

Module 1. Pre-contract evaluation - The estimated ROI of a sponsorship

Introduction

A successful sponsorship is the result of many things done right: from a well-written contract and the selection of rights acquired to the price you pay for it and the investment and forms in which it is activated (among other things). But, above all, a sponsorship can only be truly successful if it delivers the business results expected from it. Being remembered, engaging consumers, winning prizes are very nice, but far from sufficient. For senior executives signing big checks to sponsor, all that matter is the value created for the company.

With that in mind, it is critical to have a structured approach for how to define strategies, objectives, goals, metrics, etc. It is equally important to track and measure results so that you can improve over time. With price tags for premium assets running at hundreds of millions of dollars, no disciplined approach is enough. We, sponsorship managers, need to approach a contract with the same level of due diligence as a Mergers & Acquisitions team would approach a deal to purchase a competitor.

This is no simple task, and this is exactly why it is so valued. Even large and sophisticated companies will struggle to implement a disciplined approach to the sponsorship process and develop (or buy) the proper tools for measurement.

Unfortunately, most people working in sponsorships still prefer to focus on events and activation, treating the sponsorship intelligence work as secondary or simply ignoring it altogether.

For those interested in a successful career in sponsorships, no area offers more potential than sponsorship intelligence. This is so critical because it deals with the only thing that senior managers care: the results. Whoever can precise the impact of their sponsorships investments in the business will have a sustainable competitive advantage.

In this module, we will cover the step-by-step from objective setting to measurement and illustrate this journey with a few examples.

Start with the problem

Which business problem are we trying to solve? That is probably the most difficult question we need to answer. No sponsorship discussion should start with a sponsorship in mind. There are always multiple answers to every business problem, and sponsorships should be only one of them.



Let's use Airbnb and the International Olympic Committee sponsorship as an example. Please note that, despite the sponsorship being real, the company shared no information with the author and all the information in this section is made up to illustrate the process.

Figure 1: Airbnb and the International Olympic Committee sponsorship logo



[Untitled image about Airbnb and the International Olympic Committee sponsorship logo]. (s. f.). From https://www.hospitalitynet.org/picture/xxl_153108347.jpg?t=1574083416

Airbnb was born in 2007 when two hosts welcomed three guests to their San Francisco home and has since grown to 4 million hosts who have welcomed more than 1 billion guest arrivals in almost every country across the globe. Every day, hosts offer one-of-a-kind stays and unique experiences that make it possible for guests to experience the world in a more authentic, connected way. (About us, n.d., para. 1)

Figure 2: Airbnb experience



From *An update about our offices around the world.* (2021). Airbnb. <https://news.airbnb.com/an-update-about-our-offices-around-the-world/>



Figure 3: Airbnb experience



From *New Flexible Destinations feature now live to more easily find unique stays*. (2021). Airbnb. <https://news.airbnb.com/unique-stays-hosts-earn-more-than-300-million-since-start-of-pandemic/>

As a global player in the travel industry, Airbnb business faces many external risks. From regulators limiting the ability for their hosts to rent their rooms and houses (a constant demand from the traditional hotel players), an increase in the cost of fuel impacting air travel and limiting tourism, to the long-lasting impact of the COVID-19 pandemic. They also have untapped opportunities to accelerate growth, like the diversification of the business and the unserved high demand for accommodation during global sporting events.

If we were sitting alongside the co-founder and CEO Brian Chesky at Airbnb business planning session back in 2012 or 2013, we would have witnessed the discussion of the best strategy for the next years. Some of the topics above (other than unpredictable COVID-19 crisis) would all have been part of the agenda.

If the management team had to narrow down their concerns to a few items, these would probably be at the top of their agenda:

1. High risk of regulation – Lobbied by the hotel industry, many cities started to impose restrictions for sub renting and short-term rentals, a direct threat to Airbnb's business.
2. Lack of competitiveness in high demanded cities during global events – Every FIFA World Cup or Olympic Game, the demand for accommodation skyrocket and prices explodes, making almost impossible for regular fans to be part of it.
3. Lack of diversification of the business – Airbnb business is limited to accommodation. Many travellers need to look for ways to enjoy their trips elsewhere buying tours and tickets to attractions in competitor's websites.

As a follow-up from the meeting, Airbnb strategy group started their work to assess the challenges and develop strategies and plans to address them. The work consists of establishing the objectives, goals, strategies, metrics, and tactics. The approach is based

on a well-known model called OGSM (the T of “tactics” usually is not part of it). The definition of each element is:

- a. Business objectives - The Objective sets the direction for the organization for the next three to five years. This statement describes the ambition of the business and answers the question: What are we trying to achieve? The Objective should define the playing field and the rules for winning.
- b. Goals - Goals are numbers that define what success looks like over a three-to-five year time horizon. These Goals are usually financial and/or operational and make the Objective visible in measurable terms. Goals should be more strategic in nature, defining the financial health and guiding the direction for the strategic choices.
- c. Strategies – Strategies are words that provide explanations and descriptions of specific choices that focus an organization’s plans toward accomplishing the desired Objective and Goals. Strategies guide the work activities and allocation of limited resources across the organization. Strategies are implemented through initiatives and structured work plans called charters. Strategies tighten choices needed to deliver the Objective, Goals and to win in the market.
- d. Metrics - Measures are numbers that define an organization’s progress toward delivering a Strategy. Each Strategy should have no more than two or three Measures that define whether the Strategy is effective and is having the desired impact. Each Measure is tracked to determine the progress of a Strategy, and used to make decisions regarding any necessary adjustments. (OGSM defined: Objective, Goals, Strategies, Measures, 2022, para. 5-8)
- e. Tactics – What are the activities that will be implemented in order to accomplish the objectives set above? This is the visible part of the work and is usually developed and implemented by the group of agencies working with the company.

The result would look like this:

Table 1: Airbnb OGSM

	Regulation	Global events	Diversification
Objective	To limit the impact of regulation in the business.	To increase the share of rooms sourced by Airbnb in host countries of global sporting	To reduce the risk by creating new lines of business.



		events during the event.	
Goal	Proactively engage with city administrators in top-20 Airbnb markets in the world.	25% of all visitors of global events staying at an Airbnb by 2020.	Reduce the reliance of accommodation to 75% of the revenues by 2020.
Strategy	Identify areas where Airbnb can add value to cities administrators' priorities for a productive engagement.	Set up teams to explore opportunities with future host countries of Olympic Games and FIFA World Cups.	Develop other services to travellers to complement the accommodation, bookings, improving their experience and creating a new revenue stream to Airbnb.
Metrics	Identify 1 to 2 areas of interest for each city.	One test event by 2016.	1/3 of every accommodation booking to also use new service(s).
Tactics	Offer alternative affordable accommodation for tourists. reducing criticism, protecting city reputation, and attracting more visitors.	Create pilot market in Rio de Janeiro for the 2016 Summer Olympic Games.	Develop a set of experiences (tours and events) that generate new business for hosts and allow guests to improve their travels.

Source: Own elaboration

The 2016 Summer Olympic Games was selected as a perfect test market for all the strategies, and a special team was set up in Brazil for implementing the plan. Then, in March 2015, Airbnb reached an agreement with the Organizing Committee of the Rio de Janeiro Olympic and Paralympic Games to become a local sponsor in the category of Alternative Accommodation. As part of the deal, the Airbnb platform was accessible through the official Games website, similar to the treatment offered for ticket purchases.



Figure 4: Airbnb and the Organizing Committee of the Rio de Janeiro Olympic and Paralympic Games partnership



From *Olimpíadas: Airbnb será fornecedor oficial de hospedagem alternativa*. (2015). Mundo do marketing. <https://www.mundodomarketing.com.br/ultimas-noticias/33211/olimpiadas-airbnb-sera-fornecedor-oficial-de-hospedagem-alternativa.html>

As a result of the partnership, the relationship of Airbnb with the city of Rio de Janeiro improved considerably. As an Olympic sponsor, they became part of the planning and a partner to execute the Games. During the Games, Airbnb saw a significant increase in their bookings, demonstrating the potential for a broader partnership with the International Olympic Committee.

Right after the Rio Olympics, Airbnb launched their experience service, where they offer (as the name says) all sorts of experiences, from “pasta with the Grandmas” cooking lessons to “murder mystery escape”. The platform came a few months too late for being tested in Brazil, but offered good potential for future events.

Finally, in 2018, after months of negotiations, Airbnb took their last step to execute the plan defined a few years earlier in their business session through a sponsorship of the International Olympic Committee.



Figure 5: Airbnb ad on Olympic Games



Host the World

From Airbnb et le CIO annoncent un partenariat d'envergure mondiale pour les JO. (2019). Airbnb. <https://news.airbnb.com/fr/airbnb-et-le-cio-annoncent-un-partenariat-denvergure-mondiale-pour-les-jo/>

The International Olympic Committee (IOC) and Airbnb announced a significant agreement to support the Olympic Movement through to 2028. The nine-year, five-Games partnership is designed to create a new standard for hosting that will be a win for host cities, a win for spectators and fans, and a win for athletes (IOC and Airbnb announce global partnership, 2019, para. 1-2)

Airbnb becomes the Worldwide Olympic Partner in the exclusive category of "Unique Accommodation Products and Unique Experiences Services." Worldwide Olympic Partners support every National Olympic Committee and their teams, and every Organizer of the Olympic Games, as well as providing support for athletes and the development of sport at all levels around the world. In addition, Partners promote the Olympic values and help create memorable experiences for fans worldwide. (para. 12)

The agreement includes accommodation provisions that will reduce costs for Olympic Games organizers and stakeholders, minimize the need for construction of new accommodation infrastructure for the Olympic Games period, and generate direct revenue for local hosts and communities. Working together with the International Paralympic Committee (IPC), we will work to increase accommodation that supports accessibility for people with disabilities or other accessibility needs. (Airbnb and IOC Announce Major Global Olympic Partnership, 2019, para. 2)

The partnership will generate hundreds of thousands of new hosts over nine years, giving community residents the opportunity to earn extra income by providing accommodation and local experiences to visiting fans, athletes and other members of the Olympic Movement. For visitors, the Airbnb community will offer a more local and authentic way to immerse themselves in the host cities and engage with local communities. For the cities themselves, the Airbnb community represents a more environmentally sustainable way of accommodating a surge in visitors.

The IOC and Airbnb will launch Airbnb Olympian Experiences to provide direct earning opportunities for athletes, underlining the IOC's efforts to support athletes and put them at the heart of the Olympic Movement. To be launched in early 2020, this new category will bring Airbnb's goal of providing economic empowerment through hosting to athletes across the globe – beyond the timeframe and geographical location of the Games. Promoting sport and physical activity, these experiences will include everything from the chance to train with an Olympian, to exploring a city with an elite athlete. In the coming months, Airbnb, and the IOC, through the Athlete 365 platform, will provide support and training to athletes interested in becoming a host on the Airbnb Experiences platform. (para. 5-6)

Figure 6: Athlete 365 platform



From *Airbnb, IPC y COI anuncian Festival de Verano de Experiencias Online*. (2020). International Paralympic Committee. <https://www.paralympic.org/es/news/airbnb-ipc-y-coi-anuncian-festival-de-verano-de-experiencias-online>

Read more at: [Airbnb celebrates Olympic spirit in virtual festival | Digital | Campaign Asia](#)

As you can see, they did a terrific job in addressing all the challenges previously identified in their business plan and followed a structured and disciplined approach.

Once the test at the Rio Olympics was considered successful and the opportunity with the International Olympic Committee started to be discussed, Airbnb's Strategy, Marketing,

and Finance teams had to do a lot of work to find out whether the investment would have a positive ROI for the company.

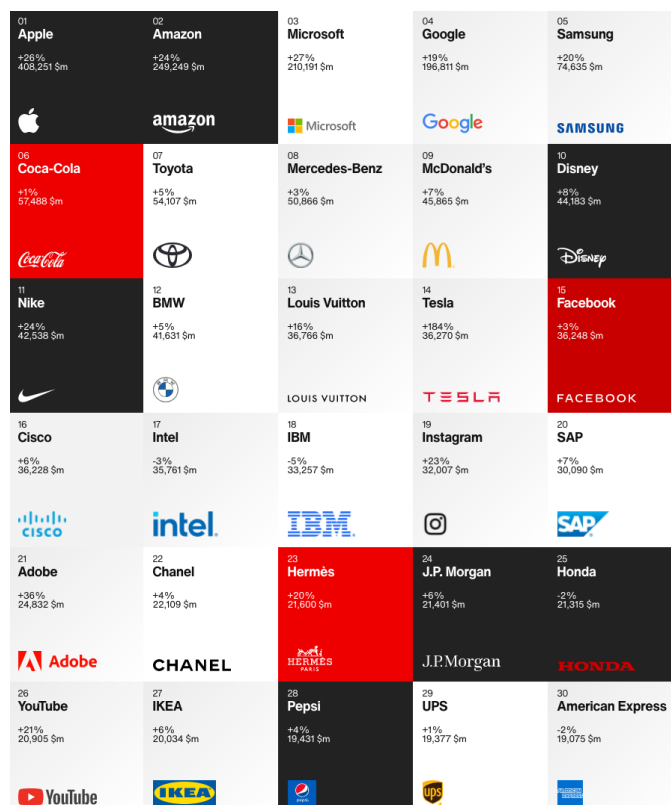
This is a simulation of the work they might have done:

Cost of the sponsorship: according to *Forbes* magazine, Airbnb paid the IOC estimated \$500 million for the nine years and five Games duration of the agreement (Lotto Persio, 2019). That is the equivalent of an annual commitment of (rounding up) \$56 million, a meaningful amount for any company to commit to a sponsorship.

Most companies justify their sponsorships based on the positive equity and reputation they can drive from the partnerships (Best Global Brands 2021, n.d.). By being part of such a select group of companies (like the IOC TOP sponsors), they immediately acquire a status that would have taken decades to reach. The company immediately start to be seen by the market and by customers as global, prestigious, and solid. Their brand is equally impacted positively by it, increasing its value and, therefore, the overall value of the company.

As of 2021, Airbnb wasn't part of Interbrand Top Global Brands ranking. It will be interesting to see their growth in the coming years.

Figure 7: Top Global Brands ranking – 2021



From <http://www.199it.com/archives/1329551.html> Interbrand : 2021年全球最佳品牌排行榜.199it.



More information: [The 2020 World's Most Valuable Brands, Ranked: The World's 100 Most Valuable Brands in 2021](#)

The long-term impact in equity is hard to measure and is not sufficient to justify the investment. It is critical to measure the impact in the business in the short and mid terms in incremental dollars or savings. This is where the work of a good sponsorship team becomes even more important.

For the deal to make sense to Airbnb, they had to find incremental business (or savings) of at least \$56 million per year for almost a decade. So, where to start?

1. The cost of doing nothing in regulation:

Thanks to the Olympic sponsorship, Airbnb has become part of events that are very important to Tokyo (host of the 2020 Summer Olympics), Beijing (host of the 2022 Winter Olympics), Paris (host of the 2024 Summer Olympics), Milano-Cortina (host of the 2026 Winter Olympics), and Los Angeles (host of the 2028 Summer Olympics). These are all tier-1 global cities where Airbnb generates a lot of business.

As it is expected from host cities that they will engage and support the businesses of IOC sponsors, it is less likely that they would implement rules that can negatively impact Airbnb's business (same for all other sponsors).

Let's assume one of these five Olympic host cities –Paris– would have created regulation in 2023 limiting Airbnb's future business in case they were not an Olympic sponsor. If such regulation had had the power to reduce Airbnb's revenues in Paris in 30% for (let's say) 5 years, it would have cost the company over \$216 million (assuming Paris represents only 3% of Airbnb's total revenues of 4.8 billion in 2019) (Airbnb Fourth Quarter and Full Year 2020 Financial Results, 2021).

These are all very conservative estimates. More cities could have launched restrictive regulations and launched them earlier. Not to mention Paris must represent more than 3% of Airbnb's business.

Looking exclusively from a "Regulation" standpoint –Airbnb's first strategy–, the cost of the IOC deal was already covered in 43% (\$216/\$500 million).

2. Global events:

As a partner of five Olympic Games, Airbnb becomes a preferred supplier to other sponsors, IOC staff, and fans booking their trips to the Games. Assuming very conservative numbers, they might generate as much as \$30 million in incremental bookings per event, for a total of \$150 million. That estimate considers at a 30-day stay for 3,000 people (from all constituents) working at the events and eventual travels in the years leading up to the event.

These are revenues that would not have happened unless Airbnb had joined the select group of Olympic partners.



Looking exclusively from a “Global Events” standpoint –Airbnb’s second strategy–, the cost of the IOC deal was already covered in 30% (\$150/\$500 million).

Figure 8: Airbnb hosts more than 200 Tokyo Olympic experiences



From *You Can Rent Scottie Pippen's House On Airbnb In August*. (2022). Apartments apart. <https://apartmentsapart.com/you-can-rent-scottie-pippens-house-on-airbnb-in-august/>

Read more at: [Airbnb hosts more than 200 Tokyo Olympic experiences | Digital | Campaign Asia](#)

3. Diversification

The launch of Airbnb’s Experiences was not connected with their relationship with the Olympics. “In 2016, Experiences launched with roughly 500 experiences. Today, over 30,000 Experiences are available around the world” (Airbnb Experiences Update, 2019, para. 8), said Airbnb in 2019. The Olympics are playing an important role in creating sports-related experiences for the platform.

Assuming experiences become a business that represent 5% of Airbnb’s total revenues (\$240 million) in 2023, and that the Olympic Experience represents 20% of their business, the total revenues for the Olympic Experiences per year would be estimated \$48 million. The revenues for the remaining 5 years of their contract with the IOC can reach up to \$240 million.

Looking exclusively from an “Experiences” standpoint –Airbnb’s third and last strategy–, the cost of the IOC deal was already covered in 48% (\$240/\$500 million).

Bringing it all together:

The three strategies that led to the partnership with the IOC, based in our assumptions, had the potential to generate up to \$606 million in incremental revenues, a very good financial result for any sponsorship contract.



However, revenues are an inaccurate indicator for the ROI calculation. Instead, Airbnb needs to generate \$500 million in Net Profits if they want a positive ROI on their IOC sponsorship.

For Airbnb to pay back an investment of \$56 million per year (to break even), assuming a very healthy margin of 20%, they would have to generate incremental Net Profits of \$2.5 billion during the 9 years of their contract.

Without access to the actual numbers, it is impossible to assess the real impact of the IOC sponsorship in Airbnb's business. But the purpose of the exercise described on this module serves as a guideline for how to think about the return on investment of any sponsorship.

If we were doing the same exercise for a more established and predictable company, the process of establishing objectives, goals, strategies, metrics, and tactics would have been the same, but estimating the actual financial impact would not.

One of the main differences of an established sponsor vs. a new sponsor is the availability of historical data. Decades of investments in sponsorship, many events activation reports, brand, and consumption tracking systems are just a few of the tools that traditional sponsors can use in their ROI calculations.

Let's look at AB-Inbev, a traditional FIFA World Cup sponsor, and the way they could measure their ROI prior to signing the extension of their contract with FIFA and the NFL.

Figure 9: AB-Inbev ad



From *AB InBev compra de SABMiller.* Mundo Cerveza.
<https://www.mundocerveza.com/ab-inbev-compra-sabmiller/>

Disclaimer: Similar to the previous example, all strategies and numbers are made up. No information from AB-Inbev has been shared with the author, and the example has the sole purpose of illustrating one of the possible ways the company could think about ROI.

Starting with a simplified version of their OGSMT:

Objective: recruit new consumers for the beer category.



As teenagers enter adulthood, they are welcomed with an endless number of alcoholic beverages promising to be the most refreshing, the cooler, the best in the world. Influencing this audience to choose beer instead of any other is no simple task.

Recruiting new drinkers is the most important task for the brand. These are the people that will fuel their growth in future years. A young adult that starts to drink at the age of 21 (using here the legal age for consumption of alcohol) has greater chance to remain as a lifelong drinker.

Goal:

AB-Inbev has a sophisticated tracking system of consumption frequency and by age group. The results show a decline in consumption of young consumers, a typical recruitment problem, which validates their strategy.

Table 2: Consumption frequency of AB-Inbev by age group

	Daily drinkers			Weekly drinkers			Monthly drinkers		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
21-29	2%	1%	1%	6%	5%	4%	12%	9%	7%
30-39	8%	7%	8%	10%	12%	11%	8%	7%	8%
40-49	10%	11%	12%	10%	10%	11%	21%	20%	22%
50+	11%	13%	15%	11%	12%	13%	16%	17%	17%

Source: Own elaboration

The key measurement for this initiative is the number (%) of consumers 21-29 years old consuming one of their products.

In real life, the goals must be set on a country-by-country basis (or even region-by-region), as consumption level and profitability can vary a lot. In some countries, every single bottle can generate from dollars to cents of profit. For the sake of this exercise, as all numbers are fake, assume AB-Inbev was working with global averages of consumption and profit.

- Every 1% in daily drinkers represents \$1 billion.
- Every 1% in weekly drinkers represents \$100 million.
- Every 1% in monthly drinkers represents \$10 million.

They set their goal to return to 2017 levels, representing a profit growth opportunity of \$1.25 billion (\$1 billion from “Dailies” + \$200 million from “Weeklies” + \$50 million from “Monthlies”).

Strategy:

After evaluating possibilities like the launch of new brands expansion to new countries and a new global campaign, AB-InBev’s Marketing team decided to focus on sports and entertainment as a path to reach consumers. The strategic approach for driving the beer



consumption among 21-29 cohort is set to increase association of one or more of their beer brands with the most relevant consumer passions in sports and entertainment.

Another important consideration for health-conscious young consumers is the calorie content of what they eat and drink. With that in mind, the team decided to focus all their efforts in young adults in one of their low-calorie brands. Bud Light, as the largest in the company, was a natural choice.

Figure 10: Bud Light ad



From *Top 10 Most Popular Beers in America*. (2021). Besttoppers. <https://besttoppers.com/best-beers-in-america/>

Metrics:

AB-Inbev expects 90% of the incremental volume and profits among young consumers to come from the Bud Light brand. The more profitable brand (compared with the regular Budweiser) will guarantee the financial results are achieved.

Tactics:

The first important consideration for AB-InBev's marketing teams are the differences in sports and entertainment consumption between the American and the international markets. For a company of this size and reach, scale is a critical success factor. Localization in any campaign should be limited in order to spend less in production and contractual fees. The more global the passion, the better.

When they looked at all the available options, the choice became clear:





Figure 11. Music

From *How to Create a YouTube Channel for Your Business*. (2022). Social weaver. <https://www.socialweaver.com/blog/how-to-create-a-youtube-channel-for-your-business>

Tastes are mostly local, and it is almost impossible to execute a global plan without a lot of investment in local partnerships.



Figure 12. Gaming & e-Sports

[Untitled image about joystick]. (s. f.). From <https://www.thepodd.it/wp-content/uploads/2020/09/Progetto-senza-titolo-4.png>

While apparently global, gaming, and e-sports franchises vary by region, there are few truly global platforms and titles. The strategy can be unique, but any gaming campaign will require regional executions (and potentially regional partnerships).



Figure 13. Movies

[Untitled image about cinema]. (s. f.). From <https://ilkarocks.com/wp-content/uploads/2021/05/myke-simon-atsUqIm3wxo-unsplash-1-1080x675.jpg>

A truly global passion point, but not the most relevant for this target group.



Figure 14. Sports

From *26 must visit attractions in Barcelona*. The culture trip. <https://theculturetrip.com/europe/spain/articles/20-must-visit-attractions-in-barcelona/>

High relevance across regions. For a global beer brand, there is nothing like football. However, there are some geographic exceptions (Australia, India, China, and the USA) that might need special treatment.

After looking at all the possibilities, the team decided to use sports with a combination of American football (dedicated to the USA), basketball (focused on China), and football (rest of the world).



Figure 15: NBA, FIFA World Cup 2022, and NFL logos



NBA, FIFA World Cup 2022, and NFL logos. Own elaboration

Assuming AB-Inbev wasn't a sponsor of any of these Leagues, they would need to approach and negotiate the necessary rights (global or regional) for each of them at the estimated costs (all assumptions guided by market estimates):

1. NBA: China only at \$30 million per year for a 5-year contract. Total = \$150 million.
2. FIFA World Cup: Global at \$75 million per year for a 4-year contract. Total = \$300 million.
3. NFL: Global at \$80 million per year for an 8-year contract. Total = \$640 million.

The total cost per year for the first four years (when all the contracts are active) would have been \$185 million.

Looking back at AB-InBev's profit growth opportunity of \$1.25 billion, we see there is plenty of room for a full payback and a positive ROI, even if they only reach their targets after 6 years. This is a comfortable position to be and a relatively easy business case to approve.

Despite the high price tag for these premium sponsorships, the size of the opportunity they are addressing more than justifies the investments.

Same logic, different brands.

If we were doing the same exercise for a more established and predictable company, like P&G (also IOC sponsor), it would have been easier to evaluate the ROI of the Olympic sponsorship. P&G has a "Net Earnings Margin from Continuing Operations" of 18.9% and an operating cash flow of \$18.4 billion in 2021. For P&G, an impact of 0.3% would have



been enough to pay back their Olympic investments (assuming the same cost as Airbnb's contract).

Figure 16: P&G ad on the Olympic Games



From *Procter & Gamble lanza una campaña para los JJOO de Tokio 2021*. Marketing inside review. <https://www.marketinginsiderreview.com/procter-gamble-campana-jjoo-tokio-2020/>

In the future, when you read about a company signing a billion-dollar deal, look for their “Net Earnings Margin from Continuing Operations” (in %) to calculate how much in incremental business they will need to generate in order to pay back the investment. More often than not, you will find large and very professional companies overcommitting without the proper due diligence.

When the numbers don't work.

In an ideal world, sponsorships would only be signed when they offer a positive ROI. However, for many reasons, this is not always the case. Sometimes, companies must sign deals they will lose money in order to keep an important contract with a major client, to continue to do business in a certain country or region, to have access to a constituent, to access another more profitable deal, etc.

More important than always signing profitable deals is knowing when a deal will or will not be profitable.

The discipline described above helps sports marketers understand the steps they need to follow in order to evaluate the potential of any deal. At the end of the day, if you are going to sign a money-losing deal, you will be better off by knowing how much you will lose.

The discipline also informs the decision makers when a deal is proposed to them.

A few years ago, while I was working at a major consumer goods multinational, one of the managers in charge of sponsorships for an important country in Asia brought up a



proposal of a local sponsorship. He was determined to get that contract approved, as—in his opinion—it was critical to achieve the results for his business unit in that year.

After guiding him through the above steps to evaluate the ROI, the manager returned even more convinced of the potential of the deal. According to his numbers, assuming all the premises were correct, the financial impact of the activation of that contract was going to be very positive for the company.

However, after careful evaluation of the premises, we realized a serious optimism on his numbers.

He estimated that the country will multiply by 10 the number of users in 5 years (the duration of the contract), something the company had not been able to make over its 50+ years of existence in that market and billions of dollars invested in production, distribution, and marketing. The numbers simply didn't hold. In reality, when more realistic (though still optimistic) numbers were used, the deal proved to be extremely negative. That business unit couldn't responsibly pay for the rights they wanted to acquire.

At the end, after reviewing the results of the ROI analysis, the company decided not to sign the sponsorship as originally proposed.

When the numbers don't work

When the numbers of a sponsorship proposal don't work, that doesn't mean you can't have the deal. As discussed, you can always choose to sign a money-losing proposition sponsorship, though this strategy should be avoided whenever possible.

The alternative is to negotiate the contract changing the scope, the category, duration, set of rights, or other important elements. Here are a few examples:

1. Scope: Most rights holders have different tiers of sponsorships, each with a set of rights associated with it. Even large organizations like FIFA use this approach. A brand can become a FIFA Partner (Coca-Cola, Adidas, Wanda, Qatar Air, Hyundai/Kia) sponsoring all FIFA competitions for men and women of all ages and kinds (FIFA Under 21, FIFA Under 17, Futsal, Beach Football, e-FIFA World Cup, etc.). For other brands, interested only in the men's senior event, the FIFA World Cup, they can become a FIFA World Cup Sponsor (AB-InBev, McDonald's, etc.). Finally, for those brands interested only in the host country market of the FIFA World Cup, they can become a local supporter. The difference in rights is broad, and so is in price (from \$25 million to \$100 million per event).



Figure 17: Adidas, Coca-Cola, and Wanda logos



Adidas, Coca-Cola, and Wanda logos. Own elaboration

Figure 18: Hyundai, Qatar Airways, and Visa logos



Hyunida, Qatar Airways, and Visa logos. Own elaboration

2. Category: Particularly for companies operating in multiple categories (think about beverages, food, technology, etc.), limiting the breadth of a sponsorship can considerably reduce its price. If in the past companies aimed at blocking all possible categories of products, today it is acceptable that some will only acquire rights for specific categories they are most interested in. A good example is Amazon Web Services sponsorships of the Bundesliga, Formula One, NASCAR, NFL, NHG, PGA Tour, and Ferrari, to name a few. Their rights are likely to be limited to Web Services and no other business from Amazon (like Amazon Prime, for example). The choice of limiting the brands (in this case, companies) certainly lowered the cost of these sponsorships.



Figure 19: Ferrari ad.



From *Ferrari selecciona AWS como proveedor oficial de nube para impulsar la innovación en la carretera y en la pista.* (2021). Business wire.

<https://www.businesswire.com/news/home/20210619005117/es/>

3. Duration: Most rights holders will give discounts for longer deals. The certainty of the long-term revenues will give them the confidence they can charge less. After all, they will have the guaranteed income in that category for years to come (instead of the need to search and sign a new sponsor in a few years). If you have the chance to sign longer deals, it will drive the yearly cost down.

4. Set of rights: Even when you narrow the scope of a deal, you still have the opportunity to limit the rights to what you really need. In most contracts of properties that involve live events, there is always a certain amount of free tickets and an allocation of tickets you can purchase at cost. If attending the events is not a priority, you can always move all the tickets to “purchased tickets”. The hard cost of tickets will reflect in a discounted sponsorship price. The same happens with media inventory. Larger deals –particularly the ones in the United States– come with media value in their proprietary networks (like the NFL Network) or in broadcasting media (like the bumpers pre-/post-UEFA Champions League matches). In many cases, it is possible to negotiate these assets down, allowing the rights holder to sell them to another sponsor or in the market (click on image to watch).

5. Joint sponsors: This innovative approach was best exemplified when The Coca-Cola Company and China Mengniu Dairy Company Ltd announce Joint Worldwide Olympic Partnership. This “First-ever Joint TOP Partnership Agreement Extended The Coca-Cola Company’s relationship with the Olympic Movement to a historic 104 years” while “Chinese dairy company Mengniu joined the family of Worldwide TOP Partners” (The IOC, The Coca-Cola Company and China Mengniu Dairy Company Ltd announce Joint Worldwide Olympic Partnership to 2032, 2019, para. 1).

Figure 20: Coca-Cola and Mengium logos



From *Coca-Cola y Mengniu cierran conjuntamente el mayor patrocinio de unos juegos olímpicos por 3000 millones de dólares*. Marketing directo. <https://www.marketingdirecto.com/anunciantes-general/anunciantes/coca-cola-y-mengniu-cierran-conjuntamente-el-mayor-patrocinio-de-unos-jj-oo-por-3-000-millones-de-dolares>

All the above negotiation strategies should be deployed together regardless of whether or not your company can afford a new sponsorship agreement. At the end of the day, your role as a sponsorship manager is to buy only what you need and pay only for what you are buying.

Conclusion

Doing the hard work before signing any new sponsorship is not only necessary: it is an obligation for every sponsorship team. A solid business case will guide you to make better decisions and conduct better negotiations. Once you know what you need and how much you can afford to pay, the conversations with partners become easier, more informed, and faster to reach an agreement. Good luck in your next negotiation.

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