The Impact of International Football Matches on Primary Sponsors and Shareholder Wealth

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Introduction
Corporate sponsorship plays an increasingly crucial role in sports, art, cause, and entertainment organizations. IEG Sponsorship Report announced that global sponsorship spending in 2013 will be $53.3 billion dollars, a 4.2% increase over 2012 (IEG, 2013). Typically, sports properties rely on these sponsorships for the generation of revenue and marketing alliances. Sponsoring firms depend on the sponsorship for the ability to reach a targeted audience by increasing consumer awareness, improving employee morale, and establishing goodwill (Mishra, Bobinski, & Bhabra, 1997).

Sponsorship has been defined as “a cash and/or in kind fee paid to a property…in return for access to the exploitable commercial potential associated with that property (Ukman, 1995, p. 1).”

A sponsor for the purposes of this paper is a company that has purchased the right to advertise their brand on the shirts worn by the club’s football players during competition. The sponsor is assumed to be the official provider of their particular good or service, e.g. LG by virtue of their shirt sponsorship of the English Premier League team Fulham is the club’s official partner in the mobile handset and consumer electronics categories.

While the academic literature on sponsorship-linked marketing is still relatively underdeveloped, some scholars have begun to shape this field. For example, Cornwell, Weeks, and Roy (2005) introduce a consumer-focused sponsorship-linked marketing communications model that combines theorized sponsorship outcomes with market and management factors as well as individual and group level factors. This serves as a conceptual basis for much of the empirical work regarding sport sponsorship.

While there are numerous studies of the effects of sponsorship on firm performance, almost all of them are in a domestic context. In this paper we examine the internationalizing aspect of sponsorship on shareholder wealth, i.e. the impact that international football (“soccer” in US parlance) matches have on the stock market returns of the sponsoring firms. We use an event-study approach in the manner of Cornwell, Pruitt, and Clark (2005) and Clark, Cornwell, and Pruitt (2009) to measure the cumulative abnormal returns (CAR) to shareholders after 139 separate football matches. For robustness, we employ several different event-study methods: (1) a simple market return adjusted method, (2) an OLS market model return adjusted method, and (3) the Scholes-Williams variation of the simple OLS market model return adjusted method.

Data
Our sample is comprised of a hand-collected dataset of football teams and their corresponding primary sponsors (or “shirt sponsors”) for a sample of European football clubs. The clubs in the sample are chosen based on Deloitte’s “Football Money League” report (Deloitte, 2013) which identifies the highest earning football clubs. The teams in the study represent four leagues - the English Premier League, Italian Serie A, Spanish La Liga, and German Bundesliga. The top teams from the past five years of Deloitte's survey were chosen for inclusion in the study. These teams represent the most valuable sponsorship opportunities within the sport. For each team a search was done to identify any international matches played and the associated dates and locations of the matches. These international matches serve as important marketing events for the teams and the leagues. This international exposure also serves as important marketing events for the teams’ and the leagues’ major sponsors.

Empirical Method
Data on the cost of marketing sponsorships is often not publicly available. Even more difficult to ascertain is the
revenue generated specifically from these sponsorships since it may be impossible to separate revenue generated from the sponsorship from general company revenues. Thus, consistent with much of the prior literature (e.g. Cornwell et al., 2005, Clark et al., 2009), we conduct an event study to determine the impact of sponsorship on firm value. The significance of using the event study method is that it allows us to measure the market’s assessment of an event’s impact on the company from the perspective of net present value. When an event occurs, the market assesses how that event will affect the net present value of future cash flows to the company. If future net cash flows are expected to increase due to the sponsorship, then the effect of this increase will be reflected in the new, higher market price of the company. And this is exactly what should be important from the perspective of sport managers as the effect on shareholder value is what ultimately matters.

Findings
The most significant takeaway from our analysis is that sponsoring firms do see abnormal returns of up to 2.24% ten days after the international match, and abnormal returns of up to 5.03% twenty days beyond the sponsored competition. Unlike the typical event study in finance, where the effect on stock market returns is experienced in the days immediately surrounding the event, the longer time frame reflects a “marketing brand return”, where the firms sponsoring the international football match first build brand awareness and then financial markets reward this brand-building. This finding corroborates recent research about unconscious information processing (Barth, Clement, Foster, & Kaszkik, 1998; Hyman & Mathur, 2005) and is similar to a finding by Clark et al. (2009) for NASCAR race sponsorships.

Additionally, we find that the overall pattern of abnormal stock returns is observed for individual football leagues. We study the English Premier League, Italy’s Serie A, Spain’s La Liga, and Germany’s Bundesliga. The positive effect of firm sponsorship of international football matches on stock market returns generally holds across leagues. The exception is the German Bundesliga subsample, which has significantly fewer observations than the other three.

Finally, there is evidence that it pays to back a high-profile football club. Even in the top professional football leagues, some clubs have more cache than others, e.g. FC Barcelona v. Sevilla FC in La Liga. Sponsoring an international match where one of the three highest-exposure football clubs is playing has a positive effect on the stock returns of the sponsoring enterprise.

Based on our results, the managerial implication is that these partnerships can be mutually beneficial. Firms looking for sponsorship opportunities in the sports realm, or firms with existing football club sponsorships looking to expand marketing opportunities, should strongly consider these international football tours, especially for high profile clubs. Our evidence suggests that firms’ key stakeholders value these specific sponsorship opportunities as these tours provide an opportunity for the sponsoring firm to reach a specific target audience. At the same time, due to this value created for the sponsoring firm and the ever-growing popularity of the sport, football clubs may be able to leverage larger sponsorship contracts in the future.