

A Game of Inches: Measuring Sports Sponsorship Value and Planning for a Post-Covid World

The Bottom Line

- As major sports begin to plan for play in the COVID-19 era, leagues, teams and brands should each be rethinking their approach to sponsorships to:
 - Examine the assumptions built in to the sponsorship;
 - Reevaluate how to measure the elements of the partnership; and
 - Engage in advance planning to prepare for disruptions and alternative scenarios.

After four months of pausing operations, major sports leagues are beginning the process of restarting or resuming their seasons. As they do so, they must evaluate the state of both large and small sponsorships that span a wide range of industries. At the same time, sponsors must assess the impact of a radically-changed sports landscape on their sponsorship investments. With an end to the COVID-19 pandemic nowhere in sight, leagues, teams and brands will need to innovate like never before as they deconstruct the elements of a sponsorship to ascertain each element's value so that they are prepared to adapt to a sports world where the only certainty is uncertainty.

The Current State of Professional Sports and its Effect on Sponsorships

As of the middle of July, the National Basketball Association is preparing to continue its 2019-2020 season later this month, implementing a league "bubble" in which all teams and players will be confined to one city. The National Hockey League has adopted a "hub" plan with games to be played in two hub cities in Canada. Major League Baseball has started to play a shortened season in which teams will play a regional schedule initially without spectators. The National Football League is currently set to move forward as scheduled, but with an abbreviated pre-season and the presence of "minimal" fans.

Bubbles, hubs, empty stadiums and reduced capacity fundamentally alter how leagues, teams and brands engage and connect with consumers. In-arena benefits will have little to no value and the impact of the pandemic on television and digital benefits remains to be seen.

Rethinking Sponsorship Strategies

Most teams, leagues and sponsors are working together to renegotiate and amend sponsorship agreements as they adapt in real-time to changing circumstances. Many sponsors have seen their businesses decimated by stay-at-home orders, particularly in the travel and hospitality sector, which creates friction as the parties weigh the benefits of sports sponsorships. Finding a middle ground will depend on unique approaches to sponsorship measurement and confronting past contract norms with forward thinking solutions.

Confront Assumptions

The biggest sponsorship lesson to be learned from the COVID-19 pandemic is that sponsorship agreements are often premised on numerous assumptions — that a season will happen; that a team will play at its home arena; that fans will be allowed to attend the games; that the arena will be permitted to operate at full capacity.

A first step in rethinking sponsorships is to confront these assumptions and reflect them in the valuation of the sponsorship. The digital revolution in advertising has placed a premium on measurement. Paid media components of a sponsorship are readily measured but quantifying other benefits remains elusive. The teams that are able to measure the in-arena experience with metrics that sponsors can embrace will be at a distinct advantage in maintaining current and securing future sponsor investments.

Move Beyond Force Majeure

Another assumption traditionally embedded into sponsorship agreements is that “things will go wrong” but the parties will “work it out.” This is the premise of the make good provision. In ordinary times, when a halftime spot on the jumbotron does not run or a team is forced to play a few games at another venue due to a natural disaster, the parties are often able to amicably find solutions to short term disruptions. The COVID-19 pandemic has demonstrated the inadequacy of this approach when the fundamental assumptions underlying the sponsorship are upended for an extended period of time across the entire sports landscape.

Sponsors will be increasingly wary of relying on simple force majeure and make good provisions to protect these substantial investments. Force majeure cannot be viewed any longer as an all-or-nothing provision. Instead, the parties must work to define different tiers of scenarios in which benefits may be lost and incorporate replaceable and acceptable benefits and adjustments to the sponsorship for each tier, such as what events trigger replacement benefits within a season, what events trigger an extension and what events trigger an adjustment to the sponsorship commitment.

Don't Rely on Termination

The current pandemic has prompted scores of sponsors to review their sponsorship agreements in order to determine whether they can be terminated. Many are finding few options, as leagues and teams have historically been reluctant to grant termination. Even where termination is not an option, effective measurement and advance planning can provide each of the parties with remedies which reflect the change in value of a sponsorship due to a short term or long term disruption in sport.

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