COLLEGE FOOTWEAR, APPAREL, AND EQUIPMENT SPONSORSHIPS

Market Overview and Outlook

February 1, 2022

Executive Summary

Few relationships are as central to a college athletic department's identity as the relationship with a footwear, apparel, and equipment partner. Deals with companies like Nike, adidas, and Under Armour provide schools with compensation in the form of cash and product in exchange for exposure and other sponsorship benefits. In the mid-2010s, Under Armour was an aggressive bidder for college sponsorship rights, helping to drive unprecedented contract values. When Under Armour's fortunes turned towards the end of 2016, the company's retreat limited the upside for schools bringing their sponsorship rights to the open market. Today, with Under Armour still largely on the sideline, fewer schools are positioned to benefit from competitive bidding and negotiate for significant gains in compensation. As athletic directors navigate the rapidly changing landscape of college sports, they must accurately assess both the market and their risk tolerance to properly calibrate their approach and maximize the value of their footwear, apparel, and equipment sponsorship rights.

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Market Overview

History

The current model for college footwear, apparel, and equipment sponsorship agreements dates to the late 1980s, with Nike and the University of Miami agreeing to the first "all school" deal in 1988.[1] Nike's agreement with Miami served as a template that would be adopted across college sports throughout the 1990s. Benefitting from a first mover advantage, Nike built an unrivaled portfolio of college partnerships. Adidas, Nike's largest competitor, established itself as the clear number two player in the space. The Germany-based company trailed Nike in number of school partners, assembling a narrower, top-heavy roster, for which it often had to pay a premium. Smaller companies (e.g., Russell Athletic) would enter into the occasional sponsorship agreement, but none represented a true competitive threat to the global giants.

In the mid-2000s, Under Armour began to gradually build its college sports sponsorship portfolio. Several years later, the rapidly growing company disrupted the status quo, presenting premier schools with a third option superior to others that had previously been available. Under Armour was willing to meet or exceed the cash compensation offered by Nike and adidas. While Under Armour lacked the same breadth of products as its more established competitors, a compelling growth story lent credibility to its prospects for meeting the full range of athletic departments' product needs in the not-too-distant future. As discussed subsequently, Under Armour would prove to be among the most impactful forces shaping the market over the last decade.

Deal Structure

College sponsorship deal structures can vary widely, but on the most basic level, schools provide partners with sponsorship benefits (e.g., exposure, tickets, signage, etc.) in exchange for two types of compensation: cash and product. Cash typically takes the form of an annual "base compensation" or "rights fee." Many deals also include an up-front signing bonus as additional incentive for schools to enter or extend agreements. The cash is paid to the athletic department according to the contractually agreed schedule, but payments may also be subject to performance bonuses or deductions for certain circumstances, such as spatting or NCAA sanctions. Not all agreements include a cash component. Schools with premier sports programs and nationally recognized brands often receive cash compensation as part of their deals, but many schools receive only product.

[1] Kish, Matthew. "Nike, Adidas Spend Big to 'Own the Campus.'" Bizjournals.com, 30 Aug. 2013, https://www.bizjournals.com/portland/print-edition/2013/08/30/nike-adidas-spend-big-to-own-the.html?page=all.

Product supplied to schools serves as the primary means by which the sponsors gain brand exposure, while also relieving the schools from some or all of the cost of purchasing product for their sports programs. Schools negotiate for an annual "product allowance" or "product allotment," which ascribes a dollar value to the amount of product that the sponsor is obligated to provide. Amounts are most frequently expressed at retail value, though they are sometimes expressed on a wholesale basis. Unlike cash compensation, there is a natural upper limit to how much product schools can use. Schools that field more teams have greater product needs, while those with fewer teams are likely to require less. There is no guarantee that schools will receive a product supply that satisfies the needs of all their athletic teams. Even when a product allowance is provided, schools may still purchase additional product from their partner, with contracts often providing for those purchases to be made at wholesale prices.

Most compensation is provided in variations of these two broadly defined categories, though it can also take other forms. Licensing royalties are typically negotiated in conjunction with each sponsorship agreement, and some contracts provide for minimum royalty guarantees. Sponsors can also contract separately with individual coaches, compensating those coaches directly. Marketing commitments, product allotments for athletic department use, and performance-based cash bonuses can augment the primary cash and product amounts. In certain instances, Under Armour has even provided compensation in the form of company stock, adding an element of financial complexity and risk to those partnerships.

Nature of Negotiations

The negotiation process for college sponsorships is driven largely by contractually stipulated rights of first negotiation and first refusal. Parties are free to renew or extend agreements early, and they often do so. Absent an early extension, contracts typically call for good faith negotiations to extend the partnership during an exclusive first negotiation period. During this period, the school and the incumbent partner are obligated to discuss a potential extension, though they are under no obligation to reach a binding agreement. Prior to the end of this exclusive first negotiation period, schools are prohibited from negotiating with alternative partners.

If the exclusive first negotiation period ends and the parties have not reached a binding agreement, the school is then free to conduct negotiations with other potential partners. Depending on the nature of discussions during the exclusive negotiating period, the school may continue negotiations with the incumbent in parallel. Under a typical provision for right of first refusal, if the school receives a binding offer from a new partner, the school is obligated to provide the incumbent with the opportunity to match the terms of that offer. If the incumbent elects to match, they effectively agree to an extension on those terms.

These contractual provisions provide incumbents with certain measures of protection against schools leaving for another partner. However, if an incumbent is intent on retaining a particular sponsorship property, they will often seek to extend that agreement long before the exclusive negotiating period. As the school gets closer to being able to talk to other potential partners, the incumbent's leverage decreases. Incumbents can control the negotiation by renewing early, avoiding competitive threats and the unpredictability of the open market. To encourage schools to renew early, incumbents often provide one-time cash payments and modest step-ups in annual compensation. While they ultimately pay more to retain the school, incumbents avoid the risk of a bidding war that might drive the price up even further or lead them to lose the sponsorship asset.

By virtue of its dominant position, Nike can exert leverage in ways that adidas and Under Armour cannot. Nike holds the sponsorship rights to approximately two-thirds of Power 5 schools. While Nike may consider certain schools to be "must-have," the company's deep roster of partners limits the downside of any one school leaving for another brand. During negotiations, if a partner indicates that they plan to go out to the open market, Nike might withdraw themselves from the bidding process. The school then faces the risk that adidas and Under Armour might have limited interest, leaving the school to settle for a deal well below what Nike might have initially offered. Adidas and Under Armour, with smaller college marketing budgets and different acquisition strategies, are not capable of or interested in absorbing every school that leaves Nike. By occasionally letting schools walk away and not participating in a competitive bidding process, Nike indirectly sends a message to its other partners, reducing the likelihood that they will seek to test the open market.

Nike has historically used its breadth of college partnerships to manage its overall compensation structure. In each individual negotiation, Nike must consider the potential ripple effects across the rest of its college portfolio. The credibility of the company's negotiating position can be enhanced by pointing to how much they pay comparable or rival schools. Given the emphasis Nike places on early renewals, contract values are rarely determined in an open market negotiation, which helps to keep the perceived market value of college sponsorships artificially low.

In addition to realizing benefits from its size, Nike also often enjoys a reputational advantage over adidas and Under Armour in the US college sports market. No athletic director is going to be second-guessed for electing to partner with Nike, which might not necessarily be true of competitors. Coaches may perceive recruiting advantages associated with a Nike partnership, and Nike looks to leverage the influence of those coaches during negotiations. This represents yet another angle Nike uses to secure agreements at values lower than what its competitors might be willing to pay. With this collection of factors in Nike's favor, athletic directors may find themselves faced with the difficult question of how much less they are willing to accept to partner with Nike.

Sponsor Financials

Sponsors negotiate college deals in the context of their broader businesses, with macroeconomic, industry-specific, and company-specific factors influencing the amount of money they budget for college sponsorships. Funding for these agreements comes from the companies' marketing budgets, which each defines differently in its financial reports. Each company reports marketing expense under the following categories:

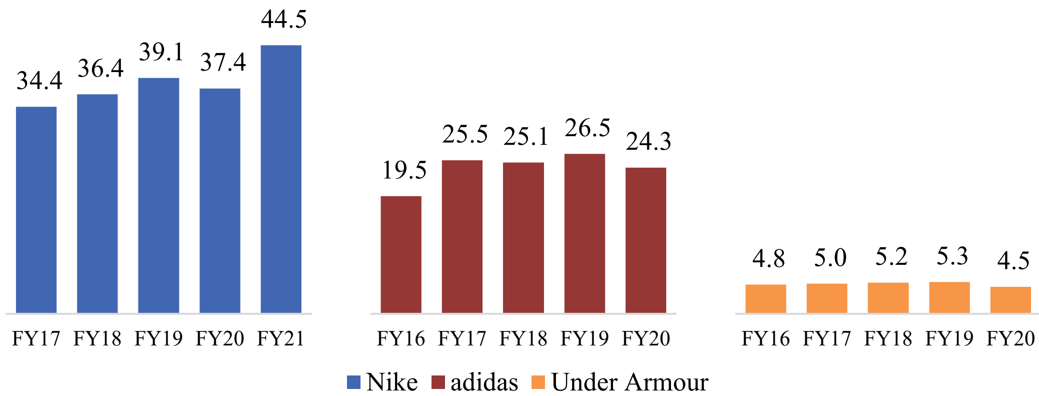
MARKETING EXPENSE DEFINITIONS[2]

Company	Item	Definition
Nike	Demand creation expense	"consists of advertising and promotion costs, including costs of endorsement contracts, complimentary products, television, digital and print advertising and media costs, brand events and retail brand presentation"
adidas	Marketing and point-of-sale expenses	"consist of promotion and communication spending such as promotion contracts, advertising, events and other communication activities. However, they do not include marketing overhead expenses, which are presented in distribution and selling expenses"
Under Armour	Marketing costs	"consists primarily of sports and brand marketing, media, and retail presentation. Sports and brand marketing includes professional, club, collegiate sponsorship, individual athlete and influencer agreements, and products provided directly to team equipment managers and to individual athletes. Media includes digital, broadcast and print media outlets, including social and mobile media. Retail presentation includes sales displays and concept shops and depreciation expense specific to our in-store fixture programs. Our marketing costs are an important driver of our growth."

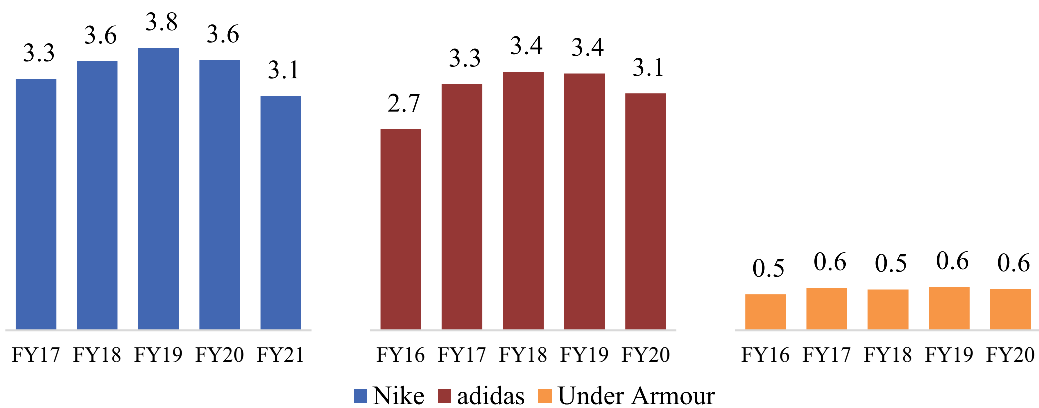
Marketing expense, as defined by each company, represents a relatively consistent percentage of total revenue. Over the 5 most recently reported fiscal years, Nike's marketing expense has averaged 9 percent of total revenues, adidas' 13 percent, and Under Armour's 11 percent. College sports account for just a portion of these overall marketing expenses, subject to internal budgeting decisions. The total revenue and marketing expense for Nike, adidas, and Under Armour over the five most recently reported fiscal years are shown in the following figures.

2 Source: Company financial reports.

TOTAL REVENUE[3]
(Amounts in Billions of U.S. Dollars)



MARKETING EXPENSE[4]
(Amounts in Billions of U.S. Dollars)



The total revenue and marketing expense figures illustrate the scale at which Nike and adidas operate relative to Under Armour. Nike has generated 7 to 10 times as much revenue as Under Armour over the last 5 fiscal years, while adidas has generated roughly 4 to 5 times as much. Marketing expense, while not directly comparable based on varying definitions, demonstrates a similar gap between Nike and adidas' spending and Under Armour's spending.

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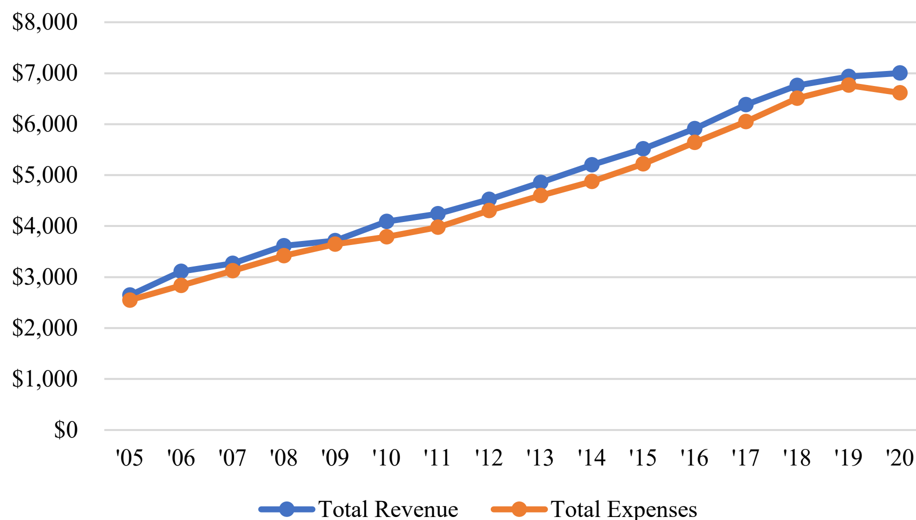
[3] Source: S&P Global.
Note: Nike fiscal year ends May 31. Adidas and Under Armour fiscal years end December 31.
[4] Ibid.

School Financials

The financial circumstances of individual schools can also influence deal negotiations. For example, athletic departments operating at a deficit often feel financial pressures, and they may be inclined to extend their footwear, apparel, and equipment sponsorship early in exchange for cash that solves a short-term need. The healthier an athletic department's finances, the more flexibility it has to forego a near term cash infusion to potentially reap even greater financial rewards in an open market negotiation. Athletic departments can sometimes fill budget gaps with assistance from student fees and other school funds, but in general schools in stronger financial positions enter negotiations with greater leverage.

A database published by USA Today lends some insight into how athletic department finances have evolved over the last fifteen years.[5] The database includes financial information through the 2019-2020 academic year, so it does not yet reflect the full impact of the COVID-19 pandemic. Aggregate revenue and expenses for the 55 Power 5 schools included in the USA Today database are shown in the following figure.

POWER 5 ATHLETIC DEPARTMENT TOTAL REVENUE AND EXPENSES[6]
(Amounts in Millions of U.S. Dollars)

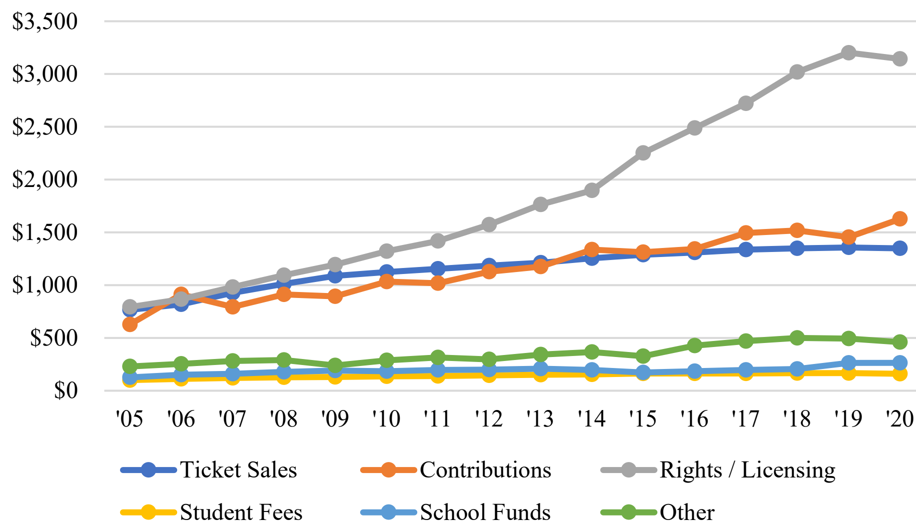


[5] Berkowitz, Steve. "NCAA Finances: Revenue and Expenses by School." USA Today, 13 Oct. 2021, https://sports.usatoday.com/ncaa/finances.

[6] Data reflects the aggregate revenue of the 55 Power 5 schools included in the USA Today database. Power 5 designation reflects realignment that has not yet taken effect.

Across the 55 Power 5 schools included in the USA Today database, total revenue grew at an annual rate of 7.2 percent from 2005 to 2020. This growth was driven by the "Rights/Licensing" category, which grew at an annual rate of 10.3 percent over that same period. While this category includes revenue from footwear, apparel, and equipment sponsorship agreements, the rapid growth is most attributable to growth in media rights revenue. Broader trends in the media industry saw the value of live sports rights increase dramatically, and college conferences and schools benefitted from those trends in the form of lucrative new television agreements. The growth of each revenue segment, as defined by USA Today, is shown in the following figure.

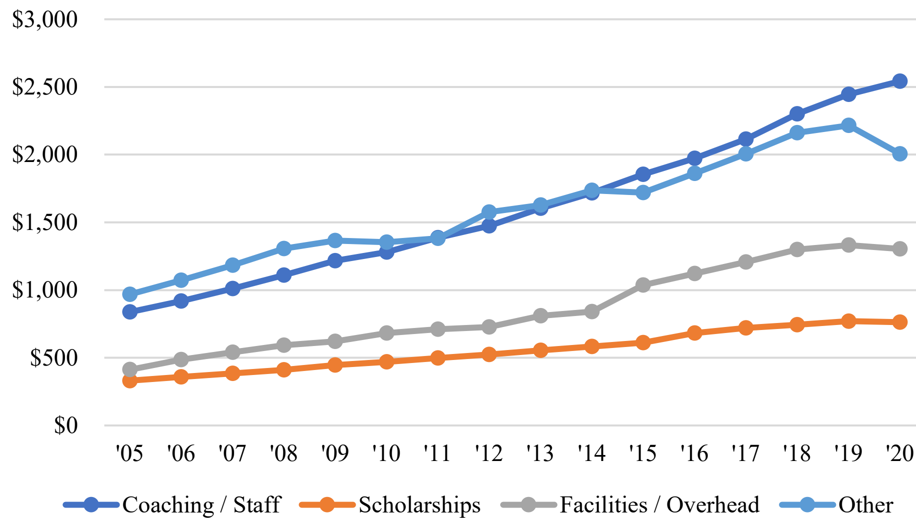
POWER 5 ATHLETIC DEPARTMENT REVENUE SEGMENTS[7]
(Amounts in Millions of U.S. Dollars)



Meanwhile, total expenses almost kept pace with revenues, growing at an annual rate of 7.1 percent from 2005 to 2020. "Facilities/Overhead" and "Coaching/Staff" grew at an annual rate of 8.6 percent and 8.3 percent, respectively. "Scholarships" grew at 6.1 percent per year, and the "Other" category, which includes expenditures for athletic equipment and uniforms, grew by 5.3 percent per year. The growth of each expense segment, as defined by USA Today, is shown in the following figure.

[7] Data reflects the aggregate revenue of the 55 Power 5 schools included in the USA Today database. Power 5 designation reflects realignment that has not yet taken effect.

POWER 5 ATHLETIC DEPARTMENT EXPENSE SEGMENTS[8]
(Amounts in Millions of U.S. Dollars)



Revenue that schools derive from footwear, apparel, and equipment sponsorships may not be as large as amounts generated from media rights or ticket sales, but the compensation can still represent a significant portion of total revenue. At the same time, product allotments can go a long way towards balancing a budget, simply by relieving the school of expenses that it would otherwise have to bear. With that in mind, it would be shortsighted for schools to think of footwear, apparel, and equipment partnerships purely as a branding exercise.

[8] Data reflects the aggregate expenses of the 55 Power 5 schools included in the USA Today database. Power 5 designation reflects realignment that has not yet taken effect.

Current Partnerships

As discussed, Nike maintains a dominant position in the market, holding sponsorship agreements with 46 of the projected 69 Power 5 schools following the latest round of realignment. A summary of the current agreements across the Power 5 conferences is shown in the following figure.

POWER 5 FOOTWEAR, APPAREL, AND EQUIPMENT PARTNERSHIPS[9]
(As of Fall 2021)

ACC	Big 12	Big Ten	Pac-12	SEC	Independent
Boston College*	Baylor	Illinois	Arizona	Alabama	Notre Dame
Clemson	BYU	Indiana	Arizona State	Arkansas	
Duke	Cincinnati	Iowa	California	Auburn	
Florida State	Houston	Maryland	UCLA^	Florida^	
Georgia Tech	Iowa State	Michigan^	Colorado	Georgia	
Louisville	Kansas	Michigan State	Oregon	Kentucky	
Miami (FL)	Kansas State	Minnesota	Oregon State	LSU	
North Carolina^	Oklahoma State	Nebraska	USC	Oklahoma^	
NC State	TCU	Northwestern	Stanford	Ole Miss	
Pittsburgh	Texas Tech	Ohio State	Utah	Mississippi State	
Syracuse	UCF	Penn State	Washington	Missouri	
Virginia	West Virginia	Purdue	Washington State	South Carolina	
Virginia Tech		Rutgers		Tennessee	
Wake Forest		Wisconsin		Texas	
				Texas A&M	
				Vanderbilt	

Totals by Company			
Nike	adidas	Under Armour	Other
46	12	10	1

* New Balance supplies product for all sports except football. Adidas supplies football product.
^ Indicates Jordan Brand.
Note: Conference composition reflects realignment that has not yet taken effect.

The current partnership landscape reflects a multi-year period of explosive growth from 2014 through 2016, followed by an abrupt slowdown. The following sections discuss both periods, as well as current market dynamics.

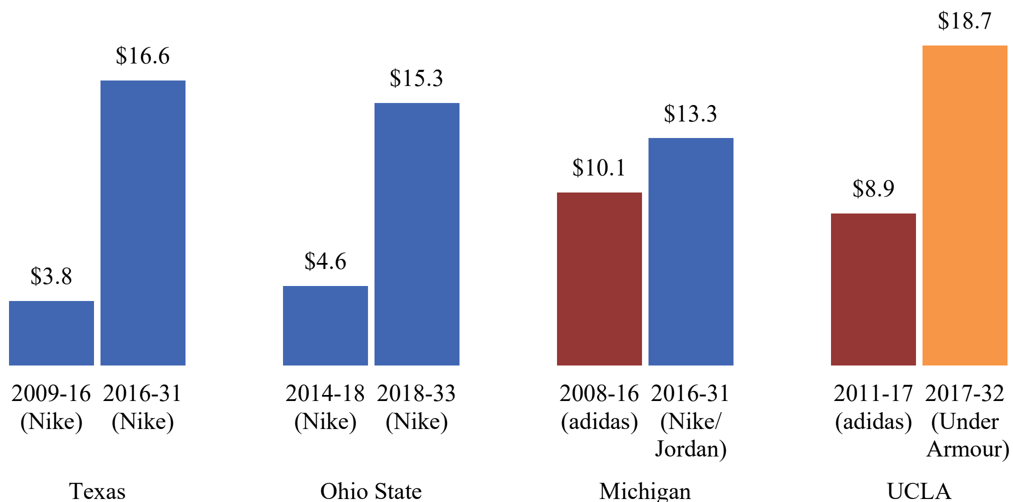
[9] Power 5 designation reflects realignment that has not yet taken effect.

2014-2016: Under Armour, Media Trends Drive Growth

The mid-2010s saw some of college sports' most powerful brands enter deals at unprecedented values. The wave of landmark deals began with Notre Dame switching from adidas to Under Armour in 2014. While contract details are not public, reports suggest the 10-year deal is worth approximately $90 million in total, which at the time was the largest such contract in college sports history.[10] Beyond the dollar value, the deal attested to Under Armour's readiness to play at the highest levels of college sports, offering an exciting new alternative to Nike and adidas. At the same time, Notre Dame's trust and belief in Under Armour provided the company with validation and credibility across the industry. If the product and service provided by Under Armour was good enough for Notre Dame, it must be good enough for anybody.

The market for top tier college properties escalated over the next several years, with the industry's biggest brands vying for the claim of "the largest deal in college sports." In a particularly active window, Texas, Ohio State, Michigan, and UCLA all announced new deals between July 2015 and May 2016. The following figure shows how the Average Annual Value ("AAV") of each school's new deal compares to the AAV under its prior deal.

AAV OF SELECTED FOOTWEAR, APPAREL, AND EQUIPMENT DEALS[11,12]
(Amounts in Millions of U.S. Dollars)



10 Rovell, Darren. "Under Armour Signs Notre Dame." ESPN, 21 Jan. 2014, https://www.espn.com/college-football/story/_/id/10328133/notre-dame-fighting-irish-armour-agree-most-valuable-apparel-contract-ncaa-history.

11 AAV is calculated by dividing the total guaranteed cash compensation (including marketing commitments, minimum royalty guarantees, and money for university initiatives) and product at retail value by the number of years over which that compensation is scheduled to be received.

12 Data is sourced from publicly available contracts. Publicly reported values for Ohio State do not align with the three publicly available contracts that comprise the school's latest Nike deal.

While these schools struck deals at record levels, the escalation in value was not limited to the very top of the market. Miami[13], Wisconsin[14], Nebraska[15], Kansas[16], and Auburn[17] were also among schools signing new deals reported to be the most lucrative in their history. Growth in deal values was not automatic, with some schools experiencing a less frothy market than others, but in the aggregate Under Armour's ambitions bode well for those schools in a position to take their rights to the open market.

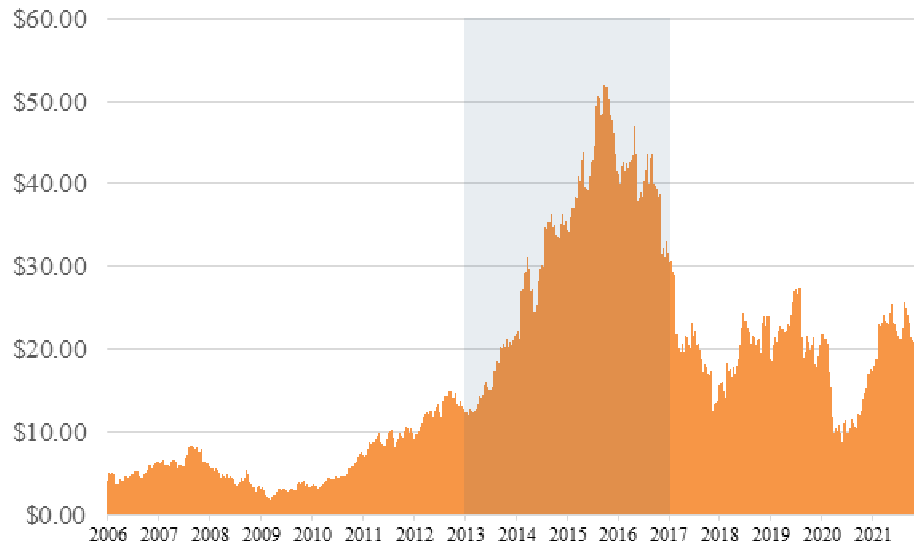
Under Armour's Influence

Announcing the school's 10-year agreement with Under Armour in January 2014, Notre Dame athletic director Jack Swarbrick said "We love the company we are partnering with, and we can't wait to grow with them. We don't believe we're partnering with a $2 billion company. We're partnering with a $20 billion company."[18] Under Armour's high growth expectations were rooted in an impressive run of recent performance. In 2013, Under Armour's revenue had increased by 27% to $2.33 billion, and guidance for 2014 suggested revenue growth again exceeding 20 percent.[19]

The broader financial market echoed Swarbrick's enthusiasm for the company's growth prospects. Under Armour's stock price rose consistently through late 2015, as shown in the following figure.

[13] "Miami, Adidas Strike 12-Year Deal." ESPN, 8 Jan. 2015, https://www.espn.com/college-sports/story/_/id/12135717/miami-hurricanes-adidas-strike-12-year-merchandise-marketing-agreement.
[14] Baggot, Andy. "The Future Is Now: Behind the Partnership with under Armour." Wisconsin Badgers, 1 July 2016, https://uwbadgers.com/news/2016/7/1/general-the-future-is-now-behind-the-partnership-with-under-armour.aspx.
[15] "Proposed 11-Year Adidas Extension Worth 3 Times as Much as Current Deal." The Grand Island Independent, 24 June 2019, https://theindependent.com/sports/college/huskers_hq/proposed-11-year-adidas-extension-worth-3-times-as-much-as-current-deal/article_d3705582-7981-11e7-b4f8-8fc1e963a36d.html.
[16] Tait, Matt. "Ku Announces Partnership Extension with Adidas through 2031." KUsports.com, 24 Apr. 2019, http://www2.kusports.com/news/2019/apr/24/ku-announces-partnership-extension-adidas/.
[17] Robby Kalland. "Auburn, Under Armour Sign 9-Year, $78.1 Million Extension through 2025." CBSSports.com, 1 Oct. 2015, https://www.cbssports.com/college-football/news/auburn-under-armour-sign-9-year-781-million-extension-through-2025/.
[18] Rovell, Darren. "Under Armour Signs Notre Dame." ESPN, 21 Jan. 2014, https://www.espn.com/college-football/story/_/id/10328133/notre-dame-fighting-irish-armour-agree-most-valuable-apparel-contract-ncaa-history.
[19] "Under Armour Reports Fourth Quarter Net Revenues Growth of 35% and Full Year Net Revenues Growth of 27%; Raises Full Year 2014 Outlook." Under Armour, Inc., 30 Jan. 2014, http://investor.underarmour.com/news-releases/news-release-details/under-armour-reports-fourth-quarter-net-revenues-growth-35-and.

UNDER ARMOUR STOCK PRICE[20]
(Share Price in Whole U.S. Dollars)



Despite its relatively small size compared to Nike and adidas, Under Armour's growth expectations enhanced the company's ability to compete. As Under Armour's revenues were projected to grow, marketing expenses would also have to grow to support them. Given the long-term nature of college sponsorship deals, the company was willing to make commitments based on expected growth in future marketing budgets. While the company couldn't compete with Nike's breadth of college sports assets, growth expectations and a scarcity of schools reaching the open market led Under Armour to rationalize deals at values that Nike and adidas were sometimes unwilling to match.

Under Armour used its growth expectations as a key selling point for potential partners. The company's deal with Notre Dame reportedly included the option for the school to take a portion of the cash compensation in company stock. While public reports don't indicate whether Notre Dame elected to receive stock in lieu of cash, Swarbrick's comments on the company's growth expectations take on a greater significance when viewed in this context, suggesting that the school saw value in the option.

Details of Notre Dame's potential stock compensation are not publicly available, but Under Armour's deal with Auburn offers another example. The contract calls for Under Armour to grant the school $10 million worth of stock, delivered in nine annual installments. The deal was signed in September 2015, just before the stock reached an all-time high in October. While the stock compensation offered greater upside than simply

[20] Source: S&P Global.

taking $10 million in cash, it also carried greater risk. Based on the company's recent track record in September 2015, coming off 21 consecutive quarters of year over year revenue growth greater than 20 percent, the use of stock compensation was likely an attractive component for Auburn in signing the deal.

Under Armour's impact was evident beyond the deals that they were able to successfully land. The competitive threat put pressure on Nike and adidas to improve their offers to schools. Nike and adidas sought to extend deals early to avoid open market negotiations, knowing that Under Armour might come in with an offer that would be difficult to justify matching. The increased viability of going to the open market provided schools with leverage to extract greater value during exclusive extension negotiations. In instances where schools declined to extend early in favor of testing the market, Under Armour's involvement often drove up the contract values for the more disciplined Nike and adidas. After some initial resistance, Nike and adidas came to terms with their reduced leverage and the reality that they would need to pay more to keep their top schools.

Live Sports' Increasing Importance to the Pay-TV Bundle

The evolution of the media industry provided additional tailwinds for the value of college sponsorships. As scripted and general entertainment programming migrated out of the traditional Pay-TV bundle, live sports became the linchpin of the highly lucrative legacy media business. Media companies saw opportunity in national cable sports networks, with investments in Fox Sports 1 and NBC Sports Network intended to replicate the success of ESPN. Rights fees for premium sports programming escalated dramatically, as competitive bidding provided rights holders with substantial leverage. Competition was so fierce that even programming that might have been considered a level below the top tier could expect to earn significant increases in rights fees. Not only was live sports the only type of programming maintaining or growing its audience, but that audience was unique in that it watched live, allowing for ad revenue that was disappearing in other types of content more prone to time-shifted viewing.

Conference Media Deals Deliver Greater Economics, Exposure

In the late 2000s and early 2010s, college conferences, which license media rights on behalf of their members, capitalized on broader media trends with lucrative new media deals. Media companies' appetite for live sports, especially football and basketball, led to new deals that provided an unprecedented number of windows on national broadcast and cable networks.

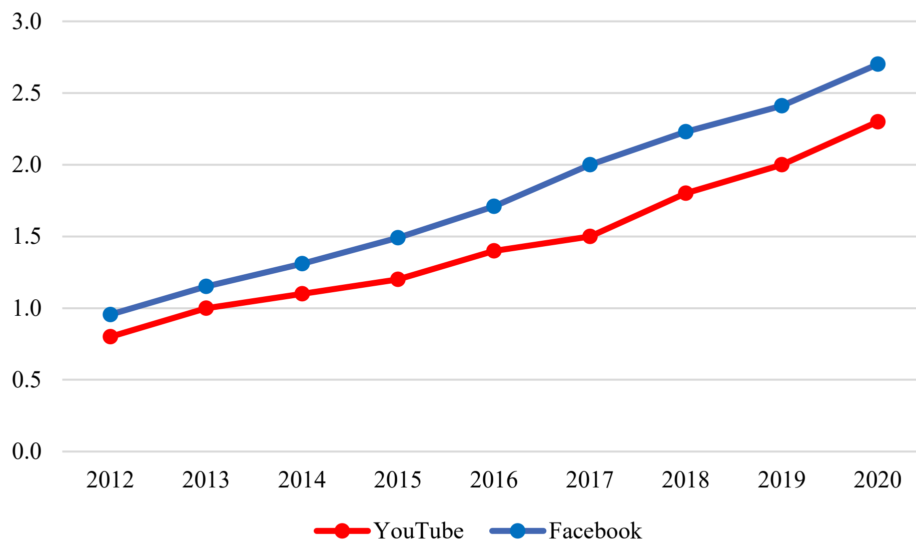
Armed with the financial security from the licensing of their most valuable rights, conferences and schools pursued novel ways to distribute and monetize their remaining live event inventory. The Big Ten Network, Pac-12 Networks, SEC Network, and Longhorn Network employed competing business models to provide a cable television

outlet for schools' Olympic sports. Events that previously would never have aired on any platform were now available on nationally distributed networks.

Growing Social Media Platforms Provide Incremental Exposure

As college sports gained increased exposure through more national windows on broadcast and cable television, growing digital and social media platforms further expanded their reach. YouTube, Facebook, Instagram, Twitter, and Snapchat offered new avenues for audiences to engage with college sports. The growth of these mobile-first platforms often came at the expense of the Pay-TV bundle, particularly among younger demographics. While cautious about cannibalizing traditional television audiences, media companies, conferences, and schools all sought ways to best address this growing digital opportunity. Whether through highlights, behind the scenes access, social media campaigns, or otherwise, these platforms offered additional touch points and exposure. The following figure illustrates the global scale and rapid growth of both YouTube and Facebook, two of the largest such platforms.

MONTHLY ACTIVE USERS ("MAUs")[21]
(Amounts in Billions)



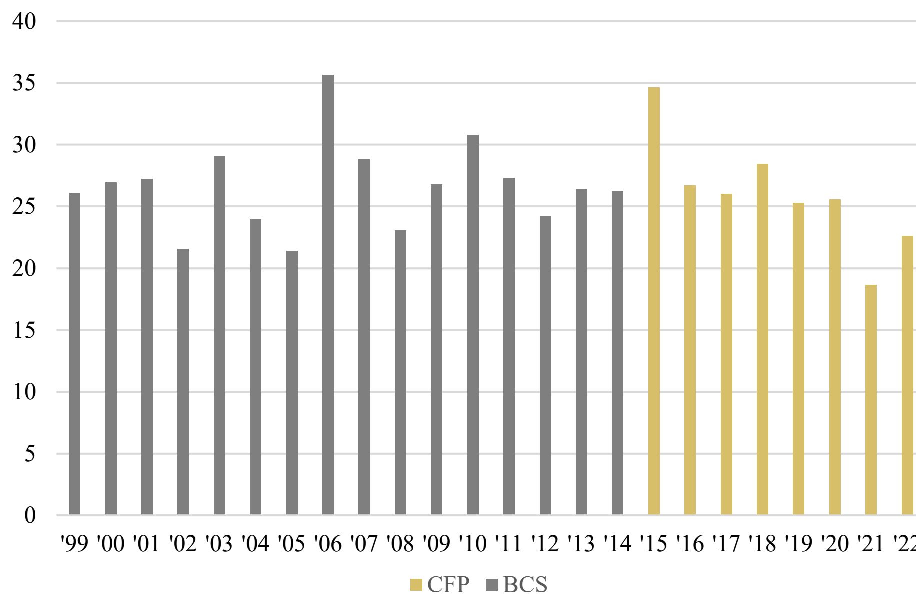
In the 2014-2016 period, YouTube and Facebook's global user bases ranged from roughly one to one and a half billion monthly active users. This reach, which dwarfed the US Pay-TV bundle, has only grown since. MAUs for both platforms have grown at an annual rate of approximately 14 percent between 2012 and 2020.

[21] Source: Business of Apps, 13 May 2020, https://www.businessofapps.com/.

College Sports Viewership Outperforms

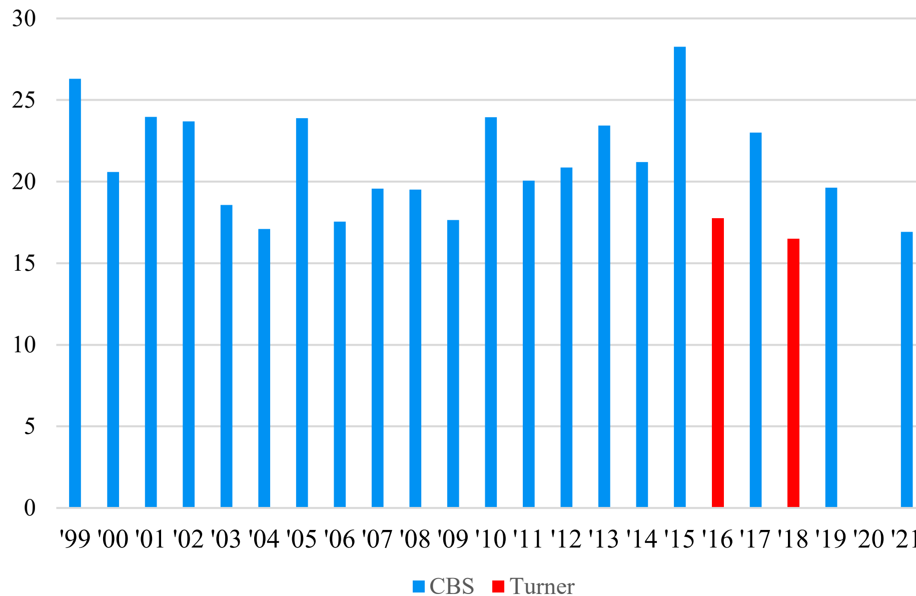
Amid disruption to the broader media industry that featured an overall decline in television viewership[22], premium college sports programming largely grew or maintained viewership levels. To illustrate, the following figures show the average viewership of football and men's basketball championships since 1999.

VIEWERSHIP OF COLLEGE FOOTBALL CHAMPIONSHIP GAME[23]
(Viewers in Millions)



[22] Stenovec, Tim. "Traditional TV Just Got Bashed by an Influential Expert." Business Insider, 20 Aug. 2015, https://www.businessinsider.com/traditional-tv-is-in-decline-2015-8.
[23] "College Football Playoff (and BCS) Ratings History." Sports Media Watch, 14 Jan. 2021, https://www.sportsmediawatch.com/college-football-playoff-ratings-bcs/.

VIEWERSHIP OF MEN'S NCAA TOURNAMENT FINAL[24]
(Viewers in millions)



Through the mid-2010s, college sports, like sports more broadly, proved to be largely insulated from changes in the media industry. As footwear, apparel, and equipment suppliers derive value from the exposure generated for their brands, sustained high viewership levels and increased availability across platforms increased the potential value of college sponsorship deals.

[24] "NCAA Men's Final Four Ratings Hub." Sports Media Watch, 7 Apr. 2021, https://www.sportsmediawatch.com/ncaa-final-four-ratings-history-most-watched-games-cbs-tbs-nbc/.

2017-Present: Under Armour Struggles, Market Slows

Under Armour Faces Business and Legal Challenges

Just as Under Armour was instrumental in driving growth in college sponsorship values, a change in the company's fortunes led that growth to stall. In late 2016, the company's streak of consecutive quarters with over 20 percent year-to-year revenue growth came to an end. The company began to miss growth expectations and its stock price sank. In November of 2019, the company reported its fifth straight quarter of revenue declines in the North America market. As if that weren't challenging enough, news of an SEC investigation into the company's accounting practices proved to be a further drag.[25] The company's growth, brand image, and stock that had been so attractive to schools like Notre Dame and Auburn, were now in doubt.

Under Armour's financial challenges trickled down to the company's marketing budget, and by extension the company's appetite for college sports sponsorships. After the company struck a deal with Cal in 2016, it took a much less aggressive approach towards acquiring new college properties. In effect, the company removed itself from all subsequent bidding processes, unwilling or unable to take on additional financial commitments. Outside of the college space, in 2018 the company shed itself of its on-field apparel contract with Major League Baseball before the deal even went into effect.[26] The net result was that if a school was looking to test the open market, it was all but assured that an offer from Under Armour would not be there. Any deal would have to come from Nike or adidas, which knew how to capitalize on the resulting leverage. While 2017 and 2018 saw the occasional reset in deal values for certain schools, those were largely Nike and adidas bringing existing partners' deals in line with the landmark deals struck in the years just prior.

In 2020, Under Armour's cost cutting efforts combined with the COVID-19 pandemic to create contentious legal situations, as the company attempted to use force majeure clauses to terminate its contracts with UCLA and Cal.[27] At the same time, the company negotiated a buyout and early termination agreement with Cincinnati, restructuring the deal on more favorable terms four years before it was scheduled to expire in 2025.[28] The legal disputes with the California schools, however, have lingered. UCLA signed a new

[25] Creswell, Julie. "Under Armour's Stock Tanks as Troubles Pile Up." The New York Times, The New York Times, 4 Nov. 2019, https://www.nytimes.com/2019/11/04/business/under-armour-stock-investigation.html.
[26] Lefton, Terry. "Roster Change: Nike, Not Under Armour, To Get MLB On-Field Rights." Sports Business Journal, 24 May 2018, https://www.sportsbusinessjournal.com/Daily/Issues/2018/05/24/Marketing-and-Sponsorship/MLB-Nike.aspx.
[27] Schlabach, Mark. "UCLA Sues Under Armour for Terminating $280 Million Sponsorship Deal with School." ESPN, 27 Aug. 2020, https://www.espn.com/college-sports/story/_/id/29749328/ucla-sues-armour-terminating-280-million-sponsorship-deal-school.
[28] Long, Michael. "Under Armour Continues College Contracts Purge with University of Cincinnati." SportsPro, 19 Nov. 2020, https://www.sportspromedia.com/news/under-armour-university-of-cincinnati-college-sport-sponsorship/.

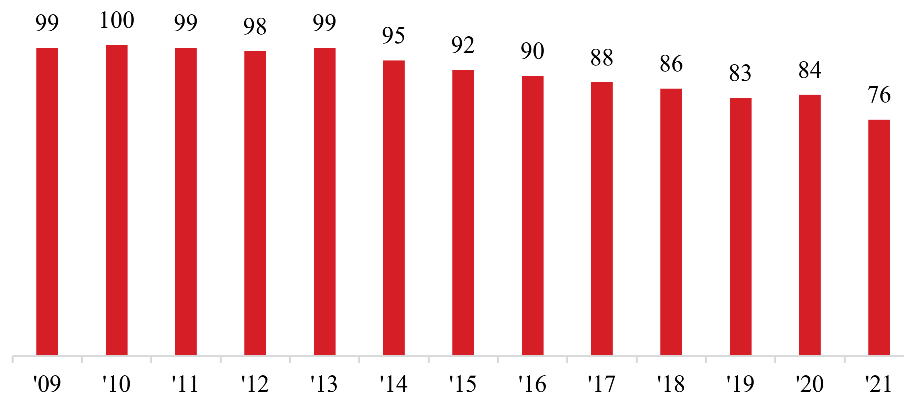
agreement with Nike's Jordan Brand in the meantime, but litigation remains ongoing.[29] The company's disagreement with Cal has not reached a public resolution.[30]

By sitting out the bidding process for new properties, Under Armour had already contributed towards a cooling of the market for college sponsorships. Schools could hope, however, that the company would return as a disruptive bidder once it regained its financial footing. However, the company's treatment of existing partners as it purges sponsorship contracts raises questions about schools' willingness to partner with Under Armour if they do return to the negotiating table. When the company decides to re-engage, it may need to pay a premium relative to Nike and adidas to compensate schools for the perceived incremental risk of partnering with them.

Pay-TV Decline Slowly Drives Sports to Streaming Platforms

As Under Armour pulled back from the market, the media industry dynamics that supported prior growth began to moderate. Scripted and general entertainment programming continued to leave the Pay-TV bundle for streaming services, and cord cutting accelerated. Cable networks such as ESPN, FS1, and NBC Sports Network, which at one point enjoyed subscriber figures approaching 90 or 100 million, found their subscriber counts sharply declining. ESPN's eroding subscriber base, an illustrative example for sports television, is shown in the following figure.

ESPN'S ESTIMATED DOMESTIC SUBSCRIBERS[31]
(As of September, in Millions)



29 McCann, Michael. "UCLA Wins Early Round With Under Armour in $200M Court Case." Sportico, 27 Aug. 2021, https://www.sportico.com/law/analysis/2021/ucla-under-armour-case-1234638008/.
30 Wilner, Jon. "Details Emerge in Under Armour's Legal Dispute with Cal, and They Stretch the Imagination." The Mercury News, 18 Aug. 2020, https://www.mercurynews.com/2020/08/18/details-emerge-in-under-armours-legal-dispute-with-cal-and-they-stretch-the-imagination/.
31 Source: Company financial reports.

The cord cutting phenomenon made live sports an even more dominant form of programming within a less diverse Pay-TV bundle. However, the more sports-centric bundle faced headwinds in the form of more limited cable TV reach, aging viewership demographics, and challenges in generating sustained viewership growth.

Cable television's business model, in which customers paid for a bundle of channels regardless of whether they watched them, quickly came to be viewed as an antiquated, melting iceberg. Traditional media companies sought to replicate the success of Netflix and set themselves up for the future by launching direct-to-consumer streaming services, including Disney+, HBO Max, Paramount+, and Peacock, which joined a crowded landscape of existing offerings. After launching in 2018, Disney's ESPN+ quickly became the leading sports-focused direct-to-consumer service, outpacing smaller competitors like DAZN and FloSports to reach more than 17 million subscribers by the end of 2021.[32]

The role of sports within the transition from the Pay-TV bundle to direct-to-consumer services is complicated, and the movement of live sports to streaming platforms has been slow relative to other types of programming. Existing contracts have limited media companies' flexibility. Companies are also hesitant to abandon the legacy business model that, while declining, remains a key source of cash. Even though exclusive live sports rights can be a valuable customer acquisition tool for direct-to-consumer streaming services, the highest profile sports content largely remains on broadcast and cable television.

However, sports programming has begun to transition to streaming, and recent major television rights agreements demonstrate the importance of laying a flexible groundwork for the future. The NFL's latest television deals that extend through 2032 still center on broadcast distribution, but Thursday Night Football is set to move to Amazon and various mechanisms are in place to provide flexibility to broadcast partners and their companion streaming services.[33] ESPN made a more aggressive move into streaming with its recent NHL deal. Under the new agreement, ESPN+ (and Hulu) will stream 75 games exclusively.[34] ESPN+ will also distribute NHL's out of market package.[35] In an earlier effort to drive subscribers to ESPN+, ESPN struck a deal with UFC to become the promotion's exclusive Pay Per View provider.[36]

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[32] Dixon, Ed. "ESPN+ Passes 17.1m Subs as Disney Streaming Revenue Hits US$16.3bn for 2021." SportsPro, 11 Nov. 2021, https://www.sportspromedia.com/news/espn-plus-streaming-subscribers-disney-q4-2021-financial-results/.

[33] Crupi, Anthony. "NFL Media Partners Won't Imperil TV Model With a Mad Dash to OTT." Sportico, 22 Mar. 2021, https://www.sportico.com/business/media/2021/nfl-partners-seek-balancing-act-between-tv-streaming-1234625321/.

[34] Ourand, John. "SBJ Media: NHL Deal Reflects Future of Rights Packages." Sports Business Journal, 10 Mar. 2021, https://www.sportsbusinessjournal.com/SB-Blogs/Newsletter-Media/2021/03/10.aspx.

[35] Draper, Kevin. "N.H.L. Returns to ESPN in a 7-Year Deal With an Emphasis on Streaming." The New York Times, 11 Mar. 2021, https://www.nytimes.com/2021/03/10/sports/hockey/hockey-nhl-espn-disney.html.

[36] Ourand, John. "ESPN Extends with UFC; ESPN+ Becomes Exclusive PPV Provider." Sports Business Journal, 18 Mar. 2019, https://www.sportsbusinessjournal.com/Daily/Closing-Bell/2019/03/18/ESPN-UFC.aspx.

Similarly, college conference media rights agreements increasingly provide for distribution on streaming platforms. Events that might have previously aired on regional sports networks are now more likely to be distributed through ESPN+ as part of more comprehensive deals. In the near term, the relatively low subscriber figures for these recently launched services will limit the potential audience for such programming. Adoption is likely to increase as the transition continues, but it remains unclear at what point the balance of Pay-TV subscribers and streaming subscribers will reach an equilibrium.

New direct-to-consumer streaming services represent more of a niche offering compared to the traditional Pay-TV bundle. Whereas previously the rising tide of the Pay-TV bundle lifted all boats, the retrenchment in the cable industry left certain schools with less desirable media distribution options. Footwear, apparel, and equipment companies will weigh how these offerings might impact the potential audience and exposure they can expect to receive by virtue of their college sponsorships. All else being equal, a sponsor would prefer the larger audience afforded by broadcast television to the narrower audience watching through a niche streaming service.

Consolidation of Power in College Sports

As college sports have developed more sophisticated commercialization strategies, power has grown increasingly concentrated among a relatively small subset of institutions. Even within the Power 5 conferences, discrepancies in revenue generating capacity contribute to a lack of competitive balance on the field. The College Football Playoff, introduced for the 2014-2015 season, offers one stark example. In the 7 seasons since the introduction of the College Football Playoff, only 13 schools have participated.[37] A history of CFP semifinal participants is shown in the following figure.

COLLEGE FOOTBALL PLAYOFF SEMIFINAL PARTICIPANTS

Rank	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
1	Alabama	Clemson	Alabama	Clemson	Alabama	LSU	Alabama	Alabama
2	Oregon	Alabama	Clemson	Oklahoma	Clemson	Ohio State	Clemson	Michigan
3	Florida State	Michigan State	Ohio State	Georgia	Notre Dame	Clemson	Ohio State	Georgia
4	Ohio State	Oklahoma	Washington	Alabama	Oklahoma^	Oklahoma^	Notre Dame	Cincinnati

Total Semifinal Appearances by Supplier			
Nike	adidas	Under Armour	Other
29	0	3	0

^ Indicates Jordan Brand.

[37] "All-Time Postseason Appearances by Team in CFP Era." College Football Playoff, https://collegefootballplayoff.com/sports/2021/9/7/team-appearances.aspx.

Alabama accounts for 7 appearances and Clemson for 6, while Ohio State and Oklahoma have appeared 4 times each. The list of schools that could potentially earn a trip to the semifinals is small and somewhat predictable. As that small set of schools has separated itself from the pack, those schools have gained an outsized share of media coverage and placement on more prominent media platforms.

Schools and conferences are caught in an arms race to generate more revenue than their peers, and the schools at the top may be close to reaching escape velocity. On a conference level, the SEC is in the lead, and only made itself stronger with the recently announced additions of Texas and Oklahoma. On-field success begets greater media exposure and revenue opportunities, and that revenue can then be reinvested in on-field success in a virtuous cycle.

Footwear, apparel, and equipment sponsorships largely follow similar power dynamics. While the top brands break out of the standard deal structure and receive outsized value, schools that fall outside of this elite group are sometimes fortunate to secure relatively modest deals. As more money is wrapped up in the top properties that have a firm grip on college sports' largest stages, the remaining schools may find themselves challenged to keep pace.

Many Top Schools Already Under Long-Term Contracts

It should not be overlooked that the perceived market slowdown may be partially attributable to timing or lack of publicly available information. The flurry of groundbreaking deals in 2014 and 2015 took some of the biggest college brands off the market. Alabama, which could be expected to garner one of the largest deals, reportedly extended its deal with Nike in 2013, before the market took off.[38] Public details of the contract are limited, and the deal may have been amended or extended since then, but any such agreements have not generated the same industry-wide attention.

[38] Casagrande, Michael. "Alabama Quietly Extended Nike Deal, Missed Gold Rush." Al, 8 Aug. 2018, https://www.al.com/alabamafootball/2018/08/alabama_quietly_extended_nike.html.

Looking Forward

Under Armour a Less Credible Alternative

In the near term, it does not appear that schools outside the top tier will have an easy path to significant growth in deal values. Generating meaningful competitive tension, which isn't always a given with three viable bidders, poses an even greater challenge with only two. Marquee brands may still be able to inspire competitive bidding from Nike and adidas, but the list of schools that might wield that leverage continues to narrow. Even if Under Armour re-enters as a competitive bidder, the recent legal developments with UCLA and Cal may limit the attractiveness of any proposals the company makes. Knowing this, Nike and adidas are unlikely to take the threat as seriously, making it difficult for schools to leverage an offer from Under Armour in negotiations.

New CEOs May Shift Priorities

As of 2016, Nike, adidas, and Under Armour were led by longstanding CEOs. All three companies have since undergone leadership changes at the very top. Kasper Rorsted became adidas' CEO in October 2016, replacing Herbert Hainer, who had led the company for 15 years. In January 2020, new CEOs took over at both Nike and Under Armour. John Donahoe became the CEO of Nike, replacing Mark Parker, who had served in the role since 2006. At Under Armour, Patrik Frisk, formerly Under Armour's president and chief operating officer, replaced Kevin Plank, who had served in the CEO role since founding the company in 1996. These changes in leadership are sure to bring changes in both strategic priorities and company culture. While college sports will continue to play a role in each company's marketing strategy, their approaches to the market in the past may not necessarily be indicative of how they might approach the market in the future.

Schools Face Near Term Budget Pressure

As the COVID-19 pandemic took hold in the United States during the final three months of the 2019-2020 academic year, the full force of its negative impact on athletic department budgets wasn't felt until 2020-2021. With the 2020 college football season dramatically altered, athletic departments found themselves scrambling to balance their budgets. Faced with the prospect of significant revenue losses, athletic directors had to make difficult decisions to cut certain teams and institute pay cuts, furloughs, and layoffs, among other cost-saving measures.[39]

[39] Schlabach, Mark, and Paula Lavigne. "Financial Toll of Coronavirus Could Cost College Football at Least $4 Billion." ESPN, 21 May 2020, https://www.espn.com/college-sports/story/_/id/29198526/college-football-return-key-athletic-departments-deal-financial-wreckage-due-coronavirus-pandemic.

Nike and adidas surely felt the impacts of the pandemic as well, but they were better positioned to weather them than college athletic departments, with stock prices recovering to pre-pandemic levels by the second half of 2020. As discussed, sponsors' offers of modest near-term cash infusions in exchange for contract extensions can be more attractive if athletic departments are operating from a relatively weak financial position. In a more extreme scenario, the potential to be left without any product supply deal could exacerbate athletic departments' financial challenges, making them more likely to accept whatever an incumbent might offer rather than play hardball and risk being left with nothing. There are surely exceptions, but under current conditions schools are less likely to have the appetite to risk the latter.

Bifurcation of Media Distribution Limits Exposure for Some Schools

While media companies' long-term plans for live sports on direct-to-consumer streaming services are yet to play out, the current straddling between traditional television and streaming effectively creates a two-tiered system. The most valuable live event inventory is distributed through broadcast and cable networks to reach the largest possible audience. Events distributed through streaming services reach smaller audiences and, rightly or wrongly, are viewed as lower quality. The most powerful school brands get the most desirable windows on broadcast and cable, generating meaningfully more exposure for their footwear, apparel, and equipment sponsors. In the near-term, the relatively small size of streaming audiences may hinder the sponsorship value for schools that appear primarily on streaming platforms.

New Supplier Entrants Are Unlikely

As Under Armour showed, the presence of a competitive third bidder can be a significant driver of growth. However, the company's stumbles help to illustrate how difficult it is to achieve the same global scale of Nike and adidas. Companies like Puma, New Balance, and Reebok (set to be spun-off from adidas in 2022[40]) have invested in certain sports marketing niches, but none of them appear poised to jump into the college sponsorship market in the way that Under Armour did.

There was much interest when Boston College announced a new 10-year deal with New Balance in April 2021[41], as industry participants and observers were eager to understand if this signaled a broader commitment by New Balance to the college sports market. Expectations were tempered by the deal's exclusion of football, for which Boston College signed a separate deal with adidas.[42] Subsequent coverage and discussions

[40] Repko, Melissa. "Adidas Strikes Deal to Sell off Struggling Reebok to Authentic Brands Group." CNBC, 12 Aug. 2021, https://www.cnbc.com/2021/08/12/adidas-strikes-deal-to-sell-reebok-to-authentic-brands-group.html.
[41] "Boston College Athletics Announces 10-Year Agreement with New Balance." Boston College, 13 Apr. 2021, https://www.bc.edu/bc-web/bcnews/athletics-recreation/department-news/new-balance-agreement.html.
[42] Black, A.J. "Boston College Football Signs Deal with Adidas." Sports Illustrated, 28 Apr. 2021,

suggest that the deal was born more out of convenience and timing than any grand plans from New Balance. Boston College was coming off a deal with Under Armour, which was seeking to extricate itself from sports marketing commitments. In what was potentially a softer market for Boston College's sponsorship rights, New Balance likely saw it as a unique opportunity to partner with a local institution.

As the segmentation of Boston College's rights suggest, providing the breadth of products and services for every sport that an athletic department sponsors is a challenge that few, if any, companies outside of Nike and adidas are in a position to meet. Entrants such as New Balance may provide certain schools with a creative way to simultaneously enter a set of deals that are preferable to what they might receive from a single partner, but in general Power 5 schools will be better off contracting with a single partner. At present, there is no indication that New Balance or any other potential entrants plan to make a broad investment in college sports marketing.

NIL's Long-Term Impact Remains Unclear

The NCAA's new name, image, and likeness ("NIL") policy further complicates the future of college footwear, apparel, and equipment sponsorships. Once the policy became effective on July 1, 2021, college athletes were officially permitted to capture revenue related to their NIL. Public sentiment and regulatory momentum appear poised to expand the rights of college athletes to earn compensation. While the exact nature of these rights remains uncertain, the prospect of sponsors contracting directly with individual athletes has the potential to infringe on the value of the schools' agreements. Thus far, Nike, adidas, and Under Armour have not entered the college athlete NIL market at a scale that would have a material impact on schools' deals. However, this bears watching, as schools' competing with their own athletes for marketing dollars could dramatically alter marketplace dynamics.

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https://www.si.com/college/bostoncollege/football/boston-college-football-apparel-deal-adidas.

Conclusion

After swinging in favor of college athletic departments for several years, negotiating leverage has largely returned to footwear, apparel, and equipment sponsors, namely Nike and adidas. A small subset of schools will continue to command leverage regardless of market dynamics, but most colleges must be prepared for potentially difficult negotiations. With budgetary pressures leaving little room for error, it is critical for athletic directors to properly assess their position in the market, allowing their individual risk tolerance to inform when to be aggressive and when to focus on limiting the potential downside.

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