CHAPTER 8

Revenue Generation by OC

At all points of time (right from bidding for the Games in May 2003), IOA and the OC consistently presented staging of the Games as revenue neutral, if not revenue surplus. This argument was used to justify the independence of the OC and lack of Government control on its financial transactions. However, this premise was seriously flawed:

- ***This assertion of revenue neutrality was never supported by robust and appropriately validated revenue projections. In fact, between March 2007 and July 2008, the revenue projections skyrocketed from Rs. 900 crore to Rs. 1780 crore, primarily on account of inflating receipts from sponsorship and donations without justification. In our view, this increase in revenue projections was made with the sole objective of keeping pace with the vastly increased operating expenditure estimates, so as to maintain the claim of revenue neutrality.***

- ***Both MYAS and MoF failed to exercise necessary due diligence, and did not adequately examine and scrutinise the revenue projections or raise "red flags" on this critical issue at the highest levels of Government, especially on the quantum jump in revenue projections from Rs. 900 crore to Rs. 1780 crore, and chose to go along with the OC's claims of revenue neutrality.***

OC recorded total committed revenues of just Rs. 682.06 crore, of which only Rs. 440.43 crore had been realised. After deducting revenue generation costs of Rs. 266.47 crore, the net revenue realisation was just Rs. 173.96 crore. Clearly, OC failed to exploit the vast revenue potential of the Games.

OC's engagement of SMAM as the consultant for sponsorship and merchandising/ licensing rights was flawed on several counts:

- ***The pre-conditions for bidding stipulated experience of international multi-sports events and ignored the vast potential of the Indian market.***

- ***The award of the contract to SMAM was essentially on a single financial bid, and was unduly influenced by the recommendations of the CGF CEO, Shri Mike Hooper who suggested a neat division of consultancy contracts between SMAM and Fast Track Events.***

- ***The contractual provisions with SMAM were deficient and unduly favoured it.***

The performance of SMAM during CYG-2008, Pune as well as the QBR (launch and international leg) was demonstrably poor. OC chose not to derive lessons from their poor track record, and terminated the contract only in August 2010.

Against the sponsorship target of Rs. 960 crore, OC generated committed sponsorship revenue of just Rs. 375.16 crore. Nearly 67 per cent was from Government agencies/ PSU, and 36 per cent was in the form of "Value in Kind" (which remained largely unaccounted for). OC failed to follow up adequately on sponsorship offers from reputed companies, contrasted with the unusual enthusiasm and interest it showed in inflating sponsorship revenue projections. OC also wasted Rs. 3.08 crore on road shows and discounted tickets for the Business Club of India, which was formed for supporting marketing efforts for CWG-2010 but generated no revenue.

OC irregularly selected Premier Brands Limited (PBL) as the "master licensee" for merchandising and licensing rights without even signing a formal agreement with PBL. Consequently, no royalty has been received so far by the OC.

The commercial exploitation of national and international broadcasting rights was badly managed. The agreement for national broadcasting rights between OC and Prasar Bharati was signed only on 23 September 2010, resulting in generation of just Rs. 24.70 crore of revenues for the OC. With regard to international broadcasting rights, OC could sign agreements for only Rs. 213.46 crore, of which only Rs. 191.40 crore had been received. OC also failed to exploit the market for new media rights (Internet, mobile/ SMS etc.) as well as "big screen rights" for the Games.

OC's performance on ticketing was also deficient. The appointment of the ticketing consultant and the ticketing agency was delayed enormously, and marketing of tickets was taken up only in September 2010. The issue of complimentary tickets (particularly high value tickets) was excessive (nearly thrice that of earlier CW Games at Manchester and Melbourne). Also, OC adopted a wide range of ticket pricing, contrary to the recommendations of consultants, which contributed to low ticket sales (particularly of high denominations). This was compounded by OC's refusal to permit ticket sales at the outlets of IRCTC (the main ticketing agency) on specious grounds. Consequently, against the target of Rs. 100 crore, OC could only muster Rs. 39.17 crore of gross ticketing revenue. After setting off costs of Rs. 23.37 crore, the net ticketing revenue was just Rs. 15.80 crore.

OC included a revenue target of Rs. 300 crore in July 2008 from donations/ raffle, essentially to maintain the claim of revenue neutrality. Against this target, OC collected a paltry sum of Rs. 0.99 crore.

8.1 Revenue-neutrality of the Games

8.1.1 Initial Revenue Estimates

MYAS moved a Cabinet note in May 2003 to grant approval to the IOA to bid for the Games. The revenue estimates in this note, as worked out by IOA (through sponsorship) amounted to Rs. 490 crore, against the projected expenditure of Rs. 295.50 crore. However, no break-up of these projections was provided.

When the issue was again taken to the Cabinet in September 2003[1], the revenue estimates of Rs. 490 crore were reiterated, while the annexed correspondence with the IOA indicated a figure of US$ 179.9 million (matching the figures indicated in the bid document[2]). No reference was made to direct funding from GoI in the form of loans/ grants, although the approval of GoI guarantee for underwriting the cost of the Games was recommended on the basis of a projected surplus of approximately Rs. 50-60 crores.

8.1.2 Trend of Increasing Revenue Projections

The increasing trend of revenue projections from the IOA bid document (May 2003) to OC's first budget (March 2006) to its revalidated budget (July 2008) is reflected below:

Table 8.1 - Revenue Estimates and Realisation

(Rs. in Crore)

Revenue streams	Operating Revenues from Melbourne CWG-2006[3]	IOA Bid Document (May 2003)#	OC's Original Budget (March 2006)	OC's Revalidated Budget (July 2008)	Revenue realised (February 2011)
Sponsorship fee	313.83	450	450	960	201.63
Broadcasting rights	205.92	300	300	370	191.40
Merchandising licensing income	30.69	60	50	50	-
Sale of tickets	261.69	30	100	100	27.49
Donations		-	-	300	0.99
Interest/ Others	33.66				
Total	845.79	840	900	1780	18.92
Estimated Operating Expenses*	-	635	767	2500.48[4]	440.43
Estimated Surplus	-	205	133	-	1729.95

Note:

 # Figures in IOA bid document converted from US$ to Rs. @ Rs. 45/US$

**Operating expenses refers only to expenses of the OC, and excludes expenditure on infrastructure development and services provided by Government Departments (which would have to be met through Government grants/ funding).*

1 *Mainly in connection with the additional commitments/ clarifications required by the CGF Evaluation Commission*
2 *The IOA bid document (May 2003) had still not been sought by MYAS or referred to in the September 2003 Cabinet note.*
3 *Converted from AUD @ Rs. 33/ AUD*
4 *Total loan sanctioned Rs. (1620 + 687.06 + 193.42) crore*

Subsequent to the July 2008 budget (which was approved in November 2009), OC was sanctioned additional GoI loans of Rs 880.48 crore in August/ September 2010 to cover the cost of overlays and ceremonies. This increased the total loan extended to the OC to Rs. 2500.48 crore, and formally rendered the organisation of the Games as revenue deficit, since the revenue estimates remained fixed at Rs 1780 crore.

The 'revenue neutrality' argument formed the basis on which OC's expenditure was financed as a loan by the GoI. The assertion for autonomy of the OC was premised on the concocted revenue neutrality argument. However, far from being revenue neutral, OC's budget was hugely revenue deficit.

8.2 Claim of revenue neutrality

8.2.1 Examination of Original Budget of OC

When the original OC budget of March 2006, involving revenue projections of Rs. 900 crore, was examined by the EFC in May 2006, the then Secretary (Sports) indicated that the revenue neutrality principle would be strictly followed, with expenditure sanctions to be based on revenue inflows. Chairman, OC countered that GoI *"should have faith in the ability of OC to generate the revenue as projected".* He also stated that such Games had been revenue surplus all over the world, and that most of the revenue flows would come after the Games. Out of the total revenue projections of Rs. 900 crore, revenues of Rs. 450 crore were projected during 2010-11 and Rs. 325 crore during 2011-12.

In the next EFC meeting in September 2006, the EFC recommended that a risk analysis study of the projected revenue streams be undertaken expeditiously by OC and incorporated in the Cabinet note on the OC budget, so as to validate the principle of revenue neutrality. However, the Cabinet note of March 2007 for approval of the OC budget did not insist on the risk analysis study on the grounds that the OC had engaged Ernst & Young (E&Y) for a risk assessment study, and a draft report was currently under examination of the OC. The OC budget was approved without even obtaining, let alone examining, this study. The issue of the risk analysis study came up again only in October 2009, while examining the revised OC budget.

Even when the IOA proposal for bidding for the XVII Asian Games 2014 was being considered through a Cabinet note of April 2007 by MYAS, a passing reference was made that the present revenue generation estimates for CWG-2010 were untested, and Government would have to meet the shortfall, if any. However, this aspect was not pursued further by MYAS.

Both MYAS and MoF failed to exercise necessary due diligence, and did not adequately examine and scrutinise the revenue projections or raise "red flags" on this critical issue at the highest levels of Government. The risk assessment study of revenue projections was not demanded from OC, let alone scrutinized and validated. The "faith" in the ability of OC to generate the projected revenue was clearly, entirely misplaced.

8.2.2 Revised Budget of OC

In the OC's revised budget of July 2008, the revenue projections skyrocketed, without any basis, from Rs.900 crore to Rs. 1780 crore, with the projected increase mainly on account of sponsorship revenues (Rs. 450 crore to Rs. 960 crore) and donations (a new line item for Rs. 300 crore)

In our view, this increase in revenue projections had no justification and was made with the sole objective of keeping pace with the vastly increased operating expenditure estimates, so as to maintain the claim of revenue neutrality. The inaccuracy of the increased projections on account of sponsorship is borne out by the fact that the contracted commitment of the sponsorship consultant (SMAM) was not correspondingly revised and remained only at US$100 million (equivalent to the original projection of Rs. 450 crore).

Disclaimer on Revenue Neutrality

In our Study Report of July 2009, by when it had become evident and we had clearly observed, the claim of the Games being revenue neutral in cash terms was flawed. The available documentation could not satisfy us of the soundness of the increased estimate of revenue:

- **Donations of Rs. 300 crore were estimated by the OC, which initially stated that this would be done through an aggressively marketed consumer promotion, but later stated that this would come from corporate trusts on account of IT exemption.No basis for such optimistic claims were seen**
- **As regards the increase in projected sponsorship fees from Rs. 450 crore to Rs. 960 crore, we were not clear how Value in Kind (VIK), which was supposed to constitute a majority of sponsorship revenues, could be precisely dovetailed to set off individual items of operating expenses. We had also found discrepancies in the underlying calculations for different categories of sponsors.**
- **We had also expressed concerns that no revenue generation had taken place from sponsorship, ticketing, merchandising and licensing till date. We had recommended expediting of steps for generating sponsorship and other revenue, in view of the fast shrinking window of opportunity in leveraging the Games.**

However, no concrete action was taken on our concerns and recommendations.

The Cabinet note of October 2009 for approving the revised OC budget (July 2008) of Rs. 1780 crore indicated a revenue surplus of Rs. 88 crore (after certain economy measures effected by the Committee on Non-Plan Expenditure (CNE)), and stated that although a risk analysis of projected revenue streams had been conducted by the OC, the risk factors identified and the risk mitigation measures suggested for the revenue streams as shown by OC were **"largely untested in Indian conditions[5]"**. However, this issue was not taken further.

MYAS and MOF did not rigorously scrutinize or validate the huge increase in revenue projections, and continued to accept the claim of revenue neutrality projected by the OC.

In response to our query, MYAS stated that the shortfall of revenue generation had been deliberated in the meetings on various occasions and the OC had promised to reduce the shortfall to a minimum. It referred to two letters from the erstwhile Minister, YAS, Shri Mani Shankar Aiyar, to the Prime Minister and the Finance Minister, which referred to (a) the possibility of OC raising finances from the market as a "bankable" proposal, and (b) linking further releases to the OC to revalidation of the OC budget. MYAS also referred to a mention by Secretary, YAS in the August 2007 GoM meeting, references in the October 2009 Cabinet note, as well as monitoring of revenue generation by CoS in July 2007 and February 2008.

The references and interventions by MYAS on revenue neutrality were inadequate and oblique. Even Shri Aiyar's letters focused primarily on the lack of control over OC, rather than on the robustness of the revenue model. In our view, MYAS (and MoF) did not seriously challenge the reliability and robustness of the revenue projections, nor did they present a categorical disclaimer or opinion on the projected revenue neutrality at the highest levels of Government.

8.2.3 Actual Revenue Commitment and Realisation

Against the revenue target of Rs.1780 crore, OC recorded committed revenue of just Rs.682.06 crore, of which only Rs. 440.43 crore had been realized (February 2011). The revenue generation costs amounted to Rs 266.47 crore, leaving net revenue realisation (after deducting associated costs) of just Rs. 173.96 crore. Stream-wise details of targeted, committed and realised revenue (as of February 2011) are given in Table 8.2.

[5] *Incidentally, even a copy of this risk analysis study was apparently not available with MYAS.*

Table 8.2 - Category wise breakup of the Committed and Realised Revenue

(Rs. in Crore)

Revenue streams	Target (July 2008)	Committed Revenue	Per cent shortfall in commitment	Revenue realized against commitment	Cost of Raising Revenue
Sponsorship fee	960	375.16	61%	201.63	190.74*
Broadcasting rights	370	238.17	36%	191.40	45.64
Merchandising licensing income	50	4.52	91%	-	0
Sale of tickets	100	39.17	61%	27.49	23.37
Donations/ Raffle	300	1.11	100%	0.99	0
Revenue from CYG Pune 2008	No Target fixed	23.93#	--	18.92	6.72
Total	**1780**	**682.06**	**62%**	**440.43**	**266.47**

Notes:
**This includes the license fee to CGF and expenditure on BCI across revenue streams*
#This included Sponsorship Rs.20.17 crore, M&L Rs.2.34 crore, Ticketing Rs.1.30 crore and TV rights Rs. 0.12 crore

Clearly, the OC failed to exploit the vast revenue potential of the Games. There was a huge shortfall in generating revenue commitments vis-à-vis not just the revised target, but even the original target of Rs. 900 crore; this, further, confirms the unrealistic and inflated nature of the revenue projections. Further, OC could collect just 65 per cent of even the committed revenue. After deducting the expenditure incurred by OC on consultants etc. for revenue generation, the net revenue accruing from CWG-2010 is insignificant.

8.3 Delay in Planning for Revenue Generation:

We found lack of focused leadership for the four revenue-related Functional Areas (sponsorship, TV rights, merchandising and licensing, and ticketing), with numerous changes in leadership till late 2009. We also found substantial delays in preparation of detailed plans for each revenue segment, as summarised in Table 8.3.

Table 8.3 - Delayed Planning for Revenue Segments

Revenue Segment	Area	Target Date	Actual Date of Finalisation
Sponsorship	Marketing Plan	Oct. 2005	December 2007
Merchandising and Licensing	Appointment of Sponsorship Consultant	-	July 2007
	Appointment of Licensing Resources	April 2007	July 2007
	Licensing and Merchandising Plan	Oct. 2007	June 2009
	Licensing Marketing Program Launch	April 2008	May 2010
	Consumer Launch of Licensing Program	April 2009	September 2010
Ticketing	Ticketing Strategy	June 2008	December 2009
	Ticketing Vendor Contracted	Oct. 2008	January 2010
	Ticketing Marketing Plan to be submitted to CGF	July 2009	Not done
Donation/ Raffle	No planning done		

8.4 Sponsorship Revenue

8.4.1 Selection of SMAM as sponsorship and merchandising/ licensing consultant

The process for engagement of an international consultant for sponsorship and merchandising/ licensing started in March 2006 and concluded with the engagement of SMAM, Singapore in July 2007.

The selection of SMAM was unduly influenced by the recommendations of the CGF CEO, Shri Mike Hooper, who

- **clearly suggested a neat division of consultancy contracts for sponsorship, merchandising and licensing, and international broadcasting rights between SMAM and Fast Track Events; and**
- **recommended that the EB may approve appointment of SMAM and Fast Track Events for the sponsorship/ merchandising / licensing and international broadcasting consultancy contracts respectively (with an assurance that CGF approval would be forthcoming for such appointments).**

It is not clear why the CGF CEO was interested in selection of a specific entity as sponsorship consultant, rather than in selection of individual sponsors[6].

[6] *who could have linkages/ conflicts with the brand image of the CGF/ CW Games as well as with any pre-existing CGF sponsors, if any*

We found that the engagement of SMAM as the consultant for sponsorship and merchandising/ licensing rights was flawed on several other counts, as well:

- The pre-conditions for selection as sponsorship and merchandising/ licensing consultant were restrictive (by requiring experience of international multi-sports events) and did not factor in the specific requirements of a sports event being organised in India, which required experience and understanding of the local market. The vast potential of the Indian market (which had been tapped for sporting events like the IPL tournaments) was, thus, ignored, and no active attempts were made by the OC to encourage participation by leading players in the Indian sporting sponsorship arena. While SMAM claimed to have a tie-up with an Indian partner (World Sports Group), full details of active participation by the Indian partner in sponsorship activities were not made available to us by the OC.

- OC's linkages with SMAM could be traced back to August 2003, when it provided the first revenue estimates for the IOA which were used to assure the Cabinet of the robustness of the revenue projections.

- The award of the sponsorship and merchandising/ licensing consultancy contracts to SMAM was essentially on consideration of a single valid financial bid. Due to insufficient publicity and non adherence to global tendering procedure, only two bids were received. Of the two bids received, the other bidder (Leisure Sports Management Private Limited)[7] did not appear for the presentation and suggested (by fax) that they be appointed principal agents on mutually agreed terms; this bid was not pursued subsequently.

- Although contract negotiations were conducted with SMAM, Australia and the consultancy services were essentially provided by SMAM, Australia, the OC signed the contract with SMAM, Singapore (a newly established company, which was purportedly set up as an SPV to save taxes). Due to this change, it might not be possible to ascertain the ultimate beneficiaries of the payments made by the OC to SMAM.

Further, we found that the contractual provisions with SMAM were deficient, unduly favouring SMAM e.g.

- no penal clauses despite financial advice to the contrary;

- a lower tax liability of only 10.54 per cent for SMAM against the expected 42.23 per cent;

- commission payable to SMAM (and at the same rates)[8] even on sponsorship from PSUs and Government agencies (where the role of SMAM was likely to be insignificant or unimportant)[9];

- low contracted targets for sponsorship generation vis-a-vis the targets indicated in the “revenue surplus/ neutral” OC budgets;

[7] *who had quoted lesser commission for PSU sponsorship, while SMAM had offered a uniform rate of commission across all deals*

[8] *Ranging from 15 -22.5 per cent graded on slabs.*

[9] *Ultimately, out of the contracted revenue of Rs. 375.16 crore, Rs. 250 crore was from Government agencies, which was largely due to efforts by the OC and the Government, rather than by SMAM.*

- OC, rather than SMAM, being made responsible for providing an "effective brand projection programme, including the development and management of CWG-2010 intellectual property protection and anti-ambush programme"; and
- annual performance reviews (rather than the normal six monthly performance reviews).

We found that the clauses of even this deficient contract were not adhered to during execution:

- SMAM did not depute the minimum stipulated nine executives on a full-time basis in the beginning;
- Annual performance reviews were not conducted during 2008 and 2009; and

The stipulated public liability insurance of US$ 10 million was not provided by SMAM.

8.4.2 Termination of contract with SMAM in August 2010

SMAM's performance was reviewed for the first time only in February 2010, when a committee headed by the SG undertook this exercise. The committee recommended that no commission be paid on sponsorships from PSUs and also recommended renegotiation of terms with SMAM (on the issue of inadequate staffing as well as the burden of tax liability). The terms were renegotiated with SMAM through a variation deed of 7 July 2010.

Significantly, Shri Mike Hooper, CEO, CGF refused to be a member of the review committee, indicating that this was a procedural matter covered by the contract between the OC and SMAM and not one that should involve CGF. This was in complete contrast to the stance taken in 2006, when Shri Hooper strongly recommended appointment of SMAM and indicated that CGF approval would be forthcoming for such an appointment.

8.4.3 Generation of Sponsorship Revenues

We found that the performance of OC and its consultant (SMAM) in planning, developing and ultimately generating sponsorship revenue was a complete failure.

8.4.3.1 Sponsorship revenues from CYG-2008, Pune and Queen's Baton Relay (QBR)

The OC had separately contracted with SMAM as sponsorship consultant for CYG-2008, Pune. SMAM's performance was very poor. Against the requirement of Rs. 60 crore for making CYG-2008, Pune revenue-neutral[10], the revenue generated was just Rs. 20.17 crore, out of which PSU/ Government sponsorship was Rs. 18 crore. SMAM was paid Rs. 3.38 crore on this account, and the OC also undertook to bear the tax liability of Rs 1.05 crore on behalf of SMAM.

[10] *We could not find documentation of formal revenue targets for CYG-2008, Pune; however, there were indications that CYG-2008, Pune would be revenue-neutral.*

SMAM was responsible for sponsorship generation from QBR – both the QBR launch ceremony and the international leg. However, against the target of Rs. 65 crore, no sponsorship revenue was generated.

OC chose not to derive any lessons from the poor performance of SMAM during CYG-2008 and the QBR-2009. SMAM's performance on merchandising and licensing rights was even worse.

Ultimately, OC terminated the contract with SMAM only in August 2010, which was too late.

8.4.4 Frequent changes in sponsorship plans

The planning for sponsorship was delayed, ad hoc and erratic. While sale of sponsorship rights was scheduled to commence from November 2007, even the first sponsorship marketing plan was prepared by SMAM only in December 2007. Further, there were frequent and unexplained changes to this plan; between March and July 2009, which was revised thrice, as summarised below:

Table 8.4 - Changes in Sponsorship Plans between March and July 2009

Association Status	No of targeted companies	Total (Rs.in crore)	No of targeted companies	Total (Rs.in crore)	No of targeted companies	Total (Rs.in crore)
	Plan of 31 March 2009		Plan of 6 May 2009		Plan of 5 July 2009	
Lead Partner	4	400	2	200	2	200
Partner	6	270	12	600	10	500
Sponsors	20	220	24	240	12	300
Co-sponsors	Nil	Nil	Nil	Nil	24	240
Suppliers	36	70	36	90	36	108
Total		960		1130		1348

We found that these changes were arbitrary and were not supported by substantiated justification or developments on the ground.

8.4.5 Sponsorship offers ignored

In our study report (July 2009) on preparedness for the Games, we had expressed our concerns regarding delays in sponsorship generation. At that time, the OC had indicated that the sponsorship drive had slowed due to global slowdown and general elections, and indicated that the final negotiations for sponsorship were now scheduled for the first quarter of 2010. We had recommended that steps for generating sponsorship and other revenue should be expedited, as the window of opportunity for leveraging the Games was fast shrinking with the passage of time.

However, our concerns were not adequately addressed.

In July 2009, OC sought sponsorship offers through an advertisement to which 48 companies responded. Significant offers were received from entities such as Airtel[11], Power Grid Corporation of India, Wipro, LG, Dabur and Pico. However, OC's follow up of these offers was very lackadaisical, despite significant potential, and none of these offers finally fructified into a sponsorship commitment.

OC showed considerably more interest and enthusiasm in inflating sponsorship revenue projections to maintain the claim of revenue neutrality, than in actually developing offers already in hand, despite significant potential to generate revenues. We would presume that OC's lack of interest in generating sponsorship revenue was ultimately based on the GoI commitment to underwrite the shortfall between costs and revenues.

8.4.6 Actual Committed/ Realised Sponsorship revenues

Against the budgeted sponsorship revenue (July 2008) of Rs. 960 crore[12], total committed sponsorship revenue was only Rs. 375.16 crore. Of this amount,

- Rs. 250 crore was from Government agencies, and only Rs. 125.16 crore was from the private sector;
- Rs. 238.90 crore was in cash, while Rs. 136.26 crore was in the form of "Value in Kind" (VIK).

A summary of the main sponsors is given below:

Table 8.5 - Breakup of Committed Sponsorship Revenue

Government agencies/PSUs		Private Companies	
Organization	**Amount (Rs. In Crore)**	**Organization**	**Amount (Rs. In Crore)**
Air India	50.00	Hero Honda	38.00
NTPC	50.00	Coca Cola	15.70
Central Bank of India	50.00	Swiss Timing	19.40
Indian Railways	100.00	Agility Logistics	12.50
		Tata Motors	24.66
		Reebok	9.85
		Amity University	0.05
Total	250.00	Total	**125.16**
	Cash - Rs. 190 Crore VIK - Rs. 60 Crore		Cash - Rs. 49.90 Crore VIK - Rs. 76.26 Crore

[11] *The sponsorship offer from Airtel is described in the Chapter on Telecommunications Services.*

[12] *SMAM's contract specified a target of only Rs. 450 crore (US$ 100 million)*

Of the cash sponsorship of Rs 238.90 crore, 80 per cent came from Government Agencies/PSUs. Of the VIK sponsorship of Rs 76.26 crore generated from private companies, Rs. 56.56 crore was provided by Swiss Timing, Tata Motors and Agility Logistics[13] (who were recipients of contracts for services from OC); these were essentially "set-offs"/ discounts offered at the tendering stage.

Further, free commercial time worth Rs. 20 crore on Doordarshan and free tickets worth Rs. 5 crore were also provided to the sponsors. Indian Railways, as a lead partner, also utilised VIK of Rs. 2 crore offered to the OC by international Right Holder Broadcasters.

Incidentally, OC was able to account for utilisation of only Rs. 5 crore of VIK, with the balance yet to be calculated finally by the concerned functional areas.

Besides, OC has another contracted commitment of Rs. 30 crore[14] as a part of the cost of raising the sponsorship revenue. Hence the net committed sponsorship revenue on a net basis is only Rs. 345.16 crore, and the net realised sponsorship revenue is Rs. 184.42 crore. This excludes the potential liability on account of commission to SMAM and income tax liability thereon[15].

[13] *Suppliers for Timing, Scoring and Results (TSR), transport and logistics services respectively.*

[14] *Under the Joint Marketing Agreement, Rs 25 crores was payable to IOA and Rs. 5 crore GNCTD.*

[15] *Under the sponsorship consultancy agreement, SMAM's income tax liability is restricted to 10.3 per cent, with the balance burden to be borne by the OC.*

8.4.7 Business Club of India (BCI)

The OC signed an MoU with the Confederation of Indian Industries (CII) in August 2006 and formed the Business Club of India (BCI), in order to support marketing efforts for CWG-2010. Chairman, OC was the Chairman of the BCI and the President, CII was its co-chairman. Despite incurring expenditure of Rs. 3.08 crore (Rs. 0.45 crore on road shows worldwide, and discount of Rs. 2.63 on tickets for BCI members), no revenue whatsoever was generated through this club.

8.5 Merchandising and Licensing

8.5.1 Delay in preparation of merchandising and licensing plan

Merchandising and licensing revenues were to be generated through appointment of licensees, who could utilise the CWG-2010 brand name and associated logos on manufacture and retailing/ distribution of products in different product categories e.g. accessories, sportswear and other clothing, bags, collectables, home wares, lifestyle/luxury goods, stationery, toys etc.

However, the preparation of the Licensing and Merchandising Plan was delayed by 20 months (June 2009 against the targeted date of October 2007), which reduced the time available for tendering and contracting procedures towards engagement of licensee(s), and the consumer launch of the merchandising and licensing programmes. In keeping with the widespread pattern observed in the functioning of the OC, no reasons for delaying this plan to June 2009 were discernable.

8.5.2 Appointment of Premier Brands Limited as sole licensee for the Games

The process for appointment of official licensee(s) was beset by delays, with one round of processing (undertaken between November 2009 and February 2010) being set aside due to non-approval of the RFP by OCFC and a meagre response.

The process of tendering was re-initiated only in February 2010, with the contract being awarded in May 2010 to Premier Brands Limited (PBL)[16]. We found that out of the 17 technically qualified bidders, PBL was the only bidder which did not qualify on its own strength and was considered eligible on the strength of its parent company. Its inclusion in the panel of technically qualified bidders was justified by the technical evaluation committee, based on the "goodwill" and financial and retail strength of its parent company, Compact Disc India Limited (CDIL). Incidentally, CDIL is essentially an animation company engaged in multi-media and entertainment production, and it is hard to justify that its retail channels would suit retailing of Games memorabilia.

Further, the RFP specified separate licensees for 18 different categories, but PBL was irregularly appointed as a master licensee for all categories on the basis of its offer of total royalty of Rs. 7.05 crore for all categories (which was not as per the RFP). It may be noted that in Melbourne CWG-2006, the master licensee concept was not adopted, and 39 official licensees were appointed.

[16] *Interestingly, PBL was appointed in May 2010 as the sponsor of Team India by the Badminton Association of India, which is headed by Shri VK Verma, DG, OC.*

8.5.3 Execution of Merchandising and Licensing Programme

OC failed to sign a Long Form Agreement with PBL (primarily due to delays in decisions on additional product categories and sub-licensees[17]), which would have committed PBL to a total royalty of Rs. 7.05 crore. Consequently, OC could neither bind PBL to its originally offered royalty of Rs 7.05 crore, nor an additional offer of 10 per cent flat royalty of sale value of additional product categories with a minimum guarantee of Rs.2 crore. By August 2010, PBL revised its offer downwards to Rs. 3.52 crore of royalty; even this has not been received, since PBL's cheques were dishonoured.

The merchandising and licensing programme was officially launched only on 2 September 2010. PBL was to sell merchandise through its own outlets, as well as concession outlets provided by the OC at venues. However, due to security reasons, only 5 out of the 60 competition venue outlets provided by the OC were operational, and that too only during the opening ceremony.

PBL could make arrangements for merchandising only 12[18] out of the 18 product categories, out of which 7 were sub-licensed by PBL, who also engaged Vaishali Enterprises as the contractor for managing their concession outlets. This belied the financial and retailing strengths of PBL and its parent company, CDIL, based on which it was declared technically eligible. Further, PBL also issued sub-licenses (with

[17] *Other reasons were discontent between OC and PBL for accreditation of PBL staff, marketing efforts by OC, counterfeit merchandising, discounted tickets and payment schedules etc.*

[18] *The full product range was not furnished in any of these 12 categories.*

OC's approval) for additional product categories for Apollo Tyres and Vighneshwara Developwell. An amount of Rs. 1 crore payable by PBL for rights granted to Vighneshwara Developwell is still outstanding.

8.6 Broadcasting Revenues

8.6.1 Overview

Under the HCC, CGF granted to OC the right to commercially exploit TV and radio broadcast rights, as well as internet rights. Broadcasters fell into two categories:

- **Host Broadcaster (HB),** who was responsible for producing and distributing “unbiased” radio and TV coverage of CWG-2010 and would also generally obtain the national domestic broadcast rights (at commercial terms to be negotiated with the OC); and
- **International Right Holder Broadcasters (RHBs),** who would be awarded broadcast rights for their region/ country on mutually negotiated commercial terms.

OC's original budget (March 2006) envisaged broadcasting revenues of Rs. 300 crore (without a break-up between domestic and international revenues). This was raised to Rs. 370 crore in the July 2008 budget – Rs. 110 crore from domestic rights, and Rs. 260 crore from international rights.

However, OC could generate total broadcasting revenue of just Rs. 238.17 crore, which was substantially lower than the revenue of Rs. 255.28 crore generated from the TV rights for Melbourne CWG-2006.

8.6.2 National Domestic Broadcast Rights

Against the projected revenue of Rs. 110 crore from national broadcast rights, the OC generated just Rs. 24.70 crore[19]. This was on account of abnormal delays by the OC in finalising the contract with the Host Broadcaster, Prasar Bharati (PB):

- Despite having declared PB as the Host Broadcaster in the original bid of May 2003, OC formally communicated this appointment to PB only in March 2007.
- OC took another two years to sign the Host Broadcaster Service Agreement with PB in May 2009.
- The formula for revenue sharing for domestic telecast as well as new media rights (Internet, SMS etc.) was finalised only in July- September 2010, and the agreement for broadcast rights between OC and PB was signed on 23 September 2010 (just 10 days before the Games), leaving no time for developing, let alone implementing, a joint marketing strategy for exploiting of free commercial time.

8.6.3 Appointment for International Consultant for Broadcasting Rights

The process for engagement of an international consultant for international broadcasting rights commenced in March 2006 (simultaneously with the engagement of the consultant for sponsorship, merchandising and licensing) and resulted in the engagement of Fast Track Events in March 2007, with unexplained delays between June 2006 (when presentations were made) to the signing of the contract. As in the case of the sponsorship consultant

[19] *Incidentally, Prasar Bharati got just Rs. 55.29 crore of revenues from telecasting CWG-2010 and also did not benefit substantially from this event.*

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(SMAM), the selection by OC of Fast Track Events was flawed on several counts:

- The selection was unduly influenced by the recommendations of the CGF CEO, Shri Mike Hooper, who clearly suggested a neat division of consultancy contracts for sponsorship and merchandising and licensing as well as broadcasting rights between SMAM and Fast Track Events, and recommended that EB may approve appointment of SMAM and Fast Track Events respectively for the sponsorship/ marketing/ licensing and broadcasting consultancy contracts (for which decision CGF approval would be forthcoming as per Shri Fennell's assurance).

- SMAM, which was the L-1 bidder for the international broadcasting rights consultancy, had quoted a flat rate of commission of 12.5 per cent, while Fast Track Events, which was the L-2 bidder, had quoted a higher commission rate of 15 per cent. However, contrary to CVC guidelines and best procurement practices, OC irregularly conducted financial negotiations with the L-2 bidder, Fast Track Events, and concluded the contract with it. Going by the difference between commission rates offered by the L-1 and L-2 bidders, the excess cost to the OC (and ultimately to GoI) on account of commissions on broadcasting revenue amounted to Rs. 5.34 crore.

- The original estimate of broadcasting revenues was Rs. 300 crore (which would work out to roughly Rs. 210 crore from international broadcast rights[20]), and the revised estimates for international broadcast rights was Rs. 260 crore. However, the contracted target revenue set for Fast Track Events was just Rs. 120 crore. This ensured that shortfall in revenue realisation could not be contractually attributed to the poor performance of the consultant.

8.6.4 International Broadcast Rights

As against the revised revenue estimates of Rs. 260 crore, OC could sign agreements for only Rs. 213.46 crore. As of January 2011, the amount of revenues actually remitted was Rs. 191.40 crore (including VIK of Rs. 16 crore).

We could not derive assurance that highest possible value was obtained from the sale of international broadcasting rights and selection of RHBs.

- Documents related to the negotiations by the international consultant with the broadcasters were purportedly not available with the OC. Further, OC had no independent mechanism to assess the reasonableness of the rights fees offered by the RHBs, and went by the reports/ recommendations of the consultants.

- For one region (UK/ Ireland), the actually contracted revenues of Rs. 14.86 crore were less than one-third of the projected estimates of Rs. 49.80 crore. The Chairman, OC rejected a proposal for direct negotiation with BBC, stating that he had personally bargained with BBC for higher fees which were not agreed to.

[20] *The original broadcasting revenues estimate of Rs. 300 crore did not have a break-up between national and international broadcasting revenues; we have worked out a break-up, based on the ratio of national and international broadcasting revenues in the revised estimate of Rs. 370 crore.*

8.7 Big Screen and New Media Rights

We found that OC failed to exploit the markets for commercial rights for Big Screens (i.e. screening Commonwealth Games in public places e.g. cinema halls, clubs etc) as well as new media rights.

OC assigned big screen rights only for non-commercial purposes to Prasar Bharati in September 2010, purportedly as it was separately exploring the possibility of exploiting the commercial big screen rights with a chain of theatres. OC took no action till 4 October 2010, when it permitted Digital Signage Networks Limited (in response to its offer) to show information and pictures of the Games at 1000 locations in 22 cities, with a 50 per cent share of advertising revenue. However, due to paucity of time, no contract was signed, and the agency informed OC that it could not generate any revenue.

Likewise, OC failed to exploit the commercial potential of new media rights (Internet, streaming video e.g. youtube.com, SMS and mobile telephony, mobile TV etc.)[21] While international new media rights were awarded to international RHBs (along with TV and radio and broadcast rights), there were conflicts between OC and PB on domestic rights. Finally, OC granted:

[21] *Revenue from new media rights are expected to be more than 15 per cent of total revenues for the London Olympics 2012. The Indian Premier League gave separate rights to various agencies for live coverage such as live screening, SMS/MMS and IVR rights, real time mobile video clips, online and mobile gaming etc.*

- mobile telephony new media rights on a non-exclusive basis to PB in September 2010;
- Internet rights (Live Streaming) on nomination basis without revenue element to Times Internet in October 2010; and
- Live Streaming of Games on mobile to Smile of India on nomination basis with a minimum guaranteed revenue of Rs. 5 lakh and revenue share of 35 percent of revenue accrued.
- Mobile infotainment rights on nomination basis to a KPMG- Smile India consortium, with a 10 per cent revenue share (subject to a guarantee of Rs. 5 lakh); however, no revenues were received till December 2010.

OC failed to receive any revenue, whatsoever, from Big Screen and new media rights in domestic broadcasting for CWG-2010.

8.8 Ticketing

8.8.1 Overview

Ticketing represented the third-largest source of revenue potential for the Games. Besides revenue generation, an effective ticketing programme should also ensure maximum attendance and generate adequate spectator interest equitable and efficient availability and vending of tickets, and satisfy seating requirements of all client groups (including the Games Family, sponsors etc).

However, against the targeted revenue of Rs. 100 crore, the actual revenue generated was just Rs. 39.17 crore, of which only Rs. 27.49 crore had been realised as of December 2010. After setting off costs of Rs. 23.37 crore, the net ticketing revenue was just Rs.15.80 crore.

This dismal performance was attributable to a critically delayed appointment of the ticketing consultant and the ticketing agency, inadequate marketing, low ticket sales and spectator attendance, and excessive distribution of complimentary tickets (especially high value tickets), paradoxically coupled with reports of non-availability of tickets.

8.8.2 Appointment of Ticketing Consultant

OC followed a stop-start process for appointing a ticketing consultant.

- After floating an EOI in March 2008 and recommending Market Plus for appointment, the process was stalled for 13 months due to DG's opinion that this was within the scope of work of EKS.
- OC approached EKS on 20 September 2008 for preparation of detailed ticketing strategy plan; thereafter, we found no evidence of any contribution of EKS in this area or follow up by OC with EKS in this regard.
- In September 2009[22], Shri Bruce Wilkie[23] was appointed as the ticketing consultant on nomination basis, purportedly on the basis of his past experience and CGF's recommendation. Subsequently, the consultant abandoned his assignment in June 2010, due to ill health. Thereafter, OC continued to take decisions on the marketing of tickets on its own without any expert advice.

8.8.3 Appointment of Ticketing Agency

OC followed a similar stop-start process for appointing of the ticketing agency:

- Two EOIs issued in March and June 2009 were cancelled on account of a single eligible bid on each occasion.
- A third RFP was issued in October 2009, after relaxing the qualifying criteria on experience of international multi-sports event. The work was finally awarded in January 2010 (against October 2008 - a delay of 14 months) to a consortium of IRCTC, Ticket Pro and Broad Vision at a cost of Rs. 14.03 crore.

8.8.4 Marketing of Tickets

The ticket marketing plan, which was to be finalised by July 2009 for CGF approval, was prepared only in April 2010. The plan was not seriously implemented till September 2010 (a month before the Games), when a Games time ticketing campaign was conducted at a cost of Rs. 6 crore. This included:

- Award of contracts for Rs. 0.81 crore for production of commercials in September – October 2010 (however, there was no evidence of their actual production and broadcast);

[22] *Incidentally, the incumbency of the post of DG, OC had changed by this time.*

[23] *Who was earlier associated with Market Plus*

- Two TV advertising plans for Rs. 2 crore; these were unprepared and unplanned (e.g. it did not specify the commercials to be broadcast in the work orders to the TV channels; focussed on promoting only two sports – aquatics and gymnastics – and that too after 80 per cent of the sessions were over, and commercials for the closing ceremony were telecast after closure of ticket sales);
- Advertisements in international channel between 11 and 14 October 2010, when it was hardly feasible to promote international ticket sales.

In brief, marketing of tickets was not taken up till September 2010, when a campaign was launched at a cost of Rs. 6 crore. This campaign was unplanned and unprepared, and resulted in wasteful expenditure.

8.8.5 Poor Ticket Sales

8.8.5.1 Overview

As compared to the previous two Games, the ticket sales for CWG-2010 were poor, while the percentage of complimentary tickets was nearly three times that of earlier Games. There were also a large number of unsold tickets.

Table 8.6 - Profile of Ticket sales for CWG 2002, 2006, and 2010

(Numbers in Lakhs)

	Manchester 2002	Melbourne 2006	Delhi 2010
Tickets available for revenue seats	10.03	18.32	14.13
Total ticket sales (Revenue generation)	7.79 78 %	15.54 75%	5.61 40%
Tickets distributed free-of charge	1.20 12 %	2.16 11%	4.95 35%
Total unsold tickets	1.03 10%	2.77 14%	3.56 25%

8.8.5.2 Complimentary Tickets

Excess issue of complimentary tickets, contrary to the CGF's "no free ticket policy", was a major problem for CWG-2010. The OC EB prescribed certain norms on 23 September 2010 for issue of complimentary tickets after considering availability/ unsold tickets between 2-8 days before the event/ ceremony (with the Chairman authorised to take final decisions). However, we found that OC had instructed IRCTC on 25 September 2010 itself (i.e. well in advance) to print 2 lakh complimentary tickets valuing Rs. 6 crore for sports session events.

For the opening and closing ceremonies,

- Against 77860 revenue seats for Rs. 82.54 crore, OC issued 22900 complimentary tickets worth Rs. 56.60 crore; one third of which (7525 tickets) were high denomination tickets of Rs. 50000 each.
- In addition, 584 tickets worth Rs.3 crore for the ceremonies were sold at 90 per cent discount to the "Business Club of

India", which generated no sponsorship revenue whatsoever (as brought out in para 9.4.6).

Likewise for the sports events, against 13.35 lakh tickets, 5 lakh complimentary tickets valuing Rs. 15 crore were issued.

We found no evidence of a policy for free/ discounted tickets for school children, college students and other target groups, which would have had potential for promoting sports awareness.

It is not known on what basis or on whose authority such a large number of complimentary tickets were distributed. Such flagrant patronage at the expense of Government funds needs to be investigated as a deterrent for such indiscretionary acts in future. Accountability should be fixed, and where possible, amounts should be recovered.

8.8.5.3 High Ticket Prices

The price range of 50 times between the cheapest and costliest tickets (Rs. 750 to Rs. 50,000) for the opening and closing ceremonies was higher than the ranges of 5.9 times (AUD 100 to 590) and 7.8 times (£25 to £ 195) for the Melbourne and Manchester Games. The need to inflate revenue projections (which were not achieved) may have been a reason for this wide price range.

In our view, this wide range of ticket pricing, which was contrary to the recommendations of consultants, not only contributed to the low ticket sales (especially for higher denominations), but also facilitated issue of large quantities of complimentary tickets (purportedly on account of unsold stock).

8.8.5.4 IRCTC outlets not set up

Low ticket sales was compounded by the Chairman, OC's illogical decision of April 2010 that only sponsors' centres, locations and showrooms would be used for retailing tickets (despite the absence of any such conditions in the sponsorship agreements[24]). This was contrary to the ticketing agreement with the IRCTC consortium. Ultimately, just 1 outlet of IRCTC and 41 outlets[25] through sponsors and OC's venue caterer were opened in Delhi/ NCR; no outlets were opened in the other metros/non-metro locations. The reasons offered by OC for not permitting IRCTC outlets - that these outlets were not approachable and accessible to the general public and also had security problems – are completely untenable, and also resulted in infructuous payment of Rs. 2 crore to IRCTC, without availing of their services.

8.8.5.5 Low attendance

On top of poor ticket sales, only 65 per cent (6.87 lakh) of paid and complimentary ticket holders (10.56 lakh) turned up for the ceremonies / events (as per ECIL's turnstile

[24] *Except in the contract with Central Bank of India*

[25] *Hero Honda-6, Central Bank of India-20, Tata motors-1, Fast trax-13, Delhi haat -1*

data reports); this could have been caused by poor attendance by complimentary ticket holders. Contrarily, there was substantial traffic on the ticketing website, with 40.36 lakh "hits"[26] between 4 and 14 October 2010; there were also media reports that people willing to buy tickets for events (especially for lower priced tickets) were unable to do so, as the website indicated that tickets had been sold out.

8.9 Donation/ Raffle

OC included a revenue target from donations of Rs. 300 crore in its revised revenue budget (July 2008). As has been stated earlier, in our view, this was done solely to maintain the claim of revenue neutrality. This was confirmed by the fact that as against this target, OC collected paltry sums of Rs. 0.75 crore from donations and Rs. 0.24 crore from raffle.

- OC made minimal effort for collecting donations. The only evidence of these efforts was a meeting with the Minister for Corporate Affairs where a request was made for sponsorship and donations through PSUs and the corporate sector. Even an offer of Rs. 3 crore made by an industrialist[27] did not fructify for lack of follow-up by the OC.

- OC set a target of Rs. 120 crore[28] for generating revenue through a raffle and made cursory efforts, by approaching the Mizoram Government for conduct of online and paper lottery. The Mizoram Government selected a sole distributor for 24 months with minimum projected revenue of Rs. 203.86 crore (to be shared with it). This projected revenue was obviously overstated, optimistic and arbitrary, as 97 per cent of the revenue was projected from non-lottery playing states. All lottery operations in Mizoram were suspended in March 2010 pursuant to a Court order. Out of the reported revenue generation of Rs. 0.36 crore, OC had received Rs. 0.24 crore as of December 2010. No details of state-wise revenue and revenue realised were available with the OC.

[26] *i.e. visits to the website*

[27] *Shri Rahul Bajaj*

[28] *Projected by Ernst & Young for the revalidated budget*