

## *Sponsorship Valuation*

**Objectives.** Much of the cost of running a professional racing team is provided through benefits from various suppliers. In professional racing, many of the assets are not sold, but are instead given to racing teams by sponsors in exchange for the marketing value they accrue from their affiliation with and media coverage of the team.

For this engagement, a marketing consultant was interested in determining the value of the sponsorships and racing assets he had secured for a Champ Car team. The consultant wanted to value the total sponsorship package he secured to determine the commission the team owed him for the deal.

**Challenges & Methodologies.** A challenging factor is that there is no established methodology for determining the value of benefits in-kind in auto racing. The sponsorship deal in question involved a major automobile manufacturer, and involved many assets including dozens of customized engines, vehicles, the use of skilled engineers and mechanics, cash, and transportation to races. Moreover, due to the specialized nature of the engines and staff the sponsor provided, there was no market value since these engines and services were not readily available or commonly transacted. Therefore, the comparables approach could not be applied.

The income approach could not be utilized due to the fact that the discounted cash flow or income that is generated by the engines and staff provided by the sponsor could not be disentangled from that of the team's own experts, drivers, crew staff, etc.

Part of the reason teams garner these sponsorship contracts is based on the economic benefit they accrue from the media exposure and affiliation with a successful racing team. Merely looking at the cost to provide the assets would underestimate the sponsorship value. Using numerous approaches based on the cost of producing the racing assets, the economic value added from having the racing assets, and intermediate comparables, a range for the total value was determined. Adjustments for the timing of payment and interest rates were made to create a present discounted value of the sponsorship.

**Outcomes.** An analysis describing how the different approaches to valuation applied to this project was undertaken. We presented the client with an assessment of the commission value and identified the underlying issues involved. Deposition was given and trial was prepared for. The case settled prior to trial, and the client received a commission that was larger than had been anticipated.