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An Analysis of The Possibilities of Applying The North American Management Model to Most Large-Scale Sports Facilities in China

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AN ANALYSIS OF THE POSSIBILITIES OF APPLYING THE NORTH AMERICAN
MANAGEMENT MODEL TO MOST LARGE-SCALE SPORTS FACILITIES IN
CHINA

by

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ABSTRACT

As more and more international mega events such as the 2008 Beijing Olympic Games, Universiade Shenzhen 2011, the 2010 Guangzhou Asian Games as well as the China National Sports Games take place in different cities, a lot of large-scale sports facilities have been built in China. However, over a long period of time, these large-scale sports facilities struggle with several operational and maintenance problems, such as high maintenance fees, design defects, low use of efficiency, single functionality and management challenges. This situation did not change until a group of North American facilities management companies came to China in the last few years. With the help of these companies, Mercedes-Benz Arena and MasterCard Center have become the first successful examples to apply a North American facility management model. This research analyzes the current status of large-scale sports facilities in the top 15 Chinese cities through the ownership, operations and financial sources of each facility.

The research also analyzes the success of Mercedes-Benz Arena and MasterCard Center. Applying a North American facility management model to other large-scale sports facilities in China may lead similar successes. However, some changes are badly needed to motivate this great revolution in Chinese sport industry.

Keywords: Large-scale Sports Facilities, North American Facility Management Model, Mercedes-Benz Arena, China

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CHAPTER 1: INTRODUCTION

After the economic and political reforms in the 1980s, the Chinese economy and society experienced great development. At the same time, the Chinese sports industry stepped into a high-speed development era, especially after the 2008 Beijing Olympic Games.

Background of Chinese Sports Facilities Development

Since the new nation was built in 1949, the Chinese government has invested a lot of money in building different types of sports facilities. According to the General Administration of Sport of China (2005), China had 850,080 sports facilities in 2005; 63 percent of which met Chinese government standards as official sports facilities.

In the varying world of sports activities, large scale sports facilities have become more important. People's demand for sports consumption has tremendously increased with the expansion of high-level sports events. Facilities in China have become very necessary and popular. According to the Fifth National Sports Facilities Survey in 2005, there were 5,680 standard large-scale sports stadiums, arenas and natatoriums. These account for one percent of standard sports facilities in China and 0.69 percent of total sports facilities. Large-scale sports facilities not only serve as the foundation of Chinese competitive sports but they also facilitate the development of mass participant sports in China. While the large-scale sports facilities only account for 0.69 percent of all facilities, they cost the most to build. At the same time, operation and maintenance costs become

issues as well. Over a long period of time, these large-scale sports facilities struggle with several problems such as high maintenance costs, design defects, low use efficiency, single purpose functionality and management challenges.

Out of all the sports venues in China, only 3.45 percent registered profits. Approximately 2.8 percent made profits of ¥100,000 (\$15,626) or less, 0.5 percent made profits of ¥100,000-¥500,000 (\$15,626-\$78,126), and only 0.15 percent of the entire group made more than ¥500,000 (\$78,126) per year. The financial situation is even worse when only considering large-scale sports facilities (Tong, 2009).

With a glut of facilities functioning as money losers for government resources, the Chinese government and society are on a mission to make these facilities self-sufficient and profitable, especially the large-scale sports facilities. How to solve the problems of design, operation and management of large-scale sports facilities becomes essential problem to solve.

These financial issues did not improve until a group of North American facility management corporations came to China, including Anschutz Entertainment Group (AEG), Global Spectrum and SMG. Over the past five years, AEG China was participating in the design, operation and management of seven sports and multi-purpose facilities in China (E. Cuthbertson, Personal Communication, March 24, 2013). These facilities included MasterCard Center, Mercedes-Benz Arena, and Dalian Sports Center. The Mercedes-Benz Arena and the MasterCard Center have already become leading venues and representatives of profitable large-scale sports facilities in China.

The Chinese Sport Government System

The Chinese political and economic system is quite different from most of the other

countries in the world. A proper understanding of the differences of the government's organization and its special policies is essential for finding a way to solve the problems in sport facility management in China. This is especially when trying to apply a foreign country's sports facility management model to China.

General Administration of Sport of China: The General Administration of Sport of China is the governmental agency in charge of sports directly under the State Council (General Administration of Sport of China, 2013). Its responsibilities include:

- a. Creating a national sport framework
- b. Promoting physical activity and exercise participation in schools and local and regional communities
- c. Supervising national and international sport events in China
- d. Enforcing antidrug and anticompetitive measures
- e. Liaising and cooperating with Hong Kong, Macau, and Taiwan
- f. Supporting research into the development of sport
- g. Implementing regulations governing the sport industry, sport market, and sport-related business activities
- h. Implementing national physical training standards and supervising public health in coordination with the Ministry of Health
- i. Overseeing sport activities with foreign associations and teams, and sport-related cooperation and communication with countries and regions outside the mainland

The General Administration of Sport of China shares the same group of staff with the Chinese Olympic Committee and the All-China Sports Federation. Additionally under the

General Administration of Sport of China, there are 23 sport management centers which are also serving as Chinese National Governing Bodies. All of these organizations are both governmental organizations as well as sports associations. For example, the Management Center of Basketball is an administrative entity which reports to the General Administration of Sport of China. At the same time, it is also the Association of Basketball which falls under the Chinese Olympic Committee and the All-China Sports Federation.

In China, every province, city and district or county has a sports bureau. The bureaus are funded, staffed and governed by the local government. However, they also are directly under the control of the General Administration of Sport of China.

The Plan for Olympic Glories

In 1995, the China Sports Commission (the former name of the General Administration of Sport of China) released The Plan for Olympic Glories. The goal of the plan was for China to get as many gold medals as possible in the Olympic games. The plan was developed based on the Olympic cycle and it mostly restructured the elite sport training and management system in the country. At the same time, it also enhanced the pipeline that delivers elite athletes to the Olympic program. All elite athletes are selected and gathered from across China by competing in different levels of sports games. The athletes have many competitions to win in order to participate in the Olympic Games. At the very beginning, they should be the best athletes in their local area and be able to compete in the city sports games. Once they become winners of the city sports games, they will compete in Provincial Sports Games. The top athletes from every province will then get access to compete in the China National Games. Only the winners from all of

these sports games will be considered to compete for the nation in the Olympics.

The Plan for Olympic Glories mostly impacted competitive sports in China. The policy is also one of the top reasons why many sports facilities have been built recently. In order to hold the China National Games or Provincial Sports Game, more facilities were needed. In fact, many cities consider it a great honor to host a big sporting event. The cities are very willing to spend a lot of money to bring the games to their city. However, the China National Games or Provincial Sports Game only happen every four years. Most of the cities that have hosted the games, however, did not have a clear post-event plan for how to use the facilities after the games. This is where the financial, operational and managerial problems arise.

CHAPTER 2: LITERATURE REVIEW

Categories of Sports Facilities in China

In order to have a better understanding of the ownership and types of Chinese sports facilities, Zhang (2009) and his coworkers divided them into three different categories. Based on the sources of investment, the three categories are state-owned sports facilities, private-owned sports facilities (which have investments from the enterprise, private organizations or a single investor) and joint-ventured sports facilities (which have investments from both the government and private parties). In recent years the third type has become more popular, especially for large-scale sports facilities. This has also been shown in Lin's (2008) research. The Bird's Nest, the most famous sports facility from the 2008 Beijing Olympic Games (with the capacity of 91,000), is representative of these joint-ventured sports facilities.

Based on the funding, Zhang (2009) classified Chinese sports facilities into another three categories, which are government full-budget, government balance-budget and rental sports facilities. For rental sports facilities, third parties operate the facilities independently but pay an amount of money to the government in order to get the rights to operate these facilities.

An internal report from General Administration of Sport of China (2007) divided the sports facilities into public institutions-operated, corporation-operated, public institutions and corporation cooperating operated sports facilities, and the sports facilities which are

operated by the public institutions in a corporation management system.

Operational Model of Chinese Sports Facilities

Tong's (2009) research summarized five different types of operational and management models used by sports facilities in China. The first model is sports facilities operated by public institutions. Most of the big sports facilities belong in this category in that the government builds these facilities and the public institutions operate them. Another common type is where the government builds the facilities and a private party pays money to the government in order to operate the facilities. The facility owner is still responsible for the maintenance and repair of the facilities. No matter whether the operators make a profit or loses money under its contract, the responsibilities between the owners and the operators are clear and separate. However, the facility ownership remains the same. The third model is the corporation-operated sports facility. The owner of the facility can be the government or a private party, but the facility will be operated by a corporation with making profit the ultimate goal. The modified public institutions operated model is gradually being accepted by more sports facilities nowadays. For the sports facilities using this model, the staff remains members of the public institution and owns the benefit from the government. However, the facility utilizes the corporation management system to increase its ability to make a profit. The last, but also the most developed model, is the BOT (Build-Operate-Transfer) management model and PPP (Public-Private Partnership) management model. This model was widely used in 2008 Beijing Olympic Games.

Facility Management Practice in North America

Many publications in North America discussed the topic of the best practices of facilities management. Russo, Eskilsen and Stewart (2009) talked about ownership and management structure in their book. The authors mentioned that governance of public assembly facilities typically involves ownership and management by city, county, or state government. There are a variety of possibilities for the ownership, governance and day-to-day operating management of facilities. The basic formats of governance of facilities are elected public body, elected public body with an independent board, public non-profit or not-for-profit corporation or commission or authority, and private non-profit corporation and private corporation, limited liability company or partnership, and public company.

Current Situation of Sports Facilities in China

According to a report from the General Administration of Sport of China (2007), the sports facility business is a small portion of the Chinese sports industry. Eighty-eight percent of the sports facilities are funded by the government and only 12 percent of the sports facilities do not need financial support from the government. These statistics show that the government has great financial pressure to improve the regular operations of most of these sports facilities.

After the 2008 Beijing Olympic Games, the operational and management problems of sports facilities drew more attention from researchers and also the public as a whole. Most of the Olympic venues had the same financial problems as other sports facilities in the nation. Lin's (2008) investigation indicated that there is chaos in the management system, and that Olympic venues had a lower profit-making ability than anticipated. The

insufficient development of tangible assets is the main reason that sports venues have not been financially successful. For example, research in America (Sharpiro, DeSchriver & Rascher, 2012) shows that in major North American sports facilities, luxury suites have become a key revenue source. However, “luxury suites” is a very new concept to most of the Chinese. Further, revenue from naming rights is rare. In 2011, AEG helped Mercedes-Benz Arena sell its naming rights to Mercedes-Benz. This was the first successful case where a facility's intangible assets were used to make money in China.

Suggestions for Chinese sports facilities

Sun and He's (2008) research is quite different from most research conducted on this topic. They state that in building a public assembly (large-scale) facility the design needs to focus on its public services function. Instead of building a city landmark, the architects should pay more attention to how the sports facility affects citizens' life positively. This idea was echoed in Zhang's (2007) earlier study in that he suggests new sports facilities should be multi-functional. Facilities should provide a public service while also being used for live entertainment, social gatherings, and sports events. In order to stimulate people's spending in sports facilities, Tong (2009) suggests building a management system in which people can use their public health insurance account to pay for items in the sports facilities. At the same time, the author argues that the government should help to build an educational institute to train more professional sport facilities managers. In Lin's (2008) study, he encourages more and more large-scale sports facilities to utilize the joint-ventured management model where the government and a private party build and operate the sports facilities together. Linking professional sports teams to sports facilities is another solution provided by Lin. In addition, he mentions that booking more events

should be the goal for all the sports facilities.

As mentioned previously, most current studies focus on the imperfection of the Chinese policies related to sports facilities, the current governmental organization system for facilities, and the economical system in which they operate. The most common finding is restructuring the ownership of the sports facilities, changing them from government-owned and operated models into corporation operated and with a variety of ownership differences. Under these models, the facility operators will force themselves to make revenues each year instead of waiting for the government to provide annual funding.

CHAPTER 3: PROBLEM DEFINED

A lot of research about sports facilities has been done in China, and this research is an important source to help people understand the current operational and management situation in these sports facilities. However, most of the studies have similar results stating that operating Chinese sports facilities is tough and making a profit from these facilities is even tougher. Researchers and scholars in China have tried hard to find a way to fix the current problems, but most of their studies have only focused on the problems and the imperfection of the Chinese facility management policies, governmental sport organization system, and the economical system under which these facilities operate. As a result of this, the authors have suggested even more reliance upon the government. The hope of these suggestions is to either get policies changed or garner more support from the government. At the same time, the government has also published several policies to help and promote the development of the sports industry in China while concentrating on sports facilities. This is where a contradiction arises.

In order to examine a different problem related to the management and operation sports facilities in China, this paper will explore a solution to the problem from a new point of view. Based on the successful experiences of Mercedes-Benz Arena and MasterCard Center, this research will explore the possibility of applying the successes seen in these two venues to most of the large-scale sports facilities in China. Further, this paper will provide different thoughts and suggestions for the management and operation of Chinese sports facilities.

Research Questions

RQ1: What are the ownership models of Chinese large-scale sports facilities and who is operating them?

RQ2: What are the financial resources of most Chinese large-scale sports facilities? Compared to American sports facilities, what are the differences?

RQ3: How does a North American model apply to Mercedes-Benz Arena and MasterCard Center?

CHAPTER 4: METHODOLOGY

Data

The first sample will be AEG China operated Mercedes-Benz Arena and MasterCard Center. The second sample consists of all the large-scale sports facilities (not including sports facilities in schools or universities) in the 15 Chinese cities with the highest Gross Regional Product (GRP). In China, large-scale sports facilities refer to facilities used to serve as the main venues of mega events like the Olympic Games, Asia Games, China National Games, Provincial Games, National Ethnic Games, and other provincial or higher level sports events. Large-Scale Sports Facilities are stadiums with more than 20,000 seats, arenas with more than 3,000 seats, and aquatic centers with 1,500 seats. All People Sport Centers, military-owned facilities and facilities owned by schools, which are open to internal users instead of the general public, are not included (General Administration of Sport of China, 2009).

Research Methods

The first major method used is the collection and analysis of secondary data. The secondary data will come from the website of the sampled sports facilities and China National Knowledge Infrastructure (CNKI). Periodicals, books, journals, as well as sports magazines and news reports from China Sports News, Sina Sports News, Titan Sport News, and Xinhuanet News will be used. Research related to American's public assembly facilities will be utilized too.

A content analysis was used to examine documents and policies of the government.

This analysis examined the Fifth National Sports Facilities Survey and the Sixth National Sports Facilities Survey; government official websites such as those of General Administration of Sport of China, National Bureau of Statistics and local sports governments; and official documents related to the operation and development of sports facilities. Because of the Chinese economic and political structure, the national government's decisions and policies have a great impact on the development of sport in China. These materials are very significant in this research.

A depth interview will also be used. Select senior representatives of AEG China will be interviewed using a phone interview format. Interviewees from AEG China will be asked a series of structured and semi-structured questions concerning their business, what has been done in China and their predictions and expectations related to future Chinese sports facilities.

Data Analysis

Data from the sampled sports facilities will be collected and classified as capacity, age of building, ownership, operator, connection with the government and number of annual events. Descriptive data will be utilized to analyze the data in each category.

In order to facilitate analysis of the collected data, each interview was audio taped and transcribed verbatim.

CHAPTER 5: RESULTS

Ownership and Operating Model

The sample consists of large-scale sports facilities from the 15 Chinese cities with the highest Gross Regional Product (GRP). Among the 77 large-scale sports facilities (except the Mercedes Arena and MasterCard Center) in the sample, there are 34 stadiums with more than 20,000 in capacity and 43 arenas with more than 3,000 in capacity. Due to the difficulty of collecting all the needed data, the author selected 15 cities out of the top 17 cities with the highest GRP as the sample cities in this study. These 15 cities were Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Suzhou, Chongqing, Chengdu, Hangzhou, Wuxi, Wuhan, Qingdao, Nanjing, Ningbo and Shenyang. Table 1 through Table 4 provides a breakdown of the ownership models found in these facilities.

Table 1

Ownership Model

	Government Ownership	State-owned Company Ownership	Private Company Ownership
Percentage	83.1%	15.6%	1.3%

Table 2

Operating Model

	Government Operator	State-owned Company Operator	Private Company Operator
Percentage	60.0%	32.3%	7.7%

Table 3

Matrix of Ownership and Operating Model

	Government Operator	Company Operator
Government Ownership	58.4%	27.2%
Company Ownership	0.0%	14.3%

Table 4

Government Ownership Component

	Public Institution	Government Unit
Government Ownership	21.9%	78.1%

Public institutions are the public services organizations which have been set up or funded by the national government in order to provide public welfare to the society (Lin & Zhang, 2012). The services they provide are focused on education, science, culture development, public health and other public beneficial activities. Public institutions are not profit oriented organizations. There are three types of public institutions according to their funding sources. The first type are fully-funded public institutions. The second type are balance allocation public institutions where the government funding is to help cover the differences between income and expenditure. The third type are self-funding public institutions. Most self-funding public institutions are hospitals or schools since they are able to make some money or even a profit.

If the facility is operated as a government unit, it is a government department. The facility is fully funded by government and the people who work there are considered as government employees.

Table 5

Matrix of “Government-Company” Model

	State-owned Company	Private Company
Government Ownership	85.7%	14.3%

State-owned Companies are the economic units which are financed by government funding. Funding can come from the central government or the local government. The ownership of these facilities belongs to all the citizens in the nation. Table 5 and Table 6 provide breakdowns of facilities in these categories.

Table 6

Matrix of “Company-Company” Model

	State-owned Company	Private Company
State-owned Company	72.7%	18.1%
Private Company	0.0%	9.1%

Differences between Financial Sources of Sports Facilities in China and America

According to the sample data, 16 facilities mainly served as the official arenas or stadiums of sports events like Universiade Shenzhen 2011, the 2010 Guangzhou Asian Games or the provincial sports games. Fourteen stadiums are mainly being used as the home of professional soccer teams. Two arenas are the home of volleyball teams and one arena is the home of a basketball team. The rest of the facilities have hosted several concerts or performances in the past. However, the information from the official websites of those facilities show that no more than 20 stadiums or arenas held more than ten shows in the past year.

Since 83 percent of the large-scale sports facilities are owned by the government and

60 percent of them are operated as public institutions or government units, government funding is the main financial resource. As the host facilities to professional teams, facilities rental fees and admission fees are the two largest sources of income of these facilities. Among the 77 samples stadiums and arenas, only Fubang Stadium and Younger Arena sold their naming rights. However, the naming rights only cost Fubang Group and Younger Group 500,000 RMB (about \$80,000) every year.

In America, the revenue sources for sports facilities are more diversified. Booking events is the business priority of each facility in America. The income from selling tickets to all the events and facility rental fees are some of the most important revenue sources. Luxury suite rental fees, club seat fees and club seat ticket revenue are also very significant revenue sources. In addition, sponsorship fees and naming rights fees can be the largest revenue source for some facilities. What's more, ancillary revenues include parking fees, food and beverages incomes and merchandise income. Table 7 provides an overview of these revenue sources while Table 8 provides a comparison between Chinese and American facility revenue sources.

In the North America facility management model, no matter who is operating the facilities, owners retain control of all major areas of responsibility including approval of the annual operating and capital budget, the selection of the general manager candidate, the booking and scheduling policies and rental rates, the long-term and prime tenant leases, major contracts, co-promotions and/or in-house promotions that involve financial risk to the facility, and financial and facility audits.

Table 7

Estimates of Facility Revenues Resulting from Market Demand: Analysis for Sacramento

Revenue Resources	Amount	Percentage
General tickets (Kings event only)	\$21,320,000	21.50%
Luxury suites(including event tickets and other events)	\$9,000,000	9.10%
Club seat fees (all arena events)	\$7,840,000	7.90%
Club seat tickets (all arena events)	\$32,184,000	32.50%
Other arena events net tickets and rent	\$3,800,000	3.80%
Sponsorship (all arena events)	\$13,000,000	13.10%
Naming rights (all arena events)	\$2,000,000	2%
Merchandise (all arena events)	\$1,125,000	1.10%
Concessions (all arena events)	\$6,075,000	6%
Parking (all arena events)	\$2,700,000	2.70%
Total arena-related revenues	\$99,044,000	-

Note. Adapted from "Financial management in the sports industry" by Brown, M.T., Rascher, D.A., & Nagel, M.S., & McEvoy, C.D. 2010.p.295. Copyright 2010 by the Holcomb Hathaway, Publishers, Inc.

Table 8

Comparison of Facility Revenue Sources between China and America

	China	America
Government Funding	Well above average	Fair
General tickets income	Well below average	Well above average
Luxury suites	Well below average	Good
Club seat fees and tickets	Well below average	Well above average
Facility rental fees	Good	Fair
Sponsorships	Well below average	Good
Merchandise	Well below average	Good
Concessions	Well below average	Good
Parking	Well below average	Good

As a facility management team, expertise at the board level is needed to help guide the organization by establishing policies on internal and external audits, budgeting and financial management and reporting, human resource and performance evaluation or compensation, advertising and marketing, legal, communications, and public relations.

Common threads of operating dynamics exist among all facilities. Some of these commonalities are event booking and scheduling, event management, parking, crowd management, ticketing, advertising, concessions and catering, facility maintenance, and marketing and sales. Thus, regardless of a facility's size, mission, governance, management, or organizational structure, clear similarities in operating dynamics exist (Russo et al. 2009).

Application of the North American Model in China

Recently, two large-scale sports facilities have drawn people's attention in the Chinese sports industry due to their exceptionally successful operations. The commonality between the two facilities is their adoption of a new operating concept. With the help of one of the world's leading sports and entertainment presenters, Anschutz Entertainment Group (AEG), these facilities have implemented the North American facility management model in the Chinese sports market.

The Mercedes-Benz Arena is located in Shanghai, the economic center of China. As one of the remaining structures left after the Shanghai World Expo (the venue is also known as Shanghai World Expo Cultural Center), this arena hosted the opening ceremonies, closing ceremonies, and over 200 other cultural shows and events which attracted more than two million visitors during the Expo ("Arena Info" 2010). The Shanghai Municipal Government maintains the ownership of this arena.

After Mercedes-Benz purchased the naming rights of the arena, Shanghai's World Expo Cultural Center was officially named Mercedes-Benz Arena. This new arena is operated by a Chinese-American joint venture which includes the Oriental Pearl Group (OPG), AEG, and the National Basketball Association (NBA). The companies combine

their unique skills and experiences to create one of the most successful partnerships in Shanghai. OPG is listed among the *Top 50 Large-scale Enterprises* by the Shanghai Municipal Government and *Top 50 Public Companies with the Most Development Potential in Mainland China* (“Our Management” 2010).

Exploring sponsorship opportunities is the most important component of the facility's business. In fact, the success of sponsorship sales also makes the Mercedes-Benz Arena the most profitable facility in mainland China. The arena's sponsors include Mercedes-Benz, China Merchants Bank, China United Network Communications Group Co., Ltd ("China Unicom"), Coca-Cola Company, Harman, Hennessy, Anheuser-Busch InBev, Mengniu Dairy Group, BlackBerry and the Camus Family (“Funding Partners” 2010).

The Mercedes-Benz Arena hosts an 18,000 seat, five-level multi-functional performance space. In addition to the main area, the Mixing Room & Muse is a private music and entertainment space located on the southwest corner of the arena. On the top level of the arena is a rentable space. The space has been rented out to a movie theater and several famous local restaurants in the past. The building also has an ice skating rink and a 200,000 square foot retail space at the bottom of the Arena.

The Mercedes-Benz Arena is the first large-scale sport facility to utilize and sell luxury suites in China. There are 82 luxury suites in Mercedes-Benz Arena and most of them were sold out last year.

The MasterCard Center is another successful facility in mainland China. Like the Mercedes-Benz Arena, the Center has adopted North American facility management practices. The MasterCard Center was originally built as the basketball venue for the

2008 Beijing Olympic Games. After the games, the arena was renovated and upgraded to its present state. The arena is now owned by Bloomage International Investment Group Inc (“Our Team” 2010). AEG used to be the operator of this facility (E. Cuthbertson, Personal Communication, April 9, 2013). AEG turned over the management to a local state-owned company Beijing Wukesong Facility Operation Management Co., Ltd few years ago. But, AEG still provides management advice, consulting, and performance content to the operating team. The naming rights for this venue was a historic event, and it is the second naming rights transaction done by AEG in the Chinese market.

In addition to the main functional area with more than 50 suites, the MasterCard Center also has a capacity of up to 2,000 for meetings and a VIP bar and clubs in the building.

Like Mercedes-Benz Arena, MasterCard Center has actively sought sponsorship opportunities. MasterCard is the naming right sponsor, but Bank of Communications, Mingniu Dairy Group, Bacardi, Air China and China Auto Rental are additional active sponsors for this state-of-art facility (“Introductions of Partners” 2010).

CHAPTER 6: DISCUSSION, RECOMMENDATION AND CONCLUSION

Discussion

According to the results, 98.7 percent of the large-scale sports facilities in China are owned by the government with 83.1 percent owned by the government directly and 58.4 percent of these facilities are operated by the government as well. Of those 58.4 percent of facilities, 78.1 percent of them are operated as government units, which means they are fully funded by the government. Among all the sampled facilities, 40 percent are operated by companies but 32.3 percent are operated by state-owned companies. Finally, 14.3 percent of all the facilities are both owned and operated by companies. Although, only 1.3 percent of large-scale sports facilities are owned by private companies with 7.7 percent of all (large and small-scale) the facilities operated by private companies.

From Table 8, the revenue sources of Chinese large-scale sports facilities are very simple. Most of the facilities rely on government funding as they are owned and operated as a government unit. In 2012, Lin Xianpeng and Zhang Qiangqiang analyzed about 900 large-scale sports facilities in China. The results showed that in 2010, the venues had 6,969 sports events with about 29.8 million total attendants. On average, each facility held eight sport events in a year with 33,000 total attendees. Three-hundred-and-five facilities reported that they had 16 concerts and performances on average in 2010. Among 222 out of 305 sports facilities, 42.9 percent had less than 10 shows in 2010, and 48.2 percent of the 222 facilities held more than ten but less than 50 concerts or performances in 2010. Only about seven large-scale sports facilities in the survey reported that they had

more than 100 non-sports events in 2010.

Since most of the facilities have very few events during the year, generating any kind of revenues becomes very hard and almost impossible. Before Mercedes Benz Arena and MasterCard Center found their naming rights sponsors, only two facilities had sponsors in China. Luxury suites are becoming more and more popular in the newly built sports facilities, however, selling suits or club seats are still new to most sports facilities in China.

As the ownership and operational models show, Chinese large-scale sports facilities are very similar to the facilities in America. According to the 2006 International Association of Assembly Managers (IAAM) Industry Profile Survey, most of the facilities in North American are owned by the city, county, and state or province as well. The most common ownership and management structure is Public Ownership/ Public Employees. The second popular structure is Public Ownership/Non-Profit Corporation or Separate Authority.

Even Mercedes-Benz Arena and MasterCard Center are owned by the Chinese government. However, as the most successful facilities in China now, their management model makes a difference. Frank Russo, Senior Vice President, Global Spectrum, who is also the author of *Public Assembly Facility Management: Principles and Practices* (2009) pointed out that government by its very nature often is not well suited to operate what is essentially a sales and marketing oriented enterprise rather than a typical taxpayer oriented enterprise. This is not to say the government cannot operate the facilities well, but to privatize the management of the facilities would be a better choice. There are some advantages in having private management like free-market thinking, a willingness to

compete, the demand of more events and a marketing and sales orientation.

Before a positive conclusion can be made, it must be stated that Mercedes Arena and MasterCard Center also have some advantages that most facilities do not have access to. When AEG China first started working with Mercedes-Benz Arena, this arena was not in existence. AEG China participated in all the designing and consulting work before breaking ground (E. Cuthbertson, Personal Communication, April 9, 2013). Before AEG took over the arena from the government, they had already started looking for sponsorships and naming rights opportunities. As the biggest event promoter in America, AEG enjoys a great network and solid relationships with many national and international singers and performers. This is one of the reasons that more and more superstars came to Mercedes-Benz Arena and MasterCard Center to have their first concert in China. The NBA is also one of the shareholders of the operating company of Mercedes-Benz Arena. Every year, there is at least one NBA China pre-season game taking place in Mercedes-Benz Arena and MasterCard Center, which drives a big crowd and draws great attentions from all over the country. Last but not least, as the experts of facilities management, AEG owns, controls or is affiliated with a collection of companies including over 100 of the world's preeminent facilities (Company Overview, 2013). The practical experiences they have make AEG China the best and most competitive sports facility management company in China.

Recommendations

Ownership will not be an issue when applying the North American model to Chinese facilities. However, the Chinese government needs to encourage more companies to take over the management of large-scale sports facilities, no matter if it is a state-owned

company or private company.

One recommendation is to try and cooperate with North American facility management companies to learn from their advanced experience. The sports industry has existed in North America for many decades. There a complete system and model of how to run a competitive facility in the marketplace exists. Also, more professional facility managers should be trained to take this challenge.

A professional assessment of the physical design and the management of the existing large-scale sports facilities is badly needed. The assessment can help the facility managers find the business challenges they had in the past while looking for potential businesses for the future. For example, some facilities in China were designed only for sports events and are not able to host a concert because the ceiling cannot hold the heavy equipment needed for a show. Some of the facilities do not have a big loading area. This makes it impossible to do a changeover in a short period of time.

Another suggestion is to establish a solid relationship with the event promoters in both the sports and entertainment markets. Booking events has to be the priority to run the facility business successfully. Events will drive people to the facilities. The more people that come to the facilities means more ticket revenue will be generated. So too will ancillary revenues increase like merchandise, food and beverage and parking. Most importantly, greater sponsorship opportunities will be possible.

Conclusion

Mercedes-Benz Arena and MasterCard Center are the best examples of applying the North American model to Chinese large-scale sports facilities. According to this analysis, it is very possible to apply this model to many other facilities in China. As the sports

industry has just started to grow in China the past ten years, many facilities were built during this time. However, facility management is still a new concept and a practical challenge for many large-scale sports facilities in China. With the high-speed economic development and improvement of people's quality of life, the needs of the sports and entertainment consumers will finally drive the development of sports industry to a new level.

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