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Long-term commercial partnerships and International Federations – an inevitable match?

Deloitte Sports Business Group
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Deloitte Insight | Long-term commercial partnerships and International Federations

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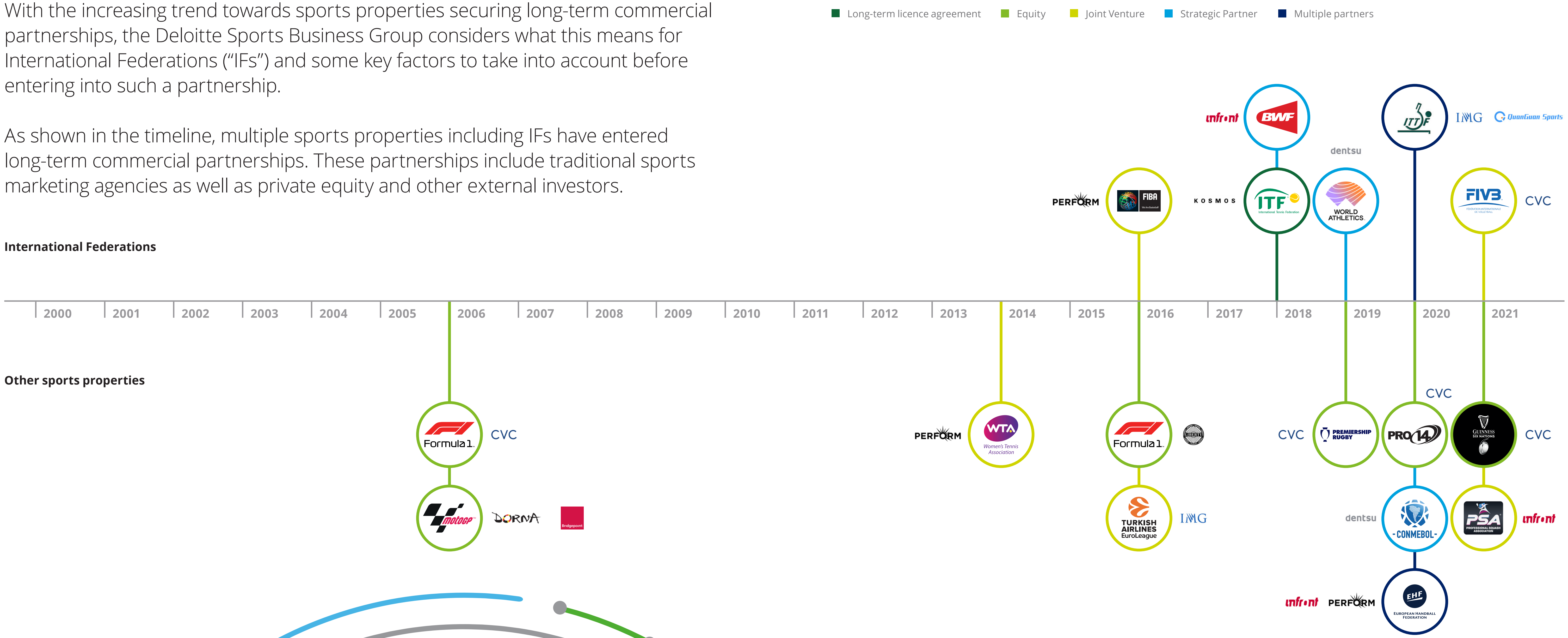
With the increasing trend towards sports properties securing long-term commercial partnerships, the Deloitte Sports Business Group considers what this means for International Federations ("IFs") and some key factors to take into account before entering into such a partnership.

As shown in the timeline, multiple sports properties including IFs have entered long-term commercial partnerships. These partnerships include traditional sports marketing agencies as well as private equity and other external investors.



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Why should an International Federation consider a long-term commercial partnership?

There are some common themes around why IFs (and indeed other sports properties) have entered long-term commercial partnerships:

Investment capital
IFs with ambitious strategies to develop and improve elements of the presentation of their sport (e.g. broadcast production quality, live event experience, digital offerings, merchandising, fan engagement) are unlikely to be able to implement all of their plans at once, particularly if they have limited cash reserves.

A long-term commercial partnership provides an opportunity for external investment to enter the sport, and thus accelerate the development of these activities.

People and network
In addition to investment capital, a long-term commercial partner can also provide access to people with the skills, experience and connections required to implement growth activities.

Examples of resources partners could bring include:

- An incentivised management team with the drive to accelerate growth;
- A strong network of people providing valuable connections; and
- Specific skills and expertise that the IF does not have in-house – this is particularly the case in recent years in which digital initiatives have become a higher and rapidly evolving priority.

For example, the growth of direct-to-consumer opportunities (such as live streaming through rights holder owned platforms and associated fan engagement through social media and mobile applications) are not historic "bread and butter" offerings for many IFs. A long-term commercial partnership with a partner that has strong digital capabilities including monetising digital assets could therefore be particularly attractive to IFs in this situation.

Who might the partner be and what commercial models are available?

There are a wide range of partnership types available to IFs and all can be specifically tailored to create a bespoke deal to suit the IF and the third-party partner. Four broad categories are shown in the table adjacent alongside some typical summary pros and cons of each.

Commercial partnership models

Description	Pros to rights holder	Cons to rights holder
Long-term licence agreement All commercial rights are granted exclusively to the third party	• Generates large upfront payment • Transfer of risk to the third party • Easiest to launch	• Loss of control over how rights are used • Requirement for safeguards to protect the integrity and governance of the sport
Equity investment Equity investment is made by the third party	• Partners with equity investment tend to be more incentivised to maximise the partnership's success • Upfront capital investment can immediately ease cashflow issues • Growing demand from Private Equity companies and investors for sports properties	• Some loss of control as the equity partner takes a direct ownership in the property • Potentially lengthy and complicated process to set up with significant legal input also required
Joint venture A formal joint venture (JV) is established with selected rights assigned to the JV	• Risk is shared between the partner and the sports property • Preferable if the Federation only wants to include a selection of properties in the partnership	• Reduced share of any commercial gains as the partner will be entitled to their share • Potentially lengthy and complicated process to set up with significant legal input also required
Strategic partnership A long term business relationship is established with a partner (can include equity as well)	• Greater control remains with the rights holder • Depending on the structure of the partnership the partner may be highly incentivised to succeed	• Strategic partners may not be as incentivised to plan for long-term success and instead may focus on short-term revenues • Depending on the level of risk the partner takes on (e.g. through minimum guarantees) they may not be highly incentivised to succeed

Key considerations for International Federations before entering a long-term strategic partnership

Strategy in place justifying why a partnership is needed and how the partner will add value
The IF should already have a clear strategic plan in place that outlines key growth areas for the sport. This will assist in defining how the partner will add value to the Federation e.g. provision of investment capital, access to specific networks, access to skills and expertise.

Separation of governance and commercial development
In order to enter a long-term commercial partnership agreement, IFs may be required to formally separate governance from the commercial side of the sport. This is usually the case if an equity offer is being considered as the statutes of IFs tend to not allow equity investments to be made directly. In addition the investor will want to ensure that they will be able to retain a share of the profits generated instead of them being wholly reinvested into the development of the sport, which is normally the case for IFs given their "not for profit" nature. In these circumstances a separate commercial rights vehicle will need to be created.

Equity arrangements
If the partner will become an equity investor, then careful consideration needs to be given to the proportion of equity that they will purchase and its associated value. The IF will need to consider how to value the commercial rights vehicle that the equity investor is investing into and the trade-off between value and control – the larger the proportion of equity acquired the greater the value but also the greater degree of control the investor will require and be able to exercise.

Structure of the partnership
Careful consideration should be given to the structure of any commercial partnership. Four key questions need answering:

1. **What is, and what is not, included in the partnership?**
   The IF may seek to ensure that the partner only receives a return where they clearly add value e.g. the partner may only receive a share of sponsorship revenues for the deals they secure.

2. **What type of commercial partnership model should be used?**
   As outlined in the table previously there are pros and cons to each type of model. The IF will need to consider factors such as amount of control they are willing to divest, the desired scale of up-front investment and how the partner is incentivised before deciding on the optimal model. This could potentially be a hybrid of the options outlined in the table.

3. **How will the partner generate a return?**
   For example, a commercial model with high minimum guarantees and a rising percentage return will provide different incentives to the partner to maximise revenues compared with a flat rate commission structure.

4. **Who is responsible for what?**
   For example, the IF may have specifically selected a partner for their expertise in broadcast production. If this is the case, then the partnership will need to clearly state what the partner's role will be in this activity and how their services will be compensated for.

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Establish assessment and evaluation criteria at the outset
A clear assessment of the potential options with associated evaluation criteria at the outset will assist in maintaining focus throughout the process and assist the IF in securing an optimal long-term partnership for the sport.

These criteria should focus on the key reasons why the IF is looking for a long-term commercial partner e.g. specific skills or investment capital needed to implement strategic activities. In addition, the IF may also want to assess factors such as:

- Is there sufficient detail behind the partner's plans to deliver value?
- Does the partner have sufficient experience of developing similar sports properties in similar markets?
- Does the partner have a track record of delivering value in the activities the IF wants it to focus on, whether that be broadcast production, digital transformation etc.?

Exit arrangements
Lastly, exit arrangements should be formally built into the commercial model structure, in particular where equity is involved. The circumstances whereby any party can terminate their involvement, whom they can sell their stake to, and any financial implications should be clearly defined at the outset – hence the requirement for specialist legal input.

What now for International Federations?

With increased competition emerging from new sport formats, eSports and other entertainment sources, there is an imminent need for IFs to commercialise. Long-term commercial partnerships can provide investment capital, skills and networks to enable the IF to accelerate commercial opportunities and grow revenues. These can then be redistributed to National Member Federations, teams and athletes and reinvested into development activities, all of which are critical in ensuring the continued growth and success of the sport.

While long-term commercial partnerships are attractive prospects for International Federations, finding the right partner and optimally structuring the partnership is not easy. Prior to starting the process the IF must be clear in what it is looking for in a commercial partner, how it will evaluate any offers and be wary of the common pitfalls to be avoided.

Deloitte Sports Business Group regularly advises International Federations considering entering a long-term commercial partnership and can assist IFs throughout this process, from identifying key strategic growth areas through to selection of a partner and contract negotiation.

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