JUNE 2014

Is sports sponsorship worth it?

Jeff Jacobs, Pallav Jain, and Kushan Surana

How much value is generated from sponsoring the World Cup? Or its superstars, such as Lionel Messi or Cristiano Ronaldo? Here are five metrics that are crucial to finding out.

The Fédération Internationale de Football Association stands to make $1.4 billion from sponsorship deals with 20 major companies during the World Cup in Brazil. That's 10 percent more sponsorship revenue than from the last World Cup, in South Africa.[1] Although significant, that's still far below US corporate spending on sports sponsorships, which grew to an estimated $20 billion in 2013—equal to one-third of total US television advertising and one-half of digital advertising.

Considering the huge amounts involved, you would imagine sponsors of athletes and events have clear answers when asked about their return on investment (ROI). You would be wrong. Industry research reveals that about one-third to one-half of US companies don't have a system in place to measure sponsorship ROI comprehensively. And that's costly in another way: in our experience, executives who implement a comprehensive approach to gauge the impact of their sponsorships can increase returns by as much as 30 percent.

Scoring sponsorships

To manage sponsorship spending effectively, advertisers must first articulate a clear sponsorship strategy—the overall objective of their portfolio, the target demographic, and which stages of the consumer decision journey (awareness, consideration, purchase, loyalty) sponsorships can support.[2] Companies should then implement a complete marketing ROI program based on five metrics to measure the performance of sponsorship spending:

1. Cost per reach. Marketing executives should evaluate cost per reach—the number of people exposed to the sponsorship in person as well as through media such as TV, radio, and print—on a quarterly basis using data from internal sources or the sponsorship agency. Costs include not only rights fees but also activation costs (for example, promotional booths and merchandise) and advertising. Reach calculations should favor exposure to the target demographic over total numbers.

[1] Débora Montesinos, "FIFA to reap US $1.4 billion in sponsorship revenues from Brazil 2014," *Portada*, January 27, 2014, latam.portada-online.com.
[2] David Court et al., "The consumer decision journey," *McKinsey Quarterly*, June 2009, mckinsey.com.

To monitor worldwide sponsorships using cost per reach, one retailer built a database using cost and reach data from its agency, the sponsors, and publicly available sources. Analysis revealed that 15 percent of its properties were twice the average cost per reach as others. Some sponsorships (such as a premier sports team) had high costs while others (a music concert, for instance) delivered low reach. The database also identified the sponsorships that did not reach the advertiser's target demographic. With these insights, the company reallocated its sponsorship dollars to better vehicles that increased overall reach by 20 percent at the same cost.

2. Unaided awareness per reach. We find that companies often spend a lot of money acquiring sponsorship rights but very little on activation—that is, marketing activities such as promotional booths and merchandise to promote the sponsorship. Our experience, as well as IEG research from 2011, shows wide variance: for every $1 spent on sponsorship rights, companies devote anywhere from $0.50 to $1.60 to activation. That means many corporations skimp, missing huge opportunities to magnify a sponsorship's impact on sales or awareness. One US consumer-packaged-goods company, for example, allocated 80 percent of its sponsorship budget to rights fees and only 20 percent to activation. After analyzing its efforts, it found that increased activation resulted in greater unaided awareness and higher brand recall. With this insight, the company shifted resources from its low-performing properties to increase activation for its standout sponsorships, increasing unaided awareness of them by 15 percent.

3. Sales/margin per dollar spent. Linking sales directly to sponsorships is typically challenging, but two approaches can help to quantify it. The first is a two-step approach that ties spending on sponsorships to key qualitative marketing measures such as unaided awareness, propensity to buy, and willingness to consider. It then tracks the impact of each variable on short- and long-term sales. The second approach, based on econometrics, uses data on spending and reach (among a host of other media variables) over an extended period to establish links between sponsorships and sales, and then isolate the impact of sponsorships from other marketing and sales activities.

A handset manufacturer, for example, followed the first method, setting up a quarterly consumer survey to measure the impact of sponsorship on sales. By conducting advanced analysis on the data set, the company was able to identify the sponsorships that were truly driving consumer willingness to consider the company's products, which it then linked to sales. The analysis showed a tenfold ROI difference between the top-quartile and bottom-quartile sponsorships. The company now uses this method to help with negotiations during yearly reviews of its sponsorships.

4. Long-term brand attributes. Sponsorships have the potential to reach beyond short-term sales to build a brand's identity. Brand strength contributes 60 to 80 percent to overall sales,[3] making this benefit critical for sustained, long-term sales growth. A qualitative assessment or survey can help companies identify the brand attributes that each sponsorship property supports. Analysis

[3] Thomas Bauer, Jonathan Gordon, and Dennis Spillecke, "The dawn of marketing's next golden age: $200 billion and counting," *McKinsey on Marketing & Sales*, November 2013, mckinsey.com.

of those results helps marketers determine which sponsorships are reinforcing a common brand theme. The handset manufacturer above used surveys to determine that a number of its sponsorship properties were misaligned with the brand attributes it wanted to convey—some actually had a negative ROI. The advertiser shed the poor-performing sponsorships and developed new messaging and activation plans for the others.

5. Indirect benefits. Sponsorships may stimulate indirect sales—for instance, when advertisers host executives at sponsored events or when they're part of a balance-of-trade commitment. Therefore, any analysis of sponsorships must also account for these indirect benefits. Companies often either neglect or overestimate these sources of revenue when calculating ROI. A financial institution, for example, used its sponsorship of a golf tournament to host clients for its wealth-management business. Analysis revealed that the impact of the tournament on indirect sales covered the sponsorship costs, making it one of the most effective sponsorships in its portfolio.

• • •

Sponsorships have become an integral component of marketing strategy. Yet many companies still do not effectively quantify the impact of these expenditures, even for events requiring significant spending such as the World Cup. A systematic commitment to a menu of analytics approaches allows executives to identify sponsorships that create value as well as those that don't live up to their names.

Jeff Jacobs is a principal in McKinsey's Chicago office, **Pallav Jain** is a principal in the Atlanta office, and **Kushan Surana** is a consultant in the New York office.