

Financial and Economic Crisis – Law Firms

Sports Sponsorships: Another Bubble Burst?

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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. For example, General Motors has announced that it is slashing its promotional budget by 20 percent and one of the most well-known casualties is its \$7 million annual sponsorship of Tiger Woods. General Motors has also terminated its sponsorship deals with a number of major league baseball teams. NASCAR and Formula One motor racing, which are heavily dependent on sponsorships, particularly in the automobile sector, have been especially hard hit. Approximately one-third of financing of Formula One teams comes from corporate sponsorships. Honda walked away from its sponsorship of Formula One in December ending a 44-year involvement. A number of NASCAR teams have folded or merged together due to a declining number of sponsors. Once these dollars are gone they are difficult to replace, especially in a declining economy, with the net effect being a significant cut-back in the operations of the business.

Sports teams and leagues have also been affected by the declining sponsorship dollars (other than the New York Yankees, who seem to be in their own universe). The National Football League announced this month that it will fall at least \$50 million short of its projected revenue for this fiscal year, and as a result

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the NFL (viewed as one of the most profitable and well-run sports leagues) has laid off more than 10 percent of its employees. Newer leagues are even more vulnerable. The Arena Football League, which has been in existence for 22 years, announced recently that it is suspending its 2009 season and will undergo a corporate restructuring to become more financially secure for future years.

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.

Since many sports sponsorship deals are multi-year contracts that may not expire for a number of years (by when, hopefully, the economy will rebound), existing sponsorship deals are generally secure and sponsorship dollars will not dry up immediately. However, for individuals, teams or leagues looking for new contracts, the future is ominous. Sponsors are hesitant to enter into longer term deals and will certainly pay less for the sponsorship.

The risk for the sports industry and those who follow it is that a collapse in sports sponsorships could cause a downward spiral similar to the housing and credit bubbles. For example, television broadcasters who rely heavily on advertising may be forced to stop bidding so aggressively for the rights to broadcast sporting events. These broadcast fees, together with sponsorships, make up a significant source of revenue for sports teams and leagues, so a substantial decline in these amounts would adversely affect the industry. Team owners are also feeling the squeeze personally, as the financial crisis has put a dent in their portfolios, and in the case of the owner of the New York Mets, Fred Wilpon, who invested a large portion of his wealth with his childhood friend, Bernard Madoff, such investments have been lost. In addition, media groups such as the Tribune Company, owner of the Chicago Cubs, have recently filed for bankruptcy. Teams that are unable to offer the highest salaries will be unable to attract the best players and without the best players, teams will have difficulty winning. Losing teams will have a more difficult time attracting sponsors. It is a vicious cycle that is bound to have a lasting effect on how the sports industry has been operating during this sports bubble, which could be the next bubble to burst.

Please email the author at jsolomon@gibbonslaw.com with questions about this article.

Partners Notes

Gibbons And KPMG Among Recipients Of The 2009 Catalyst Award

Catalyst announced that Baxter International Inc., CH2M HILL, Gibbons P.C., and KPMG LLP are the recipients of the 2009 Catalyst Award, the annual award that honors exceptional initiatives from companies and firms that support and advance women in business. Of particular note, this year's Award-winning initiatives – the first pan-Asia Pacific initiative, the first initiative from the construction-engineering industry, an initiative central to a law firm's branding, and an initiative that engages all employees – reflect true innovation and the success of a customized approach.

Gibbons' initiative, The Women's Initiative: Driving Success Through Diversity Investment, has contributed to and continues to support a workplace culture that is flexible, innovative, engaging, and inclusive. It is embedded in the firm's business development strategy and has become critical to its branding in the marketplace. In 2007, The Women's Initiative generated more than six percent of the firm's annual revenue. Women currently hold 21.1 percent of equity director positions, and the number of women directors overall increased from 13 percent in 1997 to 19 percent in 2008. Women of color

directors increased from zero to 4.1 percent in the same timeframe. Women also chair three of the firm's nine practice groups.

KPMG's initiative, Great Place to Build a Career, is a comprehensive set of programs, resources, and benefits that has transformed the firm into an inclusive employer of choice that partners and employees, including women and people of color, consider a great place to work. In 2008, women comprised 18.2 percent of partners, up from 12.9 percent in 2003. Also, women of color represented 10.2 percent of managing directors, directors, senior managers and managers, up from 5.7 percent in 2003. Turnover among both women and men has decreased over the course of the initiative, dropping 36.3 percent for women and 24.5 percent for men between 2003 and 2008.

Baxter, CH2M HILL, Gibbons, and KPMG will present in-depth discussions on their initiatives at the 2009 Catalyst Awards Conference at the Waldorf=Astoria in New York City on March 31, 2009.

For more information about the 2008 Catalyst Awards Conference & Dinner, please contact Michael Chamberlain, 646-388-7770, mchamberlain@catalyst.org.

Ballard Spahr's Philadelphia Office Adds Prominent Litigators

M. Norman Goldberger, Matthew A. White, and Laura E. Krabill, formerly of Hingle, Aronchick Segal & Pudlin, have joined the Litigation Department of Ballard Spahr Andrews & Ingersoll, LLP as partners, along with Robyn D. Levitan as of counsel, in the Philadelphia office, Ballard Spahr Chairman Arthur Makadon announced recently.

M. Norman Goldberger concentrates his practice in a wide variety of complex commercial matters, including securities litigation, consumer fraud class actions, restrictive covenants, derivative actions, internal investigations, False Claims Act litigation, RICO litigation, and issues relating to the availability of insurance coverage for commercial litigation matters.

Laura E. Krabill concentrates her practice in general commercial and intellectual property litigation, including securities fraud, patent infringement, contract/business disputes and class actions.

Matthew A. White concentrates his practice on the protection of business identity, proprietary information and corporate structure. Mr. White has broad experience in commercial litigation, including in the areas of federal securities claims, class action defense, intellectual

property disputes, complex construction cases and mergers and acquisitions.

Robyn D. Levitan concentrates her practice in complex commercial litigation. She has defended clients against numerous class actions, including consumer fraud and securities actions, and also handles employment litigation matters.

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Lawyers and staff from the offices of Ballard Spahr Andrews & Ingersoll, LLP fanned across the Delaware Valley and other parts of the country on Martin Luther King Jr. Day to take part in service work in Philadelphia.

Ballard projects included training middle school students at Richard Allen Preparatory Charter School to resolve conflicts through nonviolence and doing arts and crafts with children from Project Home at the National Constitution Center. Other Ballard volunteers painted and cleaned community sites in Doylestown and Bristol, Bucks County, and helped with a "spring cleaning" at the Amnion Crisis Pregnancy Center in Bryn Mawr.

Tobey M. Daluz, co-chair of the firm's Diversity Committee and managing partner of the Wilmington office, said the holiday dovetailed with Ballard's efforts to improve diversity both internally and in the legal profession generally.

Day Pitney Partner Awarded Volunteer Of The Year

Elizabeth A. Alquist, a partner in Day Pitney's Hartford office, was recently awarded the 2008 Volunteer of the Year award for her service with the Connecticut Technology Council. Beth Alquist, co-chair of the Intellectual Property Department, is a trial attorney who represents a broad range of business clients in patent, trade secret, noncompetition,

trademark, copyright and Internet-related disputes, including ICANN proceedings. Beth is the past chair of both Day Pitney's women's initiative, Women Working Together, and the firm's Diversity Committee. Beth was also recognized by the *Hartford Business Journal's* 40 Under 40 in 2008 and as a Connecticut Super Lawyer in 2009, 2008, 2007 and 2006.