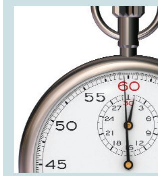
Look before you leap into naming rights agreements

Buying the rights to name a venue offers IP owners a publicity-winning opportunity. But such deals can be complex. **James D Weinberger** provides a guide

In the New York metropolitan area alone, there are 11 professional sports teams operating out of seven major sports venues within a 40 mile radius. In a culture so focused on professional sports, perhaps no marketing opportunity is as enticing for corporate brand owners than one that allows a brand owner to place its trade name or trade mark atop an arena or stadium. Companies that do so will have their brands referenced on television, in print, online and on radio countless times at little or no cost, and even provide their brands with the opportunity to become part of the cultural lexicon. Noted examples are Tropicana Field in Tampa Bay, Florida, which is known to locals as "The Trop", while the Prudential Center in Newark, New Jersey has been dubbed "The Rock" and Invesco Field at Mile High in Denver, Colorado, where then candidate Barack Obama accepted his party's nomination for President.

That said, sponsorship arrangements of this nature are not without their pitfalls, and any decision to enter into a naming rights agreement should thus be carefully considered from all angles. Brand owers should be aware of the unique issues and special problems that come with venue naming rights deals.

One-minute read



Venue naming rights agreements are high-profile, high-reward avenues for brand owners and their marketing departments. As with any such enterprise, however, the details matter, and a brand owner's decision to enter into a naming rights agreement with a venue operator is only part of the challenge. Both the marketing and legal departments need to focus carefully on the details of the relationship in order to preserve the brand owner's best interests. Brand owners need to be aware of all of the possible scenarios outlined here to fit in the context of their own businesses in order to decide how best to structure such an agreement and protect their brand.

Long-term deals

One major consideration for corporate brand owners when entering into a stadium or arena naming rights agreement is the length of the relationship. In a more conventional sponsorship relationship, such as for a single event (like a golf tournament) or seasonal collection of events (a summer concert series), a brand owner can ensure that it has regular and continuous opportunities to re-evaluate whether the branding opportunity is something that is working out in a positive way, either financially or in terms of other, unquantifiable but desirable gains, such as increasing brand exposure or integrity. Not so with venue naming rights agreements, where the stadium operator usually insists on a longer agreement, usually in the 20 to 30 year range, for a number of reasons.

First, the operator in most cases has taken on a tremendous amount of debt (bolstered by taxpayer and government financing), meaning that raising money may be a top priority. It goes without saying that the longer the term of the relationship between the brand owner and the stadium operator, the larger fee the operator can demand. Second, there is a desired level of continuity between the stadium name, the teams that play there and the overall image of the building, and the stadium operator generally prefers not to have a constantly changing image for its venue. Third, and more practically, changing the name of the venue frequently can be very costly. In addition to signage surrounding the arena or stadium there are other considerations, such as ticket printing and street signage in urban areas. Operators who bear these costs will want to minimise them by making agreements of longer terms. Finally, the fact that many potential corporate sponsors are willing to commit to long-term agreements simply means that there is little room for potential sponsors to negotiate for a relatively short term deal. So the real question is whether the potential sponsor is willing to tie itself to a sponsorship relationship for 20 to 30 years, not whether it can negotiate the term down to a lower number. Most stadium naming deals will require a longer term than a more traditional marketing partnership, and the potential risks and benefits associated with such a deal are going to be amplified as a result.

Know what you are sponsoring

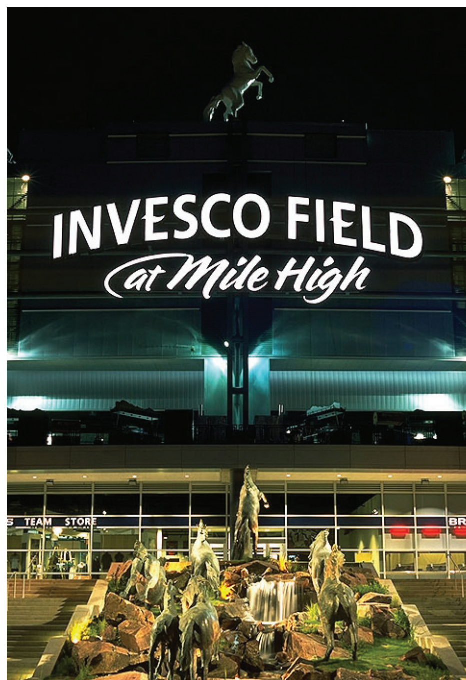
Many marketing departments probably view the opportunity to have their brand name on a stadium or arena as a once-in-a-lifetime opportunity. But as with any co-branding arrangement, the corporate brand owner must consider what exactly it is sponsoring. Just because a newly built venue bears a corporate name does not nec-

essarily mean that the public will have a positive perception of that brand.

In the case of a stadium where the primary inhabitant is a losing team, perhaps even a beautiful venue or a positive ballpark experience can be undermined by the performance of the team playing there. For example, in Pittsburgh, Pennsylvania, PNC Bank is the sponsor of a well planned and by all accounts lovely baseball stadium. The only problem is that the stadium's chief occupant, the Pittsburgh Pirates, are in the midst of their seventeenth consecutive losing season, and have not made the playoffs in all of that time. No matter how attractive the stadium, and no matter how pleasant a fan's experience there might otherwise be, the losing perception may be leaking from the baseball team to the stadium itself. In that case the brand owner is probably going to experience negative perception that it might not have anticipated.

On the other hand, there can be a tremendous benefit to the brand owner when the team playing in the sponsored stadium is one with a storied history or a consistent stream of success. Not too far from PNC Park is Heinz Field, a new football stadium which is home to the NFL's Pittsburgh Steelers. Much to the chagrin of this New York Giants fan, the Steelers have a consistent track record of putting a quality team on the field, and the team's proud history and winning culture likely creates tremendous brand equity for Heinz, the sponsor of the stadium.

Moreover, even though a potential naming rights sponsor is probably most focused on the sports teams that play in a particular venue, prior to entering into any licensing relationship, the brand owner must carefully consider other events that take place in that venue. Almost all US sporting venues are used for other purposes, such as concerts, truck shows, pet shows, circuses, political conventions, memorabilia shows, and even religious gatherings. Prior to entering into any sponsorship relationship where the corporate brand name is going to be at the top of the stadium, a brand owner has to consider carefully whether it wants to be associated with those events in each and every instance. There is no way to take the name off the stadium simply because you don't like who is going to be inside. Indeed, one can imagine that certain types of concerts are very appealing to a name sponsor while others might not be. One company may prefer an association with a rock-and-roll concert, one may prefer an association with a hip hop concert, and another a staged opera or classical music event. All of these things will be occurring under one roof, and so the brand owner must stop and think about whether it is willing to have at least some level of attachment to each kind of event that occurs there. If not, a naming agreement may cause too broad an exposure for the brand owner.



Finally, consider that in some circumstances, the brand owner will need to negotiate and/or engage different entities aside from the stadium operator to make the naming relationship complete. That is, there may be more to be negotiated than simply the stadium or arena agreement. In New York, two recent corporate brand owners with stadium naming rights agreements have taken different paths in this area, with one paying the city for the rights to rename the adjourning transit hub, and the other declining to take on the additional fees associated with expanding the venue's branding to public transportation. External opportunities such as these may add to the marketing opportunities, but they will add to costs as well. The important point here is to consider the entirety of the consequences of the agreement, not just the fact of entering into it.

To license or not to license

Once a brand owner decides to push forward with an opportunity to place its name on a stadium or arena, the focus then moves to the nature of the relationship. As most experienced intellectual property counsel know, there are many ways to allow a third party to use your trade mark, ranging from a simple consent, to a broader sponsorship agreement to a trade mark licence.

A licensing arrangement is likely very appealing to brand owners in the context of a naming rights agreement. In most trade mark licence agreements, the use by the licensee inures to the benefit of the licensor, meaning that if my brand name for orange juice is used on a building name, concessions and other goods or services, the scope of trade mark protection for my trade mark broadens accordingly, allowing me to take a far more aggressive stance in enforcing my rights against third party uses that traditionally were non-competitive. A licensing agreement of this kind can be used to create a broad awareness of the brand, even if the name itself is not famous at the time the relationship begins.

As the US dilution laws are notoriously selective in terms of the high level of fame required to state or pursue a claim, a licensing approach to a stadium naming rights agreement could provide an advantage over a straightforward consent, since in a licensing scenario the use of the licensee is, legally speaking, use of the licensor. This is not to say that the more straightforward consent would not provide the brand owner with broad exposure, but it is not necessarily the kind of exposure that will provide the technical basis for an aggressive trade mark infringement claim, since the mark will be used by the stadium owner, not the brand owner.

However, there are downsides to a licensing arrangement. Under US law, as in many jurisdictions, the licensor is required to exercise quality control over the use of the mark that has been licensed to a third party; if quality control is not exercised as required in the

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agreement, the brand own has engaged in so-called naked licensing, which is prohibited by law. This means that the brand owner's trade mark is subject to cancellation and could be rendered ineffective in proceedings against third parties, in addition to other consequences. And while most licence agreements deal with quality control issues by holding the licensee to a predetermined standard – whether by attaching examples of the permitted goods to the contract or by providing for regular reports to be sent to the licensor concerning the quality of the goods under licence – a venue naming agreement presents different challenges (see box).

Luckily, any quality control issues can be handled through proper drafting. After all, there is no requirement that a high quality be preserved. Rather, the only requirement is that quality control in fact be exercised. So if the licensor sets a bar that is not too high, maintaining that bar should not be a problem, at least from the perspective of trade mark protection.

Moreover, the short supply of desirable venues for naming right agreements dictates that the majority of stadium operators are probably unwilling to agree to a licence at all. Though some venue operators could be in such need of capital as to subject themselves to being a licensee, most prefer and have the leverage to insist upon the stronger position of simply taking a consent to use the brand owner's name on the building as part of a larger sponsorship relationship. In such a case, the concerns about quality control fall by the wayside. And given the potential pitfalls, this may not be a bad thing for brand owners at the end of the day.

Three licensing challenges

1. Brand owners must consider the cost implications of a licence. In the normal licensing situation, the licensee pays the licensor for the right to use the brand name in question. In a venue naming agreement, however, it is the brand owner who pays the venue operator for the right to have its name on the building. Under these circumstances, the added burdens of quality control would likely cause the price to go up since the venue operator would not otherwise have to deal with the brand owner's interference operation of its building.

2. Many venue naming agreements have complex relationships that transcend simply putting a brand name on the building, and which involve cross-promotion with other licensees as well as outer signage, advertising, etc. The brand owner needs to assure itself that it can adequately control the quality of the goods or services used and promoted under its name or otherwise risk damage to its trade mark.

3. A brand owner should query whether the possibility of association of its mark with negative circumstances surrounding the venue could possibly require a level of quality control that is impractical or unworkable. And while an association with a losing team would not create a quality control problem of this kind, problems with the physical plant of a stadium or arena might, in the case of a poorly built stadium that is found to have been constructed with low quality materials or design defects, it is possible that the licensor will be in a position of having to exercise control in a manner that it is simply not equipped to handle.

Termination

Finally, the brand owner should consider the likely demands of the venue operator when it comes to grounds for termination of the naming rights agreement, which may, due to market considerations, be different from those usually found in business contracts generally and trade mark licences specifically. Consider, for example, that Boston's main indoor arena has gone from being called the Shawmut Center to the Fleet Center to the TD Banknorth Garden to the TD Garden in a span of less than 15 years. These changes were due solely to corporate acquisitions involving the original sponsor. Given this widely known example, one would imagine that a venue operator looking at a sponsorship agreement today would try to avoid such a situation.

It is also worth considering the case of the stadium that houses the Houston Astros baseball team. In 1999, Houston-based Enron Corporation agreed to pay more than $100 million over three decades for the right to name the stadium after its core brand name. After Enron failed in an accounting scandal in 2001, the team purchased back the naming rights out of bankruptcy and the stadium temporarily took on the name Astros Field before the naming rights were later resold to a new sponsor. Unfortunately for the team, the entire saga became synonymous with the very public collapse of Enron, which hit the Houston community very hard. Rather than a simple case of revenue and civic pride, the naming rights agreement became a very public headache, and likely cost the venue operator in the long run.

Given the economic conditions that have arisen in the past few years and the attendant public controversy, venue operators are likely to be extremely cautious in entering into sponsorship agreements with brand owners, particularly when they are financial institutions. As the US government has stepped in to offer bailouts to major financial institutions over the past year, politicians and taxpayers alike have begun to publicly question whether it was appropriate for companies receiving financial assistance from the government to spend those funds on ballparks and stadiums. And despite the obvious benefits from such a naming rights agreement from a marketing perspective, it is just as easy to see the appeal of the public outcry – the thought of CEOs entertaining clients in lavish luxury boxes with government money is fairly offensive to the average citizen.

Thus, brand owners now need to tread carefully when considering a stadium sponsorship agreement, particularly where the contract could ultimately fall out of their control (as could be the case with government takeovers and taxpayer bailouts, though this has not yet occurred). Venue operators are likely to be wary of these kinds of issues and insist on termination options at even the slightest hint of financial or other improprieties that could lead to the kind of problems the Astros faced with Enron. Such onerous provisions could get to the point where companies that risk the kind of broad financial collapse experienced by Enron could be shut out of high-exposure naming rights agreements altogether.

Fross Zelnick Lehrman & Zissu represents a number of clients whose names appear on sports arenas and stadiums. The views in this article are solely those of the author.

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