moved from June to September, a week before the Ryder Cup. The Ryder Cup in September remains on.
 - The 149th Open Championship was canceled.
-

MOTOR SPORTS



- Formula 1: Australian Grand Prix called off few days before due date. Bahrain, Vietnam, China, Spain, Netherlands and Azerbaijan postponed races and Monaco GP canceled, no F1 racing until June (at the earliest).
 - Formula E: Suspended indefinitely, with the current target of getting back to racing in June.
 - Moto GP: Canceled the first premier class race of the season in Qatar and rescheduled more than a quarter of the 2020 championship calendar, including Catalunya (June 7th).
 - NASCAR: postponed all race events until May 3rd. Intending to hold all 36 races this season.
-

RUGBY



- Four Six Nations matches have been reschedule until a later date.
 - International matches postponed.
 - All rugby below Gallagher Premiership level is cancelled for the season.
-

TENNIS



- BNP Paribas Open (Inidan Wells) canceled two days before the main draw matches and Miami Open canceled.
- Fed Cup Finals and Play-Offs moved to June .
- ATP & WTA calendars suspended until July 31st .
- Roland Garros moved to late September.
- Wimbledon canceled for first time since World War II.

ANNEX 4: IMPACT OF COVID-19 ON THE TENNIS INDUSTRY

