Written by Pete Toms
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"***Sports marketing is the recession's new whipping boy.***"

That is a quote from a report in this week's SportsBusiness Journal on the backlash against the TARP assisted financial services sector's sponsorship of professional sports. This past week saw a media and political outcry over Northern Trust's sponsorship of a PGA tournament in Los Angeles and BofA walking away from a nearly concluded sponsorship of the new Yankee Stadium. Corporate sponsorships have been an important contributor to the record revenues generated in recent years by professional sports. Stadium naming rights, luxury suites, premium seats, signage, TV advertising, tournament sponsorships etc., are all under duress in a climate where corporations fear being perceived as irresponsible and ostentatious.

In January, IEG Sponsorship Report predicted that sports sponsorship growth in 09 will be less than 2%, compared to growth of 14.7% in 08. According to IEG, *"...sports will account for 68 percent of the $17 billion North American sponsorship market.* " Weekly Standard contributor Jonathan V Last wrote in the WSJ.

In recent years, teams have also become reliant on revenue from corporate clients, in the form of naming rights and luxury-box purchases. Nationwide, corporations spend roughly $10 billion a year on sports sponsorships. Those should be the first expenditures ditched by any company looking to save money.

The February 09 Metropolitan Corporate Counsel published an article by Jordan S. Solomon which discussed the potential impacts of diminished corporate sports sponsorships and the difficulties in justifying their existence in recessionary times.

2008 will be remembered (not too fondly) as the year the housing bubble and the credit bubble burst. One casualty of these bubbles bursting and the resulting global recession has been a decline in corporate sports sponsorships. As a result, the sports bubble may be the next to burst, adversely affecting the sports stars and teams we root for.

Corporate sports sponsorships are declining rapidly, particularly in industries hardest hit by the credit crisis, such as the automobile and financial services industries. According to data from the sponsorship agency IEG, global sports sponsorships doubled in the past ten years to about $30 billion annually. These dollars have caused stars such as Tiger Woods, David Beckham, and even lesser known sports personalities to become rich and famous. This massive spending has also enabled sports teams and leagues to realize tremendous profits, as well as fuel the creation, development and expansion of new sports leagues and teams. Due to declining sports sponsorships, many of these new leagues and teams will not survive.

Some of the biggest players in the sports sponsorship industry, such as General Motors, Honda, Wachovia and Merrill Lynch, have suffered severe financial losses from the economic downturn, and in some cases are no longer in business. In these situations, these companies are under huge pressure to cut costs, and marketing budgets (in particular sports sponsorships) are often the first to be cut. These sponsorships are viewed as excessive when a company is losing billions of dollars, laying off employees and asking for a government bailout.

[...]

One of the factors in the decline in sports sponsorships is that the benefits of such sponsorships are difficult to quantify for the sponsor, even in good financial times. When times are good, sports sponsorship is an opportunity for building a reputation (i.e., brand), as well as generating high-level corporate entertainment, such as a sponsor's hospitality tent at a golf tournament. A company's name and logo displayed on signage at sports arenas, on uniforms and during TV broadcasts provides tremendous exposure of the company's brand. Free tickets and other access to sports teams and players that often accompany a sponsorship can be used as an incentive to employees or as an inducement to clients, governmental officials and suppliers. However, the benefit to a company's bottom line is difficult to measure, and these incentives are even harder to justify during a recession when the company is cutting jobs and losing business.

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The scrutiny of corporate sports sponsorships by media and politicians has greatly intensified since the two aforementioned traditionally largest sponsorship categories - financial services and automotive – have received TARP assistance. With both industries receiving hundreds of billions of public dollars, there is much debate concerning the value (if any, according to some) of these sponsorships. Citigroup's $400 million naming rights deal for the Mets new stadium was the flashpoint in the media and political uproar over the legitimacy of TARP money being used (or not), for sports sponsorships . David Carter , executive director of the Sports Business Institute at the University of Southern California in Los Angeles, said of Citigroup's naming rights deal for "Citi Field", "It's quickly becoming the sports-marketing poster child for the entire financial meltdown," And from the aforementioned SBJ report, "It's all about Citi Field," said Rich Gotham, president of the Boston Celtics, who have a sponsorship with TD Banknorth. "If that wasn't out there while Citi is crashing and the government is bailing them out [with $45 billion in TARP funding] this all wouldn't be so topical."

Perhaps the most obvious sign of the high public profile of this issue was TMZ 's derisive coverage of Northern Trust's sponsorship of the recently concluded PGA tournament in Los Angeles. The TMZ reports inspired a spate of media and political reactions which were a carbon copy of much of the negative response to the Citigroup/Citi Field deal. In both instances (NT & Citigroup), politicians from different levels of government and of opposing philosophies united in their opposition to the deals.
Maury Brown
reported in November that Republican NYC Council members Vincent Ignizio and James Oddo had publicly criticized the "Citi Field" sponsorship. The same report quoted Rep. Elijah Cummings (D-Md.), "This type of spending is indefensible and unacceptable to Citigroup's new partner and largest investor: the American taxpayer."
Steve Bilafer
wrote:

Rep. Ted Poe, R-Texas, has a 100 percent rating from the Christian Coalition and Rep. Dennis Kucinich, D-Ohio, has a 100 percent rating from the ACLU. You can bet they don't agree on much. So, what unites one of the most conservative members of Congress with one of the most liberal? Stadium naming rights, of course. Citibank's deal with the Mets to name their new stadium Citi Field has been under fire since the bank's financial problems surfaced last fall. On

Jan. 28, Poe and Kucinich sent a letter to new Treasury Secretary Timothy Geithner asking him to void the bank's stadium deal with the Mets.

Three days after the Northern Trust sponsored golf tournament concluded, Barney Frank, the chairman of the House Financial Services Committee was quoted in this NY Times report.

"Marketing expenses should be for real marketing, not ego boosts, which is what I think naming rights are," Frank, a Democrat from Massachusetts, said Wednesday in a telephone interview. "Important men, in particular, like to hang out and ingratiate themselves with sports figures, and after the fact try to figure out how to make sense of the sponsorships as marketing or economic development."

From the same report.

On Tuesday, Frank sent a letter to Northern Trust Bank in Chicago, a recipient of $1.58 billion of TARP funds, demanding that it reimburse the government for the lavish entertainment and hospitality it treated clients and employees to during the PGA Tour's Northern Trust Open last weekend at Riviera Country Club in Los Angeles

The WSJ reported on the Northern Trust backlash.

Fox News commentator Bill O'Reilly hopped on the bandwagon Thursday, commending Sen. John Kerry of Massachusetts (an unlikely bedfellow) for proposing legislation that "would prevent any recipient of TARP funds from hosting, sponsoring, or paying for conferences, holiday parties and entertainment events."

NY Times columnist Maureen Dowd was "teed off".

Coming in a moment when skeptical and angry Americans watched A.I.G., Citigroup, General Motors and Chrysler — firms that had already been given a federal steroid injection — get back in line for more billions, the golf scandal was just one more sign that the bailed-out rich are different from you and me: their appetites are unquenchable and their culture is uneducable.

Criticism of the relationships between TARP assisted banks and professional sports has not been limited to Northern Trust and Citigroup. Forbes' Mike Ozanian ;

President Obama wants to cap pay for CEOs of banks that take TARP money at $500,000. I figure that means Bud Selig owes Obama at least $17 million. Selig raked in $17.5 million in compensation for being commissioner of Major League Baseball in 2007,.......

Selig's rich bounty......is due to baseball's revenue surge since he took over as acting commissioner in 1992. As a capitalist I have no problem with that. But a lot of the sport's revenue—and therefore Selig's compensation—is from advertising and sponsorships from banks that have received Tarp money, like JP Morgan Chase, Bank of America and PNC. Mr. Commissioner, either take a huge pay cut or fork over $17 million to the president.

The banks, sports marketing agencies and some business reporters have defended the TARP assisted banks sports sponsorship deals. The arguments in favour of these deals typically stem from four themes; the banks didn't ask for TARP money, (Mr. Frank countered, " They can give it back ") no TARP money is being spent on sports marketing, sports sponsorships are good business and yield a substantial ROI and the banks – without political interference – require the latitude to unilaterally allocate their marketing resources in order to succeed.

From the aforementioned WSJ piece by John Paul Newport; "...last year Northern Trust accepted $1.6 billion in Troubled Asset Relief Program funds, despite record profits of $795 million and a solid balance sheet. The bank, in a letter to shareholders this week, said it didn't seek the funds but accepted them to accommodate "the government's goal of gaining the participation of all major banks in the United States." From the aforementioned NY Times report on Barney Frank's reaction to the Northern Trust PGA sponsorship; "The bank said in a statement that it did not seek, but still accepted, the government's bailout money, and did not use any of it at the tournament." Bloomberg reported , "No TARP capital will be used for Citi Field or for marketing purposes," Citigroup said in a statement on Feb 3.

Darren Rovell reported that, “A Bank of America official told us that for every $1 they spend on sports marketing, they net $3. They also said that out of all the new checking accounts that were opened in 2008, 10 percent of those were attributed to their sports marketing programs.”

Forbes’ Tom Van Riper defended the Citi Field sponsorship.

Stadium naming rights deals make money, at least when they're done right. In addition to the general exposure, a company like Citi gets its foot in the door to handle all of the banking for the team and the venue, access to players and their agents and a place to drum up business with other team sponsors in the corporate suites.

[...]

Front Row Analytics, a consultancy that helps sports franchises value sponsorships, says television exposure in New York media market is a $15 million annual value for Citi, 75% of the $20 million the company is paying the Mets. Throw in national television (the Mets are scheduled for at least 10 games on ESPN and Fox, more if they make the postseason), on-site signage exposure, plus the revenue potential from stadium ATMs and suite deals with other sponsors, and Citi is well into the black. The estimated value from hosting an All-Star Game, which is likely in a new park's early years, is $11 million.

[...]

Citigroup's total deal with the Mets is equal to less than 1% of the $45 billion in TARP funds the company is due to receive. The current mess exacerbates the bank's need for profit making, and that means marketing. Like it or not, the company stands a better chance of repaying taxpayers with the Mets than without them.

From Anthony Rieber at Newsday:

David Carter, executive director of the University of Southern California's Sports Business Institute and an assistant professor of sports business at the Marshall School of Business, said even a public relations backlash directed at Citibank wouldn't cripple the business because the everyday consumer is not the prime target of a naming-rights deal. Other businesses are.

"The behind-the-scenes business development that takes place at these [sports] events is pretty amazing, but we never see it," Carter said. "We spend so much time wondering as end users whether it makes sense for a company to put their name on a building. ... Comprehensive naming-rights deals really are good for business, so you have to weigh the public relations challenges. Sports marketing has helped companies generate revenue and shareholder value for a long time."

In a separate post, Darren Rovell defended the Citi Field deal, *“To give the folks at Citi the TARP money and then say that they can't market their retail banking operation actually doesn't make much sense.”*

Sarah Talalay questioned if criticisms of the Citi Field deal were defensible.

But the question remains: should companies that receive federal bailouts be putting big money into these types of naming rights deals?

The question arose after Sept. 11, 2001, when the airline industry was laying off workers and seeking federal help, and yet several stadiums and arenas, including AmericanAirlines Arena in Miami, bore the names of air carriers.

The conventional wisdom from the business community tends to be that in difficult times, companies should be spending a portion of their budgets on advertising, since that’s when they need it most.

Casey Wasserman, CEO of Wasserman Media Group, appeared on CNBC to defend sports marketing in light of the negative publicity created by the Northern Trust PGA sponsorship.

(WMG has varied interests in professional sports and amongst them is selling stadium naming rights) The discussion revealed the degree of bitterness in the debate, with Mr. Wasserman pointing out that Mr. Frank accepts political donations from some of the same TARP assisted banks that he criticized for their sports sponsorship deals. Subsequent to Mr. Wasserman’s CNBC interview, Darren Rovell posted a list of Mr. Frank’s top corporate contributors.

Stadium naming rights is also on the radar screen of Miami politicians. Last month, City of Miami Commissioners voted 2-2 to proceed with plans for a new baseball stadium for the Florida Marlins. Marc Sarnoff, one of the commissioners opposing the plan, demanded that the Marlins agree to share with the city any revenues generated from the sale of stadium naming rights before he would consider supporting the project.

The recent political backlash against public investments in pro sports was also evident when Senator Tom Coburn (R-Okla) introduced (albeit unsuccessfully) an amendment to the stimulus bill to prohibit any of the funds being used for stadiums.

There is speculation that the new Dallas Cowboys stadium will open in June without a naming rights sponsor. The Dallas Morning News reported last month:

When the Dallas Cowboys play their first game here later this year, team owner Jerry Jones might have a temporary name for his stadium and a lot less cash than he expected.

A naming rights deal to add hundreds of millions of dollars to his bottom line hasn't materialized, and sports business professionals said Jones might not find a sponsor this year unless he's willing to offer a deep discount. Even optimistic naming rights consultants are saying that a blockbuster deal is probably off the table in this year of economic turmoil.

The near future of sponsorship revenues is likely an acute concern to the NFL. SBJ recently reported, *“According to internal league data, contracts accounting for 50 percent of all club sponsorship* *revenues come due within the next 18 months, so with a recession bringing every economic issue into sharp focus, the question being asked by industry executives gathered in Tampa and Orlando for Super Bowl week was whether the NFL's golden years were behind it."*

The same set of challenges which led to the demise of the BofA sponsorship of the new Yankee Stadium are correlated with the Yankees' stalled sales of premium seats and luxury suite leases. In both instances it is the corporate sector that is expected to purchase the inventories. In January the Yankees confirmed that they had contracted with a " Manhattan residential real estate brokerage " to assist in the marketing of premium seating.

In the midst of this public and political turmoil, Nielsen Media Research has released some figures that show banking companies have decreased spending by 10 percent over the last year, but have increased the amount that they are spending on sports advertisement by 36 percent in 2008, showing that these businesses see sports as great return on investment.

According to Nielsen, "Banks spent $122 million - or 18.7% of all its TV ad dollars - on sports event programming in 2008. In 2007, the banking industry spent $90 million on sports broadcasts, or 12.5% of the industry's total TV ad expenditures."

Less than one year ago, professional sports was anticipating a group of stadium naming rights deals which would command unprecedented dollars. The Mets deal remains in place (at least temporarily) but has generated vast amounts of negative attention for the sponsor. The Yankees deal collapsed. Interest in the naming rights for the Cowboys and Giants/Jets stadiums appears slight. On a smaller scale, the Washington Nationals will soon begin their second season of play in Nationals Park, still with no naming rights sponsor.

BofA sponsorship chief Ray Bednar was quoted in SBJ , *"We may have seen a sea change in the acceptable way to develop and nurture and maintain and grow relationships using client B2B entertainment."*

Whether or not that change is temporary or permanent will have an enormous impact on professional sports.

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