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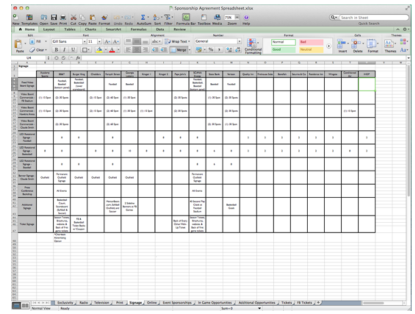
Valuation: should you use a yardstick or a scale?



The sponsorship valuation device, be it a spreadsheet or a matrix or a chart, is a staple of sponsorship sales. Its attractiveness is obvious. It allows a property owner with a thorough inventory of assets and a good idea of exposure each will gain to produce a defensible, objective number that will likely withstand scrutiny - mostly because everyone else will be scrutinizing it using similar principles.

But Judy Haber, Senior Partner of Performance Sponsorship Group, says that common yardstick loses its relevance when you're operating is smaller markets, say with populations of 30,000 or fewer. There, prospective sponsors are more interested in a scale than a yardstick.

Haber, who has recently closed four naming rights deals in smaller communities, says that capacity and the state of the local economy are far more important determinants of asset value in small town Canada.

It's not a question of whether conventional valuation methods overvalue or undervalue assets she says. It's simply that the figure is not relevant to the discussion.

"What they want to know is comparative analysis. What did like facilities go for?", she says.

One of the foundations of conventional valuation models is media value, which in turn is rooted in an estimate of the total return an advertiser might expect for a given volume of exposure. But that's not the driver of sponsorship decisions in small towns, says Haber. There, sponsorship decisions are based mostly in a desire to support initiatives that the community values. There is a hard business rationale, but Haber says it takes second place. About 70% of the motivation is community involvement, 30% is how this will help the sponsor's business.

Municipalities spend heavily on asset valuation, she says, and CAOs may have little choice. Councils will often insist on some objective estimate of asset value, and a quick Google search will lead to the inescapable conclusion that there is one industry standard. Haber says they may be setting themselves up for disappointment.

It's not uncommon for town councillors to question the seemingly low value local staff have secured for municipal assets. Those critics may have entered the marketplace with starry-eyed expectations based on conventional valuation methodologies.

Haber says it may be time for smaller communities to consider a different objective methodology.

"Maybe there is something to be learned form fundraising," she says. "Maybe it is a discussion with 20 companies to find out what their interest would be in putting their name on a ballpark or a bench." And out of that may come a much better sense of an asset's true value.