

SPORTS LEAGUE EXPANSION

Strategy
Leisure & Tourism

High difficulty
Interviewer-led case

This case investigates the expansion of a new sports league in North America. Candidates must move from high-level conceptual thinking into detailed financial assessments, balancing qualitative and quantitative information in their evaluations.

Sports League Expansion tests all elements of the case interview scorecard. It will challenge candidates on Structuring and Numeracy and provide opportunities for differentiation on Creativity..

Problem definition

Our client, the Inside Football League (IFL), is a professional indoor American football league currently in its 5th season, featuring 10 existing teams. The IFL is expanding to grow its footprint, fan base, and revenue. The league recently announced the addition of a new team in Seattle, whose ownership group paid a \$70 million expansion fee to join the IFL. The IFL is now evaluating proposals for one more expansion team, which will join the league alongside the Seattle team, bringing the total number of teams to 12 within the next two years.

Each IFL team operates as an independently owned business. A team's ownership group pays an upfront expansion fee to join the league and then remits a share of certain revenues back to the league. The league collects a portion of teams' ticketing and merchandising revenue to cover competition and operational costs, while ownership groups keep all revenue from local media and sponsorship deals, as well as the majority of ticket and merchandise sales

With its strong growth ambitions, the IFL aims to ensure that new teams not only enhance the league's overall value but are also financially sustainable, keeping the league attractive to future prospective owners.

There are currently bids from prospective ownership groups in 10 cities, and the IFL has hired you to recommend which city to expand into.

Question 1 (Structuring)

What factors should the IFL consider in evaluating new potential team owners?

Additional information if requested:

- The primary goal is to maximize incremental revenue generated for the league; secondarily, they want to grow the fan base for the sport
- A team expansion fee of \$70MM (similar to that paid by Seattle) would be paid by the selected ownership group
- National league revenue is comprised of national media deals, and 40% of teams' ticketing and merchandising revenue. Local media and sponsorship revenue is kept by teams.
- Timeline to select is imminent, but play will start in 2 years (Y+2)
- The sport is played in the summer so as not to directly compete with NFL football
- Proposals should be considered discreet and cannot be bundled
- National media broadcast rights revenue has been negotiated based on the total number of teams, and will not be affected by the specific location chosen

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(thaicnh0729@gmail.com)
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Possible answer

We have been asked to help the Inside Football League determine which city to expand into in order to maximize fan and revenue growth.

1. Revenue potential

a. Revenue from the potential fanbase

- i. Population in the metropolitan area and growth
- ii. % of people that would spend money on sports entertainment
- iii. \$ spent / sports spender
 - Area Median Gross Income & growth
 - Discretionary income post living expenses
 - % of discretionary income spent on sports (tickets, merch, experiences, other)
- iv. % of spend captured by the IFL
 - Competition: other sports in the city or metropolitan area, other IFL teams in the area (cannibalization)
 - Revealed preferences: perceived value of the IFL product vs other entertainment offerings in the market? Openness to new products/services vs established options?

b. Revenue potential beyond direct fanbase revenue

- i. Local TV market for sports
- ii. Local sponsorship opportunities
- iii. Stadium VIP potential: HNWI population and growth

2. Non-financial benefits

- a. Impact on league attractiveness: option to create rivalries with existing IFL team, team identity and storyline
- b. Ownership group quality: brand name/impact, access to capital, expertise, network

3. Feasibility for each option

- a. Infrastructure options: plan for stadium and training facilities
- b. Market attractiveness for talent (e.g., will high-quality players be willing to play?)
- c. Regulation (e.g. international expansion considerations)
- d. Logistics (e.g., travel challenges to/from existing locations time zone issues for broadcasts)

Question 2 (Judgement and Insights)

Share Exhibits 1 and 2 with the candidate.

We've obtained the following information from the client regarding their existing footprint and cities under consideration for expansion.

Which three cities would you prioritize for more detailed research?

Additional information

- If a candidate asks about the relevance of geographic distribution to the client's goals, reiterate that the goal is to increase revenue for the league and expand the fanbase, which suggests that markets with a current team should be deprioritized to limit cannibalization
- The candidate can recommend numerical approaches, but calculations are not expected at this stage, candidates should be encouraged to provide a qualitative assessment only at this stage
- Candidates may choose other cities, so long as they articulate a thoughtful justification (e.g., challenges associated with taxation/international travel operating in Toronto)

Possible answer

1. *I would consider Toronto, Austin, and Las Vegas for further investigation.*
 - a. *Toronto's large population provides a high volume of potential fans*
 - b. *Austin's high growth may indicate a market of new residents who do not already have deep fan allegiances, and therefore are willing to engage with the IFL*
 - c. *Las Vegas' similarly relatively high growth and proximity to the other West Coast teams would allow for easier travel, beyond which the cultural alignment of sports and gambling is likely high. The "tourist attraction" dimension of Las Vegas may also support casual attendance.*
2. *While Washington, D.C. has high incomes that could support additional spending, I would be concerned about cannibalization of the nearby Baltimore team's revenues, and the high density of existing teams (MLB, NFL, NHL and multiple collegiate football teams in the area) might limit appetite for a new team.*

Exhibit 1: League Map: IFL

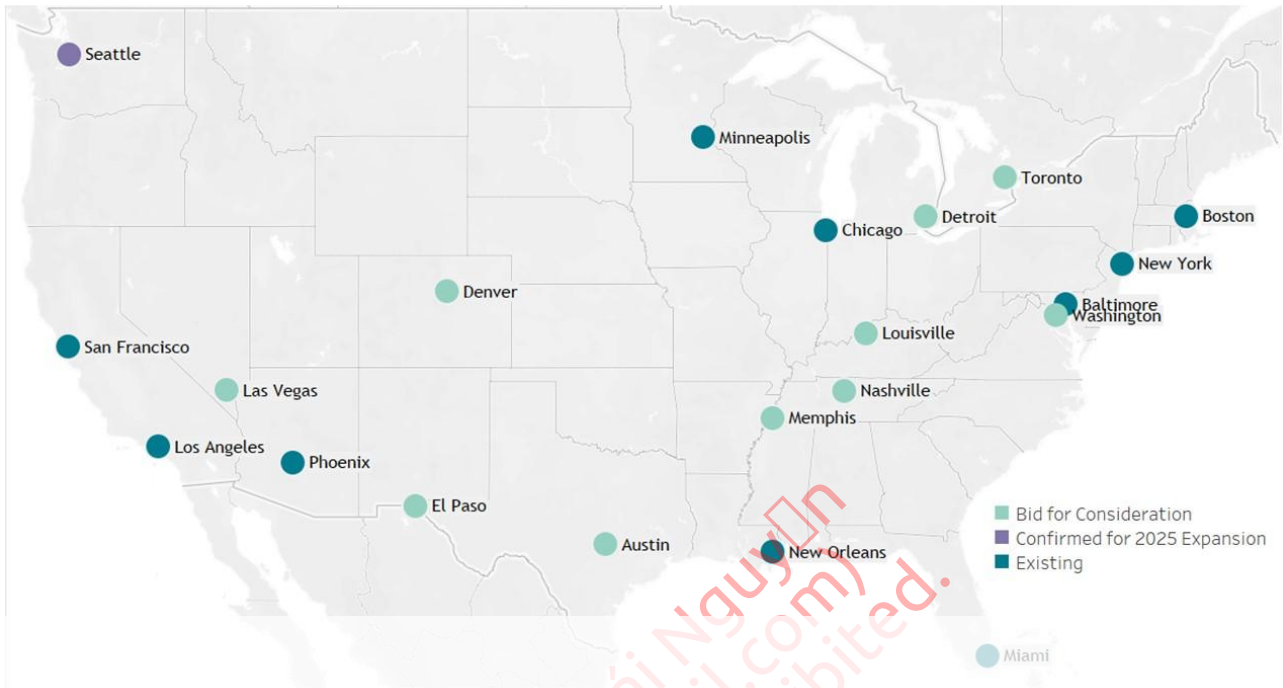
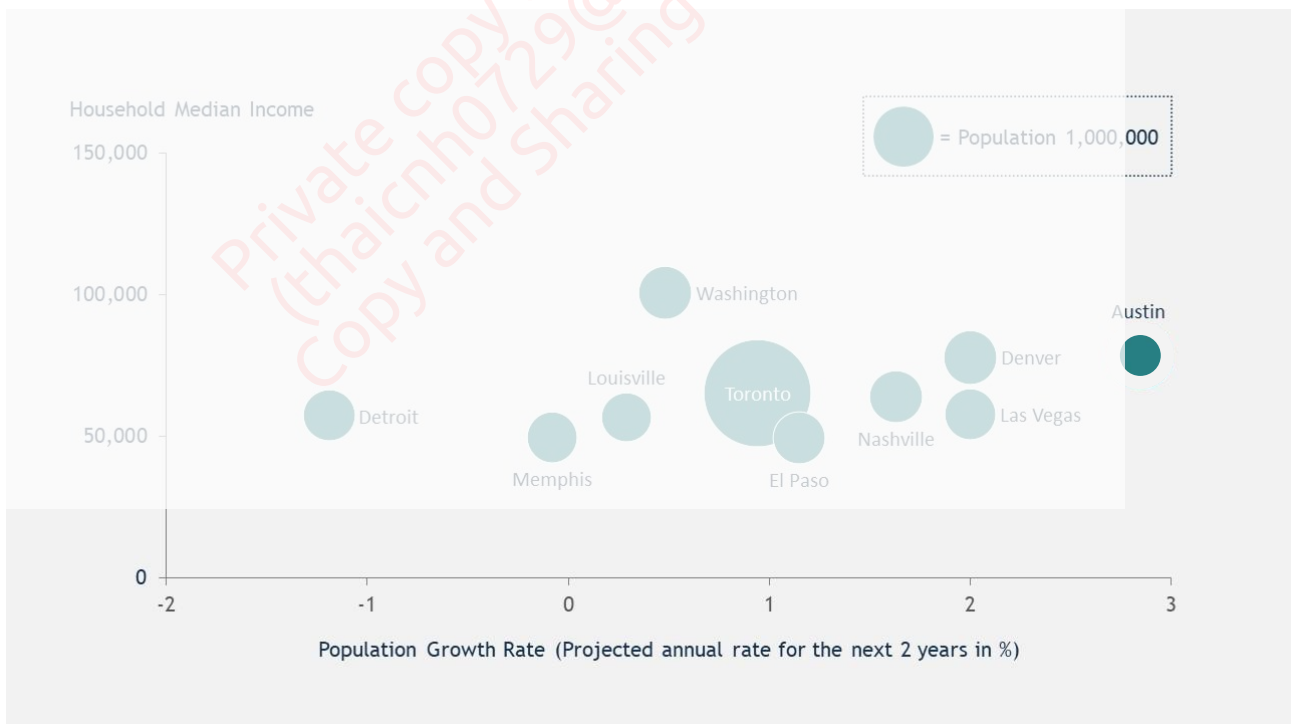


Exhibit 2: Characteristics of 10 Proposed IFL Expansion Cities



Question 3 (Math)

Share Exhibit 3 with the candidate. The selection committee has prioritized Austin, Toronto, and Las Vegas as finalists for the expansion team, but is not sure which city will be the best option to increase the league's revenue.

All 3 cities have a population of sports fans but with different levels of interest for sports, and a different level of spend on sports. All 3 markets already have existing sports teams for other leagues (e.g. NFL, NBA, MLS, MLB, NHL), with established fanbases.

Based on the information gathered about each option, what do you estimate will be the incremental revenue that each option would generate at the league level?

Interviewer guidance

- Nudge the candidate as needed so they:
 - recognize that the more teams there are in a market, the more they compete among each other for household spend on sports: divide total household spend on sports across all teams in the market
 - recognize that a new team for a new sport will earn less than an existing team for an established sport: assume that a new IFL team will capture $\frac{1}{2}$ of the revenue of an average existing sports team, partly through stealing share in the market, and partly through attracting net new sports fans
 - disregard local media and corporate sponsorship, as these revenue lines will not be shared with the league
- If asked about incorporation of growth rates from Exhibit 1, you can inform the candidate that it is included in the "Estimated Households in 2 years" data

Additional information

- The league collects 40% of teams' ticketing and merchandising revenue
- Disposable income and expenditure on sport have remained relatively constant over recent years; we do not have a reason to assume further changes

Possible answer

1. I will calculate the market for household sports in each city, then estimate how much of this can be captured by the IFL team. I will then calculate the proportion of revenue contributed to the IFL.

Finalist City Calculations			
	Austin	Toronto	Las Vegas
Market Opportunity Calculation			
Total household spend on sports (# households x mean disposable income per household x % of disposable income spent on sports)	250,000 x \$20,000 x 2.5% = \$125,000,000	1,000,000 x \$16,000 x 1% = \$160,000,000	500,000 x \$25,000 x 3% = \$375,000,000
Average revenue per sports team from households (total household spend on sports / number of teams in market)	\$125,000,000 / 2 = \$62,500,000	\$160,000,000 / 3 = \$53,333,000	375,000,000 / 4 = \$93,750,000
Average revenue for new IFL team (half of existing teams)	\$31,250,000	\$26,670,000	\$46,875,000
Shared Revenue Calculation			
% of team ticketing and merch revenue contributed to IFL league revenue	40%	40%	40%
Potential Household Spend Contribution to IFL shared Revenue	\$12,500,000	\$10,670,000	\$18,750,000

2. Las Vegas will contribute the most to the IFL, at \$18.8 Million in incremental revenues, given strong appetite for sports in the market and with a high-quality ownership group, while Austin and Toronto trail substantially, contributing only \$12.5 Million and \$10.7 Million respectively. Based on this revenue impact, Las Vegas appears to be the most attractive expansion location, especially considering the quality of its prospective ownership group.

Exhibit 3: Finalist Cities Under Consideration

Finalist City Details			
	Austin	Toronto	Las Vegas
Total Households projected in Y+2	250,000	1,000,000	500,000
Mean Disposable Household Income	\$20,000	\$16,000	\$25,000
% of Disposable Income spent on sports tickets & merchandise	2.5%	1.0%	3.0%
Other Sports Teams Already Existing in Market (e.g. NFL, NBA, MLS, NHL, MLB)	2	3	4
% of team ticketing and merch revenue contributed to IFL league revenue	40%	40%	40%
Ownership Group Quality	★★★★	★★★	★★★★★
Stadium / Media Infrastructure Quality	★★★	★★★★★	★★★★
Local corporate sports sponsorship and media deal market size	\$220,000,000	\$270,000,000	\$400,000,000

Question 4 (Math)

[Keep sharing Exhibit 3]

Besides maximizing direct revenue potential, the league also wants to protect the attractiveness of the league for future prospective investors. The league wants each new ownership group to be able to generate returns high enough to be able to pay back their expansion fee within 5 years.

Which cities allow their ownership groups to achieve a 4-year payback on the expansion fee?

Additional information

- A new team could capture half of the average local media and corporate sponsorship revenue of the average existing team
- Profit margins on revenues (net of IFL payments) are 20%

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(thaicnh0729@gmail.com)
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Possible answer

1. I will calculate how much revenue the team will generate from ticketing and merch (after it has remitted a share to the IFL), and how much revenue they can generate from local media and sponsorship. I will then calculate their profit on this revenue, and then divide the expansion fee by the profit to calculate the payback.

	Austin	Toronto	Las Vegas
Annual ticketing and merch revenue per team	\$31,250,000	\$26,670,000	\$46,875,000
Revenue shared with IFL	\$12,500,000	\$10,670,000	\$18,750,000
Revenue kept in team	\$18,750,000	\$16,000,000	\$28,125,000
Average local media and corporate sponsorship revenue for an existing sports team in the market (<i>local media & sponsorship market size / number of teams</i>)	\$110,000,000	\$90,000,000	\$100,000,000
Team local media and corporate sponsorship revenue (<i>half of the average existing team</i>)	\$55,000,000	\$45,000,000	\$50,000,000
Total team revenue	\$73,750,000	\$61,000,000	\$78,125,000
Annual Gross Profit (<i>team revenue x profit margin</i>)	$\$73,750,000 \times 20\% = \$14,750,000$	$\$61,000,000 \times 20\% = \sim \$12,200,000$	$\$78,125,000 \times 20\% = \sim \$15,625,000$
Payback period (<i>expansion fee / gross profit</i>)	$\$70,000,000 / \$14,750,000 = \sim 4.7 \text{ years}$	$\$70,000,000 / \$12,200,000 = \sim 5.7 \text{ years}$	$\$70,000,000 / \$15,625,000 = \sim 4.5 \text{ years}$

2. With a payback period of 4 years, Las Vegas is the most lucrative option. Austin follows but does not respect the league's rule.
3. Las Vegas seems to be the most relevant expansion option as it increases league revenue almost as much as Toronto, has a higher quality ownership group, and has the highest return for the ownership group.
4. As a next step, I would like to look at ways to ensure that the ownership group achieves its revenue potential.

Question 5 (Creativity)

The league has decided to advance with Las Vegas as the most promising expansion option. **What are some ideas of initiatives that the new owners in Las Vegas can deploy to maximize fanbase development in their first season, and achieve their revenue potential?**

Possible answer

I would advise the owners to think about three types of initiatives to maximize fanbase development and achieve their revenue potential: Outreach, Offerings, and Pricing initiatives.

1. Outreach

a. Marketing

- i. Advertisements (particularly at other stadiums/sporting events)*
- ii. Engage local news organizations with press releases, comments*
- iii. Promote heavily in other IFL publications to let existing fans know- potential referral options, (including "buy a friend a ticket in a new city, get 50% off your own")*

b. Partnerships

- i. Ticket-bundling with other sports leagues*
- ii. Discounted restaurant meals with a ticket stub*
- iii. Charitable events with star players at hospitals, schools, community organizations*
- iv. Give jerseys to local celebrities (e.g., musicians) to gain recognition*
- v. Discounted tickets for people with gym memberships or at athletic centers*
- vi. Travel agencies, tour operators, and airlines to get tourists/travellers to see a game/buy a jersey/visit the stadium*

2. Offerings

- a. Food and beverage (e.g. Wimbledon strawberries)*
- b. Get fan input via in-game polls and surveys on what they'd like to see next*
- c. Explore luxury box options to sell to businesses which they can write off as client development, or that casinos can give as perks to high rollers*

3. Pricing

- a. Bundle ticket sales with food, beverage, and merchandise discounts in-game*
- b. Discounted (or free) tickets for children; getting families in early will help build loyalty*
- c. Encourage fans to download the app in the stadium, enabling food/beverage purchases to their seats. Track behavior by time, price point, etc. to A/B test and improve performance*

Question 6 (Synthesis)

How would you present your recommendation to the commissioner of the league?

Possible answer

We were brought in to evaluate the proposed locations for the IFL's next team. Las Vegas presents the most attractive combination of revenue potential for the IFL and returns for the team owners, contributing > \$18 Million to the league each year, and achieving < 5-year payback of the expansion fee for its ownership group.

Las Vegas' leadership team is also exceptionally strong, they should be able to meet or exceed this target through creative outreach efforts, attractive offerings and adapted pricing. While the competitive landscape is intense, creative tie-ins and engagement can support the IFL's success; we could explore, for example, bundling packages with other sports leagues, partnering with casinos, airlines, tour operators, and use technology to excite local fans and tourists.

Alternatively, Toronto presents an attractive revenue growth opportunity for the league as it opens a whole new national market, with a potential new media deal. We would recommend to continue monitoring household appetite for sports in Toronto, and explore alternative ownership group opportunities for a potential new team in the future.

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