

Sport Sponsors' Wallets Snap Shut in Downturn

Executive Summary

Until recently, sports sponsorship was perceived to be immune to volatility. However, the latest data from Infoadex on advertising in Spain show that sports sponsorship slumped by 27 percent in 2008 compared to 2007. IESE Prof. José L. Nueno and Javier Mancebo, director of Havas, examine the factors that explain this huge plunge.

Few things in life generate as much passion as sport. It is capable of mobilizing so many fans committed to their club, national team or an individual athlete. Sportsmen and women at the top of their game often embody a wealth of values found only in athletes. For this reason, sponsorship has long been seen as a transparent way to finance sport and an opportunity to align brands with those values.

In fact, sports sponsorship was perceived to be the "safe haven" of promotion, immune to passing trends and other volatility. However, the latest data from Infoadex on advertising in Spain show that sports sponsorship was one of the most rapidly declining categories in 2008. Sports sponsorship slumped by 27 percent in 2008 compared to 2007, with an average fall of 11 percent in conventional media and 4 percent in non-conventional media. What factors explain this huge plunge?



Television audiences. Television audiences and media coverage are the *raison d'être* of sport sponsorship. In Spain, important sports events continue to enjoy steady or slightly bigger audiences than in previous years. Broadcasts of soccer matches in Spain's *La Primera Liga* or England's Premier League, the UEFA Champions League, the MotoGP World Championship and tennis tournaments top the rankings of most-watched broadcasts. The current crisis has prompted consumers to spend more time at home, and live sports content is unrivalled in attracting audiences. Therefore, the fall in sport sponsorship is not due to declining viewer numbers.



Sports results. The main attraction for fans is the possibility of seeing their favorite athlete or team win. And in Spain's case, we've never had it so good: Spain won the UEFA 2008 European Soccer Championship last summer and the men's basketball team took silver in the Beijing 2008 Olympic Games, losing out to the United States. That is not to mention the country's global sports superstars in Formula 1, motorcycling and tennis.

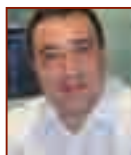
This influences television and radio programming above and beyond the sports broadcast itself: it is omnipresent in the media. What country other than Spain dedicates nearly a third of its daily TV news bulletins to sport?



Consumers' rejection of brands in sport. Just as there is a backlash against advertising saturation in mainstream media, might something similar be occurring in sports? Research in several countries refutes this: consumers seem to be favorably predisposed toward brands that support sports. The broad consensus is that brands' support is fundamental to sports' survival, so much so that it is an essential element for the media.



Absence of tools to measure ROI. In the mid-1990s, advertisers were often reluctant to invest in sports sponsorship due to the lack of rigorous tools for measuring return on investment (ROI). Investment in conventional advertising media could be more or less measured, or there was at least a consensus between advertisers and advertising agencies over metrics and models to evaluate every euro invested on TV, for example.



Javier Mancebo
Director of Strategy and Development,
Havas Sports and Entertainment



Prof. José Luis Nueno
Professor of Marketing,
IESE Business School
nueno@iese.edu



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In sports sponsorship, however, the approach to its impact was more "artistic." This lack of measurement currency was a burden, especially since the cost of organizing sports events was rising while sport's global impact was increasing. Faced with the heightened need to demonstrate sport sponsorship's profitability and remove the fear of the unknown, qualitative analysis alone was not enough.

The situation is radically different today. Tools to calculate the impact of sports sponsorship have been reinforced and developed in the last few years. Over a 10-year period, the overdependence on press clippings and managers' intuition in evaluating the results of each investment have been supplemented by quantitative and qualitative processes and models which calculate ROI and return on objectives (ROO).

Proof of this is that nearly all specialized agencies in the industry, such as media agencies and sports event organizers, offer rigorous measurement in some format. In conclusion, the collapse in Spain of a medium regarded as unassailable cannot be explained by audience figures, stars, rejection or the lack of measurement tools.

What has triggered this crisis?

To answer this question, we must look back to the beginning of the last decade and analyze the factors that created the sponsorship "bubble" in Spain.

The sponsorship industry in Spain experienced a "Big Bang" in 1992 when two events took place in Spain that offered Spanish businesses global reach: the 1992 Barcelona Olympic Games and Expo '92 Seville. Many brands, in an attempt to avoid saturation in conventional media, embraced sponsorship as a way to differentiate themselves and tap into the positive values associated with sport while avoiding saturation-related rejection.

The sponsorship bubble was further fed by the real estate bubble and rising private consumption in Spain from the mid 1990s onward. Advertisers had the budget to invest in conventional advertising and "experimental" media. There are at least three types of sponsor profile:



Sponsors of conviction. These are brands that have traditionally been present in sports. The most established

were usually sporting-goods firms, energy companies, car manufacturers and others. Over the years, however, sport sponsorship has ceased to be their exclusive hunting ground. The sponsorship club now counts among its members several highly committed global brand owners with plenty of experience and know-how, especially in the United States. These brand owners are aware of the potential benefits and know their way around the sector.



"Me-too" sponsors. These brands are generally industry leaders with little or no experience of sports sponsorship. They tend to join the fray after seeing the positive results enjoyed by other companies. The economic boom helped prompt previously reluctant brands to experiment in this area in a defensive attempt to find differentiators that would help them stay ahead of the competition.



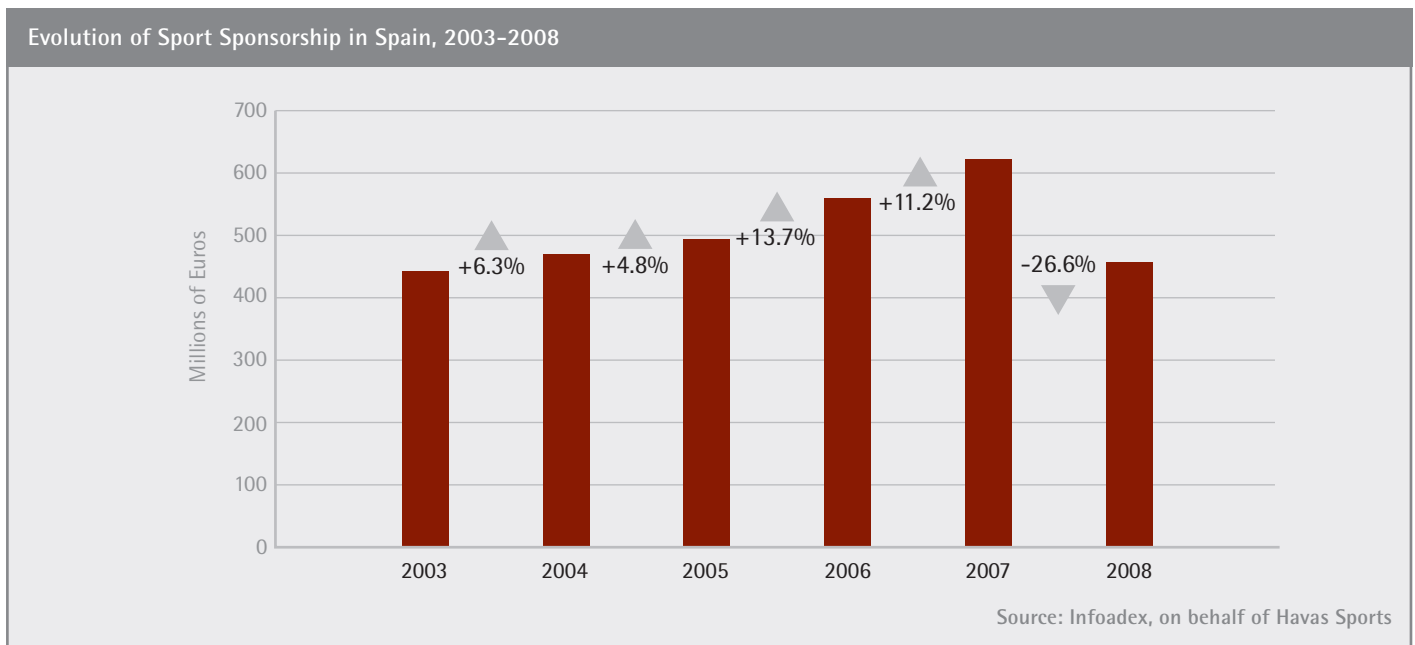
Fair-weather sponsors. These are brands within industries that benefited most from the economic boom. This group includes construction companies, banks and insurance companies. It is important to point out that other brands within the construction and financial services industries belong to the "conviction" and "me-too" group. But the majority of latecomers to sport sponsorship would never have dipped their toes in if it were not for the abundant financial resources brought by the economic boom.

Broadly speaking, the "sponsors of conviction" increased their presence while the "me-toos" and "fair-weather" brought additional cash injections to the party, creating the sport sponsorship market bubble. The data from Infoadex shows that this bubble has now burst.

How does the crisis affect brands and their investments in sponsorship?

The underlying problem is the crisis in consumption. What all advertising media need to do most right now is to help brands sell. Unlike conventional promotional media, sponsorship is not a direct sales tool. Investments in sport sponsorship have clearly established goals, as in other advertising media, but also affect the brand's image because it becomes associated with the sponsored agent's image. If the sponsored agent is successful, the brand owner can aim to exploit the association commercially and achieve increased sales.

Sponsors of conviction will continue to support strategic events and athletes, but they may scale back their commitment.



In times of crisis, brand owners dedicate their advertising budgets to solving short-term problems (driving up sales) and postpone their medium- and long-term goals (image and notoriety).

How will brand owners react in the current situation?



Sponsors of conviction. The likelihood of them shelving sponsorship plans are slim, as their brands, promotional strategies and sport are inextricably linked. They have become pickier, however, and will only invest in what is demonstrably incrementally differentiated. Spending on sport sponsorship will drop and the inertia that typified the media just three years ago is now gone. Sponsors of conviction will continue to support strategic events and athletes, but they may scale back their commitment.



"Me-too" sponsors. Most of these will revert to where they were before the boom: they will "disinvest" their sponsorship deals and concentrate on other marketing activities focused on helping them achieve their short-term goals.

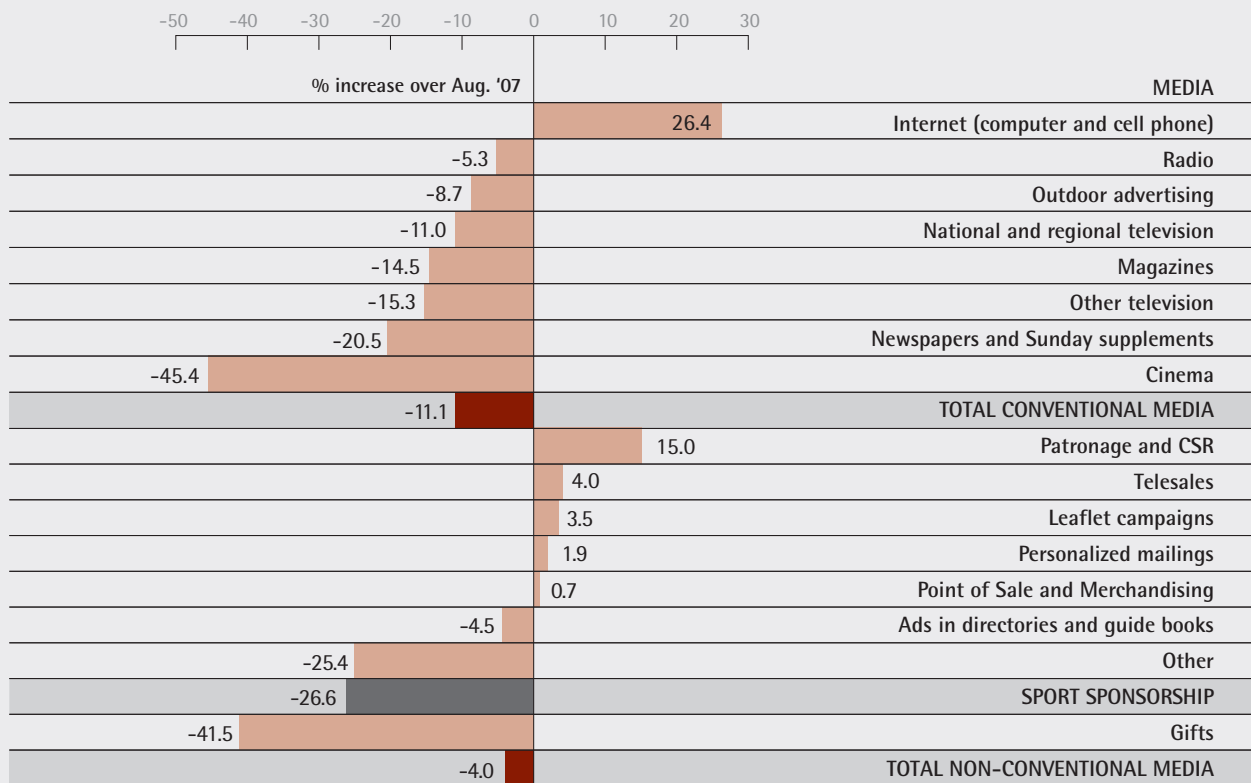


"Fair-weather" sponsors. The outlook for fair-weather sponsors is more pessimistic, as they are among those most affected by the crisis (the construction industry in particular). It's no longer a question of choosing what to invest in; it's a question of survival. This category, however, includes big brands in the financial sector, which have been investing heavily in sponsorship. If these companies stick with sponsorship in these rough times, their brands could become "legendary" when they emerge from the recession. They could thereby choose to consolidate their presence now when sports sponsorships deals are more favorable.

The sum of these factors – less cash from long-established sponsors while newcomers head for the exit – explains the disproportionate collapse in this market. There are two main consequences of this investor exodus.

We hear about sponsors abandoning both high-profile and minority sports every day. In the short and medium terms, minority sports will be the most exposed to the downturn. While sponsor-

Advertising Expenditure in Spain, 2008 versus 2007



Source: Infoadex, on behalf of Havas Sports

ing a minority sport may be cheaper, it also generates lower ROI. As a result, the long-established sponsors are rationalizing and concentrating on deals that will give the most value. We have already seen events canceled and even disappear in sports as well as in other areas such as music.

Minority sports, smaller clubs and nascent sports stars – or even athletes on their way out – allow for more granular targeting, though. They are a lot more sensitive to shifts in goodwill and are more dedicated to the brands that sponsor them than high-profile clubs and athletes.

In the last few years, sports have evolved in such a way that, whether they win or lose, sportsmen and women can be more profitably managed. In all certainty, some brands will take advantage of the current adverse economic environment to get involved at the end of the cycle.

The lack of private investment is creating an inflow of public investment. During 2008, regional and central government bodies in Spain became the main engine of sponsorship in the country. These institutions find themselves between a rock and a hard place, as the collapse of certain clubs and sports events is not easy to manage from a public relations point of view. This helps the minnows of the sports industry stay afloat, exactly the opposite of privately funded initiatives.

In conclusion, how can we take advantage of a market that shrank by over a quarter in 2008 and is forecasted to contract even further in 2009? There are at least four possibilities:

Look to the long-term: it is easy to take the short-term view, but we need to think in the medium and long terms. There have never been so many possibilities to use sports sponsorship to connect with consumers. Medium-sized brands can build their image with deals and sports stars that would have been beyond their budget a year ago.



Planning ahead: have a clear idea of the company's objectives and look out for sponsorship deals. In the current environment we need to be more cautious than ever and take advantage of the fact that stringency pays off in a buyers' market. Before deciding to enter the sports sponsorship arena, you need to first decide whether this is what your brand really needs and how the brand owner plans to exploit it. Many brand owners have poured millions into sponsorship only to find after signing the deal that they do not know how to get value out of their investment.



Use communication: putting a logo on a T-shirt or a billboard is not sponsorship. It is outdoor advertising and generally not very effective. Sponsorship has to be incorporated into the brand owner's communication efforts. It is a symbiotic relationship whereby both the sponsor and the sponsored agent maximize benefits and needs to be developed. Think about PARTNERSHIP and go beyond SPONSORSHIP. Failure in these two areas is one of the main reasons sponsorship deals break down and why many brand owners regard this marketing tool with skepticism.



Be patient: Notoriety and image are two issues that call for in-depth efforts from investors. No one should expect to invest in sponsorship and get results the following month. The sponsorship deal must be given time to become "embedded" in consumers' minds in order to establish the link between the brand and the object of sponsorship. If a brand is under pressure to get immediate results, it would be ill-advised to dedicate either efforts and funds to sports sponsorship.

In conclusion, sports sponsorship is in crisis and this is more apparent in Spain than in any other market. This slump was triggered by the global downturn but the sheer magnitude of its fall makes it more dramatic. This is the result of the bursting of the sport-sponsorship bubble, which was fed by fair-weather sponsors joining the fray toward the end of the growth cycle. It cannot be said, however, that sports sponsorship as a marketing tool is in crisis in any way. ■