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Financial Sustainability of Sport Products Tip Sheet

This resource is designed for people refreshing an existing sport participation product or exploring the development of new products or experiences, supporting critical decisions required to develop a sustainable financial model.

It has been developed based on experiences of State Sport Associations (SSAs) and Regional Sports Assemblies (RSAs) in Victoria who have developed new products over the past decade, and the evaluation of these products by the La Trobe University's Centre for Sport and Social Impact.

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Developing a new sport product or experience, or refreshing an existing product, has inherent risk. While any business model's ongoing financial viability is underpinned by revenue streams and cost structure associated with the product.

- **Revenue streams** describe the cash the product makes from participants and other partners.
- **Cost structure** refers to the costs incurred to deliver a product or experience.

Organisations have to make decisions about investing in a new product and what level of investment they can sustain. Some organisations will accept a small loss on a program if it leads to additional revenue in other areas of the business, such as a net increase in memberships.

The DHW Simpson Financial Levers

The following table, developed by VicHealth and Vicsport based on the DHW Simpson Financial Levers, provides a guide to assist you in making decisions about your product's financial model.

The DHW Simpson Financial Levers are 5 key elements that can be adjusted by a product owner to impact a product's revenue and cost items. Considering each of these is a good place to start for organisations looking to improve overall financial sustainability of their products. DHW Simpson has successfully applied its Financial Levers framework in working with VicHealth funded sport participation products (and others).

The 5 DHW Simpson Financial Levers are:

1. Price:
How much you charge customers for the program

2. Third Party Funding:
Sponsorship or government funding

3. Volume:
The number of people participating in the program

4. Costs:
Fixed overheads supporting the program and variable costs to deliver

5. Investment:
Investment in the program by the business

Financial Sustainability

The following table provides a guide to assist you in making decisions about your product's financial model. Making the right decisions now can save a lot of time and money later on. Moreover, product development requires the identification and testing of assumptions, so make sure you are flexible enough to change aspects of your financial model based on product testing and feedback from key partners.

There is no right or wrong financial model for a sport participation product, and you should consider that the DHW Simpson Financial Levers are affected by other aspects of your business model, including your target audience, your value proposition to them, your resources and partners, the quality of the product's delivery and the regulatory environment.

1. Price: how much you charge customers for the product

Increasing price may increase revenue for the product if it is set at an affordable price. Different pricing models have benefits and risks associated with them.

Session fees – charging a one-off fee each time someone participates	**Benefits include:** • Supports a flexible approach to participation • Allows participants to 'try before they buy'	**Risks include:** • Predicting participation numbers for sessions • Forecasting cash flow with certainty • Additional administration of weekly fee collection
Program fees – charging upfront for a multiple week program (e.g.: 6–8 weeks)	**Benefits include:** • Encouraging participants to commit for multiple sessions • Making it easier for the deliverer to predict participant numbers	**Risks include:** • Putting up a barrier to people who don't want to commit to, or cannot afford, more than one session
Membership fees – such as those charged by sports annually or leisure facilities and other fitness classes via monthly direct debit	**Benefits include:** • Providing a steady cash flow for the product • Making payments easier for the participant through automatic payment systems	**Risks include:** • Putting up a barrier to people who don't want to commit to, or cannot afford, more than one session • Putting a barrier for people who cannot afford additional memberships
Free program – participants are able to participate for free which removes cost as a barrier	**Benefits include:** • Making the product or experience accessible (financially) to everyone • Making it easy for people to bring their friends	**Risks include:** • Revenue must be obtained from other sources to maintain the product • You cannot test the price with participants if offering it for free

1. Price: how much you charge customers for the product continued

When considering the price and pricing model of your product, you could also ask:

- How much do comparable sport products or experiences charge?
- Does your target audience face particular barriers that may affect their ability to pay?
- Will charging something create more commitment or value associated with your product?
- What other revenue streams do you have for your product?
- What experience might people have during the registration and payment process?

The free 'pilot' dilemma – Free pilots are best used as methods to test product ideas and design features. They can provide a low barrier to entry and encourage quicker uptake of your product. However, if your aim is to start charging people, you will need to test your hypothesis that participants are prepared to pay for it. If your ultimate model involves charging program fees, only when people pay will you know that it can be sustained, and you will need to consider if the experience you deliver is of a high enough quality to generate ongoing revenue.

2. Third Party Funding: Third party sponsorship or government funding

Increasing third party revenue assists the product to cover its costs in a sustainable way. Different types of third party funding have benefits and risks associated with them, which should be considered.

Seed funding – by government grants or from investors or other commercial partners	**Benefits include:** • Providing funding to develop and test a new product or experience • Being able to test and learn about elements of the business model before integrating it into core business	**Risks include:** • These types of funding are usually short-term arrangements (up to 3 years) • Using seed funding to start delivering the product or experience without developing and testing a feasible, sustainable business model
Sponsorship – a partnership whereby cash or in-kind services are offered in exchange for value you provide the sponsor	**Benefits include:** • Obtaining cash and resources to support your business model • Aligning with like-minded organisations through value driven partnerships	**Risks include:** • Neglecting to service the partnership • The sponsor pulls you in a direction that isn't fully aligned to the objectives of the product.
Fundraising – Events, raffles or campaigns encouraging community support through one-off donations.	**Benefits include:** • Tapping into community support for the product or experience • Fundraising through tax-deductable donations through the Australian Sports Foundation	**Risks include:** • Fundraising can be time consuming to organise • Asking the same people for donations multiple times can reduce their input, e.g. if they are already members paying annual fees

3. Volume: The number of people participating in the program

Generally, the more paying participants you have, the greater the revenue for your product and the more sustainable the business model. However, not every sport or target audience lends itself to large scale participation. When planning for growth consider the following:

Target market	• The size and geographic spread of the target audience • How to reach the target audience in a genuine way • The popularity of the sport based on current sport and recreation trends
Value proposition	• The value offered through your product or experience compared to comparable market competition/substitutions • How you will maintain the value proposition of the product as it grows
Pathway	• Clearly articulating the various opportunities offered in your sport to retain people as their fitness, abilities and interests change
Resources	• How many people can participate in a session at any given time (e.g. deliverer to participant ratio) and how this may affect the participant experience and price charged
Locations	• The number of locations or venues you believe can or will deliver the product, and how this will assist with greater growth • Your ability to access relevant facilities in each location
Partnerships	• Identify new partners (like local community groups) that can increase your reach into different target audiences

4. Costs: Fixed overheads supporting the program and variable costs to deliver

There are a range of costs which may be fixed or variable and should be considered as reducing program costs can lead to a more sustainable business model. Generally, you will need to consider salaries and other overheads that ultimately need to be covered for the product to be sustainable as well as direct product delivery costs.

Examples of fixed costs – these are set in their amount regardless of the number of participants	• Salary and/or remuneration for casual or permanent staff responsible for the management and oversight of the product • Office administration overheads related to the management of the product (eg: to cover some of finance, information technology or marketing staff time and other costs) • Costs associated with promoting the product to the target audience • Consulting support to enhance product development • One off or subscription fees to online technology platforms • Merchant fees for digital payment platforms
Examples of variable costs – these increase as the number of participants increase	• Payments to deliverers of the program • Fees incurred to hire or lease facilities used to deliver the sport product • Equipment costs • Promotion costs related to each location

5. Investment: Investment in the program by the business

While investment in new products or experiences can be a challenge for sport organisations, it can be a way of securing the sustainability of a program. To be successful the program will need to be a strong strategic fit with the organisation's strategy. Consider:

Initial investment	How much your organisation will invest in the development and testing and of the program, including allocating staff time, resources from across all areas of the organisation such as finance, information technology and marketing and communications?
Ongoing investment	How much your organisation will invest in the ongoing delivery of the program? Will there be an ongoing investment (in financial or human resources) for the betterment of the sport or because the product leads to increases in other revenue such as tickets, merchandise, memberships etc.?
Investment size	How much your organisation will need to invest in the program if (or when) third party funding decreases – will you be able to sustain the program through participant fees alone?

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