The Changing Role of Sport Sponsorship

DIFFERENTIATING SPONSORSHIPS FROM DONATIONS

In the context of this book, sponsorship is defined as a business relationship in which a cash and/or in-kind fee is paid to a sport organization or event in return for access to the exploitable commercial potential associated with that organization or event. The distinctive terms in this definition which differentiate sponsorship from donations are business relationship and exploitable commercial potential. Both sponsorship and philanthropy provide funds, resources, and in-kind services to sport organizations, but the benefits sought in an exchange are different. The central benefit sought from philanthropy is the satisfaction of knowing that good is being done with the donated resources. Donations are altruistic and there is no expectation of a more tangible return. In contrast, the explicit rationale for investing in a sponsorship is that it will yield a commercial return on the investment.

While this conceptual distinction is clear, it is sometimes difficult to ascertain in a specific context. The effective operational determination of whether an investment is classified as a donation or a sponsorship is made by the IRS. If the IRS rules that a company receives a tangible, measurable, economic benefit from the contribution, then it is classified as a sponsorship investment undertaken for commercial advantage and is not eligible for a tax deduction. In contrast, if the benefits are perceived to be intangible, emotional, and not measurable, then the contribution qualifies as a gift and is eligible for a tax deduction. Thus, when an agreement requires that a property provides promotional benefits (e.g., media coverage or endorsements) these tangible benefits are treated as a business expense by the sponsor and as taxable income for the property. If the company does not require benefit from the property, then the sponsorship is treated as a donation so the revenue to the property is not taxable and it becomes a tax “write-off” for the company.

Corporate philanthropy is an oxymoron. Even though some corporate investments may be positioned and technically accepted by the IRS as donations, they are not altruistic. The officers of a corporation have no mandate to give away their shareholders’ money. Their charge is to invest company resources in a way that optimizes the return
to shareholders on their investment. Thus, a business should only make “donations” when it believes it is in its selfish interest to do so.

Potential company motives for donations become apparent in the following discussion of the three hybrid strategies shown along the continuum in Figure 1.1, which is anchored by unequivocal sponsorship and strategic philanthropy. This text focuses on the unequivocal sponsorship anchor, but it is recognized that these three hybrid strategies incorporate attributes of both sponsorship and philanthropy.

**Figure 1.1.** The Sponsorship-Philanthropy Continuum of Alternate Investment Vehicles.

*Cause-related marketing* strives to improve corporate performance through helping worthy causes, by linking donations to a cause with the purchase of a company’s products or services. It aligns the commercial goal of increasing sales and revenues with corporate social responsibility. Companies contribute a specified amount to a designated cause when a customer purchases a company’s product. The “specified amount” is effectively a “donation.” However, the corporate contribution to the cause is conditional on consumers engaging in revenue producing transactions. Thus, even though corporations proclaim and position their donations to be acts of altruism, a company’s reason for engaging in the partnership explicitly meets the definition of sponsorship in that a cash amount is paid to an organization and it is a business relationship exploited for commercial purposes.

*Corporate social responsibility* occupies a central position in the continuum. Frequent revelations of corporate shenanigans and accounting scandals have created an aura of public mistrust. The contagion effect extends this mistrust even to companies that are innocent of malfeasance. For a business to operate effectively, it must have a robust “license to operate.” Hence, companies’ engagements with sport properties may be driven by a perception that there is a need to improve this license and their image by demonstrating they are good corporate citizens. Thus, there is a business rationale in that the company seeks to enhance goodwill for its brands in the market place among potential customers, which it anticipates will lead to enhanced sales.

*Community obligations* are a localized form of corporate social responsibility with a similar rationale, which is sometimes characterized as “corporate paternalism.” This is exemplified by, for example, a corporation headquartered in a community seeking “hometown hero” status. It has been suggested that this explains Federal Express Corporation’s commitment of $100 million in naming rights to build an arena as part of the community’s quest to attract an NBA franchise to Memphis, which is where the company’s world headquarters is located. The local focus means that the company’s benefits are likely to be limited to enhancing the morale of employees, rather than seeking additional sales in the market place. Community obligation was the rationale offered by a large retailer for investing in a sporting festival: “Because we are based in
{name of city}, and that is one of its biggest events; we have to be involved” (p. 127). 3
This theme was elaborated upon by another manager:

[Name of city] is a unique place where corporations have built this city and so it’s hard to say what you get if you do sponsor, but I think it’s more clear what you don’t get if you don’t participate. . . . I don’t think that we should take the view that you’re forced to contribute money, but the quality of life in [Name of city] is directly related to the fact that corporations are committed to enhancing this quality . . . I would think that there’s some subtle pressure applied by other corporations . . . no one says, “Because company X spends it over here, it means we have to ante up.” It’s much deeper than that: It goes back a number of years when there was a recognition that participation in the community was something that, as a major employer, we had to take a leadership role in. And because we still retain our leadership position in the community along with the [other oil companies], you cannot leave it, nor would we expect to—it’s no longer something that we are pressured into. I think it is just an understanding that there is a role for companies who are large and are major employers and who, to some degree, access community services in a disproportionate amount that we need to return something. (p. 127) 3

Again, while these community obligation partnerships lie towards the benefactor end of the continuum, they do have a business element. For example, many businesses sponsor the local Special Olympics, an event that encourages the participation of those with intellectual and developmental disabilities in sports. The intent of such sponsorships is twofold: (1) to associate the company with a good cause and suggest that the business is fulfilling a societal obligation to the community from which it draws customers, employees, and investors and (2) to generate goodwill and enhance the image of the business. 4 In some instances, the sponsor may be perceived as central to making the event possible, which will heighten the goodwill that accrues. This is most likely to occur for small events which often have difficulty securing financial support. 5

Companies often seek to blur the distinction between sponsorship and philanthropy in the public eye. While decisions may be based on the imperative to receive a return on the sponsorship investment, businesses may seek to enhance public goodwill by constructing and communicating their support as altruistic. Clearly, it is advantageous to sponsors if they can characterize their financial commitment as being philanthropic or paternalistic, rather than being exploitative and profit motive driven. This is evidenced by the term “sponsor” being replaced with synonyms such as “partners,” “supporters,” and “members” of the sport organization’s “team” or “family,” in order to convey an aura of patronage rather than commercial interest.

In its early days, sponsorship often was not differentiated from philanthropy. Decisions to support a particular sport or sporting event frequently were made at the CEO’s whim, reflecting the personal interests of senior management rather than a careful assessment of the benefits that were likely to accrue to the company from its investment. Today, decisions made in this way are unusual, but they are not unknown:
The world of sports is incredibly seductive to graying executives, who often would like nothing better than to recapture the days when they were jocks or dreamed of being jocks. The theory behind golf as a sponsorship is that you use it to reach a limited, but upscale audience of consumers, or if you are a business-to-business brand, to entertain your best clients. What’s surprising, however, is the number of golf sponsorships purchased by consumer-product brands that are not particularly upscale and not striving to be. Let’s be honest here. Many companies are in the sport primarily because the CEO is dying to be in the Pro-Am with Tiger Woods. That can quickly become an expensive round of golf. (p. 75)

When senior managers’ egos or personal preferences influence sponsorship decisions, they are putting their own interests above those of shareholders. At no cost to themselves, they are investing corporate funds in a sport event that yields, for example, season box seats for their own use. However, as a result of the scandals in recent years that have focused attention on the integrity of corporate governance, there is now much more pressure on senior managers to demonstrate accountability for sponsorship investments by demonstrating how they are likely to increase a company’s profitability.

Nevertheless, like many other corporate actions, sponsorship of a sport event is more likely to come to fruition if it is championed by a senior level decision-maker, and the champion’s commitment may be stimulated by personal interest. A manager of event marketing commenting on a proposal observed that, “The chairman wanted it so you had to write it in a way that you should do it, and that was against our better judgment . . . He wanted it, so we did it.” (p. 131). At another company, a marketing communications manager observed, “If you can get to the heart of the CEO there are certain things that you can do” (p. 131). While politics and relationships may still play some role in decisions, they are much less prevalent now that sponsorship has become an integral element in establishing a firm’s overall strategic position.

Company executives and directors of sport properties are likely to have strong social networks and there is evidence to show that in some instances these may play a role in sponsorship decisions. Interlocking directorships and high ranking personal friendships among senior managers may be influential because decision makers are likely to invest in those ventures managed by people whom they know and trust. A public relations manager observed that if the president knows someone who sends a proposal “It’ll get a lot more attention than it would at our level if it had come to us” (p. 131). In the context of sponsorship, friendship and trust are key resources because it may take several years for a sponsorship to generate the returns a company seeks. If these resources exist from previous interactions, then this likely will expedite a sponsorship’s effectiveness.

**EXCHANGE THEORY**

Sponsorship involves two main activities: (i) an exchange between a sport property and a company; (ii) the marketing of this linkage, which is primarily a sponsor responsibility, but a sport property has a central partnering role in facilitating it. Thus, the central concept underlying sponsorship and donation/fundraising is exchange theory. This
theory is one of the most prominent theoretical perspectives in the social sciences and has been used to explain a wide range of phenomena. It has two main precepts: (i) two or more parties exchange resources; (ii) the resources offered by each party must be equally valued by the reciprocating parties.

In response to the first precept of exchange theory, sport organizations have a large number of relatively narrowly focused attributes that they may use as “currency” to facilitate an exchange with businesses. They are listed in Exhibit 1.1, but they can be classified into six broad categories that are shown in Figure 1.2: increased brand aware-
ness, brand image transfer, demonstration platform, hospitality opportunities, product trial or sales opportunities, and enhanced employee morale.

In exchange for offering these benefits to companies, a sport manager may seek three types of benefits from them: financial, media, and in-kind. Often, the first question asked by a potential sponsor relates to how much media promotion will be forthcoming. Sponsors seek to maximize their “reach” (i.e., to access a larger number in their target markets than those who are on-site at an event). Thus, if media sponsorship is secured early, it is likely to make it easier to attract other sponsors. Alternatively, the sport organization can ask its major sponsor with which media the company would prefer to be associated, or with whom it has worked effectively in the past, and then it can approach those media. The downside of having a prominent media sponsor is that its competitors are unlikely to give the event significant coverage. This was illustrated by the fate of Today when it sponsored English soccer:

- **Today** was a new daily newspaper launched in the UK. It became title sponsor of the Football League to achieve brand awareness. This is a major reporting area for all media, but they boycotted the use of the official new sponsorship title of the League, because rival media did not want to give an advantage to a competitor. Not surprisingly, the “Today Football League” sponsorship lasted only one year and the newspaper itself subsequently soon went out of business.\(^9\)

There are five types of in-kind benefits that a business sponsor may provide: (i) product support, which could include equipment, and food and beverages, for example, during MLB All-Star Game week Chevrolet provides automobiles for use by MLB executives, players, and VIPs, while at PGA tour events Cadillac or other automobile sponsors provide vehicles for use by players and PGA executives\(^10\) (ii) personnel support, for example, assistance from staff who may have computing expertise that the sport property needs; (iii) prizes such as merchandise and gift certificates that can be used for promotion purposes by both the event property and by its cosponsors; (iv) website exposure that provides exposure to the sport organization and its event; and (v) communication resources and expertise to aid the sport property in increasing awareness and interest.

With regard to this latter in-kind benefit, when a sponsor invests in extending the promotion accompanying a sport event because of a desire to increase awareness of the sponsor’s linkage to it, this obviously benefits the property owner. It has been noted that sponsoring corporations sometimes have more expertise and funds available for promotion than the sport property responsible for an event:

> Every sports property, no matter how large, is in the midst of a ferocious battle for the attention of consumers. If the properties are honest, most will tell you they don’t have the marketing expertise or dollars to make themselves unforgettable. But we sponsors do have those dollars, and unfortunately most event organizers—most—don’t want sponsors to behave like marketing partners, regardless of what their agents tell us in the sales pitch.

If event organizers were smart they would end up in a situation where it doesn’t cost them money to promote their property. Instead, other people—the spon-
sors—would actually pay to promote it. MLB leverages its sponsors’ dollars by requiring them to promote the game. Sponsors have to build sweepstakes and promotions around baseball, they have to buy commercial time in national games, and a certain percentage of that commercial time must be spent on baseball-themed ads. When you add up these commitments, baseball has an extra advertising budget of millions of dollars that we sponsors are paying for (p. 5).11

It is easier for companies to invest in in-kind sponsorship rather than to use cash because it can be “hidden” from shareholders or employees who may be skeptical of the value of the sponsorship. Thus, an executive from Target commenting on his company’s sponsorship of the NBA Minnesota Timberwolves’ basketball arena observed: “We were concerned about negative reaction from the press, public, and employees. Try telling your employees you can afford to put the company’s name on the arena when they are receiving only minimal raises” (p. 4).12

Few organizations are self-sufficient with respect to critical resources needed to augment an entity’s strengths or ameliorate its weaknesses, so partnerships are endemic in contemporary society. Thus, sponsorships are viewed as strategic businesses alliances by both corporations and sport properties. These alliances involve pooling skills and resources to better achieve the objectives of both parties, enabling both entities to strengthen their positions in their respective marketplaces. These objectives may be strategic (e.g., a company entering a new market, or a sport property seeking enhanced prestige from associating with a major corporation) or operational (e.g., providing a platform that unifies a company’s communications effort, or reducing costs to a sport property from in-kind I.T. assistance).

The second precept of exchange theory suggests that a corporate partner will ask two questions, “What’s in it for us?” and “How much will it cost us?” The trade-off is weighed between what will be gained and what will have to be given up. A decision to invest will only be forthcoming if the trade-off is perceived to be positive and if the benefits accruing cannot be secured more effectively or efficiently through the use of another vehicle. A key feature of this second precept is that the exchange is perceived to be fair by both sides. Fairness is judged by two criteria: (i) the level of benefits received compared to those that were expected; and (ii) the level of benefits received compared to those received by other sponsors.13 If these two criteria are not met, then a sponsor is likely to be dissatisfied. In such situations, “rainchecks” or future discounts will be required to restore balance to the exchange and remove the sponsor’s dissatisfaction, or the sponsor will be unlikely to reinvest in the future.

**EVOLUTION OF SPORT SPONSORSHIP**

**Chronological Evolution**

The first businesses in the United States to be associated with, and invest in, sport events were in the transportation industry.14 In 1852, a New England railroad transported the Harvard and Yale teams to a crew competition and vigorously promoted it. The company profited from the rail tickets sold to thousands of fans who traveled to the site. By the late 1890s, a similar strategy had been adopted by streetcar and rail companies in
many cities by developing close links with baseball teams which generated traffic from downtown areas to the ballparks which tended to be on the periphery of cities.

Albert G. Spalding appears to be the first major corporate CEO to perceive the advantage of establishing a “business relationship” and the “exploitable commercial potential” from aligning with sport teams and events. Over a period of two or three decades, Spalding created the world’s first dominant sporting-goods company, predating Nike, adidas and others by almost a century. As Exhibit 1.2 indicates, his companies were not always required to reciprocate with a “cash and/or in-kind fee to a sport organization” so some of the alignments may not qualify as sponsorships as defined in this text. Nevertheless, he pioneered the potential of associating with sports to enhance brand equity; demonstrated the power of “official supplier status”; engaged in team sponsorships; and contracted for celebrity endorsements. All of these are prominent features of contemporary sport sponsorship.

Following Spalding, Harvey Firestone, the founder of Firestone tires, put his tires on a car driven by Barney Oldfield in the Indianapolis 300 in 1909. Oldfield told spectators, “My only life insurance is Firestone tires.” Firestone contracted with him to paint this phrase on the side of his racecar, and he toured the country with it, “performing amazing feats of speed.” He developed the Oldfield tire brand with Firestone which was widely popular. The racecar tires were identical to those sold for everyday use on roads in those early days, so the public saw how well they performed on the track and wanted them for their own vehicles. The race track as a demonstration platform was effective and gave rise to the adage “Race on Sunday, Sell on Monday.”

Similar pioneering sponsorship arrangements were instigated elsewhere. For example, two expatriate Englishmen, Felix Spiers and Christopher Pond, who had established a substantial catering business in supplying refreshments to the Melbourne and Ballarat Railway in Australia, underwrote the cost of the first tour of an English cricket team to Australia in 1861. Consistent with the goals of contemporary corporate sponsors who increasingly seek direct sales and revenues from their investment, Spiers and Pond netted a profit of $11,000 from their sponsorship. They also capitalized on the publicity they received from this very successful venture by returning to Britain to establish a famous catering company. Similarly, in France the magazine Velocipide sponsored an early automobile race in 1887.

Despite these early beginnings, sponsorship investments remained relatively small and infrequent until the mid-1980s. Since then, their emergence as a primary strategic vehicle for many thousands of corporations has been remarkable. In 1987 sponsorship spending in North America amounted to $1.35 billion, increasing to $10.5 billion in 2003, and by 2012 it was almost $19 billion. Elsewhere, sponsorship of soccer in the UK in 1982 amounted to approximately $20 million per year. Three decades later in 2012 one source of soccer sponsorship alone, shirt sponsorship of English Premier League teams, exceeded $235 million annually. Given that these teams have multiple other sponsors (Manchester United, for example, has 32 other major sponsors) it seems likely that annual sponsorship funds flowing into English soccer probably now approach $1 billion.
Exhibit 1.2

AG Spalding’s Pioneering Use of Sponsorship: Brand Equity, “Official” Supplier Status, Team Sponsorship, and Celebrity Endorsements

The legendary Albert G. Spalding was the dominant pitcher in baseball in the 1870s. He parlayed his fame to transition into being the president and primary owner of the Chicago White Stockings in the 1880s. From this position he was the National League’s chief promoter, spokesman, and enforcer of all matters related to the professional game. He was widely acknowledged to be “the brains of the National League” and was the key figure in establishing the white world of professional baseball as a viable commercial enterprise in the 1880s and 1890s. He capitalized on his fame and positions by opening a sporting goods store in Chicago in the 1870s. By the end of the nineteenth century, from this base he developed a vast network of retail outlets, distribution channels, and manufacturing factories. Effectively, he creatively nurtured a new industry in sporting goods and he dominated that industry. Elements of sponsorship played a key role in building this empire.

In 1876, the National League gave Spalding an exclusive contract to publish the “official League Book” which served as a catalyst for his business expansion. He almost immediately supplemented publication of the league book with an annual volume, Spalding’s Official Baseball Guide. Although this was not an official league publication its inside cover reprinted a letter from the League’s secretary confirming the company’s exclusive right to the book, not the guide, but Spalding did not make that distinction clear to the guide’s audience! These publications, especially the guide, were powerful vehicles for promoting and selling Spalding’s athletic products and for creating in the public mind the inseparability of the Spalding name from interest in baseball and sport in general. This appears to be the first major example of a corporate entity using sport to build its brand equity. (This term is explained in Chapter 2).

Parallel to the publication’s relationship, Spalding contracted with the National League to provide its teams with baseballs for all league games in exchange for the exclusive designation as the maker of the league’s official ball. In his Guide publication, Spalding unilaterally extended this mandate to also include non-league games stating, “Spalding’s official League ball . . . must be used in all games played by League clubs, whether with League, professional, or amateur clubs.”

By the end of the 1890’s, Spalding was widely recognized as the leading figure in American sports. This resulted in his central involvement with the nascent U.S. Olympic Games movement. He led the U.S. contingent at the 1900 Paris Games and was the dominant force in the 1904 Games held in St. Louis where his companies designed the stadium, organized the track and field competition, provided the athletic equipment, and won awards for the quality of their products at the associated Exposition. The company’s advertisements capitalized on these achievements saying Olympic officials “selected Spalding Athletic implements for exclusive official use . . . because of their acknowledged superiority, reliability, and official standings” (p. 88).

Spalding pioneered celebrity endorsements to promote his products. Thus, King Kelly and John “Monte” Ward, the most well-known baseball players of their era lauded the company’s bats and baseballs. Similarly, professional road racers like Fred Titus, Walter Sanger, and L.D. Cabanne pronounced on the high quality of their Spalding bicycles and urged the public to purchase what the professionals rode. These three riders were signed to contracts requiring them to use Spalding equipment whenever they raced. Wearing racing shirts with the words The Spalding Team emblazoned across the front, the trio dominated the League of American Wheelman’s circuit in 1894, ensuring that the Spalding company’s sponsorship generated additional business.
Worldwide spending on sponsorship exceeds $51 billion. While these increases are dramatic, remarkably, they underestimate the impact of sponsorship because they represent only the direct sponsorship fee and do not include the leverage and activation costs that accompany sponsorship investments. As sponsorship has grown, so has the supporting infrastructure with companies, their agents, and properties all having designated units to manage it.

Over two-thirds of sponsorship spending ($12.38 billion) is invested in sports (Figure 1.3). The four major U.S. professional leagues and their teams account for $2.46 billion of this: NFL, $946 million; MLB $585 million; NBA, $572 million; and NHL $356 million.

There are 77 companies that spend over $15 million a year on sponsorship, and of these 11 spend over $100 million. They are listed in Table 1.1.

The evolution of sponsorship in sport is vividly exemplified in Exhibit 1.3, which shows its dramatic growth in the Olympic movement in the past three decades. In 1976 when Montreal hosted the Olympic Games, the Quebec separatist movement was prominent in political consciousness. The Canadian government did not provide financial assistance to Montreal because it feared the rest of the country would view this as support for the separatists and be outraged. Nevertheless, the city proceeded with its bid. Its popular mayor who led the effort to secure the Games assured his residents it would not require a sub-

**Table 1.1. The Largest U.S. Company Investors in Sponsorship**

<table>
<thead>
<tr>
<th>Company</th>
<th>Amount ($ million)</th>
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<tbody>
<tr>
<td>PepsiCo, Inc.</td>
<td>340–345</td>
</tr>
<tr>
<td>The Coca-Cola Co.</td>
<td>265–270</td>
</tr>
<tr>
<td>Anheuser-Busch Cos.</td>
<td>255–260</td>
</tr>
<tr>
<td>Nike, Inc.</td>
<td>215–220</td>
</tr>
<tr>
<td>AT&amp;T, Inc.</td>
<td>175–180</td>
</tr>
<tr>
<td>General Motors Co.</td>
<td>170–175</td>
</tr>
<tr>
<td>Toyota Motor Sales U.S.A., Inc.</td>
<td>150–155</td>
</tr>
<tr>
<td>MillerCoors LLC</td>
<td>135–140</td>
</tr>
<tr>
<td>Ford Motor Co.</td>
<td>135–140</td>
</tr>
<tr>
<td>Adidas North America, Inc.</td>
<td>135–140</td>
</tr>
<tr>
<td>Verizon Communications, Inc.</td>
<td>105–110</td>
</tr>
</tbody>
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