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# The business of football

**A**s we move through 2009 and face the chilling gales of the global economic recession, the European football industry is no more insulated from the commercial challenges than any other industry.

Having feasted on the uninterrupted economic growth of the European continent over the last fifteen years, the football industry has been supplemented by lucrative TV rights deals and the patronage of Sheiks, North American 'money men' and wealthy locals. This has resulted in the reconstruction of the major football leagues of Europe. This article focuses on the 'big five': the Premier League in England, La Liga in Spain, Serie A in Italia, the Bundesliga in Germany and Ligue 1 in France.

State-of-the-art stadia have been erected, international squads of millionaire footballers have been assembled and handsomely paid managers have been attracted to the top clubs. In many instances professional management cadres have been put in place to manage the commercial activities of Europe's top clubs. However when we examine the 'business' of football it is vital that we ground our analysis in reality.

Manchester United, the richest club in the UK, had reported revenues of £257 million in 2008 compared to the sandwich shop Pret A Manger which had revenues of approximately £150 million in 2008; and the high street fashion chain New Look which had global revenues of £1.169 billion in 2008. That said, Europe's major clubs have consistently grown their revenues at rates in excess of the expanding economies in which they have been located. Figure 1 (below) shows the revenue growth of Europe's 20 richest clubs compared to the GDP growth of the economies in which they are located.

Despite the phenomenal increase in revenues of Europe's richest clubs in the last 12 years, the current economic climate will put the major football clubs in Europe under increasing pressure to manage their costs and protect and expand their revenue streams. With regard to costs the most significant element at all major clubs is staff and most notably players' wages.

For the 20 wealthiest clubs in Europe, as defined by the recent Deloitte Annual Review of Football Finance (2008), the average wage

bill is 62-65% of total revenues. Indeed the German Bundesliga would appear to be the only one of the big five leagues in Europe that has bucked this trend with staff wages averaging out at 45% of total revenues. However the control of wages and indeed the enhanced profitability of the Bundesliga clubs who reported a collective profit of £250 million in 2007 have not been matched by success on the field. From season 2003/04 to 2007/08 no Bundesliga club has reached the semi-final stage of the UEFA Champions League Cup, the premier European club competition. This contrasts with the English Premier League which provided three semi-finalists in 2006/07 and 2007/08 and at least one finalist every year since 2004/05.

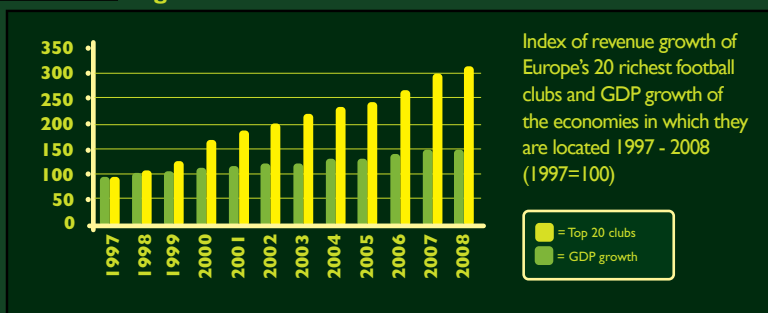
The willingness of the top teams to buy success by paying high transfer fees and high wages to players has led to demands for the governing body of European football UEFA to intervene and impose a salary cap. UEFA is considering such a move but in the past has been reluctant to do so presumably due to pressure applied by Europe's top clubs and the problems associated with implementing and enforcing such a scheme.

The extent of the economic disparity between leagues can be seen by an examination of the top paid players in Europe. In January 2009, of the 53 players who have playing contracts worth at least £4.5 million per year (£83,000 per week), 22 played in England, 13 in Spain, 11 in Italy, four in Germany and three in France. It should come as no surprise therefore that European football is dominated by the wealthiest clubs. Furthermore those of us who recall the days when Glasgow Celtic could win the then equivalent of the Champions League (1967) with a team consisting of players who were all born within 30 miles of their home stadium in the East end of Glasgow are lamenting the passing of an era the likes of which we will never see again.

Turning to the revenue side of football's profit and loss account, the revenues of football clubs in the major European leagues come from three sources. The first major flow of revenues are match day revenue which includes the revenue flows associated with the sales of season tickets, match tickets and corporate entertainment. The second major flow of revenue accrues from television rights contracts. These television rights deals have been an exceptionally lucrative source of revenue for the major European leagues and the top teams within those leagues in the last fifteen years. The final source of revenue comes from what is collectively referred to as the commercial activities of clubs, which can range from the sale of replica football apparel in the 'club shop' through to branded financial products such as credit cards.

The most successful clubs are those who can manage all three revenue streams effectively. Up until recently, matchday revenues have been critically dependent upon the size of stadia and the extent of that stadium's capacity utilisation. For example, Arsenal's movement to the new Emirates stadium and away from their old (smaller) Highbury stadium has resulted in matchday revenues increasing from £44 million (for the last year at Highbury) to £91 million for the first full year at the Emirates stadium. This massive increase in matchday receipts has been aided by capacity utilisation, in terms of tickets sold per game which is in excess of 99%.

Figure 1



Source: Deloitte 2008



**Table 1. Sources of revenue for Europe's 20 richest clubs**

Club	Match Day %	TV %	Commercial %	Total Revenue € millions
Real Madrid	28	37	35	€366
Manchester United	39	36	25	€325
Barcelona	29	38	33	€309
Bayern Munich	23	17	60	€295
Chelsea	35	36	29	€269
Arsenal	45	34	21	€264
Liverpool	23	46	31	€211
AC Milan	13	58	29	€210
AS Roma	13	60	27	€175
Internationale	17	62	21	€173
Juventus	7	64	29	€168
Olympique Lyonnais	14	48	38	€156
Schalke 04	22	38	40	€148
Tottenham Hotspurs	35	35	30	€145
Hamburger SV	36	22	42	€128
Olympique de Marseille	18	55	27	€127
Newcastle	33	41	26	€126
VfB Stuttgart	17	39	44	€112
Fenerbahçe	35	24	51	€111
Manchester City	22	53	25	€104

Source: Deloitte 2008

As the credit crunch bites across Europe we might expect ticket prices, for all clubs, to stagnate or fall and capacity utilisation to decline. Football clubs will then have to think imaginatively about their pricing strategies to ensure that matchday revenues are defended. Where the marginal cost of servicing an extra spectator in the stadium is low, football clubs will have the capability to cut prices in order to fill the available capacity while still making a profit. Furthermore in terms of the 'football spectacle' that clubs are selling to matchday supporters and television audiences, it is important that games are played in front of full stadiums.



In relation to television rights deals, all of the big five leagues in Europe have significant deals. The English Premier League has just sold TV rights for the three years beginning in 2010/11 for £1.782 billion which is a 4.5% increase on the existing deal. This package differs from the arrangement in Spain where the top two clubs Real Madrid and Barcelona have been allowed to negotiate their own individual TV rights, thereby increasing the financial inequality within Spain. Interestingly a similar arrangement has existed in Italy for Juventus, AC Milan, Internazionale (Inter Milan) and Roma; however this will come to an end for season 2010/11 with the negotiation of a collective television deal for all Serie A clubs.

Table 1 (left) shows that the major Italian clubs have been over reliant on television revenues and have neglected match day utilisation of their stadiums. The new television deal may cause these top Italian clubs to revisit this issue.

Revenue from football's television rights have been enhanced because of the position of sport generally, and football specifically, in selling satellite television propositions. Indeed sport has also had a central role in driving average revenue flows per user (ARPU) for satellite television companies. Hence even in a downturn in economic activity, such as that which we are experiencing at the moment, it is highly unlikely that the satellite television companies would abandon football.

The final revenue flow from commercial activities uncovers one of the greatest conundrums regarding major European football clubs.

Namely, why are some of the most recognised brands in the world incapable of generating significant commercial revenue flows? Indeed, a closer inspection of table 1 must surely have board members at Manchester United and Real Madrid asking why they can not replicate the commercial exploitation of their brands to the same extent as Bayern Munich, in both relative and absolute terms. That said, some teams are starting to exploit the extent to which their brand can be used to generate revenues both in Europe and the wider global markets. A good example of this would be Arsenal's collaboration with the United Bank for Africa (UBA) to co-brand financial services including credit cards in West Africa. The challenge for Europe's leading clubs must be increasing the extent to which their highly recognised global brands are fully leveraged.

Major European football clubs have to wake up to the economic realities in these turbulent times as they will face similar challenges to many 'normal' businesses. Namely costs will have to be controlled, particularly in relation to players' wages. Revenues will have to be defended which may call for innovative pricing strategies and greater exploitation of brands. Finally, the regulator UEFA may change the rules of the commercial 'game' by imposing salary caps, and or, transfer fund caps. As a result, commercial acumen off the field may increasingly determine the winners and losers at the top of the European game. [MF]

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