

Valuing Naming Rights

<http://cba.unomaha.edu/faculty/mohara/web/ALSB01ValuingNamingRights.pdf>

by

Greg C. Ashley, MBA, pursuing MS in Economics

gashley@uswest.com

Economics Department

College of Business Administration

University of Nebraska at Omaha

Omaha NE 68182

and

Michael J. O'Hara, J.D., Ph.D.

Finance, Banking, and Law Department

College of Business Administration

University of Nebraska at Omaha

Omaha NE 68182

mohara@unomaha.edu (402) 554 - 2823

<http://cba.unomaha.edu/faculty/mohara/web/ohara.htm>

presented to

76th annual meeting of the

Academy of Legal Studies in Business

<http://www.alsb.org>

August 8 - 11, 2001

Albuquerque, New Mexico

Abstract

Amounts paid for naming rights deals have been growing in recent years. This study examines the intangible nature of naming rights and explores many opportunities and pitfalls that should be considered before entering into a naming rights deal. As part of this study, an attempt will be made to value the naming rights for a Midwest convention center/arena that is currently under construction. Three different approaches to valuation are discussed: the cost, the income, and the market value methods.

*This paper is partial fulfillment of the requirements of an
ECON 8900, Independent Study course.*

Introduction

Interest in naming rights has been increasing in recent years as firms look for additional ways to increase brand awareness and market share.¹ As of June 1999, the \$100 million barrier has been broken six times in naming rights deals (Bernstein, 1999). Naming rights are among the many vehicles chosen by firms to enhance awareness and recognition. In their simplest form, naming rights can be broadly defined as the privilege of associating a sponsor's name with a building, project, or event by including the sponsor's name in the title of the item being named.

One of the earliest modern examples of a naming rights deal is from 1926, when the Wrigley chewing gum family purchased the Chicago Cubs and subsequently changed the name of Cubs Park to Wrigley Field (Kaydo, 1997). Until recently, though, the cost of these transactions was modest. In 1973, Rich Products Corporation agreed to pay \$1.5 million over 25 years to have the Buffalo Bills' then-new stadium named Rich Stadium (McCarthy & Irwin, 1998). Twenty-four years later, Kovatch reports in 1997 that naming rights deals typically average between \$1 million and \$2 million *per year*, and most are fairly long term (Kovatch, 1997). Max Muhleman, a sports-marketing consultant in Charlotte, also notes the long-term nature of agreements, often spanning between 15 and 30 years.² His more recent assessment of cost, however, is that naming rights go for about \$2 million per year (Guzman, 2000). SFX Sports Group, which brokers naming-rights deals, was quoted as saying that the average price jumped from \$2.73 million annually to \$5.58 million between 1997 and 1999 (Rozin, 2000).³ Regardless of the exact dollar amounts involved, the obvious trend in naming rights is one of increasing cost and presumed value. Consequently, the monetary importance of naming rights to corporations and others is growing.

As the importance and cost of naming rights grow, purchasers of naming rights have an increasing incentive to accurately place an accurate dollar value on an intangible. An objective method to establish the value of these intangible rights is therefore required. Unfortunately, the road to objective valuation is fraught with many problems. Valuation should be based upon comparable transactions of sufficient number, magnitude, currency, as well as information abundance and symmetry.

The lynchpin of valuation is comparable transactions; or, using the language of economics, homogeneous. With regard to naming rights, it is important to note that no two deals are the same. These deals are inherently heterogeneous. These deals often come with many other rights (e.g., pouring rights, concessions, and preferred seating) that complicate the valuation process. An accurate valuation should apply in many transactions. However, despite the growing number of deals, the total number deals is small. The process of evaluation is enhanced when there is a large number of both buyers and sellers, and likewise hampered when there is a small number. There also is a perception of accelerated cost over time. DeSchraver and Jensen (2000) have shown that since 1988, naming rights prices have grown annually at a rate of 14.57%, adjusted for inflation. There also are several different methods or valuation models that can be employed. All of this makes the concepts of perfect information, where everyone theoretically knows everything about transactions of this kind, and homogenous goods, where all goods are alike for easy comparison, almost nonexistent in most naming rights deals.

¹ This paper will refer to "companies" even though there are other purchasers, such as philanthropic.

² In the interest of simplicity, naming rights deals will be compared by dividing the expected lifespan of the deal (in years) by the total nominal cost of the deal.

³ SFX can be found at <http://www.sfx.com>.

This work attempts to establish the value of naming rights for a large convention center/arena located in the Midwestern region of the United States.⁴ To aid in this effort, three valuation models will be discussed. Each model will be critiqued, discussing both advantages and disadvantages. This effort will result in a range of dollar value from low to high, along with the appropriate caveats.

Intangible Assets

The traditional method of valuing a business is mainly concerned with three economic components commonly referred to as plant, property, and equipment.⁵ These are all tangible assets. A business is assumed by this method to be a combination of buildings, land, equipment, tools, vehicles, raw materials, works-in-progress, and finished product, each providing its own share of fair market value to the business. The sum of all this is said to be equal to the value of the entire firm. The dollar value of these so-called tangible resources is more easily determined as a result of known historical costs and other similar arms-length transactions in the marketplace. There can, of course, still be disagreements regarding economic value, and this is one reason, for example, why people often ask for more than one appraisal when buying/selling property. The range of this disagreement, however, typically is small when compared to the total value of the property. Chances are, if you own something that can be seen and touched, there are knowledgeable people who, with the aid of many other transactions in the marketplace, can accurately quantify the worth of your property in dollars.

Businesses, venture capitalists, and even typical stockowners (not to mention government taxing authorities) have in the last century come to realize that substantial value can exist in things that are not tangible. Some of the most familiar examples of intangible property (also referred to as intellectual capital or knowledge assets) are patents, trademarks, trade secrets, and copyrights. Each of these carries with it a strategic economic value to the business, and as such, has been recognized under law and protected in some manner. The importance of intangible property is rapidly growing as a result of what some have called the New Economy. The value of so-called knowledge property has in many people's view outpaced the value tangible property.⁶

To further illustrate why intangible property has become so much more important, consider that in the last decade entire businesses have arisen, and in large numbers, whose primary, if not *only*, assets are knowledge-based. Examples might include any number of Internet or software companies such as Microsoft. In fact, some of these businesses may not even own any plant or property, but rather just be comprised of employees in rented space, rented office furnishings, and rented computer time. Drug and genetic companies provide additional examples of firms primarily valued for knowledge-based assets.

Traditional methods of accounting do not accurately capture the value of intangible property, even though accountants do acknowledge its existence. Accounting focuses upon objective value principally derived from transactions. Unless there is a cash flow (or a cost-based non-cash flow, as in the case of depreciation) resulting from some market transaction,

⁴ Nebraska and Iowa provide the primary customer base for this CC/A, although some business is also expected by the surrounding states.

⁵ Traditional valuation methods may also recognize the value of "good will" or "going concern," although historically have lacked accurate ways to quantify these.

⁶ For example, Microsoft's capitalization as of 08/05/01 was 360.0 billion while General Motors was 34.71 billion according to Yahoo Finance (<http://finance.yahoo.com>).

accountants make no entry on a balance sheet. The finance profession, likewise, searches for objective value and often finds the intangible assets to be insufficiently objective. Finance focuses upon quantifiable items of concern, like price, share, and cash flow. Unlike accounting, finance will welcome the use statistical measures when the firm does not individually engage in a transaction. Economists see value in yet another manner, and notable include subjective sources of value. Economists examine the utility of an item, most often measured in dollars. Economists view utility as the stream of current and future benefits resulting from ownership of a good or property. This stream of objective and subjective benefits is then converted into current dollars.

All successful going concerns develop intangible assets, for example methods to become more efficient or their workforce gains experience and becomes more skilled. Additional intangible assets arise within these successful going concerns as they become more widely known, develop new brands, as well as continually create and improve strategic channel relationships. All of this escapes the typical accountant's ledger, but yet has a great value to the firm. Naming rights build name recognition, which are two of these unaccounted intangibles.

There is a need to capture this kind of value information, and there are many reasons for this need. Investors, banks, and other sources of lent capital must have an accurate valuation of all the firm's assets in order to determine the soundness of the business and predict accounting, financial, and economic returns. These returns can be, for example, in the form of revenue generation, cost reduction, or by creating a barrier to entry for competition, or any combination of these. The ownership of, or licensed rights to, intangible property can be a source of great value that can be sold or liquidated. An accurate valuation of the firm requires a valuation of both tangible and intangible assets.

Despite the ethereal nature of intangible property, some methods have been developed to help deal with the valuation problem. Smith and Parr (2000) explain three commonly used techniques; the cost, the income, and the market share methods. These techniques will be discussed in detail later; however, a brief explanation may be helpful here. The cost approach asks how much money would need to be spent in order to acquire the same benefit provided by the intangible from another source. The income approach looks to quantify all of the present and future cash flows from the intangible asset and then compute a net present value (NPV) to find the dollar amount in current dollars. The market approach compares other similar transactions in the marketplace and hopes to gauge value in that manner.

Conceptually, all of this sounds rather easy, but the devil is in the details. In reality things get mired down in various, competition techniques to predict and quantify cash flows and because of the subjective aspects of forecasting. These models will be explained further in subsequent sections.

Naming Rights Valuation Assumptions

Any attempt at valuation begins on the assumption that non-zero, positive value is actually present. If this were not true, few would waste their time starting a valuation effort. While this might seem obvious, it is possible for intangible property not possess value, and may, in fact, may become a liability. Consider the 1989 oil spill accident involving the Exxon Valdez. Whatever price that could have been asked for the once prestigious name of *Exxon* no doubt sank sharply when that name became synonymous with environmental destruction. Likewise, other names such as *Thalidomide*, a drug brand name strongly associated with birth defects, and *Hugo*,

often associated with inexpensive, low-quality cars, provide additional examples of near-zero or negative value.

The presumption of intangible asset value flows from the profitability of a firm as a whole. If the firm is earning above normal profits this is a good indication, though not absolute, that the firm's intangible assets are helping to increase those profits. The assets of a firm, both tangible and intangible, typically work together, hopefully synergistically, to produce profits. This is generally assumed because a profitable firm (i.e., one that is making above normal profits) expects and gets a rate of return from all of its assets, unless the asset is needed for joint production. Money spent on assets that do not contribute to profits would be better allocated to a more profitable opportunity. The idea of an intangible asset making profit all by itself is conceptually possible, but the chances of this are unlikely. Even if a business is comprised only of intangible assets, the assets must work together to make profit. A single intangible asset will not usually accomplish this.

The second intangible asset valuation assumption is that value can be measured and quantified in dollars. Some intangible assets are easy to value. For example, if a generic birthday card is side-by-side in the store with a Hallmark card and the generic card sells for \$2.25, while the identical Hallmark Card sells for \$3.25, then the Hallmark name has a \$1.00 premium.⁷ Establishing the naming rights value for that Hallmark product would be somewhat straightforward in this simplified hypothetical example. In other cases, the goal of valuation may be elusive.

Another intangible property valuation assumption is the asset has both an economic and a legal lifetime. The point in time at which measurement occurs is therefore important for at least three reasons. The first, and obvious, reason is that late in the asset's life leaves but a fraction of asset. Second, and less obvious, reason is that the asset's productivity may depend upon its ability to generate cumulative impact. Third, with longer time periods of cash flows the distant cash flows are far less certain and the distant nominal cash flows experience profound reductions in NPV. With regards to naming rights, the purchaser most often acquires a bundle of naming rights and values rather than a single naming right and value. Often, the purchasers also has the right to sub-license portions of the bundle to others (e.g., allowing a third party access to premium seating for a price) thus creating a contractual flow of income for the original purchaser. Notice, naming rights may directly generate cash as well as indirectly assist a marketing effort for another cash flow.

A third intangible asset valuation assumption is the identified value is for the best and most productive use.⁸ With regards to naming rights, depending on the venue being named, different kinds of businesses will be expected to reap more benefits than others. For example, Singer Sewing Machine Company is unlikely to seek the naming rights for a new hockey arena. The people attending hockey games tend to be younger and have a predictable cluster of interests that are unlikely to be correlated with Singer's target market. Consequently, the amount of money that Singer would be willing to pay for such rights should be considerably less than, say, a beer company. The valuation of a naming rights deal, therefore, presumes a specific value that would exist for the most-suited firm.

Naming rights typically have been sold to corporations in airline, telecommunications, automobile, consumer products, computer, financial services, and beverage industries, according

⁷ Note that many factors besides product brand name may affect the price of homogeneous goods; examples include locality, season, other competitive pressure, brand name of vendor, etc.

⁸ Note that only dollar values count in "best" and "productive" use.

to Friedman (1997). The general manager of the Fort Lauderdale Convention Center thinks telecommunication companies are a good fit (Guzman, 2000). A person involved with Milwaukee's Midwest Express deal says that companies in the hospitality and technology sectors, like hotels, airlines, and Internet firms, are a good fit (Cubé, 2000). These industries would be most likely to maximize the value of a naming rights deal.

Another intangible asset valuation assumption, and one that has already been hinted to above, is that valuation is a function of the buyer's purpose and goals. For a business, one ubiquitous goal is to earn profit, although there are other goals such as civil service and philanthropy that can motivate a naming rights buyer. The maximized naming rights deal would then not only be a function of the kind of business but also of the individual goals of the business.

The next intangible asset valuation assumption is the optimal price requires a good fit of the seller's and the buyer's interests. The general manager of the Myrtle Beach Convention center in South Carolina cautions against selling naming rights to the highest bidder when he says, "You don't want to become the new Roto-Rooter Convention Center" (Guzman, 2000). Another thing to consider is that some names are controversial. In discussing the Fort Lauderdale/Broward County Convention Center, Guzman (2000) quotes the president of the Greater Fort Lauderdale Convention and Visitors Bureau as saying that she has ruled out, as too controversial, firms selling alcohol, tobacco, and pharmaceuticals, as well as gun manufacturers. Lastly, some names may be patently offensive to some groups even though the name is accepted by the public at large. For example, a convention center named after an alcoholic beverage may drive away the convention business of some religious groups. Accordingly, such controversial purchasers would need to pay a premium just to make the seller whole. The "correct" established cost/price depends on the value flows for the seller as well as the buyer.

The last assumption regarding the intangible asset valuation process is that proactive marketing aimed at enhancing the total deal value will be vigorously pursued. With regards to naming rights, the more people that see the sponsor's name the better. Actively soliciting events and then actively marketing them increases attendance.

The Sports Facilities Marketing Group provided an analysis for the planned Polk County Convention Center/Arena (CC/A) in Des Moines, Iowa. They recommended that active marketing begin long before the CC/A construction was completed. Some of their recommendations are shown in Table 1.

Table 1
Examples of an Active Marketing Campaign

Marketing Campaign Activities
Develop advertising / public relations plan to support sales program
Finalize pricing and packages for private sector revenue-generating elements
Prospect database development
Design and develop project collateral
Development of computer and/or audio-visual presentation materials
Development of marketing center, as required
Plan sales functions designed to attract sales prospects and sell program
Target prospects
Execute Sales execution
Management of contract execution procedure
Coordination of direct mail to generate and sell program
Coordination of Customer Service program to keep customers informed, involved and satisfied with their purchase(s)
Generate reports required to keep client(s) informed of progress in sales program

(Adapted from Sports Facilities Marketing Group, 2000)

Alliances and partnerships also can add value to a naming rights deal. When Midwest Express bought the naming rights to Midwest Express Center in Milwaukee for \$8.5 million, plus \$750,000 in travel credits to promote Milwaukee as a destination (Romell, 1999), part of the arrangement included a marketing collaboration with the local chamber of commerce to promote Midwest Express for travel (W. Hanbury, personal communication, June 09, 2001). In addition, Midwest Express is allowed a ticket office in the building (Wascoe, 1999).

Additional examples of collaboration can be found in two other naming rights deals as discussed by Bernstein (1999). The Philips Electronics deal in Atlanta also includes an extensive marketing package with Turner Broadcasting System. One example of such is product placement in movies. Enron Corp, a Houston-based energy company, negotiated an exclusive service and power contract with the Houston Astros' that guarantees \$200 million in revenue going back to Enron. If this type of collaboration is foreseeable and feasible, an accurate valuation must explore these options.

Motivations for Seeking Naming Rights

Motivations for seeking a naming rights deal are many. Irwin, et al. (1994) mention several that can be broadly applied to naming rights based on their research to develop a sport sponsorship screening tool:

Corporations have used sport sponsorship for the attainment of one or more of the following marketing and communications objectives: increasing public awareness of the company and its services, enhancing the company's image, altering the public's perception of the company, community involvement, building trade relations and goodwill, enhancing staff relations, increasing target market awareness, increasing market share, and blocking the competition (Irwin & Assimakopoulos, 1992, Kuzma, Shanklin, & McCally, 1993; Sandler & Shani, 1993).

Skok & Crapster (1999) consider the motivations to acquire naming rights to be a function of both corporate image and sales/marketing. According to Skok & Crapster, the following goals are related to this function:

- Corporate Communications/Public Relations
- Employee Relations
- Recruiting
- Customer Relations
- Stakeholder Relations
- Entertainment
- Strategic Positioning
- Investor Relations
- Advertising
- Community Relations
- Cause Related

All of this highlights the need for a business to clearly define its goals to accurately decide what the firm wants to buy and what the firm is willing to pay for in the naming rights deal.

McCarthy & Irwin (2000) devoted an entire paper to rationale for corporate purchase of stadium and arena naming rights:

While Friedman (1997) has elaborated on a variety of objectives that have been pursued by corporations engaging in sport facility naming rights arrangements, Schlossberg (1996) contends that its basis is direct marketing and community goodwill. This has been supported by research which has found that the primary motives for facility title sponsorship are to provide a public service as well as enhance the sponsoring company's market position (Irwin & Sutton, 1995). ...

... Schaaf (1995) reports that facility entitlement has become a popular means of leveraging event access and maximizing the marketing opportunities for companies that lack a direct link such as product usage with an arena. ...

... The most popular motives for corporations engaging in sport facility naming rights agreements were found to be the pursuit of community citizenship and an increase in sales/market share.

The common theme of these remarks includes the goal of enhanced marketing and sales.

Rozin (2000), also reflecting on motivation, writes:

For companies, the logic behind these [naming rights] deals is clear. When Chicago-based Bank One Corp. wanted to position itself as a national bank in 1998, it turned to sports. Now, Bank One is paying \$66 million over 30 years to name the Arizona Diamondbacks' baseball stadium in Phoenix. And in Indianapolis, where the Hoosier Dome was reborn as the RCA Dome in 1995, Thomson Multimedia Vice-President

James A. Gatman says, “the dome has become the cornerstone of our getting broad exposure, with nationally televised Indianapolis Colts games and our products used throughout.” Adds SFX Group Vice-President Russell Wallach, “[A naming-rights deal] delivers reach and frequency. There’s not a better way to put a footprint on the marketplace.”

Sales and market share are often cited in naming rights literature as being important.

One motivation not often mentioned is ego. Rob Enderle, a research fellow with the Giga Information Group, which follows corporate strategy, was quoted as saying that stadium deals are driven more by ego than they are by financial analysis (Patrizio, 2001). This subjective factor may be expected to have its greatest impact in creating the desire to explore the decision to enter this type of transaction rather than the value placed on a commercial transaction. However, given the opportunities for subjective decision making (e.g., forecasting assumptions), if ego is a material factor, then the estimated value can be expected to reflect value attributable to that ego satisfaction.

The literature often mentions, but rarely discusses in detail, the philanthropic motivation for seeking a naming rights deal. Philanthropic motivations most often are altruistic, but ego may be a material factor in this non-commercial transaction. There is merit in examining the philanthropic motivation in more detail because of the potential for variance in donation (as contrasted with purchase) that may result from differing philanthropic objectives. One of the reasons naming rights are becoming more popular is the naming revenue often leverages public monies in financing construction of the named facility.

Objections and Threats to Naming Rights Deals

Prior to this point, most of the comments and analysis in this work have focused on the positive aspects of naming rights deals. There are, however, a number of issues to consider that can work against such deals, and the list is rather long. One such issue is nostalgia.

Historically, publicly owned arenas and stadia in North America have been named after a geographic location (Texas Stadium), a significant individual (RFK Stadium), or the tenant (Giants Stadium). Similar examples of stadia named after geographic locations and significant individuals abound in other areas of the world. The Melbourne Cricket grounds, Estado Guillermo Canedo in Mexico City, Murray field in Edinburgh, Highbury in London, Croke Park and Parnell Park in Dublin (McCarthy & Irwin, 1998).

This history can play a large role in people’s expectation regarding how their civic structures should be named. In fact, a poll conducted by the local newspaper in the city that is building the CC/A under study found that more than 60% of respondents either thought that the new venue should be named after the city, or that voters should somehow participate in the naming. Only 10% wanted the name sold to a corporation (Omaha World Herald, 2001). Both the buyer and seller of naming rights should be aware of the public’s mindset.

The mindset of elected officials also is important. In Grand Rapids, the idea of giving the naming rights to their convention center to anyone who produces a check for \$10 million is not sitting well with some commissioners (King, 1999). Several of the commissioners noted that the \$10 million dollar figure pales in comparison to the \$65 million that taxpayers are contributing. Given that, they ask why wouldn’t the taxpayer’s consideration of a name count more?

Purchasers of naming rights also should be aware of local and national activist groups that oppose such sales. Ralph Nader, for example, has been an outspoken critic of naming public places after corporations. In Denver, a local citizen's group has filed suit against Denver's local Metro Football Stadium District in an attempt to keep the Mile High name. The group has already raised \$10,000 dollars (Flynn, 2001). Organized and well-financed resistance can hinder the PR value sought by a naming rights purchaser.

One of the primary benefits sought by purchasers of naming rights is the so-called ad impression. Not everyone though is equally convinced of the power of ad impressions. According to Rob Enderle, "The sports press tends to go out of their way when talking about the events to avoid the stadium name." (Patrizio, 2001) To the extent that this is true, the value of ad impressions is reduced. Naming rights literature also has references to something called "ad creep." This is the alleged proliferation of advertising into every aspect of lives. If ad creep is real, one could intuitively expect an increasing reduction in the marginal rate of return from ad impressions.

Another public relations problem can result if a single name or family seems to dominate the local landscape. Naudi (2001) quotes Peter Carlberg, a local planning official in Grand Rapids:

But Carlberg said there is plenty of community resentment over naming buildings after the same families, individuals and corporations.

The Van Andel name, for example, can be found on a health and medical institute, an arena and a public museum. The DeVos name is on a portion of Spectrum-Butterworth.

"It strikes me that a lot of the resentment would be moderated if we had a lot more commemoration of regular, everyday people, rather than it always being the same few people," Carlberg said.

The prevalence of the Van Andel name, Carlberg said, is causing confusion.

This same issue could be a potential concern for the CC/A that is being studied in this work. One large company and two trust funds named after prominent local families have already entered into other naming rights deals in the local area. Any additional deals by them may be perceived as "piling on." Paradoxically, the cumulative effect of ad impressions may produce a negative impression after a saturation point is reached.

Another potential problem is that the specific name acquiring the rights could become too generic or overused, and thus lose the intended affect of advertising and public relations. Kaydo (1997) quotes Brandon Steiner, president of Steiner Sports Marketing, Inc., a sports consulting and talent agency, as saying that an arena name can become generic over time, allowing people to refer to the corporate name without even realizing it – like Wrigley Field in Chicago or Busch Stadium in St. Louis. "From a national scope, it is a little bit of a risk," Steiner says. This could result in a legal burden for firms hoping to maintain a trademark. In addition, nicknames often develop over time for stadiums. There is a risk when this happens that the nickname, good or bad, may transfer to the brand name.

The sellers of naming rights also must be aware that corporate names can drive away the potential business of other corporations that compete either directly or indirectly with the former.

Tom Ackert, director of the Orange County Convention Center, says that the county should “be careful about naming the building after something that creates a problem for our clients. What if you pick a software provider or consulting firm, and then a corporate client doesn’t want to come here because that’s their competitor?” (Guzman, 2000)

All of the competitors of the entity granted naming rights could be assumed averse to holding events at that facility.

The seller of naming rights also should be alert to financial health of the proposed buyer. There are examples in the naming rights literature of buyers facing financial trouble. *Wired News* looked at just such a deal:

In January 1999, PSINet struck a 20-year deal with the Baltimore Ravens football team that involved PSINet getting the naming rights to the NFL stadium at Camden yards in Baltimore, Maryland, along with the primary sponsorship of all team events and the ownership of the Raven’s website. Ravens Stadium became known as PSINet Stadium.

But that deal was done when the company’s stock traded at \$51 a share. Now the stock is at \$0.18 and facing delisting from the NASDAQ. [Note: as of July 02, 2001 the stock traded at \$0.053.]

It gets worse. PSINet (PSIX) has hired Dresdner Kleinwort Wasserstein to assist in restructuring its roughly \$3.4 billion debt. Even if the restructuring is successful, the company has told its investors that it’s likely the common stock “will have no value.” (Patrizio, 2001)

Another article in the *Pittsburgh Post-Gazette* also reports the PSINet problem and two others as well.

So the Baltimore Ravens (PSINet), The New England Patriots (SMGI) and St. Louis Blues (Savvis) are all in jeopardy of not getting paid for the naming rights on their homes. At best, they’re risking major embarrassments because they may have to restructure their deals or even change the names on their stadiums. At worst, they lose out on a substantial sum of money if the companies whose names adorn their facilities default on their agreements (Radin, 2001).

Financially weak companies also are at greater risk for mergers and takeovers. This may in turn cause a name change that places the entire agreement at risk. A real-world example of this is the TWA Dome. TWA has recently been acquired by American Airlines. Depending on how such a deal was negotiated, the buyer may have the right to sell the naming rights deal, not just sub-license pieces. Sellers should be especially careful, and historically have, to expect payment in cash. Naming rights insiders say some Internet companies have tried to offer stock instead of cash as a payment for naming rights and have been summarily rejected (Bernstein, 1999). This has proven to be sound thinking.

Everyone entering into a naming rights agreement is hopeful that favorable impressions are generated as a result of the transaction. Occasionally, though, some unforeseen problem or catastrophe can occur that risks linking the corporate name with something negative and undesirable. A May 23, 2000 article written in the *Charlotte Observer* notes such a possibility:

In the 16 months since the Lowe's home improvement chain paid \$35 million of the naming rights of Charlotte Motor Speedway, debris from an Indy racing wreck last May killed three fans and a pedestrian bridge that collapsed injured more than 100 fans on Sunday.

The incidents at Lowe's Motor Speedway mark the first time a sponsor's name has been affiliated with such tragedy since companies started buying the naming rights to sports facilities almost 15 years ago, experts in the business say.

The tragedies should not tarnish Wilkesboro-based Lowe's image, but they will make other companies more cautious in future naming rights agreements, experts said. (Klaff, 2000)

Recall that most naming rights contracts span a number of years. That's a long time to deal with public relations damage if the name is continually associated with pain and suffering. Longer contractual periods also complicate name changes made by the firm.

The escalating cost of naming rights deals has placed an increasing responsibility on buyers to manage their bundle of values efficiently, lest they not extract a benefit that is commensurate with cost. According to Bernstein (1999), companies no longer can afford to write off the investment as a play to get their brand names out to consumers and get a few top clients out to games. Bernstein goes on to say that spiraling fees demand that entitlement deals be used as anchors for entire marketing platforms, ones that must stay relevant and guarantee a return on investment for up to 30 years. CMGI, who spent \$120 million for a deal with the New England Patriots, acknowledges that there is "no existing research that would help quantify the value of a comprehensive, long-term deal of this nature." (Johnson, 2001). The implication here is that companies must stay engaged and proactive during the life of their naming rights deal. If companies enter into deals without this mindset, they may set themselves up for major losses.

Lastly, inaccurate forecasting regarding the economy or any aspect of expected future cash flow can impact a naming rights deal. There are so many variables that go into a detailed forecast of future events that even reputable companies with significant experience can misjudge. With regards to the CC/A under study, a local tax activist group has criticized the accounting firm hired to do the feasibility study for the CC/A because of what the tax activists believe are inaccuracies in a previous forecast by the accountants for another local facility (Kagan et al., 2000). The tax activists specifically note that in 1992 this accounting firm projected that attendance declines at another local facility would stabilize. The tax activists note, however, that in fact attendance dropped 6% in 1992 and 9% in 1993 and prompted the closure of that facility. All forecasts fit into one of two categories: lucky and wrong.

As a parting comment to this section, consider the following. Even though the subjective nature of valuations was discussed previously, after reading the current section the reader may now have an additional feel for why a subjective component exists in valuations. Even a carefully crafted risk analysis is required to deal with all of these variables.

Variation in Naming Rights Deals

One problem with valuing naming rights is that no two deals are identical. Naming rights deals usually include more, often much more, than just the right to have a name placed on a building. A list is presented in Table 2 of various value-added benefits that were culled from all of the naming rights articles, papers, books, and interviews conducted for this study.

Table 2
Examples of Value-Added Benefits of a Naming Rights Deal

Value Added Benefit
Name placed on tickets
Name placed on stationary of the facility
Name placed on athletic courts or other flooring space
Name placed on some/all employee uniforms
Placement of kiosks in building for selling products, etc.
In-arena concession sales (a.k.a. pouring rights)
Name placed on concession plates, cups, and condiments
Pervasive signage
Use of facility's and/or tenants' personnel in advertising and marketing (and/or, if applicable, use of local elected officials in advertising)
Building used a test market for company products
Company may use building facilities to host a company picnic or party
Internet services to subscribing fans
Right to sublet physical space to other companies to use for ads, etc.
Right to sublicense naming opportunities (e.g., name a specific room in building)
Reserved space in the enclosed, environmentally-controlled seating areas (skybox)
Right to name these seating areas after the company
Reserved seating for clients
Reserved parking
Prestige parking services, including valet and named stalls
Contact and photo ops with visiting celebrities
Sponsorship of artwork
No charge for concessions
Signs allowed on surrounding streets
Team/building owner must use company products
Company executives allowed to travel with team
Marketing agreements with the local chamber of commerce
Right to change the address of the building(s) to the company name (e.g., the address of the former Jacksonville Municipal Stadium is now "One Alltel Stadium Place")

A more in-depth study of naming rights deals could expand this list. In regards to future naming rights deals, only the imagination will limit the number of value add-ons.

To further demonstrate how these add-ons can be packaged into one naming rights deal, it is worthwhile to examine actual deals in detail. The address change referenced above for the former Jacksonville Municipal Stadium was just one of many add-ons that Alltel Corp acquired with the purchase of naming rights. Daniels (1997), writing for the Florida Times-Union, lists no less than eleven perks resulting from the deal as shown in Table 3. The deal, as reported by him, is discussed below.

Table 3
Value Add-Ons Associated With Alltel Corp. Naming Rights Deal

Value Added Benefit
Alltel will get 12 club-seat tickets and six parking spaces free of charge for all events
Alltel has a separate sponsorship deal with the Jaguars that provides the company with skybox and club-seat tickets for football games
All stationary, letterheads, and information used to identify the stadium would be changed to reflect the Alltel name
The stadium address changed as mentioned above
Buttons worn on uniforms of ushers, security, maintenance, and parking area personnel bear the company name
Major information points on the interior of the stadium, such as building directories, information stands, reception desks, and ticket booths would carry the Alltel name
Street signs directing people to the stadium changed to add the Alltel name
Company kiosks placed in the stadium
Local and long-distance phone service contracts at the stadium provided by Alltel
Alltel will have rights to host a picnic or party for up to 2,000 of its employees, families, and friends on an undetermined date, which requires the stadium to pay for part of the cost
The stadium's concessionaire provide products and services at no cost

The Alltel deal was signed in 1995 and has a term of ten years. Total value in 1995 dollars was 6.2 million (Smith & Parr, 2001). The first payment totals \$2,163,935 and covers the first three years.

The biggest and most complex deal to date is the Phillips Electronics' 1999 deal with the new home of Ted Turner's two sports teams: the National Basketball Association franchise for the Atlanta Hawks and the National Hockey League franchise for the Thrashers (Rozin, 2000). Rozin, writing for *Business Week*, reports that the 20-year deal is a \$185 million agreement that includes business and marketing integration across all of the Turner-affiliated enterprises. Time Warner is one such company, of which there are 400+ companies under its umbrella. Phillips Electronics also gets a line into Coca-Cola, Delta Airlines, and seven other founding sponsors of the arena, according to Michael Mandas, Philips director of strategic business development (Rozin, 2000). Some of the add-ons of the deal include:

- Use of the facility to showcase Phillips products
- First consideration by Turner (who is currently building \$1.2 billion worth of construction projects) to buy Phillips electronics
- Use of Phillips lights at the Warner Bros. studios
- Product placements in Warner Bros. films
- Use of Cartoon Network characters to sell Phillips products

Deals such as this tend to seek creation of synergistic effects that provide a win-win program for all of the businesses involved as well as the public.

Let's segue into a critical variable in valuation of naming rights deals, that is, how and when payments are made. Payment for naming rights can be made in varying sizes and times as well as made conditional upon the occurrence of future events. Many sellers of naming rights prefer to the payments "front loaded" to help with construction and other start-up costs. This tends to reduce the variability and uncertainty of future payments. When money is exchanged in the future, there is always the risk that the NPV assumptions will be violated due to changing fortunes of the parties and macroeconomic conditions (e.g., inflation). The future financial health of the buyer always is of concern to sellers of naming rights deals, although there have been deals that allow equal-sized payments to be made at regular intervals.

Valuation Standards

Smith & Parr (2000) discuss at length three methodologies for valuing intangible assets. These are generically known as the cost, the income, and the market value approaches. Smith and Parr argue that any other method of valuation is essentially a variation on these three. This paper examines these three methods in detail.

Conceptually, any valuation turns on the ability to predict present and future benefits, and to quantify those benefits in present-day dollars. From a textbook perspective, all of this sounds rather simple, but, in reality, quantification of many of the benefits and discount rates are highly subjective. For example, how does a business engaged in a naming rights deal objectively quantify the value of having a good public image? How does one know what percentage of public image turns into sales? What will be the relevant inflation rate and what will be its value ten years hence? These questions, and many more, will be ignored for the moment to pursue an academic discussion of valuation methodologies. Although valuation methodologies can be used to value any intangible property, this discussion will focus solely on naming rights valuation.

Cost Method Per Valuation Standards

The cost method is a cost-of-replication approach. The cost method seeks to calculate how much money would have to be spent in order to replicate by some other means the exact bundle of benefits being valued. The cost-of-replication approach must be time sensitive. Obviously, most of the benefits being replicated are occurring in the future, and thus require predictions about future cash flows to cost and from revenue. Theoretically, one could replicate all of the values of a naming rights deal with a bundle of add-ons by purchasing each of the bundled naming rights values separately. For example, a business could rent floor space at other venues to showcase products, buy newspaper, radio, and television ads to get exposure, or hire firms who specialize in public relations. In theory, no one would pay any more for a naming rights deal unless the cost of that deal was the same as or less than the cumulative cost of buying the values *à la carte*.

A criticism of the cost approach is individual forecasts vary widely on the present value of future costs and revenue cash flows. A naming rights deal with a large number of bundled rights would probably require shopping at many different sources to replace all of them. A future cost estimate is required for each source used, and likewise the opportunity for error is increased. These errors may cumulate rather than offset, thereby swamping any forecast with its own range of errors. A second criticism of the cost approach is its failure to fully account for the risk (to the seller and to the buyer) that the future may not be as expected. A seller may not receive payment when due and the buyer may own the name to an empty stadium. In other words,

if the probability is high that a future benefit is not received, the cost approach cannot directly provide a lower corresponding value.

The cost method theorizes the purchase of similar benefits, but a problem arises when trying to compare unlike values. So-called “ad impressions”, often defined as how times people see a sponsor’s name, are mentioned in naming rights literature as being of value. Knowing this, how many ad impressions from one source equate with ad impressions from another source? For example, how does a sponsor's name on the floor of an arena equate with the impact of a one-minute spot on television, when the total number of viewers is identical? Naming rights offer some (nearly) unique values. When the cost approach seeks to find a replacement value that offers the same effect, deciding what offers exactly the same value can be a challenge.

Income Method Per Valuation Standards

The income method attempts to compute all of the nominal income, present and future, expected be earned from the deal. If such a dollar figure can be found, then the buyer need only do a NPV to arrive at current-dollar worth. Since the firm already knows the cash outlay required to purchase the naming rights, an internal rate of return (IRR) can then be computed. The IRR can be used by the buyer to compare perceived risk with rate of return. In this manner, the income approach addresses the risk issue better than the cost method. The income method suffers from many of the same problems as the cost method; however, the income method offers the additional insight of the reward for risk issue.

Market Value Method Per Valuation Standard

The market value method is the preferred method of valuation for naming rights. Of all the literature reviewed and interviews conducted for this research, only one source suggested a method different from the market value method. The details of each user of the market value method are closely held as trade secrets. Accordingly, these details were not made available for this work. The details of the generic market value method of valuation can be identified.

The market value method seeks to avoid the unavoidable uncertainties and subjective inputs of the building blocks approaches inherent to the cost method and the income method. Instead, the market value method looks to the market for similar transactions of naming rights bundles and takes those market prices as a proxy for the value of the present transaction. In theory, any naming rights deal could be valued by this approach. One needs merely to find similar naming rights deals. That is, deals with an equivalent bundle of rights, an equivalent set of local area demographic characteristics, comparable points in time, and equivalent CC/A features. Obviously, subjective inputs are not eliminated, merely moved from the future to the present. However, once equivalent deals are identified theory dictates that the amount of money that exchanged hands should be close in value.

The market value approach may be more useful on other forms of intangible assets. From a naming rights perspective, the market value method is criticized because few naming rights deals are sufficiently similar and because there are too few transactions in the marketplace to provide a representative sample. The lack of an arms-length transaction requires adjustments to be made to compensate for differences. This lack tends to reduce the accuracy of the market value method. These criticisms are supported by the large variance in cost of naming rights deals for so-called similar CC/A’s and venues.

Regional Characteristics of Local Market

There are at least two reasons to consider local market demographics for a CC/A, especially for one that will primarily serve a local, as opposed to national, market. First, the local demographics must support the premise that a CC/A is financially viable.⁹ Naming rights are of reduced value if the lifespan for the CC/A cannot be estimated with reasonable certainty. Second, the value of naming rights requires knowing the target market. For example, the value of a naming rights deal is enhanced by a population containing people with both disposable income and a disposition to purchase tickets and the sponsors' products.

There are numerous references in naming rights literature that also directly or indirectly note that regional characteristics of the local market affect value of a naming rights deal. In fact, DeSchrive & Jensen (2000) studied a number of factors thought to affect the cost of a naming rights deal and found that only two are significant.

Our results indicate that population in the area around the facility has a positive and significant effect on price. One interpretation of this may be that firms buy naming rights for a facility in a populated area must pay more because they are effectively paying for additional advertising that they would not get from a facility in a less populated area. This seems to be consistent with the existing literature on facility naming rights as many authors have suggested that the prime motivation of sponsorship is cost-effective advertising.

Other than population, the only variable that significantly affects the naming rights market is time. Time seems to be very important, as it is highly significant in determining price and is also significant in the selection process. The results from the price equation show that as time has passed the real prices for naming rights have increased, holding all else equal.

A population is, of course, composed of varying demographics (e.g., size, composition, income, etc.). The larger the population, the more likely that relevant subsets of that population also are large. Relevant subsets are those that include people of the age and inclination to attend CC/A events, *and* who possess sufficient affluence to buy tickets and purchase the sponsor's products.

As part of the feasibility study for the CC/A under study in this work, local leaders hired an experienced and well-known accounting firm to do an extensive study. A copy of that study was acquired and is the source for most of the demographic comparisons in this study (KPMG, 1999).

Valuation Analysis

Cost Method as Used in Valuation Analysis

The cost method to valuation is simple in theory, but its practical application can be difficult. Recall that the cost approach attempts to find the replacement cost of all of the values acquired from a naming rights deal. The number of ad impressions generated will drive most replacement cost analysis, and thus need to be calculated. (There are other values, however, such as public relations and philanthropic benefits whose costs also need to be calculated. Assigning a cost-of-replacement value to these predominantly non-market values is complex and unavoidably contaminated with subjectivity.) The complexity of is sufficient to be beyond the

⁹ Additional funding resulting from a naming rights deal is often assumed in the feasibility study for a CC/A.

resources of this work. Calculating the total number of ad impressions generated by a CC/A, for example, would require an expert's in-depth study. Ad impressions can be generated, at a minimum, from the sources shown in Table 4.

Table 4
Examples of Sources of Ad Impressions

Ad Impression Source
Direct advertising by the CC/A itself
Direct impressions received by people attending events
Miscellaneous non-paid mentions in newscasts and articles
TV and radio coverage of CC/A events
Additional advertising by CC/A event promoters
Passing automobile and air traffic
Direct view from area buildings
Word-of-mouth
Trade show publications of CC/A events

To get a total number of ad impressions requires analyzing each of these categories in detail. Such analysis also would require the specification of assumptions as to how many people actually perceive each type of impression as well as the impact relative to a standard ad impression.

Notwithstanding the lack of such a set of detailed analyses, some comparative observations can be made using estimates from the market value approach. The market value approach highlights the assumptions required to equate the three valuation methods.

Assume for the moment, as some of the naming rights literature suggests, that ad impressions are the primary value driver in a naming rights deal. This assumption appears rational based on the earlier quoted comments of researchers who note marketing and sales as rationale for entering into a naming rights deal. Typically, an integrated marketing program uses a variety of advertising media. The most commonly known advertising media are newspaper, radio, and TV. In addition to these three, a naming rights deal also generates ad impressions from indoor and outdoor signage, uniform logos, stationary, and many other sources. Advertising literature commonly agrees that the effect of ad impressions created from different media is not the same. In an effort to equate ad impressions, some researchers have attempted to develop various conversion ratios. An example of such a ratio might posit that four signage-generated impressions are needed to equal the effect of one radio-generated impression (Bernstein, 1998). The problem with such attempts to specify conversion ratios lies in the difficulty of controlling for and identifying the number of variables involved, such as the product advertised, initial brand awareness differences between companies, local population differences, and the contexts within which the impressions occur. Therefore, calculations of cumulative ad impressions relies upon the default assumption that all ad impressions have an identical effect. Work done with ad impression data is not an exact science.

As mentioned above, estimating the volume of cost impressions also is a complex endeavor. Some stadiums mentioned in naming rights literature purport to generate ad impressions numbering in the 100's of millions. In such claims, no mention is made of the relative allocation of impressions between the various sources, nor how those sources are

aggregated into a cumulative total. Ad impressions indicate gross delivery of impressions without regard for duplication (Surmanek, 1995). The number of ad impressions generated will be a much larger number than the total number of individual people reached because most individuals receive multiple impressions of the same ad. The number of *different* individuals seeing the ad impressions is referred to in advertising parlance as *reach*. Within the group reached, there also are metrics concerning impact of the ad. At this point, the reader can begin to see the “art” involved in advertising.

In order to compute the number of ad impressions generated for any given dollar amount, some media utilization and cost data are needed. To this end, a local advertising executive with multiple media experience was interviewed and provided the data in Table 1. (G. Guenette, personal communication, July 16, 2001.) The data in Table 5 show a *suggested* media utilization schedule for venues typically held at a CC/A and estimated average costs for advertising those venues.

Table 5
Estimated Media Utilization Schedule With Cost Per Ad Impression For Local Area

Ad Media	Suggested Utilization Rate	Estimated local cost per ad impression
Newspaper	30%	\$0.16
Radio	50%	\$0.05
TV	20%	\$0.04

The market value approach estimates the naming rights value based on the recent sale of similar CC/A naming rights deals (the market value approach is discussed in detail later). The market value cost estimates (Table 10 below) can be used in conjunction with the data in Table 5 to determine how many ad impressions can be purchased with the same amount of money. Table 6 contains this data.

Table 6
Number of Ad Impressions Purchased Using Dollar Amount From Market Value Approach Valuation (cumulative totals using suggested marketing mix in Table 4)

Convention Center		Arena	
Low End	High End	Low End	High End
7,106,965	10,956,577	5,922,465	10,216,262

If an expert’s detailed study used to determine the number of ad impressions generated by the CC/A provides estimates outside of the ranges shown in Table 10, then the potential naming rights buyer may be advised to consider another marketing option or a substantial discount from the established range in naming rights value. An example of another marketing option is to buy the CC/A’s naming values *à la carte*.

Income Method as Used in Valuation Analysis

The income approach requires all expected positive and negative cash flow streams be summed and then reported in present value.¹⁰ The income approach also is subject to many of the complications discussed in the cost approach, although both are conceptually simple. If one assumes that the primary value of a naming rights deal turns on the volume of ad impressions generated and the subsequent income those impressions are expected to produce, then the estimate of income immediately flows from that assumption. All that is needed is an accurate estimate of cumulative ad impressions generated and net income per sale.

To demonstrate the income approach, cumulative ad impressions by type of impression calculated from the market value approach are used. Ad impressions are then converted into dollars valued as of the date of the ad impression. An advertising executive interviewed estimates that in the local market of this study, a 1% response is possible for any medium that delivers a frequency of three impressions to each viewer. If the advertising campaign was executed perfectly, i.e., three and only three impressions delivered per individual, then the expected response could be found by dividing combined total impressions by three. Likewise, a worst case assumes all of the impressions generated are only seen by one individual, which is also unlikely. A reasonable assumption is that many individuals will receive excessive duplication (more than three). Finding the amount of excessive duplication for any given ad campaign would require additional research, but for purposes of illustration, we assume that 75% of ad impressions fall in the excessively duplicated category. Table 7 shows response estimates under the assumption that 75% of ad impressions are excessively duplicated.

Table 7
Response Estimates From Suggested Ad Campaign Using Funds Equal to Market Valuation Monies in Table 6 (Assumes 75% Excessive Duplication of Impressions).

	Convention Center		Arena	
	Low End	High End	Low End	High End
Original Total	7,106,965	10,956,577	5,922,465	10,216,262
Dups. Removed	592,247	913,048	493,539	851,355

The final determination of whether this estimated level of response justifies a naming rights deal is dependent upon the business and product involved.

Market Value

Both the cost method and the income method to valuation require significant assumptions and entail significant uncertainties, accordingly the market value approach is the favored tool used by naming rights valuation professionals. For example, the market value approach appears to be the approach used by the company doing the study for the Polk County CC/A. In addition, a CC/A administrator interviewed for this work, and who has been involved in two naming rights deals, corroborates this by saying that ad impressions and expected cash flows from naming rights are often not used (W. Hanbury, personal communication, June 09, 2001). Lastly note, the

¹⁰ Present values will be smaller than summed expected values if the inflation rate is less than the discount rate, but will be larger if the inflation rate is larger than the discount rate. The calculated present value should be smaller than the nominal expected value unless there is a good reason to assume the interest rate will be less than the inflation rate (e.g., subsidized loans).

KPMG feasibility study used for the CC/A under study makes no other reference to establishing naming rights cost except the market value approach.

With the market value approach mind, the primary problem becomes finding those CC/A deals that are comparable. Factors which influence the comparability of deal are bundled rights, regional demographics, venues, when negotiated, facility size. To this end, other Midwest CC/A's in Milwaukee and Des Moines were chosen. These deals were completed between 1997 and 2001, and are somewhat comparable in MSA sizes and average income to the CC/A under study here. Tables 8 and 9 provide some comparison statistics regarding population size, income, and facility

Table 8
Comparison of Population Characteristics.

MSA	Population	Average Income
Milwaukee	1,462,422	31,805
Des Moines	443,496	31,118
Area Under Study	698,875	30,692

Table 9
Duration and Cost of Comparable Naming Rights Deals, with Facility Size Characteristics.

City	Purpose	Sponsor	Start Year	Term (years)	Value (millions)	Per Yr. Avg.	Square Feet	Seating
Milwaukee	Convention Center	Midwest Express	1997	15	\$9.25	\$0.62	265,600	N/A
	Arena	U.S. Cellular	2000	6	\$2.00	\$0.34	17,300	12,700
Des Moines	Convention Center	Hy-Vee	2001	20	\$8.00	\$0.40	234,600	N/A
	Arena	Wells Fargo	2001	20	\$11.50	\$0.58	16,500	16,500
Omaha	Convention Center	Pending	2001 (pending)	Pending	Pending	Pending	~500,000	N/A
	Arena	Pending	2001 (pending)	Pending	Pending	Pending	N/A	~15,800

Even though the duration of all deals are not equal in length, dividing the total dollar amount by the duration of the agreement yields an estimate of "average" annual cost to the buyer. Note that this average is in nominal dollars, rather than discounted present value dollars. Most naming rights deals tend to have complex payment structures. For example, payments may be front-loaded (i.e., more of the payment is made at the beginning of the term than at other parts of the term) and/or payments may be dependant upon the happening of unlikely conditions (e.g., hosting post season games). If a deal is complex, then a more complex method of calculating the yearly average payment is required. However, typically, public relations gambits dictate that the CC/A merely reports a total nominal dollar amount and duration in years. At this juncture, using the market value method and the corresponding statistics in Table 5, a range can be estimated for the expected annual value of naming rights for the CC/A under study. The estimated expected annual value is shown in Table 10. These numbers are in the same range of agreement as figures given by local officials associated with the CC/A and quoted in the local press.

Table 10
Valuation Estimates of Average Yearly Payments Using Market Value Approach.

Purpose	Low End	High End
Convention Center	\$400,000	\$616,667
Arena	\$333,333	\$575,000
Total →	\$733,333	\$1,191,667

This range of value is probably the best estimate of value for the CC/A under study. Whether or not this value actually equates to one determined by the cost or income approach would require more study.

The public body preparing to sell the naming rights to the CC/A studied in this paper has estimated a total payment in the range of between \$8 million and \$10 million, but did not estimate a duration for the naming rights (Dorr, 2001). Based on the analysis of this paper as shown in Table 10, the duration of the naming rights that this public body would need to sell would be between 7 and 14 years. This is a reasonable duration. However, the timing of the arrival of the payments for the naming rights may not match the timing of the budgetary needs of the selling public body.

Conclusion

There are numerous factors to consider before signing a naming rights deal. Such deals are thought to offer unique marketing opportunities and other additional values that are hard to acquire from other sources. These deals, however, are not without their critics. Some feel that corporate sponsorship cuts against local traditions and does not recognize the considerable contributions of taxpayers. Local sentiment should be examined before entering into a naming rights agreement.

The market value approach appears to be the most commonly used method to value a naming rights deal. This approach requires less time to compute and uses fewer assumptions than either the cost or income approaches. Unfortunately, the market approach does little to determine if a naming rights deal is actually worth the expense.

Additional research is required to determine if the rapid cost increase for naming rights deals is justifiable. Rising cost could be a sign that more businesses are recognizing the often-hidden values of intangible property, or it could be a sign that competitive bidding for a limited number of opportunities has driven cost above what can be recovered from the cost of the deal.

Works Cited

- An encouraging turn in the name game. (2001, May 02). Omaha World Herald, 18.
- Bernstein, A., (1998). Venue naming rights deals are making a loud bang for the buck. Street & Smith's Sports Journal, 1(9), 5.
- Bernstein, A., (1999) Stakes get higher as fees rise. Street & Smith's Sports Business Journal, 2(8), 21-30.
- Cubé, C. (2000). Convention center may sell name. Washington Business Journal. Retrieved 08/01/2001, from <http://washington.bcentral.com/washington/stories/2000/02/14/story1.html>.
- Daniels, E. (1997, May 02). Naming rights have perks: Alltel's logo will appear all over. Jacksonville Times-Union Business Writer. Retrieved 05/16/2001 from <http://www.jacksonville.com/tu-online/stories/050297/2b3ALLTE.html>.
- DeSchrive, T. & Jensen, P. (2000). What's in a name? Price variation in sport facility naming rights. Manuscript submitted for publication.
- Dorr, R (2001, February 28). Convention center to be named by fall. The Omaha World Herald, pp. 13.
- Dorr, R (2001, March 27). Arena, river projects collide. The Omaha World Herald, pp. 9.
- Flynn, K. (2001, March 01). Group sues in bid to keep the name mile high stadium. RockieMountain News.com. Retrieved 07/05/2001 from http://www.rockymountainnews.com/drmn/local/article/0,1299,DRMN_15_71929,00.html.
- Friedman, A. (1997). Naming rights deals. Team Marketing Report.
- Guzman, R. (2000, February 16). Florida convention centers look to market their names to companies. Wall Street Journal, S4.
- Irwin, R. L., Assimakopoulos, M. K., & Sutton, W. A. (1994). A model for screening sport sponsorship opportunities. Journal of Promotion Management. 2(3/4), 53.
- Irwin, R. L., & Sutton, W. A. (1995). Creating the ideal sport sponsorship arrangement: An exploratory analysis of relationships existing between sport sponsorship inventory criteria and sponsorship objectives. Proceedings of the Seventh Bi-Annual World Marketing Congress, 5, 113-127, Melbourne, Australia.
- Johnson, G. (2001, April 21). Stadium naming rights deals hurt by sponsors' deteriorating finances. Post-Gazette.com. Retrieved 07/05/2001 from <http://www.post-gazette.com>.
- Kagan, D., et al. (2000). Analysis of the proposed Omaha Convention Center/Arena. Nebraska Taxpayers for Freedom, Retrieved 05/28/01 from <http://www.netaxpayers.org/ip-convention-center.html>.
- Kaydo, C. & Trusdell, B. (1997). Stadiums 'r us: visibility is the reason that companies are clamoring to sponsor stadiums. Sales and Marketing Management, 74 (149), 1.
- King, K. (1999, August 27). County signs off on plan to sell convention center naming rights. Grand Rapids Press, C3.
- Klaff, L. (2000, May 23). Collapse may affect business of naming rights. The Charlotte Observer. Retrieved 08/01/2001 from <http://www.thatsracin.com/00/0528/0524namingrights.htm>.
- Kovatch, K. (1997, December 19). For companies, what's in a name is worth plenty. Pittsburgh Business Times. Retrieved 08/01/2001 from <http://pittsburgh.bcentral.com/pittsburgh/stories/1997/12/22/story4.html>.

- KPMG LLP. (2000). Market Analysis Update for the Proposed New Convention Center/Arena in Omaha, Nebraska. St. Petersburg, FL.
- Kuzma, J. R., Shanklin, W. L., & McCally, J. F. (1993). Number one principle for sporting events seeking sponsors: Meet benefactors objectives. Sport Marketing Quarterly, 2 (3), 27-32.
- McCarthy, L. M., & Irwin, R. I. (1998). Names in lights: Corporate purchase of sport facility naming rights. The Cyber-Journal of Sport Marketing, 2 (3). Retrieved 05/21/2001 from <http://www.cjsm.com/Vol2/mccarthyirwin23.htm>.
- McCarthy, L. M., & Irwin, R. I. (2000). An examination of the rationale and motives for corporate purchase of stadia and arena naming rights. The Cyber-Journal of Sport Marketing, 4 (2&3). Retrieved 05/16/2001 from <http://www.cjsm.com/vol4/mccarth43.htm>.
- Naudi, J. (2001, May 08). Naming is tool to raise money. More than 30 individuals and businesses made contributions to the convention center project in return for some recognition. The Grand Rapids Press, A1.
- Patrizio, A. (2001), Welcome to dot-bankrupt stadium. Wired News. Retrieved 05/29/2001 from <http://www.wired.com/news/print/0,1294,42760,00.html>.
- Radin, D. (2001, April 26). Dot.com bombs do some damage to stadium names. Pittsburgh Post-Gazette, E-3.
- Romell, R. (1999, December 16). Sales seems near for arena naming rights deal would cap 2 years of trying to lure firms by the Wisconsin Center District. Milwaukee Journal Sentinel, 1.
- Rozin, S. (2000, September 11). Welcome to U.S. Widget Stadium. Business Week, 124.
- Sandler, D. M., & Shani, D. (1989). Olympic vs. "ambush" marketing: Who gets the gold? Journal of Advertising Research, 9-14.
- Schaaf, P. (1995). Sports Marketing. Amherst, NY: Prometheus Books.
- Schlossberg, H. (1996). Sports Marketing. Malden, MA: Blackwell Business.
- Skok, J. T. & Crapster D. (unknown). Best practices research report: Event marketing/sponsorships. The Public Affairs Group, Inc. Retrieved 05/19/2001 from <http://www.bpincc.com/pdfs/fullreports/bpeventmrkt.pdf>.
- Smith, G. V., & R. L. Parr (2000). Valuation of Intellectual Property and Intangible Assets. New York: John Wiley & Sons, Inc.
- Sports Facilities Marketing Group (2000). Untitled. Retrieved 05/13/2001 from <http://www.co.polk.ia.us>.
- Surmanek, J. (1995). Media Planning. A practical Guide. Chicago, IL: NTC Publishing Group.
- Wascoe, D. (1999, March 09). NSP likely to bid for naming rights at convention center. Minneapolis Star Tribune, 02B.