THE ULTIMATE FIGHTING CHAMPIONSHIP (UFC)

The evolution of the sport

The UFC is the most exciting combat sport in the world because there are so many ways to win and so many ways to lose…..Boxing is your father`s sport.

Dana White

What makes UFC so great is that every single man on the planet gets it immediately. It`s just two guys beating each other up.

Lorenzo Fertitta

We`re not for everyone, and we don`t try to be. If you don`t like fighting sport, great, this is America, that`s your right. All we ask is that people understand what we are.

Dana White

In early February od 2010, Bryan Johnston, the chief marketing officer for the Ultimate Fighting Championship (UFC), returned to his office at Zuffa LLC, the parent company for the UFC, in Las Vegas, Nevada. He was frustrated by the numerous athlete injuries that continue plague scheduled events, most recently UFC 108 on January 2, 2010. This situation gave him cause to reflect on some much bigger issues he had been dealing with since leaving his role as vice president of partner marketing at Burton Snowboards to join the UFC and take full control of the organization`s marketing activities in June 2009. Johnston was the first denior memeber of the firm who did not come from a background in boxing or television. He felt a great deal of pressure to ensure that the UFC continued to meet the high expectations that had been set by its phenomenal early success.

The name UFC had become synonymous with mixed martial arts across North America. Over the past decade, the company had experienced unparalleled growth in the sporting industry and was now valued at more than $1 billion. However, the competitive landscape was changing quickly, and Johnston understood that he was running out of time to make important decisions on how to continue to grow the league while maintaining the UFC`s competitive advantage that stemmed from its dominant position as the market leader.

The UFC had already begun to make strides in new international markets. According to the results of an Ipsos – Reid Canadian Sports Monitor Study, 22 percent of Canadian adults were interested in the UFC, which was fast approaching the Canadian National Basketball Association (NBA) fan base of 26 percent of Canadian adults. Furthermore, 39 percent of those interested in the UFC said their interest had increased over the past few years, more than any of the 30 other sports surveyed in Canada, includin hockey and the Olympics. Still, Johnston wonderred about the long term sustainability of the UFC`s current strategy. In January 2010, a 10 percent stake in the company had been sold to Flash Entertainment, a Middle Eastern entertainment company and a wholly owned subsidiary of the Abu Dhabi government. Johnston hoped that this move would allow the UFC to develop strategic partnerships in the Middle East and throughout Asia. However, if the UFC could not even deliver on the advertised fights within the United States, how would the company be able to deliver quality fights overseas? New international markets would dramatically increase the demand for talented main – event fighters.

Johnston also wondered whether local talent would need to be identified and recruited to attract fans and fill seats in these new markets. The popularity of English born fighter Michael Bisping was paramount to the success of UFC events in the United Kingdom. Would his popularity also hold true in other regions? Johnston was also wary of an expansion strategy that would compromise the company`s core fan base, many of whom remained skeptical of the UFC`s international initiatives. He remembered an intervju he had seen recently, in which Marshall Zelaznik, the UFC`s managing director of International Development, had reiterated the disappointment of many UFC fans, who feared that too many international events would dilute the quality of the events held within the United States. Johnston did not want to alienate the UFC`s primary market by streching the resources too thin.

Early Development

The concept of the UFC was originally developed in 1993, as a single elimination, eight man tournament called War of the Worlds by Art Davie, an enthusiast with an advertising background, and Rorion Gracie, a master in the martial art of Brazilian jiu-jitsu. The concept developed as a tournament that would feature martial artists from different disciplines facing each other to determine the best martial art. Davie and Gracie formed WOW Promotions and founded Semaphore Entertainment Group (SEG) as a television partner. The trademarked octagon design was developed for the enclosure in which the bouts were staged, and Davie and Gracie named the show „The Ultimate Fighting Championship“. The first event, later to be known as UFC 1, was held in Denver, Colorado, and proved to be success from its inception, drawing 86 592 pay per view (PPV) television subscribers. Following UFC 5, in April 1995, David and Gracie sold their interests in the organization to SEG.

Despite the UFC`s early success, controversy surrounding the absence of any standard set of rules to govern the sport led to the sport being banned in 36 states. One of many public figures who spoke out against the sport was U.S. Senator John McCain, who declared it to be “human cock-fighting.” 12 As a result, the UFC was dropped from major cable PPV distributor, Viewer’s

Choice, and other individual cable carriers, such as TCI Cable. 13 The controversy also was a major barrier against obtaining official athletic sanctioning from state athletic commissions.

In the early 1990s, in fact, the UFC's tagline had been "There Are No Rules!" In reality, though, a limited set of rules did exist: no eye gouging and no biting. Other techniques such as hair pulling, head butting, groin strikes, and fish hooking were frowned upon, but still permitted. These rules, or their lack thereof, were a major source of the con- troversy. Although the sport was appealing to some, until the sport was able to establish a clear set of rules to better protect fighters, opportunities were clearly limited for the sport's growth.

In an attempt to gain more widespread acceptance and popularity, the UFC changes some rules and decided to increase its cooperation with state athletic commissions. On september 30, 2000, the UFC held its first U.S. – sanctioned under the New Jersey State Athletic Control Board`s „Unified Rules".

Zuffa LLC Purchase

Attempts to have the sport sanctioned across the United States eventually drove SEG to the brink of bankruptcy. In 2001, Frank and Lorenzo Fertitta, executives with Station Casinos, and Dana White, a boxing promoter, bought the UFC for $2 million and created Zuffa LLC, a parent entity controlling the UFC.

Lorenzo Fertitta, a former member of the Nevada State Athletic Commission, used his relationships to secure sanctioning in the state of Nevada in 2001. The UFC made its return to pay per view with UFC 33: Victory in Vegas. The UFC slowly began to regain popularity, and advertising and corporate sponsorships followed. The UFC started generating higher live gates (i.e., ticket revenue) from hosting events at casino venues as Trump Taj Mahal and MGM Grand Garden Arena. The organization started to see PPV revenues as high as revenues before the political controversies in 1997.

The UFC secure its first television deal with Fox Sports Net (FSN). *The Best Damn Sports Show* aired the first mixed martial arts in June 2002 at UFC 37.5, featuring as its main event Chuck Lidell vs. Vitor Belfort. Later, FSN would also air one hour highlights of the UFC`s greatest fights.

The first major milestone came at UFC 40, when pay per view buys hit 150 000. The fight featured a grudge match between Tito Ortiz and UFC legend Ken Shamrock. Despite this success, the UFC continued to experience financial deficits. By 2004, Zuffa had reported $34 million of losses since purchasing the UFC.

The Ultimate Fighter and Spike TV

To avoid bankruptcy once again, Zuffa decided to take the UFC beyond pay per view and into cable television by creating *The Ultimate Fighter (TUF),* a reality TV series that featured up and coming mixed martial arts (MMA) fighters competing for a contract in the UFC. Several different networks rejected the concept, and not until Zuffa offered to pay the $10 million production costs was a partner founf in Spike TV.

The show aired for the first time in January 2005, following *WWE Raw*, and it became an instant success. The finale for the first show featured fan favorite Forrest Griffin matched up against Stephan Bonnar with the winner receiving asix figure contract with the UFC. Dana White had since credited this event with having saved the UFC. A second season was aired in August of the same year, and two more seasons were aired in 2006. The success of the show led Spike TV to pick up more UFC content in the form of *UFC Unleashed*, an hour long show that aired select fights from previous events, and *UFC Fight Night*, a series of fight events that debuted in August 2005. Spike would also feature *Countdown* specials to promote upcoming UFC pay per view cards.

In 2009, the 10th season of TUF featured a selection of heavyweight fighters, including the Youtube famous, Kevin „Kimbo Slice" Ferguson. This episode was an enormous success, drawing the highest ratings in the shoe`s history with a house hold rating of between 3.7 million and 5.3 million total viewers. The difficulty for Johnston lay in wether this success could be duplicated in foreign markets. The company`s expansion strategy involved airing non live UFC content, such as *TUF* and *UFC Unleashed* and *Fight Night*; however, given what he knew about the highly fragmented nature of his target audience, Johnston wondered whether these shows, which did incredibly well in North America, would experience similar success in other countries.

UFC's strategic partnership with Spike TV proved to be the ideal opportunity for the UFC to maximize exposure. These programs became the main outlets through which the UFC promoted its pay-per-view events, which allowed UFC to spend very little on advertising while targeting its core audience effectively. UFC was also able to generate significant sponsorship revenues through its televi- sion programming. The result was a dramatic increase in pay-per-view buys and an overall explo- sion in growth for the sport of MMA as a whole.

Explosion of Pay per View Buy Rates

UFC 52 was the first event to air after the first sea- son of TUF. The event featured two future hall-of- famers, Chuck "The Iceman" Liddell and Randy "The Natural" Couture. The event doubled the last benchmark with pay-per-view audience of 300 000. The second season of TUF was used to promote a rubber match between Liddell and Couture at UFC 57. This event drew an estimated 410 000 pay-per-view buys. The next big milestone came in the same year when Chuck Liddell faced Tito Ortiz in UFC 66. The event drew more than one million pay-per-view buys, and the UFC's popularity continued to skyrocket. In 2006, the UFC broke the pay-per-view industry's record for the most revenues in a single year with more than $222,766,000, exceeding PPV revenues from boxing and the WWE. In July 2007, BodogLife.com, a gambling website, stated that, for the first time, the betting revenues from the UFC would surpass those from boxing.

Playing a huge role in UFC's success was the organization's ability to promote its pay-per-view events through its cable television outlets, along with its ability to capitalize on the hype created by these shows, with much-anticipated fighter matchups following directly after. In the meantime, UFC had developed a self-sustaining positive feedback loop of publicly available material that served to promote the next pay-per-view event without having to draw on outside sources, resulting in favorable cost-efficiencies for the organization.

World Extreme Cagefighting and PRIDE Acquisitions

The UFC continued to expand its reach into new markets with the acquisitions of World Extreme Cagefighting (WEC) in December 2006 and PRIDE Fightting Championships (PRIDE) on March 27, 2007.

WEC was a promotional company based in California that showcased fighters in lower weight classes than those featured by the UFC. This arrangement allowed the UFC to control a broader range of mixed martial arts entertainment within the United States.

The acquisition of PRIDE, a struggling Japanese-based league cost less than $70 million and was intended initially to be run as a separate organization. PRIDE had been the UCF's largest international rival and had featured many of the world's greatest fighters. Shortly after the acquisition, on October 4, 2007, the UFC closed the Japanese operations of PRIDE and began to rebrand many of the top PRIDE fighters under the UFC name. When interviewed on ESPNEWS, Dana White remained vague about the reasons for closing the league, simply claiming that the model was not sustainable and that "PRIDE is a mess." Many people in the MMA community understood this rebranding as another step in the company's attempts to align the UFC's brand as closely as possible with the sport of MMA as a whole. It also revealed the UFC's intentions to buy out competitors and close their doors as a strategy to ensure its market position. The league followed this decision with a series of UFC events that served to unify the leagues under one name by pitting UFC and PRIDE champions against each other.

Johnston was becoming increasingly concerned with the longer-term implications of the UFC's current business strategy. The league was undoubtedly the strongest it had ever been. However, limiting the number of avenues that young fighters could take to pursue careers in the sport of MMA seemed counter-intuitive, especially while simultaneously attempting to grow the organization. This strategy would undoubtedly require access to an increasingly large pool of talented fighters. Although ultimately the UFC's strategy had worked well in terms of ensuring its dominance in market share, Johnston was beginning to wonder whether these decisions would hinder the UFC's ability to jump into international markets. Despite the huge potential market that existed in Asia, he wondered how the UFC would be perceived given its previous decisions to close the doors of PRIDE and force its fighters to compete overseas in the UFC. PRIDE fighters were generally given very little time to adapt to the UFC`s different fighting styles and rules. Many PRIDE fighters refused to accept the terms of the merger and felt they were not receiving a fair opportunity to establish themselves in the UFC. As a result, many fighters left the UFC for other smaller competing organizations.

New Competition Emerges

Mixed martial arts had reached superstar status in the world of sport, and the UFC was capturing approximately 90 percent of the industry`s total revenues. However, many challenging organizations were emerging, each with a unique business model in attempts to become established in the market and to steal revenues from the MMA giant. The UFC had a simple strategy for limiting the growth of its competitors; it scheduled free counter-programming at the same time as their competitors with the intention of stealing revenues. And although this approach was not profitable in itself, it worked by preventing new competitors from both achieving profitable operations and recouping their investments in high-profile fighters.

Although some competing organizations were airing live fights for free on cable television, an offering that the UFC was yet to make available on a regular basis, others were investing huge amounts to attract some of the world's best fighters. A key example was the world's number-one ranked mixed martial arts fighter, Fedor Emelianenko, who held the PRIDE Heavyweight Championship before the league was closed by the UFC, and who, despite being considered by most to be the world's best fighter, had never fought in the UFC. This situation was the result of Emelianenko's long-standing dispute with Dana White over the terms of a contract. Emelianenko was quoted as saying, "The bottom line was that the UFC was a one-sided offer, and you know, that's something that can never be acceptable." Johnston recalled White's less than politically correct response to Emelianenko's accusations. "Let me put it this way. I've done fight contract with all the best fighters in the world . . . who the——is Fedor? Are you serious?" Although Johnston understood that this attitude had played a crucial role in building the UFC brand with free publicity through Dana White's constant appearances in the media, he was also concerned with how this attitude could negatively affect other important relationships as the league continued to grow. Facing increased competition, Johnston wondered whether the organization might need to start rethinking the way it negotiated contracts with the league's fighters. He knew that the UFC would not be able to continue dominating the terms of contract agreements as it had in the past.

In 2008, Affliction Entertainment emerged as a promotions company, created by Affliction Clothing. The clothing company was looking to challenge the UFC in the United States after having experienced disputes with the UFC over royalties. Affliction Clothing, which had been one of the UFC's largest clothing sponsors, had been able to secure, with the financial support of Donald Trump, Fedor Emelianenko, considered by many to be the world's number-one ranked fighter. The UFC reacted by banning fighters from wearing Affliction Clothing logos. The UFC also aired a last minute, free, live event on Spike TV, featuring one of the UFC's top fighters, Anderson Silva, to compete with Affliction Entertainment's pay-per-view event, *Affliction: Banned*, on July 19, 2008. 41 One year later, on July 24, 2009, Affliction Entertainment announced that it would be closing the promotions business and Affliction Clothing would return to sponsoring the UFC.

When Affliction Entertainment closed its doors, Strikeforce, a fighting league based out of California, signed Emelianenko and offered its first MMA fight on November 7, 2009, on live CBS. Strikeforce established sponsorship deals with Rockstar Energy Drink and found other partners to begin hosting fights in Japan. In June of 2009, Strikeforce also aired the first female championship on cable television.

Other emerging competition included the International Fight League (IFL), which had a huge presence in overseas markets but was not well established within the United States. IFL was also not airing televised live fights. As well, EliteXC was challenging for market share, but the company had invested too much money in few main fighters and its business model did not appear to be sustainable. Mark Cuban, a well-known entrepreneur who also owned the National Basketball Association's Dallas Mavericks, was also pushing his way into the MMA market by partnering with organizations, such as Affliction Entertainment, and airing fights on his cable network, HDNet.

DREAM was one of the UFC's strongest international competitors that emerged after the UFC's purchase and dissolution of PRIDE. The league contained numerous well-respected and talented fighters who would be competitive in U.S. markets but who had very limited exposure in North America. The style of the DREAM fighters and the marketing of their events differed greatly from the UFC. The league had established partnerships with HDNet, EliteXC, Strikeforce and M-1 Global, owned in part by Fedor Emelianenko. Johnston expected this large network of increasingly integrated organizations would pose a serious threat to the UFC's ability to compete in new international markets.

Fighters Salaries

With new competition in the United States and globally, Johnston wondered whether the company was doing enough to both retain the league`s top talent and attract new fighters. He reflected on what he knew about original fighter payouts that often left first-time fighters losing money from their fights. To be cleared for a fight, the average medical bills for a fighter totaled approximately $2,500, which included magnetic resonance imaging (MRI) scan, computerized axial tomography (CAT) scan, blood work, an eye exam, and a full physical examination. For first-time fighters, the actual payout was set at approximately $2,000, with an additional $2,000 being awarded to the winner. As a result, because of the medical bills alone, a first-time fighter who lost his fight would lose money overall. In reality, many other costs, such as training expenses, travel, and fight preparation, would further compound the situation. If a fighter won his first fight, he might break even. If he continued to win, his earnings would increase incrementally (usually by $2,000 a fight). The majority of fighters in the league, however, did not have large endorsements or high-profile contract agreements with the UFC; instead, they were barely scraping by. Johnston wondered whether this model provided enough real incentive for young athletes to join the sport. How was this model going to affect the long-term growth prospects for the sport? Did it make sense for an organization that had experienced such immense growth and success to take advantage of its talent?

Fighter compensation had been increasing along with company revenues, but Johnston realized that the UFC continued to lack significantly, compared with other major sports leagues. Johnston examined an analysis of disclosed payouts and compared it with the UFC revenues over the past four years. He wondered whether the current payout structure was enough, or did the UFC need to drastically change the way it compensated fighters?

The UFC also lacked any form of union to protect the interests of its athletes, although such unions existed in every other major sports league: the National Football League (NFL), the National Basketball Association (NBA), Major League Baseball (MLB), the National Hockey League (NHL) and the Association of Tennis Professionals (ATP). In the past, attempts to protect the athletes' interests had been actively resisted by the company's president, Dana White. The league had been criticized for refusing to negotiate contracts; as a result, in several instances, the UFC's most popular fighters had refused to fight, preferring instead to leave the UFC for smaller, competing leagues. For example, Tito Ortiz, a former light heavyweight champion and fan favorite, left the UFC over a dispute with Dana White. He later returned to the league and ended up fighting for less money than he had originally been offered.

Johnston was uncomfortable with the way the UFC had, in the past, exploited what was essentially a monopoly in the North American market in order to bully fighters into what many believed to be unfair contracts. As new leagues emerged and gained momentum, he realized that achieving such favorable payment contracts with fighters might become increasingly difficult. The UFC had already seen many of its fighters leave, but had taken little action to rebuild these relationships. He wondered whether it was time to start paying more attention to this issue, but was unsure of how to go about making changes and how to gain buy-in from the rest of the leadership team, including White, who had seriously resisted the issue in the past.

Beyond the league's contract policies, the UFC also had final say on all sponsorship deals, including all forms of individual fighter sponsorships. Until recently, the UFC had not been able to control any sponsored images that appeared on the fighter's body. However, in 2009, a new rule was established that required every sponsor to pay a licensing fee as high as $100,000 to the UFC for the right to sponsor a fighter. This fee made it substantially harder for up-and-coming fighters because sponsors were not willing to fund newer fighters who were more likely to fight on the undercard, therefore provid- ing the sponsor with only limited exposure. The licensing requirement also essentially locked out smaller or new companies from sponsoring the UFC because they could not afford to pay the required fees. Johnston believed that limited sponsorship competition might be harmful to the UFC and might adversely affect its long-term opportunities for sponsorship revenue.

The league had also just finished establishing a new set of corporate sponsors, including Harley Davidson and Bud Light. Referring to the UFC's sponsors, Dana White was quoted in an interview as having said, "We don't need anybody." Johnston understood the value of establishing strategic partnerships, and he was unclear about what exactly White had meant by this. Although White had also spoken about how the UFC was seeking strategic partners rather than blue-chip sponsors, Johnston was not sure whether the UFC's current sponsorship relationships reflected this preference. Should the league be pursuing more cross-promotional advertising initiatives to push the UFC into new markets? Harley Davidson was an expensive motorcycle brand that primarily targeted an older demographic. Was this choice of a corporate sponsor in line with the UFC's target audience of males aged 18 to 36?

International Expansion Opportunities

The UFC was looking to follow up its recent partnership with Flash Entertainment by building a new arena at the Emirate Hotel in Abu Dhabi, a city that was emerging as the cultural and entertainment mecca of the United Arab Emirates (UAE). The new building would be an outdoor arena with 10,000-plus seats and coliseum-style seating that preserved the trademark UFC atmosphere. Johnston was still unsure about where to promote the event, but expected to see interest from across the UAE and planned to promote the event through the UFC's European, British and Asian partners. When a UFC event had been held in Australia, fans had traveled from across the country to attend. Johnston wondered whether a similar response could be expected in the UAE, or whether the demand would be large enough within the city.

Johnston also knew that the UFC had been working for years to tap into the huge boxing market in Mexico by developing young Mexican talent, such as Cain Velasquez and Roger Huerta. The UFC had also recently signed a television deal with Grupo Televisa S.A.B., the world's largest Spanish speaking media company, and had debuted with a free, live broadcast of UFC 100, on July 11, 2009. Other programming included live *UFC Fight Night* events, *UFC Countdown* shows and one-hour feature programs. Johnston was eager to hold the UFC's first pay-per-view event in Mexico, but wanted to ensure that it would be a success.

The UFC had already experienced success through ESPN in the United Kingdom and Ireland, and on June 1, 2009, the UFC expanded into Portugal by showing UFC 98: MACHIDA vs. EVANS, on pay-per-view. This event was followed by a Chinese TV Deal on June 29, 2009, which provided the UFC with one to four hours of UFC programming each week on Saturdays and Sundays, broadcast in languages specific to each province. Inner Mongolia Television (NMTV) would air the events, which could reach a potential 240 million viewers in China. Johnston was excited by the potential of this market, but he wondered what the next step would be. Was

India the next frontier for the UFC? If successful, the UFC would see huge upside potential, but Johnston was not sure that the UFC had a product that was adequate to meet the needs of this market. He was not even sure he understood exactly what those needs were. The company was already busy trying to establish the UFC brand in Western Europe and America. Was the company perhaps moving too quickly?

Johnston also wondered how the UFC would market the events in new countries. He wondered whether he fully understood how the UFC was perceived in these new markets. Would it be enough to continue promoting the league in the same way as in the past? Would this approach be effective in foreign markets where the league did not receive free publicity through a huge range of media outlets? In Asia, for example, the league would be compared to Japanese fighting organizations such as PRIDE. These leagues featured differ- ent fighting styles and much more cultured tradi- tions. Although Japanese events would still feature an elaborate show, many fans did not like the way the UFC had "Americanized" a sport that was seen in other countries to be worthy of much more elegance and respect.

The UFC's core fan base in North America resulted from converting fans from World Wres- tling Entertainment (WWE) and boxing. Originally, the UFC's target audience had been perceived to be males aged 18 to 36. These assumptions were driving the organization's decisions on the spon- sors to target and the event promotions to pursue. However, Johnston believed he was beginning to better understand the polarized and dynamic nature of the UFC's fan base.

In fact, not only men were drawn to the sport; Johnston also suspected that much interest was also generated in females aged 18 to 36. This female audience, he realized, would open up an entirely new sponsorship base. He wondered how he should go about examining the true nature of the UFC's audience and how he could best convey this audience sector to new potential sponsors.

The UFC also needed to consider an entirely new potential audience of fans who were neither MMA enthusiasts nor fans of boxing or professional wrestling. These potential fans were general sports fans who had been introduced to the UFC through various media. Johnston wondered where these general sports fans fit into the existing categories of fans or whether they valued something altogether different. WWE fans tended to be more interested in the "show" and less concerned with the more technical aspects of the sport as compared with the boxing segment, which valued the fighters' athleticism and talent. WWE-rooted fans enjoyed watching rivalries develop in the media between the fighters and valued high-profile fighters with well-developed media personalities. Ultimately, these rivalries had been initiated to drive buys for PPV events. Johnston had recognized that the situation was unique in that the UFC was able to appeal to different customer segments that watched for different reasons. He also understood that a delicate balance was required when trying to meet the needs of these core fan bases. Regardless of the direction the company chose to pursue, it needed to ensure it continued to meet the needs of the existing fans.

The UFC had become a master in the art of generating free publicity through almost all media outlets, including television, radio, newsprint, and social media networks. Much of the early success of the UFC could be attributed to the company's president, Dana White, who took a non-traditional role and became the organization's most crucial publicity machine. At various times, White had been scrutinized for his derogatory language and controversial comments. His loud personality and unorthodox role as an outspoken celebrity chief executive officer (CEO) was proving to be a unique and successful marketing strategy. Many fans related to his rough and aggressive attitude, which had been a strong driving force behind the growth and success of the league. In fact, many of his disputes with writers, athletes, and public interest groups such as GLAAD had been well documented by White himself through his Twitter account.

Frank and Lorenzo Fertitta owned the remaining 90 percent of Zuffa LLC. They had got their start in business as casino executives, and both shared a passion for mixed martial arts. They had allowed White to function as the organization's front man. When the company was founded, they wrote a legally binding clause into their contract that stated, in the event of a dispute between the two majority owners, a three, five-minute round, mixed martial arts fight would be used to determine the winner. Recently, Lorenzo Fertitta had resigned as Station Casinos' president to work full-time as chair and CEO of the UFC to help the organization focus on its global expansion, which included "landing more big-name sponsors, particularly in countries other than the U.S."

Another important personality of the league was Joe Rogan, a former martial artist and the former host of the popular TV reality show Fear Factor. Rogan had become one of the organization's most popular characters as the color commentator for all major UFC events. His seemingly infinite knowledge and incredibly accurate insights made him a fan favorite and one of the league's most valuable assets. In addition, Joe Silva served as the league's matchmaker and talent recruiter. He negotiated all contracts and played a key role in establishing the favorable deals the UFC was able to secure with many top fighters. Johnston wondered whether he should speak to Silva directly about his concerns.

Financial Overview

Standard and Poor's had released its latest credit report on Zuffa LLC, which documented the corporation's most recent financing activities. Zuffa's credit rating was reaffirmed at BB - (stable but not "investment grade").

The company's 75 percent event-driven business model posed some concern to Johnston from a business standpoint. The company had recently made attempts to diversify its revenue streams by releasing a new video game, *UFC Unleashed*, and improved operating margins had been experienced on the company's U.K. operations. Despite tremendous growth over the past year, Johnston understood that the company had really only been profitable for the last four years. Johnston wondered whether the owners would ever be interested in taking the company public, and, if so, when would be the right time to do so. He believed that if this option was to be pursued, the company`s financial structure would first need to be re evaluated.

Because more and more American states were moving toward legalizing mixed martial arts, Johnston knew that a huge potential for growth remained within Nort America. Currently, the 2010 fight schedule featured more international events than ever before. He wondered whether the company was moving in the right direction. Too much focus on overseas markets could leave the UFC vulnerable to the increasing competition within the United States, and a failure abroad could be devastating.

Johnston sat down at his desk and began to prepare his recommendations for the company's executive meeting later that week. He had not been with the organization for long and needed to carefully consider how to approach many of these issues. He knew that the executive could not alienate the organization's core fan base or dilute the quality of the UFC experience for its viewers. The massive potential of the European, Middle Eastern, and Asian markets was an opportunity that could not be overlooked; however, moving into those international markets would not be as simple as duplicating the experience offered in the United States. Despite the company's strong financial position, the UFC could not afford to make significant investments in unprofitable new markets. To further complicate his job, Johnston realized that White and the Fertitta brothers did not operate their company in a typical manner; they had become enormously successful by trusting their instincts and gambling on their emotions. Johnston was concerned about the potential for this mentality to lead the company down the wrong path. White and the Fertittas had done a remarkable job at building the UFC brand, but Johnston's experience told him how quickly their success could change if they did not take the right steps to protect it. His decisions would play a crucial role in shaping the future of the organization.

CASE QUESTIONS

1. What are the primary challenges the UFC faces in defending its domestic market or reaching new customers in those markets? Do you believe young women, ages 18 to 36, represent a viable new target market? Why or why not?

2. When seeking to build the fan base by expanding into other countries, what aspects of each nation should be most carefully considered first?

3. How could the UFC product, the actual fights, be improved to attract a greater number of fans?

4. When a general sports fan considers the UFC brand, what aspects of the past may hurt the brand? How can the company refine the brand in order to retain current fans and reach the more general sports fan?

5. What additional branding opportunities are possible for the UFC?