



## **Full Length Research Article**

### **THE FINANCIAL VIABILITY AND STABILITY THROUGH REVENUE GENERATION AND ITS DISTRIBUTION IN A LEAGUE SYSTEM: DISCUSSION IN INDIAN CONTEXT**

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#### **ABSTRACT**

Sport, in modern era, is no longer an amateur activity. The emergence of the professional sports leagues and competitions throughout the globe has made a significant change in the way sport was produced and consumed. Today, the application of the managerial tools and techniques is a prerequisite to manage these leagues and competitions. It ensures the financial sustainability of these leagues. It is equally important to develop a system of revenue distribution among the participating teams so as to enable them to be financially viable. The objective of this paper is to study this revenue generation and distribution model in various leagues organized in India and abroad. The two leagues, which are considered for this discussion, are the English Premier League (EPL) and the Indian Premier League (IPL). These two leagues are considered for analysis due to their immense popularity throughout the world and in India. From the analysis, it is found that the revenue is generated from sponsorship, ticket selling, selling of broadcasting right, prize money, in stadium advertisements, merchandizing and other commercial rights. These revenue generating sources can be divided into two groups- centralized and decentralized revenue streams. A part of this centralized revenue stream is distributed among the participating teams in a systematic way to make these leagues financially viable. This revenue generation and distribution system in of these two league competitions is discussed in the paper.

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#### **INTRODUCTION**

Today, India is emerging as the superpower of the world due to its robust economic growth. The International Monetary Fund (IMF), in its updated report of World Economic Outlook, predicts that the Indian economy will overtake China in terms of annual growth rate by 2016. A report of Mckinsey Global Institute predicts that if India grows at the current rate, the country will emerge as the fifth largest consumer market in the world by 2025. The entertainment industry of the country is also growing at a rapid rate, keeping in pace with the economic growth of the country. In the 'Indian Media and Entertainment- Industry Report 2015' by KPMG-FICCI, it is predicted that this market would be worth of Rs 1.9 lakh crore (Rs. 1964 billion or Rs 1.9 trillion) by the end of 2019. The other unique feature of the country is that the country is amongst one of the world's youngest nations. According to an estimate of the Planning Commission of India, the country will

be the home of approximately 510 million people in the age group of 15-35 years by 2016. The growth of the entertainment industry in India can be attributed to this favourable demographics and the increasing disposable income. Based on this increasing demand for entertainment, a change has been observed in sporting environment of India, where there is a constant effort to create the concept of 'sportainment' with the objective of combining sports with entertainment which is a key for establishing a sustainable revenue model. The Indian Premier League (IPL) is a suitable example of 'sportainment' which combines cricket with entertainment to monetize this sports property. The concept is not novel worldwide, but IPL may be the first event in India to introduce this concept on such a large scale. In recent times, other leagues, such as the Indian Super League (ISL), Pro Kabaddi League etc., were introduced, which are following the footsteps of IPL. The objective of this paper is to study various revenue generation and distribution streams which are the direct effects of the concept of 'sportainment' and which are essential for making the sports properties financially viable, feasible and doable. The analysis is done from a global context as well as from Indian perspective.

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## Revenue Generation and Distribution in Sports Leagues around the World

Today, sport is a multibillion dollar industry around the world which attracts millions of people either to participate in or to watch sports. The professionalism in sports has made a radical change in the pattern of consumption, production and management of sports events, sportspersons and sporting organizations. The application of modern managerial tools and techniques becomes more and more relevant to make these activities viable, feasible and doable. Sports leagues are probably the best examples of how the sports managers are monetizing the sports properties. These professional leagues are playing a pivotal role in providing sports entertainment to millions of people and thereby creating substantial revenue through various sources, such as gate receipts, sponsorship, broadcasting, merchandizing, other commercial rights etc. This revenue is utilized for attracting and developing sportspersons who are responsible for sustaining the interest of the fans towards the game. Thus, this revenue is used to serve various purposes which include the development of fresh talents, attracting exceptional talents towards the league, for infrastructural development and for the creation of sporting icons. Therefore, an 'ecosystem' is created in these sports leagues where on one hand revenue is generated and on the other hand it is utilized for further development.

the average attendance of EPL was 36,631, which created math-day revenue of £616 million. This was an increase of 5% from the previous season. The sponsorship right of the league was sold to Barclays, a British multinational banking and financial services company, in 2012 for a period of three years at an approximate amount of £120 million. According to the Premier League Founder Members' Agreement, the domestic broadcast revenue, which is a part of the centralized revenue pool, is distributed among the twenty participating teams in the following manner:

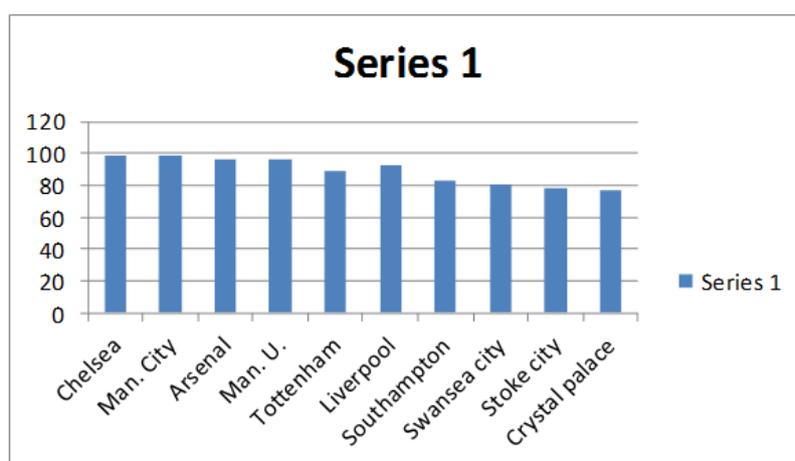
- 50% of the revenue is divided equally
- 25% distribution is on merit-basis (depending on the standing of the club in the final league table)
- 25% is on the facility fees (for the number of times the club is featured in a UK broadcast)

The domestic TV rights deal of EPL was sold for three seasons, from 2013-2014 to 2015-2016, for an astonishing amount of £3.018 billion. This was an increase of 70% from the previous deal which was made at an amount of £1.25 billion. This was a part of the centralized revenue pool. As per <http://www.totalsportek.com/>, the ten clubs, which are benefitted the most in season 2014-2015 due to the distribution of this broadcast revenue, are mentioned in Table 1.

**Table 1. The top 10 clubs as per the distribution of TV rights money share**

No.	Club	Equal Share	Merit Based	Facility Fee	Total
1	Chelsea	£54.1m	£24.7m	£19.98m (25 matches)	£98.99m
2	Manchester City	£54.1m	£23.5m	£20.72m (26 matches)	£98.5m
3	Arsenal	£54.1m	£22.2m	£19.98m (25 matches)	£96.5m
4	Manchester United	£54.1m	£21m	£21.47m (27 matches)	£96.75m
5	Tottenham	£54.1m	£19.8m	£14.75m (18 matches)	£88.7m
6	Liverpool	£54.1m	£18.5m	£19.98m (25 matches)	£92.7m
7	Southampton	£54.1m	£17.3m	£11m (13 matches)	£82.5m
8	Swansea City	£54.1m	£16.1m	£10.2m (12 matches)	£80.5m
9	Stoke City	£54.1m	£14.8m	£8.75m (9 matches)	£77.8m
10	Crystal Palace	£54.1m	£13.6m	£9.5m (11 matches)	£77.35m

(Source: <http://www.totalsportek.com/>)



**Fig. 1. Graphical representation of the distribution of TV rights money among ten EPL clubs in season 2014-2015**

The English Premier League (EPL) is considered to be one of the most competitive leagues of the world which is not only providing sporting entertainment to the spectators, but also creating substantial revenue for its stakeholders. In 2013-2014,

Therefore, it is evident from the above table that the participating clubs of the EPL are benefitted by the centralized revenue pool which is created by the organizers. On the other hand, the clubs that play or aspire to play in these leagues with

massive fan following, often try to achieve higher or lower revenue depending on their performance. This is considered as decentralized revenue stream. For example, Northern Rock Plc, the nationalize lender, made a contract with New Castle United, an English Club, in 2010 for a period of four years. According to the terms of the contract, the entitlement of the club might vary in the range of US\$ 2.8 million and US\$ 18.5 million, depending upon the performance of the club.

An important component of this decentralized revenue stream is the shirt sponsorship deals secured by the participating teams in a league system.

The shirts sponsorship deals of some of the popular EPL clubs are represented in the following table 1:

**Table 2. Shirt Sponsorship Deals of the popular EPL Clubs**

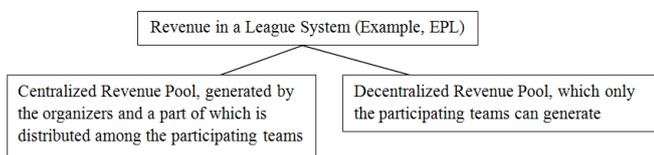
Name of the Club	Brand	Yearly payment	Duration of the contract
Manchester United	Chevrolet (US)	£53m	7 years (2014-2021)
Chelsea	Yokohama (Japan)	£40m	5 years (2015-2020)
Arsenal	Fly Emirates (UAE)	£30m	5 years (2014-2019)
Name of the Club	Brand	Yearly payment	Duration of the contract
Liverpool	Standard Chartered	£25m	3 years (2013-2016)
Manchester City	Etihad Airways (UAE)	£20m	10 years (2011-2021)

(Source: <http://www.totalsportek.com/>)



**Fig. 2. Pie- chart for comparative representation of the shirt sponsorship of five EPL clubs**

The shirt sponsorship rights and other commercials rights of the clubs, which help the clubs to generate their own revenue, is considered as 'decentralized revenue pool' which only the clubs can generate individually. The 'Centralized' and 'Decentralized' revenue pools of a league system, like EPL, are presented in the following diagram:



**Fig. 3. Centralized- Decentralized Revenue Model in a League System**

Most of the leagues around the globe follow this model. There are many other professional sports leagues, including the National Football League (NFL), Major league Baseball (MLB), National Hockey League (NHL) etc. These leagues, over a period of time, are converted into most innovative leagues of the world which help them in establishing a sustainable revenue model for their long term existence.

## Revenue Generation and Distribution in Sports Leagues in India

In India, a number of sports leagues had been introduced in line with the global sports leagues like EPL, NBA etc. IPL is the first league which not only generated massive fan following, but successfully translated it into a sustainable revenue generation model. The footsteps of IPL are followed by most of the other leagues which were introduced after IPL. Like EPL, a centralized and a decentralized revenue generation model can be observed in IPL as well, which is presented in the following diagram:

From the above diagram, it is evident that the Board of Control for Cricket in India (BCCI), the organizer of the IPL,

generates a centralized revenue pool by selling the broadcasting rights, title and other sponsorship rights of the league, internet and mobile rights, cinema screening rights etc. Revenue is also generated through the partnership with youtube. A part of this centralized revenue pool is distributed among the participating franchisees in a pre-decided proportion. The franchises, on the other hand, generate revenue through team sponsorship, gate receipts, merchandizing, in-stadium advertisements and prize money.

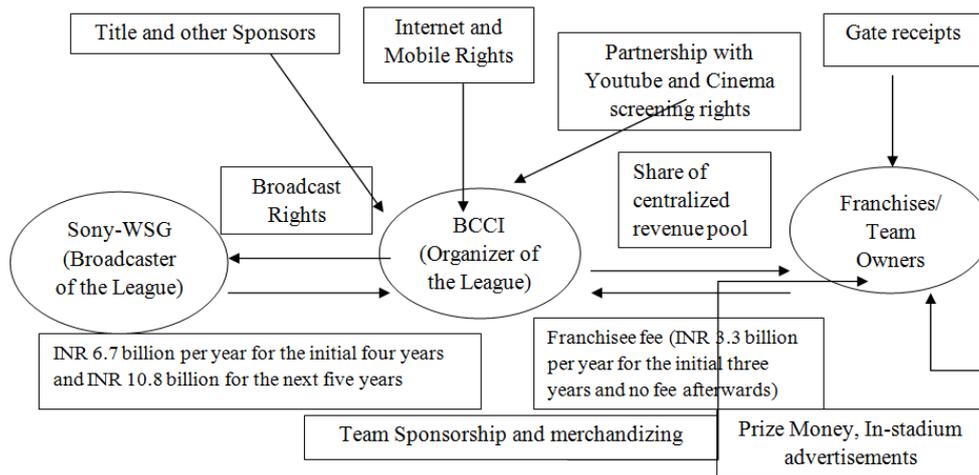
The title sponsorship right of IPL was sold to the global beverage giant PepsiCo at an amount of Rs. 396.8 crore (\$71.77 million approximately) for a period of five years. However, PepsiCo pulled out from the sponsorship deal and a fresh deal was signed with Vivo Mobiles. The broadcasting right of IPL was sold to a consortium consisting Sony Entertainment Television and WSG Group in the following manner:

- Rs. 6.7 billion per year for the initial four years
- Rs. 10.8 billion for the next five years

The global internet and mobile rights of the league was awarded to Novi Digital Entertainment Pvt. Ltd., unit of Star India Pvt. Ltd., at an amount of Rs. 302.2 crore for a period of three years ending in 2017.

As mentioned earlier, a part of this centralized revenue pool is distributed to the participating teams in a given percentage. This percentage of distribution till 2017 is mentioned below:

- 40% of the centralized revenue pool should be retained by IPL
- 54% is distributed among the franchisees
- 6% is spent on prize money



(Source: Ernst & Young Analysis)

**Fig. 4. Centralized- Decentralized Revenue Model of IPL**

From the above discussion, it is clear that the IPL revenue generation and distribution model is based on EPL. A number of other leagues of the country are following this model to make the league as well as the participating teams financially viable by establishing a sustainable revenue stream.

#### Essential factors for establishing a sustainable revenue generation model in a Professional Sports League

The professional sports leagues, which successfully combine sports with entertainment across the globe, are continuously innovating diversified ways of generating revenue. In doing so, they must have to cater to the needs of the consumers so as to attract sponsors, media providers and other commercial partners for the development of a sustainable revenue model. Therefore, it is important to analyze the key factors which are important to maximize this value system:

**i) Attracting Sports Icons towards the League:** It is important for the organizers of the professional leagues to attract sporting icons towards the league who will be able to demonstrate their athletic prowess in order to attract fans towards the league. A system should be established to ensure the participation of the international sportspersons along with the national level sporting icons. This will certainly improve the quality of the performance which is a key to attract crowd. In the inaugural edition of the Indian Super League (ISL), international football legends, such as Alessandro Del Piero, Robert Pirès, David James, David Trezeguet etc., participated to make this league more interesting to the fans.

**ii) Making Developmental Plans:** It is equally important to focus on the developmental plans, such as infrastructure development and grassroots development, which help in enhancing the sporting experience of the spectators and establishing a supply line of players for the future. ISL has already launched grassroots football movement with an objective to reach at more than a million young footballers. This initiative will not only produce future football icons, but also inculcate football culture among the youth of the country which is a key for the success of these leagues.

**iii) Structure and Packaging of the League:** A vital element for the success of these leagues is their structure and

packaging. The following steps may be adopted for the right structure and packaging of these leagues:

- The short and entertaining version of the game may be introduced. For example, T-20 was introduced to increase the entertainment value of the game of cricket in a limited period of time.
- Attracting celebrities from other fields, such as movies, business or other sporting arenas, for their association with these leagues as investors or guests or ambassadors, which will help the leagues to attract investment as well as to increase their reach. In ISL, the list of team owners include cricket icons like Sachin Tendulkar and Sourav Ganguly, icons from the Bollywood industry like John Abraham and Ranbir Kapoor, business groups like Sun Group and DEN Network.
- The quality of the services, provided at the stadium, should be improved to attract youth who have the propensity to spend.
- Appropriate strategies should be adopted to provide maximum information of these leagues to the fans.

**iv) Initiatives to ensure the engagement of the Fans:** Proper strategies should be taken to engage fans more with the league and the teams which is a prerequisite to establish a sustainable revenue generation model. Innovative steps should be introduced to sustain the interest of the fans as well. Fans can be involved with sports leagues through various mediums including TV, radio, internet, newspapers, magazines etc. They may buy merchandizing items which increases their association with a league or its teams.

#### Conclusion

Today, in the complex world of sports, it is important for the sports managers to understand how to monetize the sports properties. In professional sports leagues, centralized revenue is generated from various sources like sponsorship, broadcasting and other rights, such as internet and mobile rights etc. The participating teams are allowed to generate decentralize revenue through team sponsorship, gate receipts, prize money, in stadium advertisements, merchandizing etc.

This method not only helps the league to be financially viable, but also helps the teams to attain financial stability.

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