Tiger Woods Scandal Cost Shareholders up to $12 Billion

December 29 2009

(PhysOrg.com) -- Shareholders of Nike, Gatorade and other Tiger Woods sponsors lost a collective $5 to $12 billion in the wake of the scandal involving his extramarital affairs, according to a new study by researchers at the University of California, Davis.

The losses are separate from - and potentially much larger than - damage to Woods' own earnings.

"Total shareholder losses may exceed several decades' worth of Tiger Woods' personal endorsement income," said Victor Stango, a professor of economics at the UC Davis Graduate School of Management and co-author of the study.

With fellow UC Davis economics professor Christopher Knittel, Stango looked at stock market returns for the 13 trading days that fell between Nov. 27, the date of the car crash that ignited the Woods' scandal, and Dec. 17, a week after the golf great announced his indefinite leave from the sport.

To assess shareholder losses, the economists compared returns for Woods' sponsors during this period to those of both the total stock market and of each sponsor's closest competitor.

Knittel and Stango also reviewed returns for four years before the car accident to determine how each sponsor's market performance normally correlates with that of the total market and of competitor firms.

The study looked at eight sponsors for which stock prices are available: Accenture; AT&T; Tiger Woods PGA Tour Golf (Electronic Arts); Gillette (Proctor and Gamble); Nike; Gatorade (PepsiCo); TLC Laser Eye Centers; and Golf Digest (Conde Nast).

Overall, Knittel and Stango concluded that the scandal reduced shareholder value in the sponsor companies by 2.3 percent, or about $12 billion.

“(This) pattern of losses is unlikely to stem from ordinary day-to-day variation in their stock prices,” the researchers wrote.

Investors in the three sports-related companies (Tiger Woods PGA Tour Golf, Gatorade, and Nike) fared the worst, the study found. They experienced a 4.3-percent scandal-generated drop in stock value, equivalent to about $6 billion.

On the other hand, Accenture, a global management consulting firm, experienced no ill effects following the accident.

“Economic theory would predict this,” Knittel said. “For Tiger Woods, having a firm like Accenture as a sponsor probably does not enhance the overall value of the Tiger brand very much, giving Woods a lot of bargaining power when negotiating that deal. If the company therefore ends up paying Woods something close to its extra profit from his endorsement, it isn’t much worse off without him than with him.

“However, Nike and other premier sports-related sponsors are special for an athlete like Tiger Woods. They are themselves powerful brands that add value to Tiger’s brand and create other financial opportunities for him. This gives a premier sports sponsor the bargaining power to capture some of the profits generated by an endorsement deal with Woods - so that if the Tiger brand is tarnished, those profits may decline. Our study measures that decline."

The pace of losses had slowed by Dec. 11, the day Woods announced his leave from golf, Knittel and Stango found. But as late as Dec. 17, shareholder had yet to reverse their losses.

"Our findings speak to a larger question of general interest in the business and academic communities: Does celebrity sponsorship have any impact on a firm's bottom line?" Stango said.

"Our analysis makes clear that while having a celebrity of Tiger Woods' stature as an endorser has undeniable upside, the downside risk is substantial too."

Before the scandal, Woods earned about $100 million a year in endorsement income, more than any other athlete.

More information: The UC Davis study is available online at: faculty.gsm.ucdavis.edu/~vstango

Provided by UC Davis

Citation: Tiger Woods Scandal Cost Shareholders up to $12 Billion (2009, December 29) retrieved 26 April 2024 from https://phys.org/news/2009-12-tiger-woods-scandal-shareholders-billion.html