

AUGUST 2018

DEVOTED TO
LEADERS IN THE
INTELLECTUAL
PROPERTY AND
ENTERTAINMENT
COMMUNITY

VOLUME 38 NUMBER 7

THE *Licensing*
Journal

Edited by Gregory J. Battersby and Charles W. Grimes



Wolters Kluwer



Event Licensing

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Winning the Gold: Why Venue Owners Need to Consider the Importance of Flexibility in Sponsorship Agreements

Sponsorship rights are a critical component of the revenue stream for almost every major venue in the United States. Long-term sponsorship deals not only provide much of the funding for new venues to be built, but they also support the refurbishments that allow existing venues to retain tenants and attract short-term residents, such as concerts, sporting events, and tournaments. Sponsorship spending in North America alone came to a staggering \$23.1 billion in 2017, an increase from the 2016 figure of \$22.3 billion. Most of this sponsorship cash flows to and from venues in major cities. One example out of many is Los Angeles, which is home to a multitude of venues supported by an even wider array of long-term sponsors. Los Angeles recently hosted the 2018 NBA All-Star Game and the 2018 NCAA Men's Basketball Western Regional Semifinals. The city is now gearing up for additional high-profile events, such as the 2020 MLB All-Star Game, Super Bowl LVI, and the 2028 Summer Olympics, along with related ancillary events. The Los Angeles market is currently undergoing a period of intense growth, as indicated by the construction of new, state of the art venues, such as the

Ram's stadium at Hollywood Park, the Banc of California Stadium for the LAFC, and (potentially) a new stadium for the Clippers. The abundance of venues both new and old is a clear sign that even more high-profile events will be coming to LA in the years to come. These popular events—both those already scheduled and those yet-to-be-planned—present venue owners with additional hosting opportunities, making it essential to have flexibility in existing long-term sponsorship agreements.

When high-profile special events roll into town, they bring with them massive crowds—and significant business opportunities for venues big and small. Frequently, event organizers and their partners will seek to contract with venue owners for the use of their facilities. These uses include not only the main events themselves, but also related “spillover” functions. However, these special opportunities can conflict with a venue's existing sponsor relationships. Sponsorship agreements are generally multi-year contracts which often contain highly restrictive exclusivity provisions. Such contracts offer substantial benefits for both parties, as the venue owner gets economic stability and the sponsor gets exclusive access to a valuable demographic. Without careful drafting and built-in flexibility; however, these long-term contracts can severely limit a venue's ability to host special events. One factor that makes the coexistence of long-term sponsors and special events particularly difficult is the “clean venue” policy that many special events insist upon.

Many of the highest-profile special events have some version of this policy, which restricts (or eliminates altogether) a venue's existing advertising for the duration of the special event. The Olympic Games, the All-Star Game, March Madness, and the Super Bowl are just a few of the events that come with heavy restrictions on existing advertising. Frequently, organizers of special events have agreed to complete industry exclusivity for their own sponsors, and these requirements are passed along to participating venues. Exclusive sponsorship deals between special events and companies in the automotive, beverage, and financial services industries are among the most prominent examples. Unless a venue's existing sponsorship agreements provide for explicit carve-outs that allow a venue to host special events, a venue's existing sponsors are unlikely to support the removal and/or covering of the graphics and displays for which they bargained, at least absent additional costly consideration. This friction increases even more when long-term sponsors will be replaced, albeit temporarily, by their own prime competitors.

So, then, the question is this: how does a venue put itself in play to take advantage of the opportunities created by special events without poisoning its relationships with long-term sponsors? The keys to negotiating sponsorship agreements that allow for this balance include foresight, careful planning and explicit setting of mutual expectations. Venue owners in any town or city that will become host to special events need to think ahead and negotiate explicit carve-outs with future opportunities in mind. This may seem daunting, but the interests of venues and sponsors can be more closely aligned than would initially appear to be the case. In

fact, carve-outs for special events can be mutually beneficial for both venues and sponsors. Often, the additional revenue generated by hosting special events is used to improve the host venue, thereby creating value for all parties involved. In sum, the process of negotiating and drafting sponsorship agreements should incorporate the flexibility needed

to allow a venue to take part in major events without permanently undermining the key, long-term relationships that provide steady revenue.

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