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A DETAILED STUDY OF REVENUE MODEL OF IPL BASED ON STAKE HOLDER REMUNERATION

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Abstract

IPL or Indian Premier League is India's very own T-20 cricketing league whose fever has gripped the entire Indian cricket-crazy nation. This 8 team tournament is like a two-month long festival, which sends fans intoa frenzy wherein they root for their favorite players, treat them like Gods and get behind their favorite teams. Unknown players become instant heroes (and overnight millionaires) as they take on household names in the toughest and the most exciting T-20 league all over the world. The tournament promises instant and far reaching visibility to brands and in turn they pour in millions into the league- in form of sponsorships. Immense popularity of the tournament makes it a lucrative business which has several stakeholders associated with it. This study aims to study the ways in which these stakeholders make money and estimate the amount of money they make.

Keywords: IPL, Stakeholders, Distribution, Sponsorships, Revenue, Net Profit, Valuation Impact

A. INTRODUCTION

IPL is a glitzy and glamorous, two-month long cricketing extravaganza that runs in the Indian summers (generally, April-May) and entices fans from all age-groups alike, amassing a humongous viewership of 462 million on Television and a whopping 300 million on Hotstar (web platform) for its latest season (2019). The world's premier T-20 Cricket league has a colossal valuation of USD 6.7 billion (or INR 47,500 Crores) and is among the top 10 most popular sports leagues in the world. IPL was introduced in 2008 by Sh. Lalit Kumar Modi, who served as the league's first Chairman and Commissioner for the Board of Control for Cricket in India (BCCI) from 2008-2010. The aim was to capitalize on the then buzzing T-20 cricket format, a shortened version of the 50-over day cricket which could be held in just over 3.5 hours, enabling the matches to be held in evening wherein even office goers could turn up at stadiums or watch the matches on television sitting at home. India were the winners of the inaugural T-20 World Championship held in 2007 and this combined with the fact that cricket in India was and still is a religion-like phenomenon which binds people of all faiths together resulted in the massive popularity of the tournament and made the BCCI and stakeholders believe in the financial viability of such a tournament.

BCCI chalked out 8 teams representing different cities/states in India which were to take part in the 2 monthlong tournament. The rights to own these franchises were auctioned before the inaugural edition wherein various big businessmen and Bollywood stars turned up, which further accentuated the popularity of the tournament. These 8 teams compete against each other in a Double round-robin league (home and away)and Playoffs format: play 2 matches against each team and the top 4 teams after the league stage enter the playoffs, and vie for the championship. Player auctions were held for the first time in 2008, where some players caught hold of contracts running in million dollars, a sum that was unheard of in not only Indian but world cricket. This further resulted in the best foreign players rushing in to participate in the tournament which made the tournament more competitive, exciting and ultimately popular.

IPL has gone from strength to strength in the 12 years it has been running. It has made BCCI, the richest cricket body in the entire world, the franchise owners have finally started making profits, the advertisers find a brilliant opportunity to target audiences when IPL is running, broadcasters have made significant profits owing to IPL, established players have become richer, domestic players get a chance to establish a niche for themselves and the monetary incentive for participating has been at its best. Amidst all this, the audiences' enjoyment has seen no bounds as they get a chance to see in-action their favorite players in multiple languages, on multiple platforms and eagerly wait for the tournament to arrive every year.

B. LITERATURE REVIEW

Literature studying the business model of IPL, and the various stakeholders involved is very limited. This research has been conducted with an aim to fill in for that deficit.

Biswas, B. (2013) noted that IPL had revolutionized cricket in India and all over the world. She concluded that it had changed the way cricket was played, marketed, seen and popularized in the world. Gupta, A. (2009) concluded that India was the perfect market for a tournament like IPL to be financially viable as it had millions of cricket fans willing to go to stadiums to watch the shortened version of the game or watch it on television which made the tournament immensely popular and an instant hit in the country. Kadapa, S. (2013) appreciated the business model of IPL for perfectly integrating a number of complex processes such as entertainment, glamour, marketing, pricing and hard-hitting cricket. She also discussed how the structure of the tournament was based on Major Base Ball League of USA and the English Premier League of UK, to create a win-win situation for all stakeholders. Due to the availability of limited studies analyzing the stakeholder remuneration for IPL, the author has referred to substantial secondary data with an aim to understand how these stakeholders get paid and how much money they make.

C. NEED OF THE STUDY

IPL is widely regarded as the toughest, most exciting and most-watched cricket league in the world. The financial aspect associated with this cash-rich league i.e. how the various stakeholders make money, is equally exciting and considerably unexplored by previous studies, and hence serves as the need of this study.

D. OBJECTIVES OF THE STUDY

a) To understand the business model of IPL and study its evolution overtime

b) To study various stakeholders involved in IPL and understand how and how much money they make

c) To understand the valuation methodology applied to estimate the net worth of IPL and the franchises

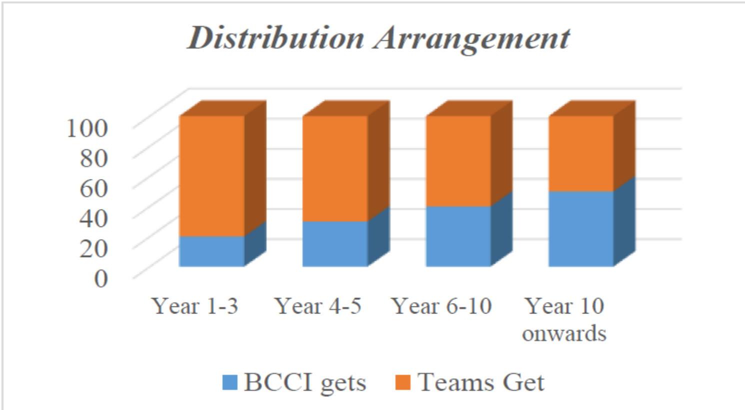
E. RESEARCH METHODOLOGY

The method of research used in this paper is analytical. Secondary data - Journals, articles, web, and media reports were referred and extensively analyzed for the study.

F. ANALYSIS AND FINDINGS

a) Business Model of IPL and its evolution

IPL is based on a revenue sharing model between the BCCI and the franchises. The central revenue pool comprises of revenue generated from the sale of broadcast rights (on TV and web) and also from corporate sponsorships including title sponsorships, sponsorships for best shots, best catches, most stylish player, manof the match etc. This revenue is now shared equally between the BCCI and the franchises after Season 10 i.e. 2018. This distribution arrangement has evolved overtime as follows:



In the year 2008, Sony Pictures Network made a bid of INR 8,200 Crores to hold the television broadcast rights for the next 10 years. This money was contributed proportionately to the central revenue pool over a 10 year period and then distributed according to the arrangement above. Also, these rights were further licensed by Sony to other broadcasters around the world. Later, in 2015, Hotstar bought the web broadcasting rights for a sum of 313 Crores for a two year period from 2015-17. After the end of the 10 year period, BCCI auctioned the broadcasting rights in packages of domestic television, domestic digital and international rights where Star Sports emerged with the consolidated winning bid of INR 16,347.50 Crores for a 5 year period from 2018-22. The bid represented a 158% increase in the media rights value for IPL broadcasting from the previous cycle. This was the most expensive broadcast rights deal in the history of cricket and filled BCCI and franchise's pockets with more money than they had even imagined.

Similarly, the money coming in from corporate sponsorships (title sponsor, umpire sponsor, strategic time- out sponsor etc.) has swelled over the years with Vivo making a monumental bid for INR 2,199 Crores for the Title Sponsorship rights from 2018-22. This was the biggest sponsorship deal across any sport in India. This money will also be contributed to the central pool revenue proportionately for the 5-year period. The title sponsorship of IPL has also changed hands over the years as per below:

Sponsor	Period	Sponsorship fee (per year)
DLF	2008–2012	₹40 crore (US$5.6 million)
Pepsi	2013–2015	₹79.2 crore (US$11.1 million)
Vivo	2016–2017	₹100 crore (US$14.0 million)[a]
	2018–2022	₹439.8 crore (US$61.7 million)

Source: Wikipedia

Apart from these, the franchises also pay a fee to the BCCI to retain ownership of the franchises i.e. their teams. The auction for Franchise rights happened for the first time on 24th January 2008 where, the Mumbaibased franchise bought by Mukesh Ambani of Reliance Industries Limited turned out to be the costliest buy for $111.9 million, followed closely by the Vijay Mallya backed UB Group's acquisition of the Bangalore based franchise for a sum of $111.6 million, while the Jaipur based franchise bought by Emerging Media and other investors turned out to be the cheapest at $67 million. This auction fetched the BCCI a sum of $ 723 million at that time. These rights were for a period of 10 years and the money was to be paid proportionately to BCCI over the time. Among the original franchises, Deccan Chargers were terminated by the BCCI after their victory in the 2009 season owing to certain differences. The replacement franchise was owned by Sun TV Network and was renamed SunRisers Hyderabad. Two new franchises i.e. Pune Warriors India bought by Sahara Sports Group for $370 million and Kochi Tuskers Kerala bought by Rendezvous Sports World for $ 333.33 million were also introduced in IPL 2011 making it a 10 team tournament, however they were terminated in 2011 and 2013 respectively owing to financial differences with BCCI. Later, in 2015, owing to the suspension of Chennai Super Kings and Rajasthan Royals due to spot-fixing and betting allegations two new teams were introduced from the next season for a period of two years. These were: Rising Pune Supergiant and Gujarat Lions based out of Pune and Rajkot respectively. These teams were discontinued after the 2017 IPL season, following which Chennai Super Kings and Rajasthan Royals returned to the IPL fold.

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TEAM	CITY	OWNERS	PRICE (US $)
CSK	Chennai	N. Srinivasan (India Cements)	91 million
DD	Delhi	GMR Group	84 million
KXIP	Mohali	Preity Zinta, Ness Wadia (Bombay Dyeing),Mohit Burman (Dabur) Karan Paul (Apeejay Surendera Group),The Oberoi Group	76 million
KKR	Kolkata	Shahrukh Khan (Red Chillies Entertainment),Juhi Chawla, Jay Mehta(Mehta Group)	75.9 million
MI	Mumbai	Mukesh Ambani (Reliance Group)	111.9 million
PW	Pune	Subrata Roy (Sahara India Pariwar)	370 million
RR	Jaipur	Lachlan Murdoch (Emerging Media),Shilpa Shetty, Raj Kundra(UK Trade corp Ltd)	67 million
RCB	Bangalore	Vijay Mallya (UB Group)	111.6 million
SH	Hyderabad	Sun TV Network	159 million

These franchise rights ran out in 2018 after which BCCI introduced a simpler model where the franchises have to pay 20% of their total yearly revenue to the board as franchise right fees. In addition to these revenue streams, the franchises also generate revenue through local sources like ticket sales, branding, proceeds from advertising etc. These are discussed in the next section.

b) IPL's stakeholders and how they make money

This section involves studying the 3 most important stakeholders of IPL including the BCCI, the franchises and the players. We will analyse the sources of money for all of them and the costs involved with an ultimate aim of arriving at the Net Profit figure.

BCCI: The Central Board primarily makes money from the centralrevenue pool, consisting of money per year from the broadcasting rights sale, title sponsorship and other corporate sponsorships. 50% of this amount (~3910 Cr), results in a revenue of INR 1,955 Cr for the BCCI. In addition to this each franchise has to pay

20% of their yearly revenue to the BCCI as fee for Franchise ownership right. As per estimates, after 2018, teams have approximately 350 Crores in total revenue per year. So, 20% of this would amount to 70 Crores, i.e., a total of 560 Crores, for 8 teams combined. This would pit BCCI's yearly revenue at approximately INR 2,515 Crores (1,955+560) from a single IPL season. With an approximate spending of INR 500 Crores per season (including Infrastructural development, admin costs, umpire and match referee fees, spending to get technology like Decision Review System, cost of organizing opening and closing ceremonies etc.), the net profit that BCCI makes from a single IPL season isin the range of INR 2,005-2,010 Crores.

Now, this monumental profit is ~95% of the total yearly profit of BCCI with their other operations generating a surplus of 125 Crores throughout the rest of the year. These figures mean that BCCI makes 16 times more profit during the 45-day IPL window than it is likely to in the remaining 320 days of the year. All this can be owed to a recent surge (after 2018) in the brand value of IPL with corporates like Star, Vivo and Jio bringing in a lot of money to the IPL ecosystem.

Franchise Owners: Similarly, the franchise owners also have started making substantial profits after the 2018 season, before which only 1-2 franchises were significantly profitable. 50% of the remaining money from the central revenue pool is distributed equally among the 8 franchises. This turns out to be approximately equal to INR 250 Crores. But, these teams can generate revenue from multiple other sources including:

- **<u>Sponsorships:</u>** A typical IPL team's jersey houses 2 logos (primary and secondary) right in the front, 2-3 logos on the trousers and 2-4 other logos on the sleeves. All these are logos of companies who pay a certain amount in sponsorships to the franchises. The more popular the team, the easier it is to find sponsors and the more money they are willing to pay. E.g. Muthoot Group for Chennai Super Kings, Eros Now for Royal Challengers

Bangalore, Vediocon D2h for Mumbai Indians, Ultratech Cement for Sun Risers Hyderabad, Kent R.O. for Kings XI Punjab, Gionee for Kolkata Knight Riders, Daikin for Delhi Capitals etc.

- **<u>Advertising:</u>** The player contracts involve the right of the franchise to engage them in the advertising of their sponsor's products. The proceeds from these advertisements go directly to the franchises and not the players involved. During the IPL season, advertisements with popular players of a particular team endorsing the brand/product are very common. This is the reason the franchises vie so eagerly for marquee national and international players. Some franchises like Mumbai Indians even engage their players in promoting their own products like Jio owned by Reliance Industries Limited.
- **<u>Local Revenue Sources:</u>** These include the proceeds from the ticket sales that a franchise gets in their home matches (7 per season) along with advertisement on boundary ropes, ground and the stands. This is the reason the franchises invest in advertisement of their own team through either social media or by putting up hoardings in their home cities because as the team gets more and more popular, the more people turn up to watch matches in their stadiums.
- **<u>Prize Money:</u>** The 2019 IPL season had a prize money of INR 20 Crores for the winner and INR 12.5 Crores for the runner-up. This money is also distributed in a 50:50 ratio between the franchises, and equally among other players. This is the reason why the franchise owners want their team to do well and reach the latter half of the season.
- **<u>Merchandise Sales and Player Trading:</u>** Merchandise sales are a relatively smaller part of the profit generated by these franchises but its future potential is huge. It includes sales of official jerseys, caps, bats, signed balls etc. to the general public. Recently introduced player trading also contributes to the revenue stream when franchises trade one of their players to the other team for money more than they had bought him for.

Now, these teams also incur a lot of costs throughout the season which include buying players through a competitive auction process, retaining the existing players, hiring coaches (including batting, bowling, fielding coaches etc.) and support staff (including physios, team managers etc.) for the teams, entire hospitality arrangements including business class travel for the entire team and stay at luxurious hotels, advertising of the team through media/hoardings, paying 20% of their revenue to the BCCI as franchise ownership fee, organising practice sessions (including arrangement of all cricketing equipment) and the state-cricket body commission for holding the teams' matches at those grounds.

All the above streams result in an approximate revenue of INR 100 Crores per season (different for different teams), which when added to the central pool revenue of INR 250 Crores, implies a total revenue of ~INR 350 Crores per season per team. Now, depending on the costs incurred by them, each team makes a net profit of INR 75-125 Crores. Now, it is noteworthy that only after the 2018 IPL season have all franchises started making such huge profits. Before that most of the franchises were either making single digit profits or were running in losses. Only the Kolkata based Kolkata Knight Riders had significant profits owing to their celebrity owner Shahrukh Khan's contacts in the industry and a relatively larger stadium size of the Eden Garden, Kolkata resulting in more local revenue.

Players: The players involved in IPL not only find it a stepping stone for future success, but the monetary incentive associated with it, also can't be ignored. While domestic players or relatively unknown names treat IPL as an opportunity to make a name for them and perform in front of millions of cricket crazy fans, experienced players currently out of favour with their national selectors treat it as a ticket to make their way back into the national team. The 2019 season ran with a tagline, "Where talent meets opportunity". This is undoubtedly true as IPL has unearthed many unknown names who have gone on to make it big inInternational cricket also. With 4 foreign players allowed per team, the quality of cricket in the tournament increases manifold, the matches become more interesting and players get experience of performing in pressure situations like never before. The players are purchased by teams through an offline auction where all teams vie to get the best players in their teams. The first player auction happened in 2008 where M.S. Dhoni was the costliest buy at $1.5 million. This sort of money was unheard of in the world of cricket and it only kept increasing with time. The costliest Indian player ever bought in an auction was Yuvraj Singh in 2015, when Delhi Daredevils emptied INR 16 Crores to bag the southpaw. The costliest foreign player is Pat Cummins, bought for a sum of INR 15.5 Crores in the 2020 IPL auction. At present, Virat Kohli takes a whopping 17 Crores per season, the sum for which he was retained by Royal Challengers Bangalore before the 2019 IPL season. To put this in perspective, he took home just 3 crores less (INR 20 Crores) than the eventual winners of the tournament.

The franchises spend big not only to grab international mega-stars but also to buy uncapped players who they think can make it big in the tournament. The most expensive uncapped player in IPL history is Krunal Pandya who was bought by the Mumbai Indians for a colossal price of INR 8.8 Crores in the 2018 auction. This money, makes players coming from poor families and humble backgrounds an instant rags to riches story and the entire nation's attention is turned to them. Overall, IPL has been the biggest revelation for all players alike and presents them with a win-win situation.

c) Valuation methodology applied to estimate the net worth of IPL

Duff & Phelps, an American corporate finance company has estimated the brand value of IPL to be USD 6.7 billion (or INR 47,500 Crores) in 2019, up 7% from USD 6.3 billion in 2018. Mumbai Indians continues to be the most-valued franchise with a valuation of INR 809 Crores, up 8.5% from last year. They have considered Management Strength and on-field performance, marketing strategy, celebrity influence and marquee players, geographical location, governance and transparency along with social media engagement of teams as key drivers for ascertaining the brand value of IPL and its teams.

To value the IPL ecosystem as a whole, Discounted Cash Flow (DCF) methodology has been used. This method involves calculating the present value of the business by estimating the future cash flows that the business is expected to generate. Here, a discrete projection period (say 10 years) is chosen for which the business is definitely expected to generate cash flows. The estimated cash flows for each of these years are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the projected cash flows. The present value of the estimated cash flows is then added to the present value equivalent of the residual value of the asset (if any) or the business at the end of the discrete projection period to arrive at an estimate of value.

To value the teams, Relief from Royalty method has been used. This method is based on the royalty that a company would have to pay for the use of the brand/ trademark, if they had to license it. This involves approximating the future revenue that the teams would generate based on a detailed study of their developed business model and revenue-sharing agreements. Next, a fair royalty rate for IPL teams is developed by researching a number of Brand and Trademark licensing arrangements across international sporting leagues. This estimated royalty rate is applied to the approximated revenues of each franchise to calculate the royalty savings attributable to the brand owner. The royalty savings are then tax-affected and discounted to present value using an appropriate required rate of return to estimate the value of individual brands.

G. CONCLUSIONS

The analysis done in this study can be summarized as follows:

- There are three major stakeholders of IPL: BCCI, Franchises and the players.
- IPL is based on a revenue-sharing model where the revenue coming from broadcasting rights and corporate sponsorships is shared equally between the BCCI and the franchises.

- The BCCI also has other revenue sources including franchise rights fee paid by team owners and incur several costs to run the tournament. After subtracting these costs from the generated revenue, BCCI's net profits from a single season are estimated at INR 2,005-2,010 Crores.
- Most of the franchises started becoming profitable only after the 2017 IPL season due to > 4x increase in proceeds from the central revenue pool, owing to the massive popularity of the tournament and increased money contribute by the sponsors and broadcasters.
- Kolkata Knight Riders was the only franchise before this to gain significant profits mostly due to their owner Shahrukh Khan's brand value.
- Franchises make money through various sources including: revenue from central pool, team sponsorships, proceeds from advertising, merchandise sales and other local revenue sources while they spend on taking care of all the requirements of their team and ensuring smooth conduct of their team's home matches.
- Now, all franchises make a Net Profit of INR 75-125 Crore per season.
- IPL serves as a perfect opportunity for players to show their talents and get paid handsomely for it.
- Discounted Cash Flow methodology has been applied to value the entire IPL ecosystem at USD 6.7 billion, while the Relief from Royalty method has been applied to ascertain the brand value of IPL teams.
- Mumbai Indians is the team with the largest brand value (INR 809 Crores) after the 2019 IPL season.
- The Coronavirus situation could result in an erosion of ~USD 1 billion value of the IPL ecosystem and would have severe financial impact on all the stakeholders involved.

H. LIMITATIONS OF THE STUDY

The major limitation of the study is absence of actual data pertaining to the revenue generated by franchises through different sources and the costs incurred by them. Also, this data is different for different teams and hence, arriving at an average value has been difficult. Hence, secondary data (including estimates) has been analyzed to obtain an accurate numerical figure for the same.

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