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**JUST DO IT**

*"You can do more with sponsorship - you can market products and do direct marketing on the back of it... .. and there are more ways to build relationships with customers."*

Source: Sponsorship Consultant

**SPORTS SPONSORSHIP IN THE SPOTLIGHT**

The 2002 Winter Olympics in Salt Lake City have highlighted the importance of sports sponsorship as a significant contributor to financing major sporting events. However, the difficulties faced by the Manchester Commonwealth Games in securing target sponsorship suggest that not every sporting event or business is attractive to corporate marketing departments. So what is driving the growth in sports sponsorship? And why do certain companies appear to be so attracted to sponsorship as part of their marketing mix?

**Growth in the Market –despite concerns about effectiveness**

There has been considerable debate about the effectiveness and purpose of sports sponsorship at local, national and international level. However,

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Brand	Sport	Value (£'m)	Event
Carling	Football	36.0	4-year Premiership
AXA	Football	25.0	4-year FA CUP
Worthington	Football	23.0	5-year League Cup
Nationwide	Football	15.0	3.5 year England Football Team
Vodafone	Cricket	13.0	5-year England Cricket Team
NTL	Football	12.0	Shirt sponsorship with Celtic and Rangers
Lloyds TSB	Rugby Union	12.0	3-year Five Nations
Volvo	Golf	11.0	3-year PGA Tour

**LABOUR MARKET WEAKNESS CAUSES A FALL IN PAY SETTLEMENTS**

One of the important signals sent out by the labour market comes from the data on basic pay settlements in individual industries and occupations. When the demand for labour in an industry is particularly strong, and where businesses are finding it difficult to recruit the workers they need, so there is upward pressure on wages– reflecting the relative scarcity of workers willing and able to accept work in particular jobs. Equally, when the labour market softens, when the number of available jobs starts to decline, and when further job losses are threatened, we expect to see a fall in the annual rate of change of wages.

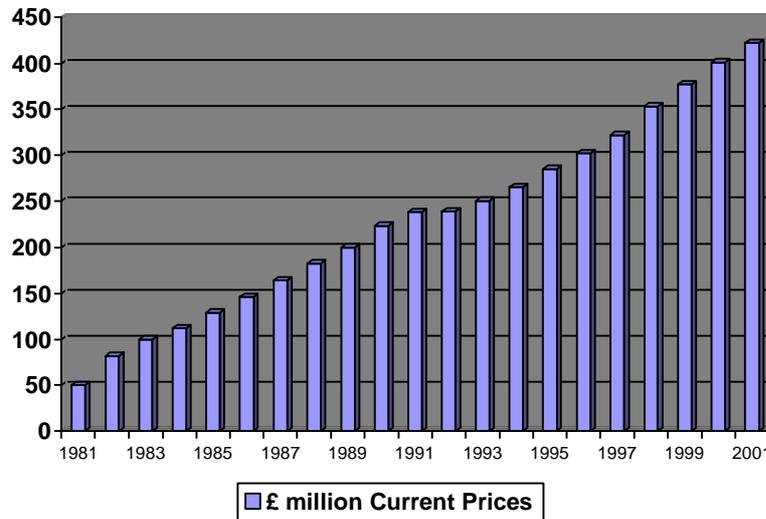
What signals is the UK labour market sending us at the moment? The British economy is fundamentally strong. Inflation is low, interest rates remain at historically low rates (currently 4.0%) and unemployment has flattened out rather than surged higher as some commentators have predicted. But there are signs from recent pay bargaining settlements that the labour market is

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## PEAK PERFORMANCE

*"Sports rights costs have hit their peak and that the massive escalation seen in the past decade is coming to an end".*

**Source: Greg Dyke, Director General of the BBC**



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Source: Institute for Sports Sponsorship; BBC; Ipsos-RSL

official data shows corporate marketing spend increasing in this area. The chart below shows the estimated annual value of the UK sports sponsorship market between 1981 -2001 (at constant prices):

## LIFE CYCLES

*"One advantage that sponsorship has over its more mature sibling, advertising, is that its contracts have longer life cycles. Typically, sponsorship deals tend to be between two and three years long, which prevent sponsors from pulling the plug too quickly*

**Source: Karen Earl**

## Main Factors Influencing Sports Sponsorship

Whilst there are many factors which influence sports sponsorship, the key factors constantly stated by marketing managers are:

### *Brand image enhancement, and Media exposure*

These two factors help to explain an increasing polarisation between support for high profile sporting events and brands (such as Manchester United) and grass-roots or middle-market sports. In the latter case, the lack of media coverage may be the most important reason for a lack of sponsorship.

Another factor driving spending into the premier league is the increasing willingness of authorities to auction the rights for the major sporting events to the highest bidder and a desire to bring "clusters" of leading businesses together to act as official sponsors of expensive events.

Sports sponsorship takes many forms. Championships, cup competitions and leagues attract official sponsors who are then licensed to use the name of the competition as part of their marketing. But so do individual sportsmen who are chosen to endorse products.

Many of the most successful sportsmen are developing "personality brands" in their own identity (e.g. David Beckham's commercial relationships with Adidas and Marks and Spencer and Anna Kournikova's promotion of "Sports Bra").

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moving into a period of weakness as we head through the Spring.

### **Pay Freezes**

In some sectors, workers have accepted pay freezes for the year ahead—implying that they are willing to accept a cut in their real incomes. In many cases, a pay freeze is a response to particular events affecting a market or industry. Workers at **Airbus UK** for example have agreed to a pay freeze until the end of December 2002, offset in part by a reduction in the average working week. Employees at **NSK-RHP Aerospace** have deferred their annual pay review and negotiations for at least three months. In both these cases, the uncertainties facing aircraft manufacturing in the aftermath of the 2001 terrorist attacks has prompted a review of costs and significant job cuts. Workers seem prepared to sacrifice some wage flexibility in return for a modicum of employment stability.

### **Pay Deal Winners**

Workers in other sectors are enjoying substantial improvements in basic pay this year. For example, the latest settlement by **Arriva Northern**—the regional rail and bus transport company, gives its train drivers an increase of almost 18% in a series of staged pay increases over the next two years. **Eurostar** has agreed a 10% staged rise with its 200 drivers and several other train operating companies (TOCs) have done likewise. It is not difficult to see why these agreements have been made. The TOCs must now make huge efforts to improve the average punctuality of services in order to rebuild customer loyalty and avoid fines from the Rail Regulator. The scarcity of skilled train drivers (in an industry where working conditions have been poor for many years) is also tilting the balance of power in pay negotiations towards employees rather than management

### **Minimum Wage Effects**

Another factor behind above-inflation pay settlements in a number of occupations is the continued impact of the National Minimum Wage. The adult rate for the NMW was up-rated from £3.70 per hour to £4.10 per hour in October 2001. This has led to increased pay rates for thousands of workers in pubs and clubs, the footwear industry and in day nurseries. And there are secondary effects on pay—because workers on slightly higher pay scale are often given compensating pay increases in order to maintain wage differentials.

### **Public Sector Workers Play Catch Up**

The fastest growth of pay at the moment comes from the public (or government) sector. Health care workers, teachers, the police and fire-fighters have all been given annual basic pay increases in excess of the growth of average pay awards for the whole economy. This trend is driven by the pressing political need for the government to achieve improvements in the quality of the public services, and a recognition that, having fallen well behind the pay stakes over the last twenty years, many people cannot now afford to work in the public sector and still enjoy a reasonable standard of living.

### **Overall growth of pay settlements are on the decline**

#### **PAY AND EARNINGS**

*Average earnings differ from basic pay. Most people can supplement their basic wage with income from overtime, productivity bonuses and other supplements.*

*The difference between basic pay and average earnings is known as “wage drift”*

#### **THE COMFORT ZONE**

*The Bank of England believes that an annual growth of earnings of around 4.5% is the maximum rate consistent with keeping labour cost inflation within the 2.5% target.*

*This is because if pay is rising at 4.5% and productivity is growing at 2% per annum, then unit wage costs will be growing at around 2.5% per year. Unit wage costs are a reliable guide to cost-push inflation in the medium term*

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	1994 (£ m)	1995 (£ m)	1996 (£ m)	1997 (£ m)	1998 (£ m)	1999 (£ m)
<b>Motorsport</b>	88	95	100	107	118	124
<b>Football</b>	68	72	77	85	104	115
<b>Rugby Union</b>	10	13	16	20	22	23
<b>Athletics</b>	12	12	13	14	14	16
<b>Golf</b>	12	13	14	15	15	15
<b>Horse Racing</b>	12	12	13	14	14	15
<b>Cricket</b>	12	12	13	14	14	14
<b>Tennis</b>	8	9	9	10	10	11
<b>Snooker</b>	7	7	8	8	8	8
<b>Rugby League</b>	6	6	7	7	7	7
<b>Others</b>	30	34	32	28	27	29
<b>TOTAL</b>	<b>265</b>	<b>285</b>	<b>302</b>	<b>322</b>	<b>353</b>	<b>377</b>

The returns from these personality brands can be substantially more than the earnings from actual participation. For example, in 2000 Anna Kournikova's lack of success on the women's tennis circuit earned only £450,000 in prize money, but she accumulated almost £7 million in commercial sponsorship deals. The highest overall earner in sport is currently Tiger Woods who recently signed a \$100 million sponsorship deal with Nike.

Taken as a whole, employees in the British economy will see their basic pay rise less quickly this year than in recent times. The latest research from Incomes Data Services ([www.incomesdata.co.uk](http://www.incomesdata.co.uk)) shows that pay settlements are now coming down with three pay deals in ten coming in at under 3 per cent for this year. Several factors are helping to control the growth of wages:

- 1: Lower inflation and reduced expectations of inflation
- 2: Higher levels of job insecurity brought about by the global and domestic slowdown
- 3: A severe squeeze on profits– particularly in manufacturing industry
- 4: A gradual easing of skilled labour shortages in manufacturing and services

All of this will come as good news to the Bank of England ([www.bankofengland.co.uk](http://www.bankofengland.co.uk)) as it considers the appropriate time to raise interest rates in a bid to curb consumer demand.

<b>PAY SETTLEMENTS IN THE UK LABOUR MARKET– RECENT EXAMPLES</b>				
Month	Organisation	% Increase	Details	Employees
<b>January 2002</b>	Airbus UK	Pay Freeze	35 hour week introduced	4,500
	DHL Parcels	2.0%	Merit rise for satisfactory performance	4,000
	JCB	0.9%	Third year of three year deal	1,200
<b>February 2002</b>	Tender Loving Care Nurseries (Glasgow)	5.0%	Basic + Min Wage Up-Rating	95
<b>Source: Incomes Data Services (February 2002)</b>				