

Sponsorship: Nortel's financial crisis



Nortel Networks yesterday applied to a Canadian court to protect it from its creditors. The company is contracted to support some large sporting events.

It's official: Nortel is in deep financial trouble. Rumours abound - will the Group - which has a number of divisions working on cutting-edge products and services - be broken up? Will some of its clever tech be sold off to support cashflow at the expense of the balance sheet? Will it quietly die?

And equally, what will happen to its sponsorship of high-profile events.

Nortel is slated as a major sponsor of the 2010 Winter Olympic Games in Vancouver. The company says that its involvement was primarily in relation to the supply of product, rather than in cash, and most of the product has already been delivered. The cost of completing the contract, it says, is low - and the cost of failure to complete would be high both in the risk of being sued for non-performance and the negative publicity that would be attracted.

The agreement, however, lasts for six years and Nortel is, in effect, a subcontractor for VANOC (Vancouver Organising Committee for the 2010 Olympic and Paralympic Winter Games - responsible for the planning, organising, financing and staging of the XXI Olympic Winter Games and the X Paralympic Winter Games in 2010. The 2010 Olympic Winter Games will be staged in Vancouver and Whistler from 12 - 28 February, 2010. Vancouver and Whistler will host the 2010 Paralympic Winter Games from 12 - 21 March, 2010) and its principle contractor Bell Canada.

The company said in a 1 May 2007 statement announcing the deal "Nortel's six-year Official Supplier partnership with VANOC provides sponsorship rights for the 2010 Winter Games and the Canadian Olympic Teams participating at the Beijing 2008, Vancouver 2010 and London 2012 Olympic Games."

By sponsoring the Olympics events, Nortel gets to put the five rings on its marketing - a benefit that is difficult to quantify but certainly aids brand recognition. Even so, if the company is deemed to have brought the Olympics into disrepute, then the organisers could cancel the contracts. That, one has to say, is unlikely: the Nortel problems are in no way similar to Satyam, Enron or Parmalat to name just three of the many company failures brought about by fraud (if Satyam is indeed to be regarded as a company failure which, currently, it isn't but its survival seems increasingly unlikely).

The company's exposure is, in any case, relatively small: basically, it is to put voice and data comms in for the organisers, teams and journalists. For Vancouver, the cost is estimated at only around USD12.5 million. In the great scheme of things, that's tiny.