Signaling Theory and National Basketball Association Jersey Sponsorships

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2:30-2:55 PM, Ballroom C **(including questions)**

Sponsorship clutter is a continuing concern for the brand marketers who invested more than $62 billion in sponsorship in 2017 (ESP, 2018; Séguin & O'Reilly, 2008). Research has demonstrated that an increase in the number of sponsors (i.e., clutter) processed by consumers can negatively impact the consumer's ability to recall those sponsors. For example, Breuer and Rumpf (2012) measured on-screen clutter by the number of sponsors exposed during television broadcasts, and found a significant negative effect for each additional brand exposed. Similarly, Cornwell and Relyea (2000) found increased perceived clutter by consumers negatively affected the number of sponsors both recognized and recalled.

In 2017, a new sponsorship option became available for sport organizations to offer to sponsors eager to break through the clutter and rise above the multitude of other brands seeking a consumer's attention. While National Football League (NFL) and the National Hockey League (NHL) teams had previously offered brands the opportunity to place their logos/marks on team's practice (i.e, training) jerseys, at the beginning of the 2017-18 season the National Basketball Association (NBA) became the first major North American sport league to provide sponsors with branding on the jerseys worn by each of its teams during game play. Some have posited that the scarce real estate on game jerseys is so valuable that jersey sponsorships stand just below naming rights agreements in the pantheon of sponsorships, based on return on investment (ROI; Lombardo & Lefton, 2017). Accordingly, the average annual revenue per jersey sponsorship thus far has been $9.3 million (Lombardo & Lefton, 2017). Driving demand for these new sponsorships is the fact that in addition to providing a clutter-free environment (i.e., no other sponsors appear on the jerseys), they also provide what Wiles and Danielova (2009) termed "brand integration," or exposure for the brand during the event itself rather than solely during commercial breaks (e.g., Jensen, Walsh, & Cobbs, 2018).

Clark, Cornwell, and Pruitt (2002) first introduced the concept of signaling theory's potential role in sponsorship decision-making. Signaling theory posits that marketing decision-makers utilize large scale sponsorships, such as naming rights or jersey sponsorships, in order to signal to potential business partners and investors that the company is a healthy and profitable future investment. Based on a 1.65 percent increase in the stock price of 49 sponsors of arenas and stadiums, Clark et al. (2002) reasoned that the investment in such sponsorships may be a successful strategy, based on this signal sent to potential investors. "When high-tech managers say they expect their companies to be profitable in the future it is one thing," noted Clark et al. (2002, p. 26). "When they undertake voluntary commitments for multimillion dollar sponsorship arrangements, investors are much more likely to take notice."

Among a number of the initial sponsors committing to NBA jersey sponsorships are emerging tech firms who may benefit from such a signal, such as Infor (Brooklyn), Sharecare (Atlanta), Rakuten (Golden State), Fit Bit (Minnesota), Wish (Los Angeles), Ultimate Software (Miami), Squarespace (New York), and Lending Tree (Charlotte). Thus, the purpose of this study is to undertake the first event study analysis of the initial announcement of NBA jersey sponsorships. Based on signaling theory, the announcement of a firm undertaking an investment in a NBA jersey sponsorship should result in abnormal returns in stock prices in the initial days following the announcement.

In addition to determining whether the signal sent by firms by their investment in jersey sponsorships is a successful one, the study will additionally analyze whether regional proximity between the sponsoring firm and sponsored organization affects the returns realized by the sponsor. Recent research on the marketplace perception of

sponsorships suggests that relationships that share regional proximity, such as when the sponsoring firm's corporate headquarters is located in the same city as the team, should lead to more successful partnerships (Woisetschläger, Backhaus, & Cornwell, 2017). From a theoretical standpoint, partnerships with geographically proximate sponsors not only provide a signal to consumers of high commitment to the relationship, but are also seen by consumers as being better-fitting. This commitment on behalf of the hometown sponsor influences consumer perceptions of fit and whether the sponsor's motives are seen as affective, rather than calculative (Woisetschläger et al., 2017). Thus, this study will also investigate whether jersey sponsors that enjoy regional proximity, such as General Electric (Boston), Harley-Davidson (Milwaukee), Sun Life Financial (Toronto), Flagstar Bank (Detroit), Goodyear (Cleveland), and Zatarain's (New Orleans) enjoyed abnormal returns following the announcement of their jersey sponsorships.

Initial data analysis indicates that, on average, the stock of firms announcing the sponsorship of an NBA team experienced positive abnormal returns on trading days immediately surrounding the announcement. For the three day event window from one day prior to the announcement to one day following the announcement, firms experienced an average cumulative abnormal return (CAR) of 0.6394%, or nearly 64 basis points. This implies that the market perceives these sponsorships as value creating in excess of the amount paid for the sponsorship, on average. As stated, a high concentration of the sponsorships that have been announced involved a firm headquartered in close proximity to the NBA team. However, the abnormal return of the firms in proximity is not significantly different than the full sample, as these firms experience average CARs of 0.6356%. There is a smaller sample of firms that fall within the technology classification. On average, these firms experience slightly more positive average CARs of 0.8448%. Overall, it appears that investors believe NBA jersey sponsorship agreements are worthwhile marketing strategies that provide positive value to the firms at the contractual price. These are other results will be discussed.

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