Stealing from a rival: The financial implications of switches among official status league sponsors

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INTRODUCTION

- Building on prior research on the effects of firms securing large scale sponsorships from direct competitors (Bouchet et al., 2015), a heterogeneous and longitudinal dataset was compiled that spans nearly 150 different exclusive sponsorships of major North American sport leagues from 2006-2019, with data collection ending at the start of the COVID-19 pandemic
- This study examines the financial implications on brands and market reactions following shifts in which a direct competitor wrestled a sponsorship from another; Preliminary results indicate a positive market reaction from these announcements, consistent with the results from Bouchet et al. (2015)

THEORETICAL FRAMEWORK

- Prospect theory (Kahneman & Tversky, 1979) identified loss aversion as a way to explain decision-making under uncertainty; Further, the endowment effect (Thaler, 1980) refers to the asymmetry in value people place on the same object when they sell it versus when they buy it
- While many phenomena from behavioral economics have been proven difficult to replicate and prospect theory may not apply in every context, it a theory that has largely stood the test of time
- "Prospect theory is among the most influential frameworks in behavioural science," wrote Ruggeri et al. (2020), who successfully replicated for 94% of items in a multinational study of 4,000 participants in 19 countries
- Notably, prospect theory is typically applied to consumers and has rarely been applied to B2B and/or firm decision-making

RELEVANT HYPOTHESES

- Loss aversion also offers a useful theoretical lens to examine firm decision-making relative to exclusive sponsorships
- Sunk costs (Thaler, 1980) also contributes, as investments have been made by former sponsors in prior associated advertising, activation, and leveraging activities
- Prospect theory posits that firms may be willing to pay market-clearing prices to retain exclusive sponsorships (Jensen et al., 2023), and that the market would view the loss of an exclusive sponsorship by a former sponsor to a competitor as more damaging than the potential gain of a new sponsorship, as a loss should be viewed as comparatively more detrimental than a gain

DATA/METHOD

- To improve generalizability of the effects found by Bouchet et al. (2015), a total of 632 sponsorships of several different major North American sport leagues such as MLB, MLS, NASCAR, NBA, NHL, NFL, & PGA TOUR (Jensen et al., 2022; Jensen & Vlacancich, 2023) was compiled
- Such sponsorships are in almost every instance exclusive in their product category, which contributes to their value and creates competition among firms
- Category exclusivity was ranked by 55% of sponsors as either nine or 10 in importance on a 10-point scale (IEG, 2018), making it the most valuable sponsorship benefit in the opinion of marketers
- This scenario creates a unique natural experiment in which to observe B2B decision-making and intense competition among firms, as well as the market's reaction to such competition, by assessing changes in shareholder value for both the current and former sponsor
- Included in the dataset are some of the most valuable brands in the world, including Coca-Cola, PepsiCo, Exxon-Mobil, General Motors, Hewlett-Packard, Visa, Bank of America, Honda, Toyota, Verizon, and FedEx

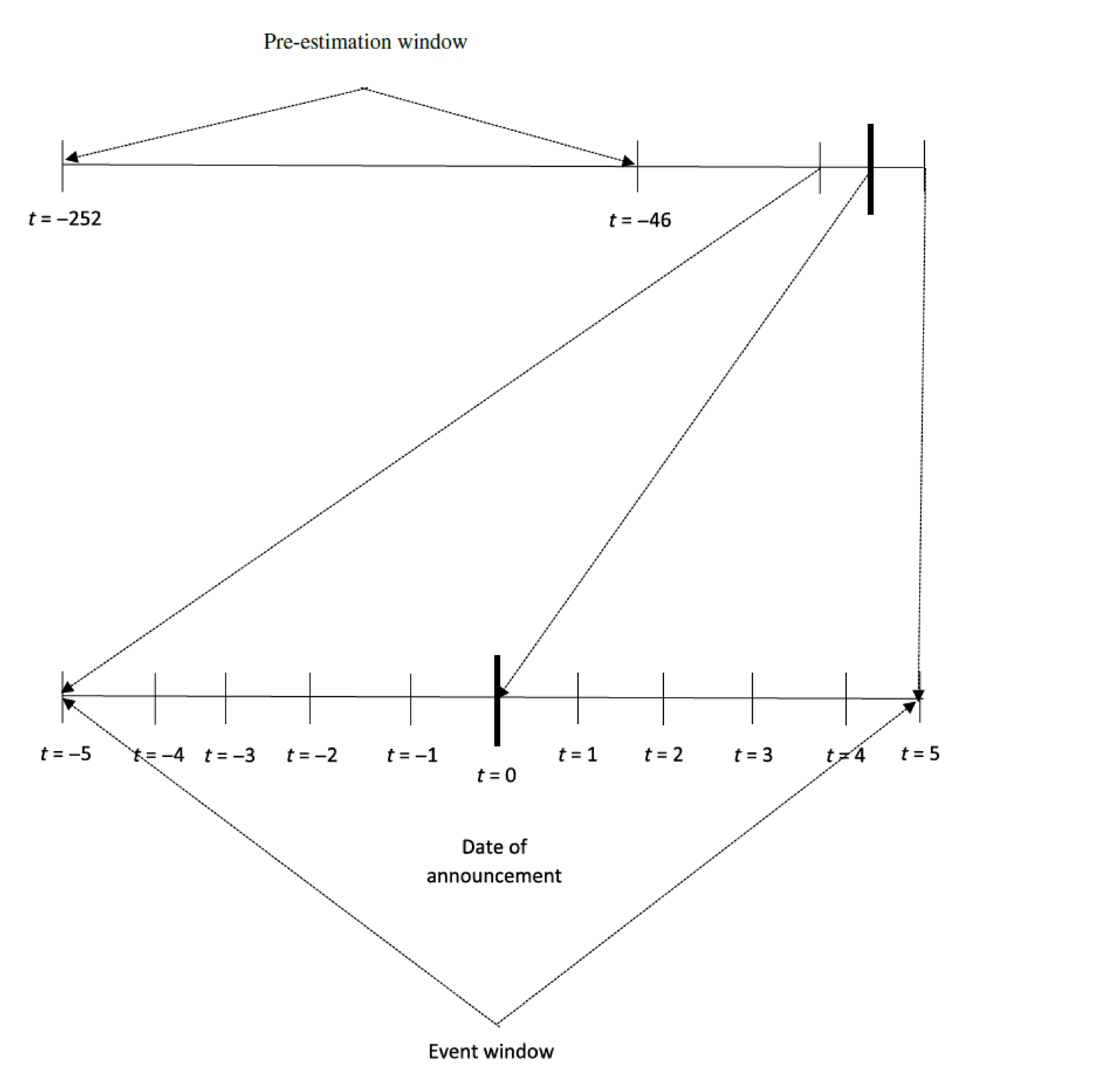

Figure 1 — Timeline for calculation of cumulative average abnormal return.

RESULTS

Table 1.
Mean CAARs Generated by Announcement of Competitive Sponsorships

	New Sponsor		Former Sponsor		Difference
Event Interval	CAAR	Positive/ Negative	CAAR	Positive/ Negative	CAAR
-1 to 1	0.73%*	24/20	-0.61%**	16/25	1.34%
	(1.55)	54.55%	(-1.70)	39.02%	
-2 to 2	0.26%	21/23	-0.84%**	17/24	1.10%
	(.52)	47.73%	(-1.81)	41.46%	
-3 to 3	0.51%*	24:20	-0.85%	20/21	1.36%
	(1.43)	54.55%	(-1.07)	48.78%	
-5 to 5	-0.55%	21/23	-1.41%	21/20	0.86%
	(.26)	47.73%	(-1.10)	51.22%	
N	44		41		

Note: Standardized coefficients in parentheses; * $p < .10$; ** $p < .05$

- Findings (Table 1) clearly indicate that not only did the market react negatively to the former sponsor losing the sponsorship in all 4 event windows (with results significant at the α = .05 level across the -1, 1 and -2, 2 event windows), consistent with prospect theory there is a larger effect of the loss of an exclusive sponsorship to a competitor, when compared to a gain of a sponsorship

IMPLICATIONS/LIMITATIONS

- Importantly, firm decision-makers need to prepare for the fact while prices for competitive sponsorships may be market-clearing, the market will react negatively to the loss of an exclusive sponsorship to a competitor
- Initial results are limited to sponsorships of major North American sport leagues and may not be generalizable to global properties, thus data from Formula One (F1) sponsorships are currently being analyzed
- Results from the analysis of both datasets will be shared in May

FUTURE RESEARCH

- To expand the scope of our research, future research can include conducting a comparative analysis of sponsorship changes within key international sports leagues to delineate the differences and similarities in market reactions
- Additionally, our research can be enriched by incorporating a broader range of sports beyond traditional team games, such as Formula One, to assess whether market reactions differ between individual and team sponsorship changes

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