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Sponsorship in a Scary Economy

by Kim Skildum-Reid

As I wrote this, a US $700 billion Wall Street rescue package was introduced, defeated, reworked, and finally approved, with no guarantee it will work. Hundreds of billions have been wiped off global markets. Companies are failing – BIG companies.

Businesses of all sizes are being crippled by the cost of finance. Foreclosures are skyrocketing. Retirement accounts are plummeting. A lot of people are panicking. No one really knows what is going to happen, how fast, and if there is anything that can be done that will change the eventual outcome. In short, it's ugly out there. Really ugly.

Most corporations are not in imminent danger of the whole company collapsing, but many are talking about big cutbacks. In the past, sponsorship has continued to grow in times when marketing and advertising spends have dropped, but I wouldn't bet on that being the case. In fact, I don't think there is a single scenario that I would bet on at the moment. Uncertainty rules, and it's very hard to make strategic decisions when the entire global economy is sitting on a knife's edge.

So, what's a sponsor to do? Do sponsorship seekers need to be changing their strategies? Honestly, I don't know what is going to happen anymore than anyone else. What I do know is that we should all be prepared for leaner times and form strategies and fall-back positions if that happens.

Scary economy basics for sponsors

If you're like most sponsors, you have a portfolio with at least some of the following characteristics:

- Your biggest expenditures are tied up in multi-year deals
- Most of your sponsorships revolve around a standardised benefits package (logos, tickets, hospitality, and endorsement)
- A significant portion of your sponsorships are underperforming
- A proportion of your sponsorships could only be classed as dead wood

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- You have a significant leverage budget, typically 50-150% of your spend on sponsorship fees (but I've seen a lot more and a lot less)
- You have a community/charity portfolio that is largely un-leveraged

If any of this looks familiar, I have some good news: There is no need to panic. You can get better results from your sponsorship portfolio and probably spend less doing it.

Managing mandatory budget cuts

What if you're told by the powers that be to cut all marketing-related budgets by 20%? Or cut sponsorship by 30%? Is that wise? Realistic? Even possible? That depends.

What does your budget look like?

The first consideration is the proportion of your sponsorship budget that is tied up in multi-year contracts. If 90% of your budget is committed to paying the rights fees for sponsorships with a year or more to run in their contracts, your options for reducing your sponsorship budget are going to be very limited.

The second consideration is the amount you currently budget for leverage. If you are spending another 50% or 100% or 200% of the amount you spend on rights fees to leverage the sponsorship, you definitely have some scope for cost reduction. I'm not for one second saying that you should leverage less – in fact, I think most sponsors are not leveraging enough – but there are a number of techniques that will allow you to leverage more effectively at a much lower cost. Using those techniques (see below for more on these), most sponsors could reduce their incremental leverage spend to 15-20% of their investment in rights fees.

Wisdom vs convention

Okay, so let's just say that you have a lot of budget tied up in multi-year contracts and that you are already leveraging very cost-effectively. In that case, there is little scope for cost reduction, but that's not necessarily a bad thing.

While I'm not a believer in spending your way out of trouble, I think companies should think twice before cutting the guts out of their sponsorship programs.

When sponsorship is done poorly, there really isn't any faster way to waste money. When it is done best-practice, however, there is no more powerful marketing media than corporate sponsorship. It's flexible, creative, creates and underpins authentic relevance with your target market, and provides an unparalleled opportunity to add value to your relationships with those markets. No other media can do all of that.

When looking at marketing cuts, I strongly suggest that you make the deepest cuts in the marketing areas that are providing the lowest returns – that is, being least effective at changing the perceptions and behaviours of your target markets, hence, making you the least amount of money.

If sponsorship isn't delivering and probably won't – a situation most likely caused by poor selection, management apathy, or both – then by all means, put sponsorship first on your list for budget cuts It might be a blow to the ego, but you probably shouldn't have been doing it in the first place.

On the other hand, if your sponsorship program is delivering real returns, or if the only thing standing in the way of those big returns is some best-practice education and inspiration, then stick with it. Invest in some staff training or coaching, if required, but don't abandon the most flexible, creative, personally relevant, and emotional salient marketing tool you have.

Audit your portfolio

I'm a big fan of portfolio audits, in general. Doing a thorough audit will tell you what is and isn't working in your sponsorship portfolio, what *could* work if it were approached or leveraged more effectively, and what *could* work if it were renegotiated. All up, it's a worthwhile endeavour, even in good times. In uncertain times, however, it is an absolute necessity.

Auditing has aspects of cost savings, through cutting out non-performing sponsorships, but will also identify areas where you can get much better returns for your investments. In an audit, you will examine every investment in your sponsorship portfolio against the key areas of fit:

- Is it relevant to a significant segment of our target markets?
- Is it a natural fit with our brand attributes and values?
- Does it provide the tools (benefits and information) we need to meet our objectives?

Auditing also looks at the portfolio as a whole, working out if there are any significant deficiencies, overlaps, or holes.

From this audit process, you would divide your portfolio into four groups:

- **No hope** - These are sponsorships that have no hope of ever working for your brand. They should be exited at the end of the contract and no effort should be made to leverage them for the duration of the contract. That's just throwing good money after bad.
- **Renegotiate** – Renegotiating better or more appropriate benefits can happen at renewal time or during the term of the sponsorship. Mid-term negotiations can result in better benefits, but you are unlikely to negotiate to a lower level.
- **Commit to improved leverage** – If a sponsorship has the right fit, but is not being leveraged thoroughly or creativity, there is a lot of scope for improvement.
- **Leave alone** – These are performing and don't need any major changes, aside from a regular freshening up, to keep performing

It would be remiss to say that this audit overview is anything other than a gross oversimplification of a multifaceted process.

Embark on a strategy of ambushing up

Before you get the wrong idea, this recommendation is not about embarking on a strategy of ambushing events you don't sponsor. Rather, this is about reconsidering whether you really need naming rights or a major sponsorship, considering lower level sponsorships, and leveraging them so well that you look like a much bigger sponsor than you really are – in effect, "ambushing" the bigger sponsors.

I believe many sponsors invest at a higher level than they really need, often driven by some combination of the misguided belief that it's visibility that provides the results (it's leverage that provides the results) and corporate ego.

I am a proponent of this strategy, even in good times, as it is really just based on the concept of making the absolute most of the investments you have. That's never going to be a bad idea.

In lean times, however, rethinking whether you are paying for a bigger package than you really need to achieve your goals is essential. The answer may be that you need the full compliment of benefits at that high level to provide you with the best platform for leverage. On the other hand, you may decide that a sponsorship that costs you half or a third as much, but is leveraged thoroughly and in line with best practice, is more appropriate.

As we are talking about a shift in the cost of the sponsorship fee, it is unlikely you will be able to renegotiate to a lower package in the middle of a contract. You should be asking the question with potential new investments.

It's also an appropriate strategy at renewal, if you believe you have been investing at too high a level, but be prepared for pressure from your partner, who won't want to lose the revenue. If it degrades to the partner threatening to sell the major sponsorship to your competitor – thus blocking you out – if you don't renew at the higher level, try to keep your strategic focus.

There are investments that will make sense for your brand and in the current economy at one dollar amount, but don't make sense at twice or three times the amount. Leave your ego at home and play your own game. Just because your competitor might be willing to pay doesn't make it a more strategic or cost-effective investment for your brand.

Renegotiate

In a scary economy, renegotiating will be one of the best and fastest ways to improve the performance of your investments. This could happen as the result of a formal audit process or as a general strategy to improve results from current investments.

When renegotiating, the key is to start with the big idea. Take away all the rules, history, and budget constraints – at least for the duration of the brainstorm process – and hold a group brainstorm around the following key question:

If we could do anything we wanted with this sponsorship, what would we do to achieve our objectives and add real value to our relationships with target markets?

Assume for the moment that you could get anything you wanted from the event and that nobody – not the event and not your senior executives – would tell you "no". Let yourselves have the big, crazy ideas. Get other departments involved, creating buy-in and shared vision. After a bit of vetting out, the result will be a creative, thorough leverage plan.

Alongside that will be a list of benefits you will need from the event to make it happen and, most likely, another list of benefits you're getting from the event that do not support what you are really trying to achieve. This will be your renegotiation plan.

This strategy works extremely well during the renewal process, where it can create additional value at the same time it signals a new era for that sponsorship relationship. It can also be applied to new sponsorships, ensuring that you know what you will do with the sponsorship, and what you need in order to achieve that, before making any commitments.

Where it can get a bit tricky is when you renegotiate during the term of a contract. It is absolutely doable, but I recommend the following:

1. Go in with the reassurance that you are not trying to reduce your financial commitment (that would be unlikely to happen, anyway).

2. Make it clear that your goal is to get the most out of this sponsorship, but that you don't think the benefits you are currently getting are the most appropriate for your needs.
3. Take your lumps. Admit that you haven't done the best job of leveraging the sponsorship, but that is going to change, but they need the raw materials – the benefits – to support that initiative.
4. If they seem at all reticent, you may want to add that times are tough and that you will need to be ruthless at renewal time. If this sponsorship continues to underperform, it will be unlikely to be renewed.
5. Be fair. Do not expect additional benefits without giving some back. You are exchanging benefits you don't need for benefits you do, not demanding freebies.
6. Make it good for them. The results of this process should be a highly leveraged, creative sponsorship operating at peak performance. This is as good for them (it's a living case study of why it's good to sponsor them) as for you. But go the extra yard and ask if they have any marketing initiatives that they're working on. It's quite possible you can help them to achieve one or more of their goals while achieving yours.

Leverage smarter (and cheaper)

This parallels the process outlined for renegotiation.

By going through a creative, collaborative process for leverage planning, you will be building buy-in across a broad swath of departments, while gently educating those key department staff about the power and possibilities that sponsorship can bring to their own activities. That is the key: Sponsorship can and should be a catalyst to make your other activities more effective.

Cost-effective sponsorship requires a high degree of internal buy-in across multiple departments, regions, etc. If you can't get a commitment to use the sponsorship by a variety of areas within your company, you don't have enough buy-in to cost-effectively continue the sponsorship.

The best sponsors ensure they have that buy-in, belief in the sponsorship, and commitment to creative leverage *before* committing to a contract. Those sponsors have incremental leverage budgets of 10-15% of the amount they are spending on sponsorship fees. But given the degree of integration they have, the dollar value of the activities that are affected and improved by the sponsorship would be many times that amount.

The exception to this very miserly take on leverage budgets is war-chesting for major, quadrennial events. The platform is so much bigger that for those, it is entirely appropriate to spend incrementally. That said, the preponderance of sponsorship portfolios would not have any sponsorship investments in this category.

The upshot is that, for most sponsors, the biggest, best option for budget cuts is in the leverage budget, provided the approach to leverage is shifted to best practice – that is, creative, thorough, cross-departmental, and target market-driven.

Invest in up-skilling

I know times are tough, but this is an area where you may want to consider investing a small amount of money.

If you want to significantly improve the performance of your portfolio and renegotiate underperforming sponsorships and minimise your sponsorship budget, it will require moving to an approach that is 100% best practice. No compromise. Any old-school techniques or strategies that you, your colleagues, your companies, or your partners want to hang onto are highly likely to cost you performance and money.

What this means is that everyone needs to be on the same page, understanding at least the basics of best practice. This will require up-skilling a broad range of people, and while you may be totally capable of doing this education yourself, many companies have a culture of not listening to internal experts, but paying attention to external experts. If that's the case, investing in a top quality trainer is money very well spent.

Best practice sponsorship training will provide the following results:

- Your colleagues will be able to see how sponsorship can be a powerful tool to achieve their goals.
- Your colleagues will be prepared to engage in the process of portfolio redevelopment.
- Your colleagues will be able to identify sponsorships that are never going to deliver, as well as those with huge potential

- They will let go of their outmoded understanding of how sponsorship works and immediately replace it with the more strategic (and sensible!) best practice approach
- Your partners will be more creative, responsive, and understanding of your strategic needs

As a very first step, you may want to distribute the free PDF article, *"Last Generation Sponsorship"*, to your colleagues and partners. This article will give them a strong idea of what best practice sponsorship is about and set the stage for you to start getting them involved in revamping your company's approach.

Exit gracefully

Sponsors decide not to renew sponsorships all the time. The difference now is that the number of exits is likely to increase and the impact on the sponsee is likely to be greater.

I am not recommending that you should be anything less than shrewd with your decisions – if a sponsorship needs to go, then it needs to go. I am, however, recommending that you take the economic situation into account and conduct your exit just as kindly and gracefully as you can.

First and foremost, let your partner know you won't be renewing just as soon as you know that will be the case. This will allow them the greatest possible time to find another sponsor or put other plans into place to make up for the lost revenue.

Second, be truthful. Tell them why you are not renewing and don't put all the blame on them. Whether it wasn't a good match, you didn't get internal support, it's just run its course, or whatever, your company probably had a great deal to do with whatever put this sponsorship into the "do not renew" basket. By the same token, if their lack of creativity or servicing or what-have-you was also a factor. Let them know. I put this in the cruel-to-be-kind category.

One of my favourite strategies when doing any difficult exit is to offer to underwrite some training for them. If better skills are going to help them to replace your sponsorship, a small investment in sending a key person to a workshop or industry conference may be extremely helpful.

In some very difficult exits, you may want to go all out and provide an exit grant, which they can put toward the costs of a strategic consultant or start-up costs with a good broker.

Scary economy basics for sponsorship seekers

Sponsorship seekers can be wildly different on the surface – from pro teams to religious charities, confronting art exhibitions to junior soccer, industry associations to schools programs – but my experience is that, when it comes to sponsorship, the vast majority of sponsorship seekers have a lot in common.

- A significant portion of your sponsorship portfolio are committed year-to-year, or event-to-event and some sponsorships may not have any formal agreement at all.
- Between year-to-year sponsors and multi-year sponsorships ending, you have a lot of sponsorship money to renew or replace in the next 12 months.
- Your sponsorships are based mainly on a set package of benefits for each of several levels.
- The economic situation is likely to impact your other sources of income – lower ticket sales, donations, etc – and for some charitable and community organisations, may increase the need for the services you provide.
- You have secretly wondered what your sponsors are actually getting out of their sponsorships.

Here is the bad news: There is every chance your sponsorship revenue will drop in the short to medium term, even if you do everything right. It may not, and I hope it doesn't, but I don't want to come off like I'm offering some panacea – guaranteeing that you will thrive – because I can't. What I can offer is some advice that will make you more likely to keep your current sponsors, more likely to attract new sponsors, and more likely to sustain or even raise your sponsorship revenue.

Here is the good news: Even if the next couple of years are hard, if you implement the advice here, it will probably be a lot better than if you don't, and (big, big bonus) you will be much better placed to benefit when the world financial situation stabilises and starts to improve.

Offer to renegotiate

If you read the advice for sponsors, you already know that renegotiation is something that can really help sponsors in tough times.

The bottom line is that most sponsorship packages haven't changed much over the past decade or so. They're not creative, they're not based on the specific needs of individual sponsors, and are probably ruled by some strict, hierarchal structure that has more to do with history than strategy.

Sponsees keep rolling out these packages, but sponsors have kept buying them, so this isn't about blame. It's about creating more value for everyone. So here's the challenge: If it gave your sponsors what they really need to achieve their objectives, if it made your sponsors happier and more likely to renew, would you be prepared to wipe the current slate of benefits you're offering and start over?

If the answer is yes (and I'm hoping it is), there are two main steps you need to take:

Find out what you really have to offer

You're probably limiting yourself unnecessarily – offering some combination of logos on things, tickets to things, some kind of hospitality, and some kind of official designation. Newsflash: No matter how many of these things you offer in a given package, it's never going to be the basis of a truly great sponsorship program. Your job now is to take inventory of what you really have to offer, and the results may stun you.

To give yourself the greatest possible degree of flexibility, you should create an inventory of every benefit your organisation has to offer a sponsor – every event, every communication, everything. To give you a big running start, you can download a free copy of the Generic Inventory from Power Sponsorship. It can also be found in *The Sponsorship Seeker's Toolkit Third Edition*. It's a big list. Your goal is to remove anything you absolutely can't do, leave anything you could do if someone paid you enough, and add things you think of along the way. It should still be a big list.

Find out what your sponsors really need

The recommendation here could not be simpler: Ask them.

- Ask them to describe the specific kinds of people they are targeting? What lifestyles, priorities, motivations?
- Ask them how they want to change how those people perceive their brand(s)? What do they want them to know, believe, feel, or understand?
- Ask them how they want to change how those people behave around their brand(s)? What do they want them to do? Choose their brand more often, try it for the first time, recommend it to others, or something else entirely?
- Ask them what they would do with this sponsorship to help achieve those goals, if they could do anything at all? If they don't know, or it sounds uninspired, offer to work with them on a brainstorm and do the renegotiation exercise outlined above for sponsors.

One note on mid-term renegotiations: Although some might say that changing a contract during the contract term isn't a good idea, I don't agree. I'm not suggesting you shorten the contract and I'm not suggesting that you should lower the contracted fee. All I am saying is that you should strongly consider offering a more creative, strategic, and flexible benefits package within the current financial framework.

Give them leverage ideas

If you have a sponsor that suffers from a chronic lack of creativity or, worse yet, doesn't leverage at all, one of the ways you can make yourself most valuable to them is to provide creative ideas for leverage.

This isn't difficult, and I've already told you how to do it. Leaving the sponsor out of the equation for a moment, get a team of people together within your own organisation and do the renegotiation/leverage exercise on their behalf. Feed the best ideas back to them and indicate that, should they decide to go ahead with any of those ideas, you are prepared to renegotiate for the benefits to support them.

Offer incentives for multi-year deals

If you've got a number of sponsors on year-to-year or event-to-event contracts, now is a good time to discuss multi-year deals. For instance, you could offer a 15% discount per annum if they shift from a one-year to a three-year contract. What you are losing in revenue, you are making up by stabilising your cash flow over the longer term.

This isn't always going to work. For instance, if you have a fast-growing event, you probably want to allow for raising the price along with the growth, so you might stick with annual contracts or could sign a longer contract that locks in a certain amount of growth (a positive for a sponsor who sees long-term value in your event). On the other hand, you may have sponsors who don't want to commit for longer, as they are unsure of their budget situation, going forward.

This is one of those things you're going to have to feel out. For some sponsors and some events, this can be a strong approach. For others, it's not appropriate.

Make the best of a bad situation

If it is the end with one or more major sponsors, there are a few things you can do that may help you going forward.

Ask for a reference

If you have had a good relationship with a departing sponsor, ask them if you can use them as a reference for potential other sponsors. Just because it wasn't right for them doesn't mean it won't be right for someone else, and a reference saying that you're responsive and easy to work with could be the difference between "yes" and "no".

Ask for referrals

While you're asking for that reference, ask the departing sponsor if they know of anyone you should be speaking to. A lot of sponsors know each other, so they may be able to put you in touch with someone more appropriate.

Ask for help

If the departure of a major sponsor is going to cause a lot of strife, you could ask them for some assistance. Departing sponsors have been known to ease the transition by providing funding for quality sponsorship training, consulting, or even the initial fee for a sponsorship broker.

Develop "Plan B" revenue streams

I wholeheartedly believe that you should undertake as many of the aforementioned strategies as you can. That said, there is no guarantee that you will hit your sponsorship targets, so you need to implement a Plan B for improving your non-sponsorship revenue, just in case.

What should you do? That's a real how-long-is-a-piece-of-string question, but I think the best approach to developing your Plan B is to really understand your target markets and commit to developing revenue-generating programs that meet their needs. That seems like a very obvious answer, but I am constantly astonished at how few organisations really do this, thus, how much scope there is for improving their bottom line.

A lot has changed in the world and people's lives over the past few years. People are having kids later. People are living longer. Retirement now equates to a whole new age of freedom and fun (the state of retirement accounts notwithstanding). Travel gets more expensive and less convenient all the time. Finances continue to be a big factor in entertainment and charitable choices. The list goes on and on.

If your organisation's offerings haven't kept pace with these kinds of changes, you may be able to find new income by developing new programs that answer specific economy- and lifestyle-driven issues. Just to get you started…

- You could create cheap Tuesdays or child-friendly events.

- You could encourage your sponsors to do a donation matching program with their staff.
- You could use your organisation's credibility to create great programs for a novice market. For instance, my four-year old attends the fun Cubby House Club program – one of the many children's programs that Australia's National Institute of Dramatic Arts puts on during school holidays. NIDA alum include Cate Blanchett, Hugo Weaving, and Judy Davis, so it's not exactly the first place you'd think would offer a program for pre-schoolers!
- If it looks like fewer people will be attending your conference, you could scrape back some of that income by offering an online version of the conference at a somewhat lower price. This may also appeal to a different conference market: Those who are not interested in the travel and networking, but may want the content.

Here's the kicker: It will take some time to get your Plan B going, so you should start implementing it now, not a few months down the track when your sponsorship picture become clearer.

Get Zen about it

At some point, you need to just accept that things may be difficult for a while and try not to take it personally.

You may be the best event in your category. You may be the most essential community service. You may have the best bands, be the fastest growing sport, or be the only membership organisation in your industry. But that doesn't stop you being dead wood if what you do is a poor fit, or even just an imperfect fit, for a particular sponsor's needs when they have to make hard decisions.

Rejection is awful. It's never nice to hear that a company doesn't want to sponsor you anymore, or wants to sponsor you at a lower level. You're passionate about what you do, and why wouldn't you be? But that can get in the way of objectivity. They're not doing it to hurt you and you may well have made the same decision in their shoes.

The silver lining

I am please to say that, despite what will no doubt be a difficult time for this industry, the eventual result will be outstanding.

Sponsors will be running portfolios that are highly and creatively leveraged, portfolios with almost no dead wood, portfolios with minimal incremental leverage budgets but maximal leverage results. They will be making better decisions and approaching the media in a much more holistic fashion. They will understand that meeting customer needs and gaining internal buy-in are prerequisites to achieving brand needs.

Sponsorship seekers will stop relying on hierarchal packaging and will shift to individualised, responsive, creative opportunities for the companies who sponsor them. They will work with sponsors to ensure they are getting a good result, not just sit back and be thankful that someone wrote them a cheque. They will rationalise their own portfolios, working with fewer, larger, more engaged sponsors.

It is absolutely true to say that there are a lot of sponsors and sponsorship seekers that are already operating at this highly strategic level, but there is also no question that they are in the minority. I wholeheartedly believe that this level will become the norm for the whole industry. It's just unfortunate it takes a financial crisis of this magnitude to turn truly strategic thinking into a necessity.

If you liked this article, please feel free to pass it along. You may also be interested in…

- *The Sponsorship Seeker's Toolkit 3rd Edition* by Kim Skildum-Reid and Anne-Marie Grey, published by McGraw-Hill and available at good bookstores.
- *The Ambush Marketing Toolkit* by Kim Skildum-Reid, published by McGraw-Hill and available at good bookstores.
- *The Sponsor's Toolkit* by Anne-Marie Grey and Kim Skildum-Reid, published by McGraw-Hill and available at good bookstores.
- Kim Skildum-Reid's Corporate Sponsorship Blog – Filled with advice, how-to, and opinions that most other industry pundits wouldn't dare commit to cyberspace, you are sure to find something useful in Kim's blog.

- Free Stuff – A collection of free templates and white papers, all downloadable free and with no sign-up from Power Sponsorship.
- Kim Skildum-Reid also offers sponsorship coaching, workshops, webinars, and in-house training for sponsors and sponsorship seekers, as well as strategic consulting for corporate sponsors and government. Contact Kim and her team on admin@powersponsorship.com for more.

If you have any questions, a gripe, or would otherwise like to reach Kim Skildum-Reid, feel free to drop her a line on kim@powersponsorship.com.