EXECUTIVE SUMMARY

IEG, in collaboration with Engine Shop, recently set out to survey the perceptions of top decision makers in sponsorship, and we received a great response with genuine feedback and information to help guide the industry forward.

THE VALUE GAP

Due to the COVID-19 pandemic, we estimate 38% of the annual U.S. sponsorship value ($10 Billion) will need to be made up. There are 120,000 active sponsorship agreements in limbo while we practice social distancing and more than 5,000 brands are faced with decisions on how to recoup lost value.

“The sponsorship market has reached the point of no return for fully capturing lost value based solely on the length of the ongoing stoppage. There are three likely scenarios for sponsorship reconciliation which include value forgiveness, value forbearance and value foreclosure. We expect to see all three of these scenarios play out.” Peter Laatz, Global Managing Director, IEG

Our survey showed properties are slightly more bullish on the opportunity to make up lost sponsor value. The disconnect comes in where brands are expecting refunds, while properties seem to favor extensions of term lengths. Some of the chaos during this time will lead to changes in the way sponsorship contracts are written going forward.

“This COVID-19 crisis will hasten the demise of one-size-fits-all agreements. In the short term, the true meeting-of-the-minds of partnership between sponsors and properties will not be evidenced by the paper they signed, but in their behavior towards each other to arrive at a resolution that is deemed fair by both sides. There is no templated equation that fixes the value gap caused by this pandemic. That is true now and will be true for the next grand force majeure. So the longer term pursuit of finding uniform language and a ‘path of least resistance’ for properties to make brands whole will prove elusive, as the comprehensive economic impact on each sponsor will, most likely, be unique. Establishing a contractual framework reconciling outcome predictability with relationship flexibility will have to be done artistically on a case-by-case basis.” Chris Handy, President, Engine Shop
The shutdown created by the global pandemic has also put a spotlight on how brands and rights holders often work together.

“Both sides have been too reliant on assets like signage and media that exist around the live event itself; instead the focus should be on how the two can work together to engage and add value to the community and fan base outside of a game day. If that partnership strategy is already in place, there’s no need to pivot when the play stops, only the need to develop new tactics and messaging.” Brian Gordon, CEO, Engine Shop

However, the difficult situation we are experiencing is spurring innovation and causing us to rethink what’s important. Social media, video conferencing, streaming and esports have taken on a more prominent more relevance.

“This is a turning point in linear / traditional television with brands embracing new formats and stay-at-home styles of production. Live sports are not going to be replaced by esports, but we do have great examples of sports and entertainment properties extending fan engagement on streaming platforms with crossover content in community settings. The properties that are quickest to innovate will dominate the conversation with fans whilst maintaining good relationships with partnered brands.” Jamie King, Executive Vice President, Esports, Engine Shop

**MINIMIZING LOSS**

The health and safety of family, friends, colleagues, customers and fans top concerns of sponsorship decision makers during the COVID-19 crisis. There are also strong concerns about organizational finances, job loss, reduced marketing/sponsorship budgets and the public’s willingness to travel and gather at sporting, music and performing arts venues.

Below is a snapshot of some of the feedback we received:

“When will society feel it is okay to attend large group gatherings? We just don’t know and that is the scary thing for our industry.”

“Corporate support and marketing resources will be significantly challenged for the next 12-18 months. I think this is especially true for ‘sponsorships’ more so versus media / brand driven investments.”

“In terms of marketing, we are very cautious about appearing tone deaf or being self-promotional during this crisis, so prefer to be very tight on messaging, that doesn’t always extend to sponsorships.”

“Big picture I think you will see more specific language in contracts around the definition of force majeure. Sponsors will want to have legally binding verbiage for when they receive refunds versus makegoods, what exactly makegoods will look like and timelines for delivery of those. I also think you’ll see a knee-jerk reaction to shift asset mixes toward social and digital activation, and other areas where there is less risk.”
THE FUTURE

Based on sponsorship decision maker feedback and our conversations with Engine Shop and IEG clients, here are some of the clear takeaways:

- Sponsorship spending is going to decrease or be re-evaluated
- There’s no consistent standard for sponsorship value gap resolution
- Brands expect to be made whole and properties are eager to deliver
- Sponsors prefer refunds, prorated agreements, contract extensions and risk-averse assets
- Rights holders want to provide makegoods and preserve sponsorship revenue
- Marketers will be under greater pressure to measure and demonstrate results
- The COVID-19 pandemic will change the way future partnerships are designed and executed

“In a very counterintuitive way, this global pause in sport may actually be healthy for both brands and properties in the long term - a great realignment. Brands are necessarily rethinking every sport investment from a value basis, and some properties won’t make the cut. Properties will have to look beyond the previous, often antiquated grant of rights to create new and more importantly, measurable, benefits for brands.” Terrence Burns, Executive Vice President of Global Sports, Engine Shop

THE LONG ROAD AHEAD

While most of us in the sponsorship industry would like to get back to normal yesterday, more than a third of sponsors and properties believe it will take longer than six months for sponsorships to be back up and running as they were before the COVID-19 pandemic. One thing is for certain, the sponsorship industry will never be the same.

IEG Outlook 2020: Forecasting the Future of the Sponsorship Industry was a survey of sponsorship decision makers across the U.S. and includes responses from the nation’s top sponsorship spenders and a cross-section of major rights holders across sports, entertainment, arts and social causes between March 26 and April 8, 2020. For all inquiries, please contact Tom Perry at tperry@iegworld.com or 312.500.9010.