



IMS Knowledge Brief

Topic: Prepayment and Breakage Revenue-Cost Recognition

Overview:

How a prepayment and reward are presented to the customer or fan is entirely different than how revenue and potential marketing costs can be recognized. Likewise, the unused portion of any prepayment generally referred to as breakage, can be accounted for in a handful of ways. IMS does not offer financial or legal advice, and recommends customers consult their respective counsel for the revenue recognition method that meets their situation.

In all examples, Total Net = (Ticket Price + F&B Revenue + Retail Merchandise Revenue + Breakage (if prepaid)) – (Costs + Concessionaire Sharing).

Example 1:

The following chart provides a working example:

	List Price	STADIS1	STADIS2
Gross Ticket Price	\$ 75.00	\$ 75.00	\$ 95.00
Prepaid Value to Spend During Event	\$ -	\$ 20.00	\$ -
Gifted/Reward Value to Spend During Event	\$ -		\$ 20.00
Perceived Ticket Value / Cost to Customer	\$ 75.00	\$ 75.00	\$ 75.00
<i>Customer Price</i>	\$ 75.00	\$ 95.00	\$ 95.00
<i>Total Net</i>	\$ 80.15	\$ 88.48	\$ 88.48
<i>Delta (vs. List Price)</i>		\$ 8.33	\$ 8.33
<i>Delta (vs. STADIS1)</i>			\$ -

STADIS1 presents the prepayment as a separate cost to the fan (\$20) in addition to the ticket price (\$75). The fan knows, however, that the \$20 prepayment can be used for purchases during the event.

STADIS2 presents the prepayment as a combined number, reflected here as a \$95 ticket price, and presents a reward/gift of \$20 back to the fan to spend on purchases during the event.

In STADIS1, ticket revenue is not shared, and breakage revenue (unused portion of the prepayment) is not shared. The breakage is captured as a revenue line item.

In STADIS2, ticket revenue is not shared, and the same breakage % as in STADIS1 (the unused portion of the gift/reward) is now unused marketing cost. Since it is unused, it is not recognized as a cost/expense. The redeemed portion of the gift/reward is recognized as a marketing cost/expense. For our calculations, we allocate the marketing expense at retail, not cost, resulting in no loss of margin vs. our benchmark (List Price).

Note that the Total Net in both STADIS1 and STADIS2 are the same. This is because in the STADIS2 example we have the team or retailer covering 100% of the gift/reward.



IMS Knowledge Brief

If another entity such as a sponsor pays for some amount of the gift/reward, the Total Net Numbers will not be the same.

Example 2:

In this example, we assume that a sponsor will pick up \$1.00 of the redeemed gift/reward marketing expense per fan/customer.

	List Price	STADIS1	STADIS2
Gross Ticket Price	\$ 75.00	\$ 75.00	\$ 95.00
Prepaid Value to Spend During Event	\$ -	\$ 20.00	\$ -
Gifted/Reward Value to Spend During Event	\$ -		\$ 20.00
Perceived Ticket Value / Cost to Customer	\$ 75.00	\$ 75.00	\$ 75.00
<i>Customer Price</i>	\$ 75.00	\$ 95.00	\$ 95.00
<i>Total Net</i>	\$ 80.15	\$ 88.48	\$ 89.48
<i>Delta (vs. List Price)</i>		\$ 8.33	\$ 9.33
<i>Delta (vs. STADIS1)</i>			\$ 1.00

Note that the Total Net in STADIS2 is now \$1.00 more than the Total Net in STADIS1. The \$1.00 reduction in marketing expense flows straight to the bottom line.

Example 3:

In this example, we assume that 50% of ticket revenue is shared, and 0% of breakage is shared.

	List Price	STADIS1	STADIS2
Gross Ticket Price	\$ 75.00	\$ 75.00	\$ 95.00
Net Ticket Price (Reflects Ticket Fees/Sharing)	\$ 37.50	\$ 37.50	\$ 47.50
Prepaid Value to Spend During Event	\$ -	\$ 20.00	\$ -
Gifted/Reward Value to Spend During Event	\$ -		\$ 20.00
Perceived Ticket Value / Cost to Customer	\$ 75.00	\$ 75.00	\$ 75.00
<i>Customer Price</i>	\$ 75.00	\$ 95.00	\$ 95.00
<i>Total Net</i>	\$ 42.65	\$ 50.98	\$ 40.98
<i>Delta (vs. List Price)</i>		\$ 8.33	\$ (1.67)
<i>Delta (vs. STADIS1)</i>			\$ (10.00)

Note that the Total Net in STADIS2 is now \$10.00 less than the Total Net in STADIS1. This reflects the impact of ticket revenue sharing. This is also an example of where presentation to the fan should be different than how revenue may be recognized.

Again, it is important to recognize that these examples are for illustration purposes only and are not meant to reflect any promise or guarantee of actual returns or results. Each customer's case is unique, and IMS will assist in identifying all costs/expenses for allocation during the planning/forecasting process.