All That Glitters is not Gold

Great Britain was a winner in the 2012 Olympic medals race. But now that the cheering has stopped, British business feels like an “also-ran” in the economic stakes.

London 2012 was the most successful Olympics Games for team GB in over a century. Britain came third in the medals table and even the Queen herself was impressed, with the monarch saying Team GB’s success would inspire a new generation of Olympians and remind everyone how sport “unifies communities and nations”. But did that feel-good factor translate into economic growth?

Sir Mervyn King, governor of the Bank of England warned in August that the impact of the Olympics may not be long-lasting on the economy. “By spreading happiness and good cheer the Games have made us all feel better. And, who knows, the impact on confidence may give the economy a boost. But ultimately the games cannot alter the underlying economic situation we face,” King said.

Olympic Boost Short lived

On the face of it the revised third quarter GDP figures for the U.K. economy were encouraging. The one percent growth between July and September was the fastest for five years and marked the end of the longest double-dip recession since the 1950s. A breakdown of the data also suggests that the Olympics and Paralympics helped household spending grow by 0.6 percent - the strongest for more than two years.

Vicky Redwood, U.K. economist at Capital Economics, however, believes the Olympic boost will have fizzled out by the fourth quarter and the U.K. economy will revert to its negative trend. “The fading of the Olympic boost is likely to weigh on GDP in Q4, the Monetary Policy Committee of the Bank of England has said that it is braced for a contraction – which is what we expect. A triple dip looms.”

So, four months on from the Olympic and Paralympic Games, there are considerable doubts about the longevity of the economic boost provided by a summer of sporting excellence. According to some retail surveys, there is evidence that businesses in London and the Olympic area actually suffered during the Games rather than prospered. The London Organising Committee of the Olympic and Paralympic Games (LOCOG), and the Mayor of London warned Londoners to avoid the centre of London and Stratford because of congestion anticipated by hoards of Olympic visitors. Lance Forman who runs a high end fish processing firm near the Olympic stadium spent £50,000 switching to nighttime deliveries to shops and restaurants during the Games, only to find there was less congestion than usual during the day and the changes he made were unnecessary.

Failing to Managing Expectations

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The fact that London failed to grind to a halt during the Games was good news for Londoners who found that they could get tables in restaurants and travel more freely than usual. But it was bad news for many businesses, especially those reliant on tourism. Visitor numbers in August were actually lower than usual as many kept away to avoid the congestion that never happened. Hotels hoping to charge premium rates dropped prices of rooms and many other businesses found trade was much slower in August than usual. Some West End theatres closed during the Olympics because audience numbers were expected to dwindle. Critics charge that had the authorities managed expectations of visitor numbers more effectively, the immediate economic boost could have been greater.

Lance Forman is also critical of Games organizer, LOCOG, for squeezing out local businesses and preventing them from benefitting from the ten million visitors who came to Stratford, where the games were held. “LOCOG did a phenomenal job of trapping visitors inside the Olympic Park so that only the official sponsors benefitted. They went out of their way to deter visitors from buying from local businesses. Stewards were very effective at getting spectators to pass through the Westfield shopping centre main entrance so that tenants in shops got little or no trade from Olympic visitors. And a lot of the official Olympic sponsors have now all disappeared from the site – they no longer have any interest in doing business in East London.”

A Wasted Opportunity

Beyond the Olympic site many U.K. businesses say they feel they lost out on the “Olympic effect”. Pierre Williams from the Federation of Small Businesses also criticised LOCOG’s heavy-handed approach and “petty officiousness” which prevented many companies from capitalising on the Olympics. “It was a wasted opportunity for the majority of British businesses. In its almost paranoid attempts to protect the Olympic brand and its corporate sponsors, it has largely destroyed the goodwill that was there for the taking from businesses supplying the Games.” Many of the large engineering companies, who actually built the Olympic park using innovative technology, have been similarly constrained from using the Olympic connection in their marketing and even talking about it on the record to journalists.

According to government figures the cost of the Games was £377 million under the total budget of £9.3 billion. The select group of Olympic sponsors such as McDonalds, Visa, British Airways and Coca Cola contributed around £2 billion to the budget pot but the remainder was subsidised by the U.K. taxpayer. Now that the visitors have left and the Olympic Park is temporarily closed, there is little visible sign of renewed economic vigour in the deprived inner city area of Stratford and little sign that renewed economic activity in the U.K. is going to cover the cost of the Games any time soon. The last London Games in 1948 managed to lift the nation’s spirits and return a decent four percent ROI on its £750,000 initial investment. London 2012’s ROI on £9 billion looks less certain.

However, in terms of the public reaction to the Games that feel good factor seems to persist and the U.K. taxpayer thinks the money was well spent. According to a Guardian/ICM poll, there was overwhelming support for the expenditure on the Games. Even after being reminded of the £9 billion price tag, 78 percent of voters said the Olympics “did a valuable job in cheering up a country in hard times”, compared with just 20 percent who look back on them as “a costly and dangerous distraction”. It remains to be seen whether that will translate into more buoyant consumer spending in 2013.

Like many business people, Lance Forman believes the Olympics was a “phenomenal spectator event. But it was also a wasted opportunity for U.K. businesses to showcase and market their services. The ten billion pounds could have been better spent. It was fantastic for our national pride but at what cost?”

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