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THE PRICE IS RIGHT?

THE BUSCH COROLLARY: Measuring the diminished value of second-hand naming-rights agreements

TEAM	PREVIOUS NAME(S)	NEW NAME	YEARS USING PREVIOUS NAME(S)	ANNUAL RIGHTS FEE	% OF DIMINISHED VALUE
	Bank One Ballpark	Chase Field	7	$2.2 million	-14% -$308,000
	Enron Field, Astros Field	Minute Maid Park	2	$6.357 million	-5.87% -$373,046
	Oakland-Alameda County Coliseum, UMAX Coliseum, Network Associates Coliseum	McAfee Coliseum	30	$1.18 million	-152% -$1.794 million
	Pacific Bell Park, SBC Park	AT&T Park	3	$2.083 million	-18% -$375,000
	Florida Suncoast Dome, Thunderdome	Tropicana Field	3	$1.53 million	-18% -$276,000

SOURCE: Kurt Hunzeker/The Business of Sports Network

Select the image to see a break down of the Busch Corollary

***Kurt Hunzeker**, of the **Business of Sports Network**, releases this intriguing article which looks to place a definative value on a secondary naming rights deal. Enjoy,*
The Busch Corollary: Second-hand Naming-Rights Diminished Value Equation
- Maury Brown, Founder and President - Business of Sports Network

When shopping for a previously-owned car, a prospective buyer should utilize all of the resources available (like CARFAX) to ensure he or she is not purchasing a lemon. A car is a serious investment, and careful consideration and a thorough understanding of prices, safety reports and re-sale value should be paramount before a transaction takes place.

Sports venues' naming-rights deals *should* be no different, but in today's sports business and sponsorship marketplace, a CARFAX-esque report or analysis of a second-hand naming-rights agreement does not exist. If one existed, corporate decision-makers might be able to sleep at night, knowing that their new naming-rights deal was secured at a favorable price.

Now, ***The Busch Corollary*** arms them with a second-hand naming-rights deal's quantifiable "diminished value," based solely on hard numbers about the venue and the previous rights holders.

In terms of distinguishing value, consider that the original rights holder reaps the benefits of branding a new sports venue, and one of the city's most well-known landmarks. The first name

associated with a building automatically becomes the reflex standard; everyone remembers the building by its original name. One does not need a mathematical equation to see this long-lasting value.

It does not matter if the name is corporate-based (i.e. San Diego's PETCO Park) or a family name (Cleveland's Jacobs Field); the first name will be the first answer when asked where does "insert-team-name-here" play.

This past February, I introduced the idea of *The Busch Corollary* in an effort to define the sports industry's widely-accepted practice of re-selling a venue's naming-rights sponsorships. But one needs to measure this phenomenon in order to fully understand the ramifications of teams entering into agreements with financially-questionable companies, and the price companies pay in brand value when they rename a sports venue due to a merger or buyout.

Corporations see sports venues' naming rights as a national advertising vehicle that expands their audience and their ability to communicate with a desirable demographic in a non-obtrusive environment. Every naming-rights deal includes additional components like luxury suites, broadcast commercial time and other marketing opportunities. Companies aim to maximize their investments by creating revenue-generating platforms and other programming (ticket giveaways, exclusive experiences, sweepstakes, etc.) around their namesake venue.

From a branding perspective alone, corporations utilize naming-rights agreements as a direct way to increase the value of its brand by aligning it squarely with that of the hometown team.

For second-hand naming-rights holders, does this perceived increase in team-transferred brand value offset the inherent loss of value in their hand-me-down naming-rights deal?

A study of existing, second-hand naming-rights agreements ***and*** a look at what a potential buyer would be receiving by renaming a one-owner/name venue suggest that a considerable loss of value is almost guaranteed with any "previously-owned" naming-rights deal.

(Select Read More to see the rest of this ground breaking research)

THE BUSCH COROLLARY DEFINITION

When Anheuser-Busch purchased the St. Louis Cardinals in 1953, new owner August Anheuser “Gussie” Busch, Jr. wanted to rename Sportsman’s Park to Budweiser Stadium as part of a new, national advertising strategy. Back then, Major League Baseball did not allow alcoholic beverage names to adorn their ballparks’ facades.

(The enterprising beer magnate then asked if he could change the ballpark’s moniker to “Busch Stadium” to honor to his family. After receiving league approval, Gussie Busch green-lighted the development of a new brand at the brewery, and the very next year, Busch Beer entered the marketplace.)

But St. Louisians never used the new name for their old ballpark. Sportsman’s Park was Sportsman’s Park, and the brewery’s renaming was not going to change their habits.

When the Cardinals began construction on its new home, Gussie Busch made sure that this new ballpark would be christened as Busch Stadium. Since this new venue did not have any other name before it opened in 1966, fans always considered it Busch Stadium.

In the truest, mathematical definition of the term, *The Busch Corollary* suggests that any second-hand naming-rights agreement will ***always*** have perceived diminished value compared to the original titleholder’s initial agreement, ***unless*** the selling property sets its price comparable (if not equal) to the relationship between the former rights holder’s price, the number of names the venue has been known as, and the total number of years the building was known by a different name.

The question potential buyers must ask themselves centers on how much value are they willing to overpay for the naming-rights agreement, or better yet, how much value-added components must the team include in the sponsorship package to offset this loss in brand value.

And how does one quantify this diminished value?

THE BUSCH COROLLARY EQUATION

Using simple algebraic letters to denote naming-rights deals' quantifiable variables, *The Busch Corollary Equation*
calculates the percentage of diminished value percentage (
dv
,
which will always be a negative number
) for non-original, naming-rights agreements:

$$dv = s / [(p / n) / y]$$

The variables to solve such an equation remain the same regardless of sport:

s = second-hand rights holder's annual sponsorship fee
p = previous rights holder(s)' average annual sponsorship fee
n = total number of names the venue has held since its opening
y = total number of years the venue had a previous rights holder(s)' name

THE BUSCH COROLLARY – HOUSTON ASTROS' MINUTE MAID PARK

Here is an example using the Houston Astros' two naming-rights holders for its ballpark: Enron Field (2000-2002) and Minute Maid Park (2003-present):

s = Minute Maid pays **$6,357,143** annually, per its naming-rights agreement
p = Enron paid **$6,500,000** annually

n = The ballpark has had three (**3**) names, including the 2-month, interim solution, Astros Field
y = The Enron Field/Astros Field brands lasted only two (**2**) years before Minute Maid signed

***dv* = *s* / [(*p* / *n*) / *y*]**

dv = $6,357,143 / [($6,500,000 / 3) / 2]

dv = $6,357,143 / [$2,166,667 / 2]

dv = $6,357,143 / $1,083,334

***dv* = (5.87%)**

According to *The Busch Corollary Equation*, the diminished value of Minute Maid's naming-rights agreement with the Astros is **5.87 percent**. Based on Minute Maid's annual payment, this equates to a value overpayment of approximately **$373,046**.

If Minute Maid's executives had something like *The Busch Corollary Equation* during their negotiations with the Astros, they could have plugged in the offered annual fee of $6,357,143 and countered with a "more equitable value price" of **$5,984,097**.

Two points to consider: 1) At least the Astros' lowered the annual sponsorship fee, and 2) Minute Maid could have received this "value back" by way of additional advertising time during broadcasts or any other added marketing opportunities with the team.

Even if you inserted this “more equitable value price” into the calculation, the result will ***always*** contain a percentage of diminished value, due to the clear-cut fact that any subsequent naming-rights holder will never have the same value the original owner had:

$$dv = s / [(p / n) / y]$$

$$dv = \$5,984,097 / [(\$6,500,000 / 3) / 2]$$

$$dv = (5.52\%)$$

Based on what the previous rights holder paid, how long its name was in use and the total number of names the building was known as, the Astros would have had to offer “the fair market price” (***f***) of $1,083,334 annually to offset the diminished value:

$$dv = s / [(p / n) / y]$$

$$dv = \$1,083,334 / [(\$6,500,000 / 3) / 2]$$

$$dv = \$1,083,334 / \$1,083,334$$

$$dv = 0\% \quad \Gamma \quad f = (p / n) / y$$

As a branding vehicle-only (no other value-added components included), this calculation suggests Minute Maid should only pay the fair market price of **$1,083,334** annually when it signed its deal in 2002.

Based on this analysis, two results are clear: 1) Minute Maid receives more than $5.27 million in value-added units to justify its investment, and 2) the Astros made a financially terrible mistake in using “Astros Field” as an interim name.

Understanding that the Enron name tarnished anyone or anything associated with it, the team lost value in its naming rights by changing it to a generic name. If anything, the Astros should have just removed all mentions of Enron and left the building without a name until a new naming-rights sponsor emerged. The percentage of diminished value would have been substantially smaller if “Astros Field” never surfaced:

***dv* = *s* / [(*p* / *n*) / *y*]**

dv = $6,357,143 / [($6,500,000 / **2**) / 2]

dv = $6,357,143 / [$3,250,000 / 2]

dv = $6,357,143 / $1,625,00

***dv* = (3.91%)**

In effect, adding “Astros Field” as an official ballpark name lowered the annual, naming-rights’ fair market price from $1,625,000 to $1,083,334, for a loss of $541,666 annually.

Since Enron only held its deal for two years, Minute Maid’s diminished value for the ballpark is not as high as if Enron fulfilled its original, 20-year contract. If that was the case, then the equation would change dramatically:

***dv* = *s* / [(*p* / *n*) / *y*]**

dv = $6,357,143 / [($6,500,000 / 3) / 20]

dv = $6,357,143 / [$2,166,667 / 20]

dv = $6,357,143 / $108,333

***dv* = (58.68%)**

Since the name “Enron Field” would have been part of the local and national vernacular for 20 years, a new name would not replace it overnight, or even in a few years. Too many residents would have continued to call the ballpark by its original name, due to 20 years of repetition and habit. This situation mirrors what Gussie Busch faced with Sportsman’s Park. Minute Maid would be overpaying more than $3.73 million annually, compared to *The Busch Corollary’s* suggested “more equitable value price” of $2,626,688 per year.

If Enron held the name until 2020, and the Astros then tried to re-sell the naming rights, any corporate partner looking to simply brand the Astros’ 20-year-old ballpark should not spend more than $108,333 annually, the fair market price for the building’s naming rights.

THE BUSCH COROLLARY – HYPOTHETICAL ANALYSIS

This equation holds water even when using hypothetical situations, such as a possible name change for the Atlanta Braves’ Turner Field due to the team’s recent sale to Liberty Media.

If Liberty Media were to sell the naming rights to the ballpark (which company executives said it will not do), what would be the percentage of diminished value of the new agreement?

Using *The Busch Corollary Equation*, one can find the answer based the what Liberty Media determines the price would have been if naming rights were sold at the ballpark's inception in 1997 (p_v), the price offered for the new deal (p_o) and the total number of years the building has been operational. Since Turner Field has been the only name the ballpark has known, there is no need to insert it into the equation.

For simple mathematical purposes, this hypothetical will use $5 million as the annual fee Liberty is seeking:

p_v & p_o = Price valued and offered is **$5,000,000** annually
n = The ballpark has had only one (**1**) name: Turner Field
y = Ten (**10**) years have passed since the ballpark opened in 1997

$$dv = p_o / [(p_v / n) / y]$$

dv = $5,000,000 / [($5,000,000 / 1) / 10]

dv = $5,000,000 / [$5,000,000 / 10]

dv = $5,000,000 / $500,000

***dv* = (10%)**

Because Turner Field is 10 years old, the diminished value of any new naming-rights deal would be 10 percent.

WHAT THIS ALL MEANS

The Busch Corollary Equation could be applied to any, non-original naming-rights agreement in any sport.

If a company was considering a naming-rights deal to replace a former agreement, it would have to input a number of different annual fees to closely match *The Busch Corollary's* diminished value price, and consider what value-added components the agreement should include to offset this perceived loss of value.

Make no mistake, companies will continue to pay for these high-profile naming-rights sponsorships as a means to advertise itself and associate with the local sports team. Teams will continue to sell naming-rights packages (even non-venue deals, like parking sections, club levels, concourses, etc.) as a means to generate more revenue.

In November 2006, Citigroup, Inc. and the New York Mets announced its 20-year, $400 million naming-rights deal for the Mets' new ballpark, Citi Field. The partnership is far more than a traditional, naming-rights agreement. For Citigroup, the deal included brand and business unit presence throughout the new ballpark, rights to the Mets and Citi Field marks, the purchase of media on SportsNet New York (SNY) and the launch of community outreach initiatives.

With ballparks currently under construction in Minneapolis and Washington (DC), the Twins and Nationals, respectively, should expect its naming-rights sponsorship to fetch anywhere between $5 million and $20 million annually, based on recent naming-rights deals such as Citi's, Brooklyn's Barclays Center (NBA New Jersey/Brooklyn Nets; 20 years, $400 million), Indianapolis's Lucas Oil Stadium (NFL Indianapolis Colts; 20 years, $121.5 million) and Newark's Prudential Center (for the NHL New Jersey Devils; 20 years, $105.3 million).

WHAT HAPPENS WHEN EXISTING DEALS EXPIRE?

It will be very interesting to see what happens when existing, long-term deals expire in the next 10-20 years. For instance, what company would pay millions of dollars to brand the former

Citizens Bank Park in 2029?

If the Phillies attempted to sell that inventory again at the same annual price (regardless of increases in inflation), the diminished value would be extraordinary because Phillies' fans and Philadelphia residents alike would have been calling the ballpark "Citizens Bank Park" for 25 years. The old axiom suggests one "cannot teach an old dog new tricks," and the numbers back that statement as it relates to renaming a sports venue:

***dv* = *s* / [(*p* / *n*) / *y*]**

dv = $3,800,000 / [($3,800,000 / 1) / 25]

dv = $3,800,000 / [$3,800,000 / 25]

dv = $3,800,000 / $152,000

***dv* = (25%)**

Corporations should be VERY wary about the value they will receive in return of their hefty financial investment. Old venues, ones with two or more previous naming-rights holders and deals with annual payments near to what previous companies paid should be avoided at all costs.

Consider the perceived complete loss of naming-rights value of Oakland's McAfee Coliseum, even though the name has been officially owned by only two entities: Alameda County and Network Associates/McAfee, Inc.

Drawbacks can be found in every facet of the calculation: the venue's antiquated age by today's

standards (opened in 1966) and the fact that the venue has had four (**4**), different names in its 41-year history – Oakland-Alameda County Coliseum, UMAX Coliseum, Network Associates Coliseum and McAfee Coliseum – only three of which under its current name.

The county originally sold the first corporate title sponsorship to UMAX in 1997, only to have a court order wipe out the deal. After signing on as the naming-rights sponsor in 1998, Network Associates renamed itself McAfee in 2004, and changed the multi-purpose stadium's name along with it.

The loss in value due to these moves is remarkable, especially when you consider that the annual price point has not changed from Network Associates' original deal:

***dv* = *s* / [(*p* / *n*) / *y*]**

dv = $1,180,000 / [($1,180,000 / 4) / 38]

dv = $1,180,000 / [$295,000 / 38]

dv = $1,180,000 / $7,763

***dv* = (152%)**

According to this model, the latest naming-rights deal to Oakland's Coliseum provided nearly no brand value for McAfee. Because of its voluntary name change, McAfee lowered the naming-rights fair market value to just $7,763 per year. The fact that the Coliseum is 41 years old hurt more than McAfee's switch from Network Associates.

This is an extreme example, and considering the typical bells-and-whistles teams add to a

top-tier sponsorship level such as naming-rights agreements, corporate partners due receive a fair amount of value with their high-profile deals.

CONCLUSION

The Busch Corollary Equation should not be the lone factor in determining whether or not a company signs on as a naming-rights sponsor.

What *The Busch Corollary* strongly suggests is for potential rights holders (a ballpark's naming rights, a NASCAR race's title sponsorship, an MLS team's jersey sponsor, etc.) to thoroughly conduct a qualitative ***and quantitative*** analysis of the big-ticket item they are about to purchase, and what value and value-added components they will receive and utilize from such an agreement.

Source: The Business of Sports Network research, *SportsBusiness Journal's* 2007 Sports Business Resource Guide and Fact Book

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