

Sports as business - the game is afoot!

With the launch of the Indian Premier League (IPL), sports as business has arrived in India, like in the United States and Europe. According to estimates, trade in sports-related activities is five percent or more of world trade. In India it is cricket for now that is flush with entrepreneurial money but with time we may see the same phenomenon in other sports such as hockey and football.

The IPL is not only an exciting new experiment in transforming sport into business but is also a great arena to see some economic principles hard at work. A lot of talk was generated after the results of the players' auction for the IPL were revealed.

Legendary players of the game like Ricky Ponting were bought for peanuts and recent arrivals in the game like Ishant Sharma and Manoj Tewary took home many times more money. In conventional economics, the amount somebody earns in the market is directly related to how productive he is. In the first round of IPL, players have been bought on the basis of their past reputation and ability to generate excitement among the spectators and not necessarily for their actual abilities, especially in the Twenty20 format.

Does it mean that the labour market for cricketers violates the essential tenets of conventional labour markets? Not really. In fact, the labour market for sports should in principle work better than other labour markets because of the objective measures of performance it generates compared to other professions. It is difficult to quantify how competently a teacher, for example, teaches inside the classroom. Moreover, how well a student performs depends on many factors other than the teacher's efforts.

On the other hand, a batsman or a bowler is ranked on the basis of numbers of runs scored or wickets taken or visibly available evidence of fielding performance. For the first season of IPL, there is only the non-IPL past to value a player by. What we can be sure of is that in the IPL's next season, cricketers' relative earnings will be more closely aligned to their performance in the current season, i.e., actual delivery of services.

This can spell the doom for a lot of currently highly valued IPL players who may be great ambassadors of the longer formats but are struggling to get a leg in the present run of matches. The jury is still out on whether cricketers who are good Test and One-Day players also make the better Twenty20 players or whether there can be genuine Twenty20 specialists.

Apart from their relative salaries, the magnificently high absolute earnings of cricketers have also raised eyebrows and ire. As incomes in our country grow and the world becomes more global, we too (Indians, that is), it seems, are becoming more frivolous and aping the shallow West. We too, as many are wont to say, are beginning to value sports and entertainment over serious issues like education or health. There is much that is misleading in this argument.

The high earnings in sports or cinema are not so much because of changing cultural preferences for the fast, furious and colourful. It is the very nature of the market at work. The sports, movie and music industries work under the 'superstar' or the 'winner takes all' phenomenon. The difference in the earnings of the top cricketers, movie stars and musicians and those just below them is far greater than the difference in their measured abilities.

The real difference lies in the size of the audiences they garner. The sports and entertainment industries operate under the principle of economies of scale. We can readily understand this by comparing the labour markets of teachers versus cricketers once again.

The demand for a teacher's services is restricted to the size of the classroom but the audience for a cricketer or a movie star is limited only by the size of the world population and the technology of communication. The larger the audience (volume), the greater are the earnings. The revenue earned by a teacher per customer (student) may be actually similar or even greater than the revenue earned by superstar professionals per audience member.

For the team owners, the objective is to raise the asset values of their team. Teams that do well will attract greater sponsorships apart from revenues from broadcast rights, ticket and merchandise sales.

There is also the possibility that much of the extra revenue generated will end up as higher players' earnings and not owner profits as teams scramble among one another to buy the most valuable players. Players' earnings however will always be lower than what they can earn as long as team owners and not they themselves have the right to their performance.

There is another interesting paradox involved with respect to team performance. While each team will want to win for higher asset value, it will also want strong opponents so that there is a contest on. Otherwise they will likely have to deal with waning audience interest. For a good fight, the fighters have to be well matched.

For us as audience members and armchair analysts, it is as Holmes might have remarked to Watson at the start of a new adventure - the game is afoot.

(Sangeeta Goyal is an economist with an international organization. She can be reached at sangeeta.goyal.68@gmail.com)

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