Twitter Thread by Alex Lieberman ■■

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The Olympic Games are controversial.

They're amazing for unity & entertainment.

But they're a horrible business.

THREAD: A story of billions in costs, misaligned incentives & crippling debt. ■

172%.

Any guesses what that represents?

That number is % over budget.

Since 1960, the Olympics have run over-budget by 172%.

And no Olympics have ever run under-budget.



The Olympics have the highest cost overrun of any mega project in the world.

Olympics: 172%
Mega dams: 90%
Trains: 45%
Bridge & tunnels: 34%
Roads: 20%

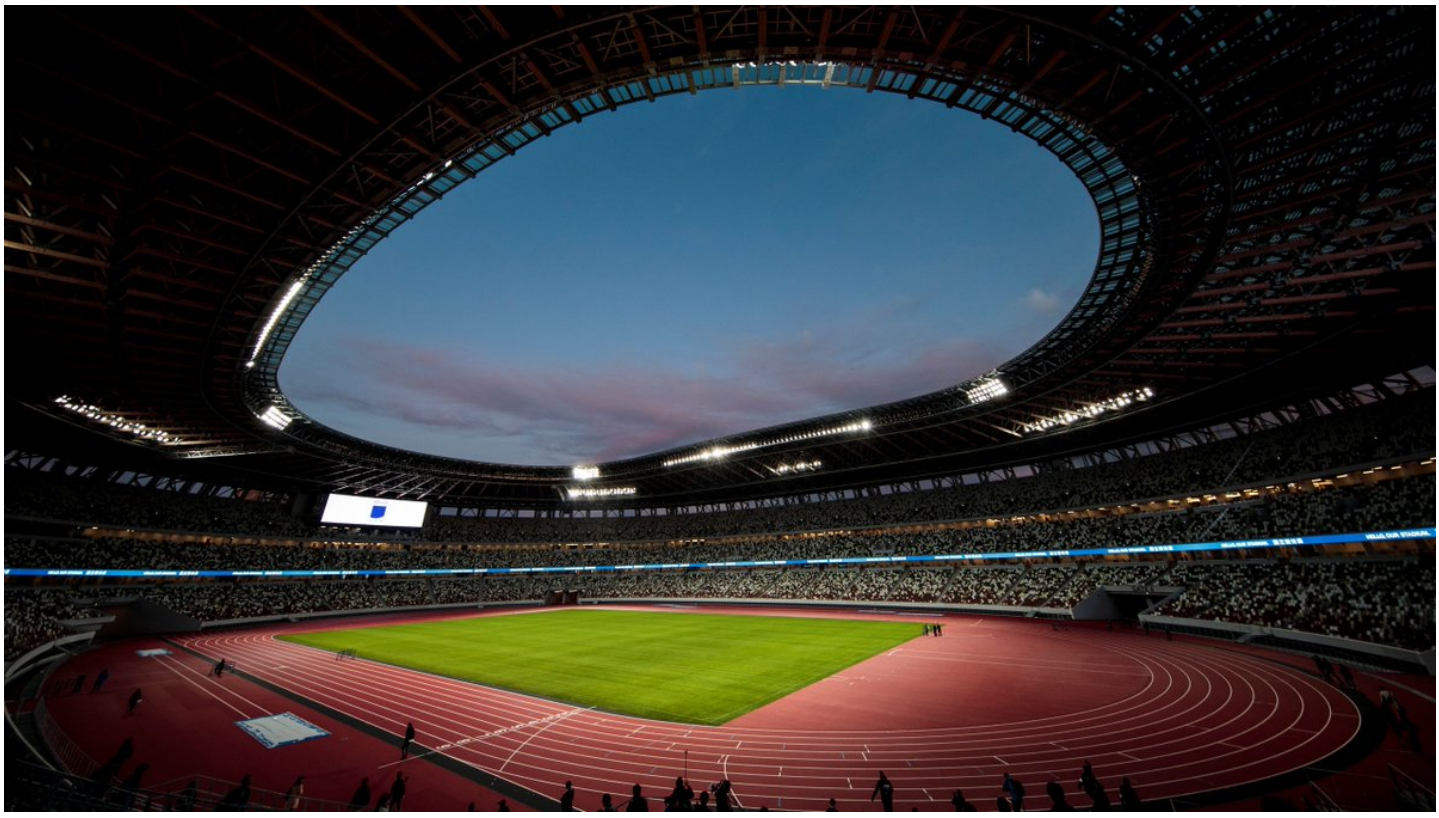
The 2021 Tokyo Games is no exception.

2013: bid projected $7.4 billion of costs

2019: official budget of $14.6 billion

2020: budget revised to $15.4 billion

2021: government auditors project total spending will be $28 billion.



Tokyo is the 2nd most expensive Olympics ever.

At $28 billion, it's more than the GDP of:

- Uganda
- El Salvador
- Iceland
- Jamaica
- Madagascar
- Fiji

Clearly, the Olympics cost a shit ton of money.

But the real question is why are host cities consistently HORRIBLE at staying within budget?

Time to find the answer.



The #1 reason for Olympic cost overruns?

Lack of optionality.

When you host the Olympics, you give up the right to do things your way.

1) You MUST stay on timeline

Forced to prioritize speed over savings

2) You MUST cover costs

Hosts are legally bound to all expenses

The #2 reason for Olympics cost overruns?

Poor expectation-setting.

Budgets should imply a final number.

But host cities treat budgets like down payments vs. final payments.

This is called "Blank Check Syndrome."

Host cities will bid for the Olympics with a budget that's like a down payment on a home.

And then many installments will follow.

It's called a "Blank Check," because no matter the cost, the host city will have to write it.



Alright.

So, the Olympics are expensive AF.

Which leads to the second question...

Why do countries continue to bid on the Games?



It's not because the Olympics are profitable.

Tokyo (2021):
• Expenses: $28 billion

• Revenue: $6.7 billion

London (2012):
• Expenses: $5.2 billion
• Revenue: $18 billion

Beijing (2008):
• Expenses: $40 billion
• Revenue: $3.6 billion

The #1 reason host cities bid even though Olympics is bad business?

Bad incentives.

Countries get push from construction executives to bid on the games.

These companies get multi-billion dollar contracts if they win the bid.

Plus, consulting firms that construction execs hire have equally bad incentives.

They run economic impact studies to show how great Olympics can be for host countries.

But the studies are faulty & self-serving.

And, consultancies have 0 incentive to publish a negative study.



The #2 reason host cities bid even though Olympics is bad business?

An attribution challenge.

Measuring long-term impact on a host country is very very difficult.

It's like the age-old Brand Marketing problem.

Brand Marketing = spending advertising $ to drive brand perception & consideration vs. immediate purchase

Ex: when Toyota spends on TV spots they're not expecting you to buy today



Tokyo suffers from the same challenge as Toyota.

How do you know if a tourist's decision to visit Japan 10 years from now was driven by the 2021 Olympics?

You don't.

Like brand marketing, Olympics value attribution is hard.

THE END



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1) Follow @businessbarista on Twitter for more business threads.

2) Listen to my podcast episode, which breaks down the business of the Olympics: https://t.co/3YlKP7F3bx

SUMMARY: There are 4 reasons the Olympics cost a ton yet countries continue to host!

1) Hosts lose all optionality
2) Poor expectation-setting
3) Misaligned incentives
4) Value attribution challenge