

Module 1. Economic activity in football - Key figures in the football industry

Introduction

To understand the evolution of the world of football in recent years, we first need to understand the evolution of the sport sector and what it has brought to society. We will see that professional sport, although still the most high-profile part of the industry, accounts for less than half of the revenue and continues to rely on amateur sport for its growth.

In this module we will learn about the importance of sport in terms of income and job generation, moving from the general world of sport to the specifics of football clubs.

Once we have a clear understanding of the sector, we will analyse how clubs generate and spend money. To do this, we will look at the main sources of revenue for teams, as well as the main sources of expenditure, and see how this affects them unevenly depending on the significance of the league.

Finally, we will see how a team like FC Barcelona, which has a strong, international brand, differs from teams with fewer resources. We will show the need for football teams to stand out from each other and to dissociate revenue from sports results and how this has evolved over the last few years.

Unit 1.1 Overview and key figures of the sports industry and the football industry

The sports industry

The sports industry generated USD 388.3 billions in 2020, -15.4% less than in 2019, when it reached USD 458.8 billions. This decrease resulted from the limitations in sports practice caused by the COVID-19 pandemic, gym, stadium and sports shop closures (The Business Research Company, n.d.).

Once the pandemic is over, the industry is expected to continue to expand by an average of 6.6% per year (CAGR or compound annual growth rate), reaching USD 599.9 billions by 2025 and USD 826 billions by 2030. These figures are global and may vary across countries.

The sports industry is divided in two, depending on whether the sports are participatory sports (the person plays the sport usually on an amateur basis) or spectator sports (mainly professional sports).

72% of revenues (i.e. \$279.58 billions) come from participatory sports, while the remaining 28% (\$108.7 billions) come from professional sports.

The impact of sports in Spain

The sports industry is very strong worldwide, which is evident in the industry's contribution to the global gross domestic product (GDP) (which is between 0.5% and 1%). This situation is of course different for each country and these are global figures. For example, in Spain, sports account for 3.3% of total GDP (bear in mind that tourism accounts for 12-14% of GDP in years without COVID-19).

To estimate the contribution of the sports sector to GDP, four types of impact have been assessed:

1. Direct impact.
2. Indirect impact.
3. Tractor impact.
4. Induced impact.

The direct impact refers to the economic activity and employment generated directly by the sports industry. All athletes and employees of football clubs are included in this block.

Indirect impact refers to the impact generated by the expenses and investment that all companies in the sport industry make in their supply chain. For example, when a stadium is built, it involves the investment in people (e.g. architects) and companies (e.g. concrete company) involved in the project. Another example could be the manufacturing of T-shirts: all the companies that are needed to make the T-shirt (e.g. cotton/polyester suppliers).

Therefore, the direct and indirect impact are related to any activity carried out by sport entities or those derived from them in terms of expenditure and investment in their supply chain.

The **tractor impact** refers to the impact generated in other industries that use sport and its services as a tool to create economic activity and employment. Examples could be sticker albums, newspapers or video games, activities that live from football, but do not belong to sports entities. The same is true for the media.

The last one is the **induced impact**, which is related to the increase in economic activity derived from the increase in household consumption. This is related to the jobs generated directly, indirectly and by traction. For example, if families gather in a household to watch a Champions League final, the expenditure generated is considered an induced impact. Another example would be pubs, as many people go there to watch football or basketball games: all the spending that these people incur in pubs while watching the game is considered an induced impact.

Considering concrete figures, if we look only at the direct, indirect and induced impact, in Spain, €39 billion were generated in terms of revenue in 2018, which accounts for 3.3% of GDP. When we look at employment to see the extent of its importance, we learn that 2.1% of total employment in Spain derives from the sports industry, i.e. more than 400,000 people in Spain are working and making a living out of sport.

However, if we only take into account the direct impact, i.e. how many people live from football, the number is slightly lower: it drops to 200,000 people, almost 50%. So, out of the €39 billion, around €16 billion comes from direct revenues. Out of this, almost €6 billion comes from clubs and about €5 billion is related to sports shops. Then, sports facilities are also sources of revenue, generating approximately €2.5 billion. There are also smaller groups such as, for example, gyms (these are direct annual turnover figures).

The football industry

The football industry is worth between 35 and 45 billion dollars a year worldwide (approximately one third of the revenue generated by professional sports), ahead of other

sports, such as American football, basketball and baseball. It even generates more than the Olympic Games, which are held every four years.

While it is true that there are sports that are very powerful in certain places, such as cricket in India, or American football and basketball in the US, if we look at global figures, nothing compares to football. That is the reason why it is called the king of sports.

Football is the most revenue-generating sport because of the huge worldwide support it has. This support is largely a consequence of the globalisation of its competitions (i.e. the World Cup was the most followed competition in the world, ranking ahead of the Olympic Games) and the many teams and competitions with global TV rights (i.e. Premier League, La Liga, among others).

It is estimated that there are around 1.2 billion people who follow football globally (an estimate by Nielsen in 2019). Analysing that geographically, even though football originated in England, Europe ranks second in terms of followers with 277 million, behind Asia-Pacific with 542 million (where China stands out with 193 million and India, with 119 million). This is mainly due to the population difference between the two regions.

Distribution by regions:

- Asia-Pacific: 542 million.
- Europe: 277 million.
- North and Central America: 151 million.
- South America: 143 million.
- Eastern Europe, Middle East and Africa (EEMEA): 121 million.

In addition, football is the fastest growing and most popular sport in the younger generations (under 30 years old), which indicates this gap in relation to the other sports will increase in the coming years.

Football means excitement, which is why there are many people willing to spend and invest to play the sport, but also to watch matches, buy T-shirts, merchandising, and so on. Much of the evolution of football teams in the future will depend on the ability of clubs to monetise this excitement and move into the entertainment industry. Football clubs are no longer just competing against each other or other sports on screen share, but also against Disney, Netflix and the like.

Leisure time is limited and fans have to choose between watching a movie or a football match. Therefore, working on the user experience is a key factor for the evolution of the industry and for further increasing revenues.

The impact of football in Spain

Following the same methodology as in the sports industry (direct, indirect, tractor and induced impact), the impact of football in Spain has been estimated. The professional football industry in Spain generates 185 000 jobs and a turnover equivalent to 1.37% of GDP (data from 2016 and 2017), i.e. more than €15 billion per year (La Liga, n. d.). This highlights the importance and impact that sport in general and football in particular have on a country's economy and wealth.

It often seems that we only talk about players and goals, and the jobs generated by the clubs, to name but one issue, are neglected. FC Barcelona, for example, generates 1.46% of the GDP of Barcelona and almost 20,000 jobs.

Unit 1.2 Main revenue streams of football teams

Revenue in football clubs

After the overview and key figures of the sports industry, football in particular, both globally and in Spain, it is time to start this unit, which looks at how clubs are organised and their main revenue streams. For this purpose, two reports carried out by external companies have been used to ensure that the data presented are comparable and objective. These reports are the following:

- *Deloitte Football Money League* (Delloite, 2020).
- "Football Clubs Evaluation de KPMG" (KPMG Football Benchmark, 2020).

These and similar reports can be found on both companies' websites.

Two typologies of revenues have to be distinguished so as to understand how football clubs generate revenue:

- Ordinary revenue: This is all the income that a club earns from its ordinary activity, such as match ticket sales, sponsorship or TV rights.
- Extraordinary revenue: This is all the income that is not derived from the club's ordinary activity, such as the sale of a player or some other asset of the club (i.e. a building or a part of the club).

This distinction also applies to a normal company, even if the product sold is different (i.e. the football club sells tickets for a match and a beverage company sells sodas).

The ordinary revenue should cover the ordinary expenses. If this is not the case, the club will have to sell assets or players in order to make ends meet. Otherwise, the club will not be able to achieve financial sustainability and will end up in bankruptcy.

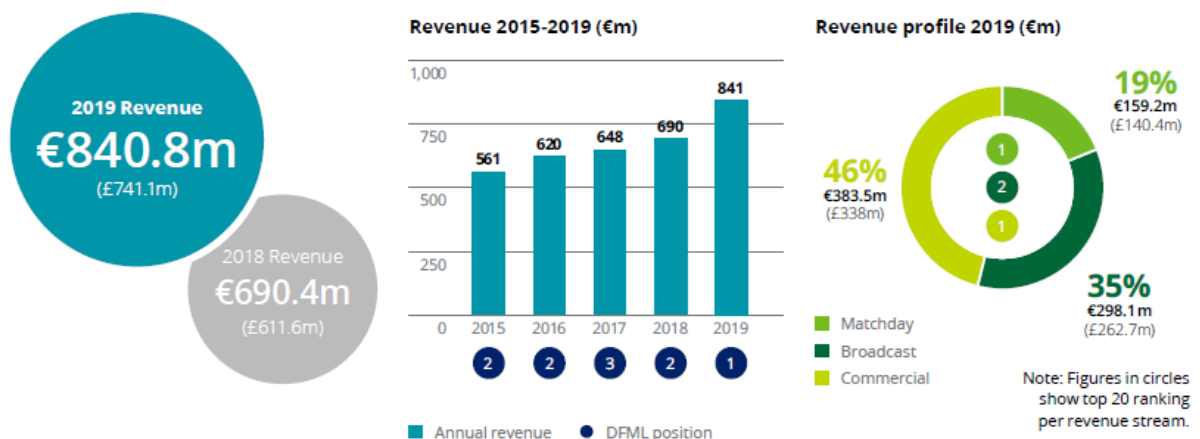
Within the ordinary revenue (which we will focus on in this course), there are three main sources:

- The first source is related to the match day. In this group we find all the products that are linked to the match day, i.e. tickets sold on a match day, membership fees and season ticket fees. The difference between a member and a season ticket holder is that the latter has a seat in the stadium, while the former simply has club benefits (voting rights, discount on tickets and merchandising, ticket priority, to name a few examples), without necessarily having a seat.
- The second source is television or broadcasting rights. This also includes income from participation in leagues and competitions.

These revenues, although they have minimums, vary according to the competitions and are linked to the number of matches played. In domestic leagues (i.e. La Liga, Premier League), they are agreed at the beginning of the season, but in competitions that have knockout stages (i.e. Champions League, Copa del Rey) the final income depends on how far the team goes in the competition. If the team goes further, it is considered that it will generate more television audience and therefore deserves higher revenues.

- The third source derives from business activity. The main elements of this category are sponsorships, income from merchandising (shirts, balls, scarves, etc.) and other commercial activities, such as museum tickets or digital asset sales. This aspect is what the big teams are developing the most lately and where the greatest growth is foreseen in the coming years.

Figure 1: FC Barcelona's revenue development



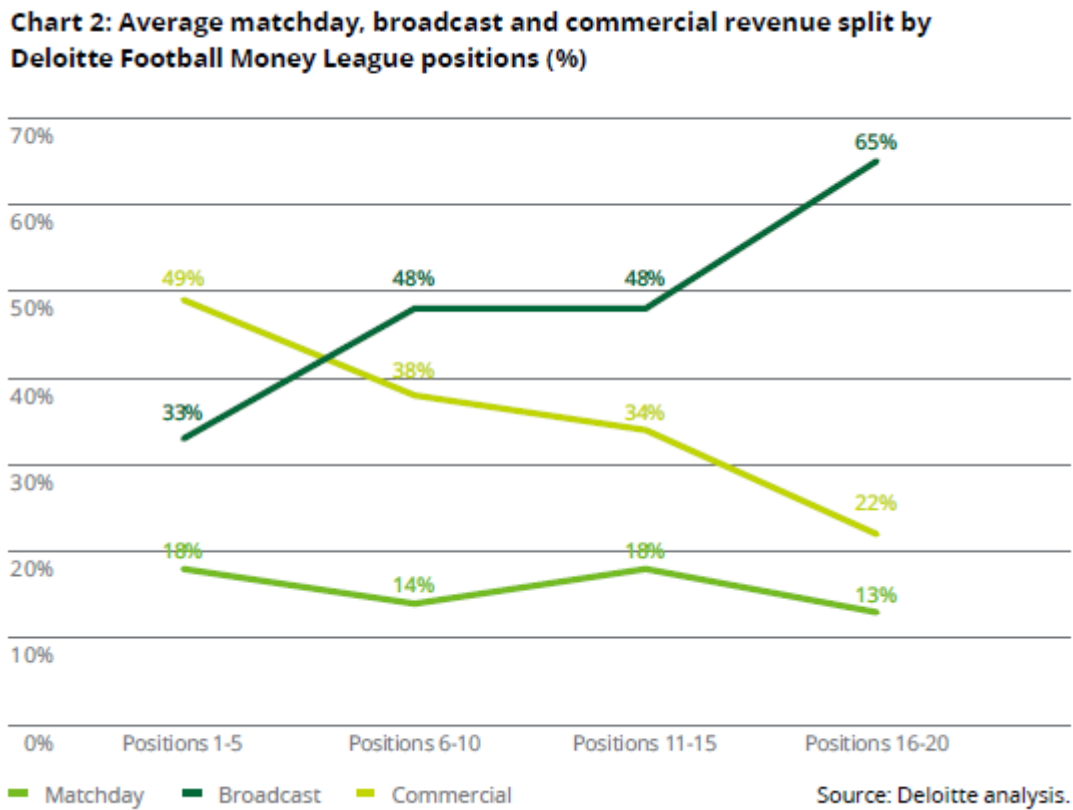
Source: Deloitte, 2020, p. 10.

Figure 1 shows the breakdown of FC Barcelona's ordinary income for the 2019 season. However, an interesting question to answer would be "do all clubs have the same percentage of sales out of the total in each revenue item?" The answer is "no". The right answer is FALSE. While the bigger teams have a similar proportion of all three items, the smaller teams are heavily dependent on TV revenue.

If we analyse item by item, we see the following:

- Match days: The stadiums of the big teams tend to be much larger than those of the smaller teams, and the number of members and season ticket holders tend to be much larger as well. For example, if we compare Eibar's stadium (6,000 seats) with FC Barcelona's (almost 100,000), we can see that the latter has a much higher turnover than Eibar. The same goes for the number of members.
- Broadcast: The bigger teams generate more viewers and have a higher share of TV revenue than the smaller teams. FC Barcelona and Real Madrid are the top teams in the first division with the highest TV revenues. If we look at the difference in TV revenues between the big teams and the smaller ones, it is much smaller in relation to the match day revenues. This is why the reliance on TV revenue by smaller teams is much higher.
- Commercial: Following on from the vast fan base that the big teams have, the sponsorships that the big clubs can sign, merchandising sales and additional commercial activities are much larger than those that the smaller clubs may have. Additionally, the amount of products that the big teams may offer to the fans is much higher than that of the small ones.

Figure 2: Average source of revenue in relation to the position of teams in domestic leagues.



Source: Deloitte, 2020, p. 5.

In Figure 2, we can see the distribution of revenues in the teams according to the position they reach in the league. For those in positions 1 to 5, almost half of their revenue comes from the commercial sector (49%), while for those in positions 16 to 20, this percentage is only 22%. If we look at TV rights, the opposite applies: it represents 33% of revenues for the bigger teams and 65% for the smaller teams.

And do the big teams in La Liga have the same share of revenue as those in the Premier League or the Bundesliga?

As far as the big teams are concerned, you can say that, naturally, revenue varies from team to team, but in general one third of the revenue comes from match day, one third from TV rights and one third from the commercial side. This varies from league to league: for example, in the Premier League, which sells much more expensive TV rights than La Liga, Series A or the Bundesliga, the weight of TV is higher than in Spanish teams. One of the consequences we are witnessing is that English teams currently have a greater capacity to buy players than most Spanish, Italian or German teams.

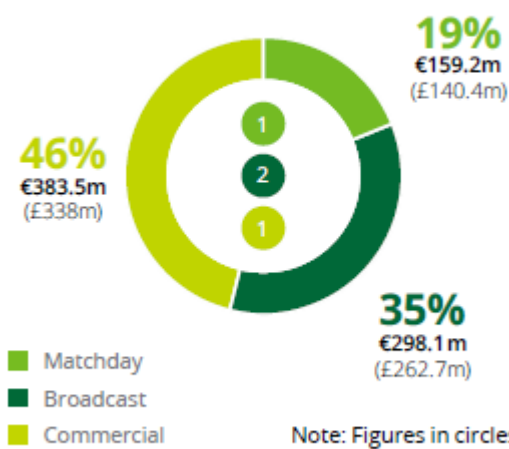


Premier League matches are usually played at midday, because it is a time that allows Asian matches to be seen later in the day and American matches, earlier in the day. It is a way of maximising audiences. Although it may not maximise the audience in the same country, it does maximise the global audience and, consequently, the Premier League can sell the rights to broadcast more expensive matches.

In the following charts, you can see the weight of television in the English teams compared to the Spanish, French or German teams.

Figure 3: FC Barcelona revenues (season 2018-2019)

Revenue profile 2019 (€m)

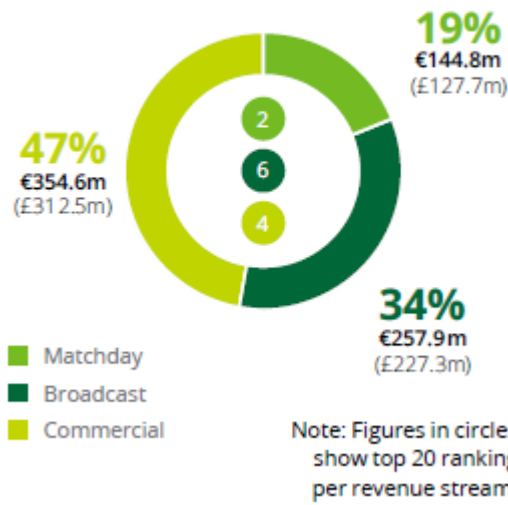


Note: Figures in circles show top 20 ranking per revenue stream.

Source: Deloitte, 2020, p. 10.

Figure 4: Real Madrid revenues (season 2018-2019)

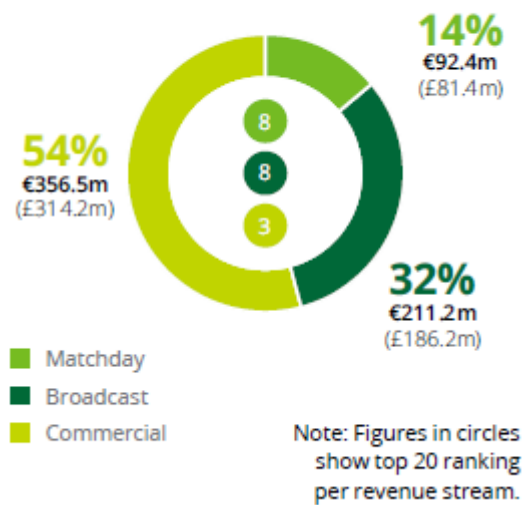
Revenue profile 2019 (€m)



Source: Deloitte, 2020, p. 12.

Figure 5: Bayern Múnich revenues (season 2018-2019)

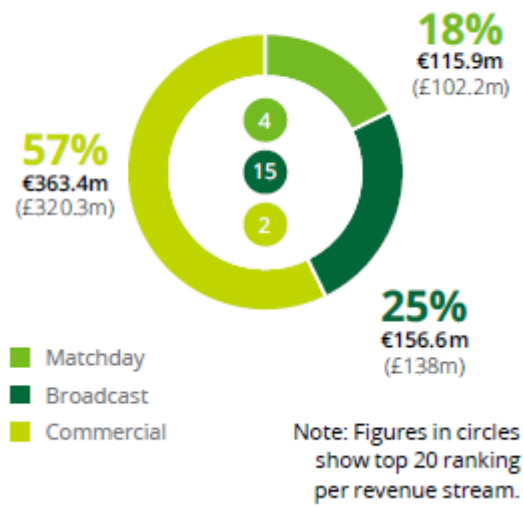
Revenue profile 2019 (€m)



Source: Deloitte, 2020, p. 16.

Figure 6: Paris Saint-Germain revenues (season 2018-2019)

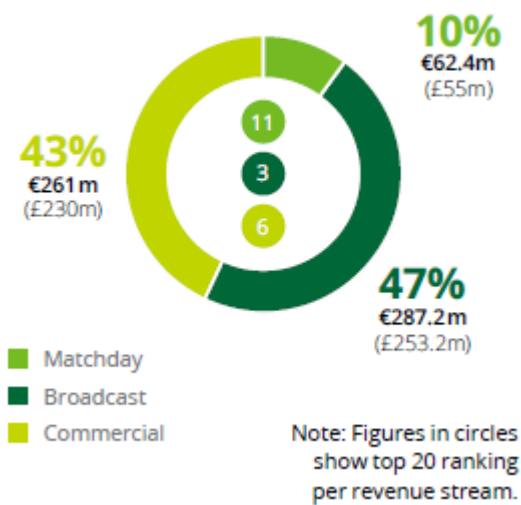
Revenue profile 2019 (€m)



Source: Deloitte, 2020, p. 18.

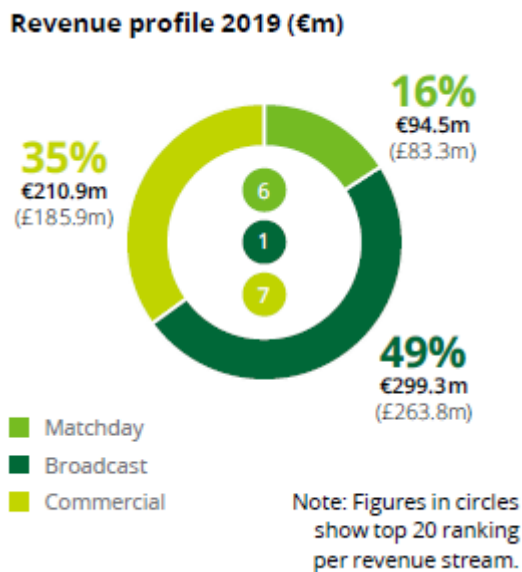
Figure 7: Manchester City revenues (season 2018-2019)

Revenue profile 2019 (€m)



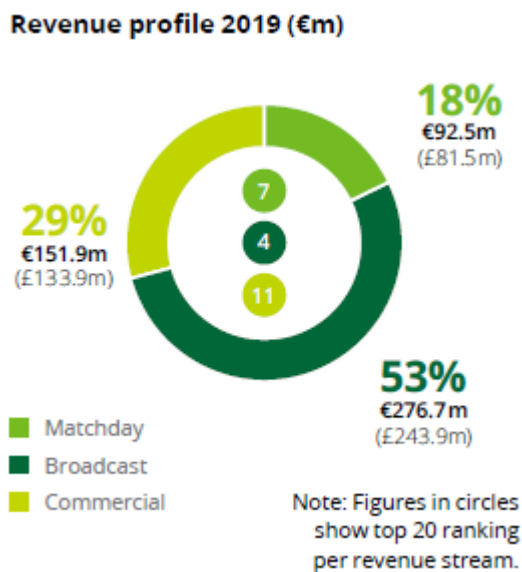
Source: Deloitte, 2020, p. 20.

Figure 8: Liverpool revenues (season 2018-2019)



Source: Deloitte, 2020, p. 22.

Figure 9: Tottenham revenues (season 2018-2019)



Source: Deloitte, 2020, p. 24.

Let us now look at how the three revenue streams have evolved under COVID-19.

COVID-19 has meant that all match day revenues have been drastically reduced, as has much of the commercial activity. People have stopped going to museums and have bought fewer T-shirts and merchandising. This has meant that the teams that were more dependent on TV rights have had less trouble getting around the COVID-19 pandemic than the big teams.

Additionally, it has made English teams more resilient than Spanish teams and has seen transfers of players from medium-sized teams to smaller Premier League teams (for example, Rodrigo left Valencia for Leeds United Association Football Club, a newly promoted team to the Premier League, for €30 million).

How might revenues evolve in the future?

If we analyse the three revenue streams separately, we see the following:

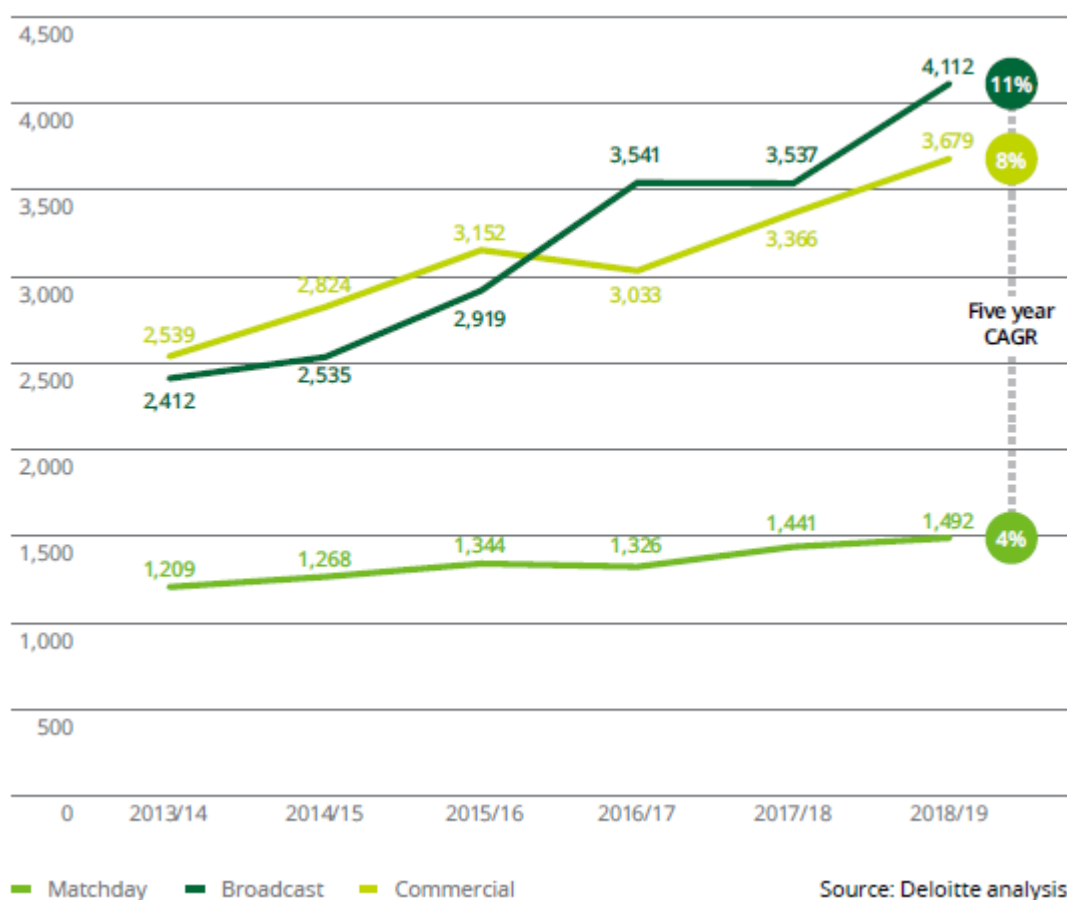
- Match day: The only choice is to increase the price of season tickets, memberships or tickets. Packaging and trying to sell more VIP tickets is possible, but prices cannot be raised unjustifiably. Another option is to expand the stadium capacity, but that requires a big investment. Therefore, all match day related revenues are very difficult to significantly increase.
- Broadcast: It is possible to increase the value of the league and try to sell more expensive TV rights, but it will still depend on a negotiation between the leagues and the owners of the competition's TV rights and the TV providers. Therefore, it is difficult for clubs to increase these rights individually, unless they are committed to generating and distributing their own content. Lately, the more powerful clubs are going down this path, but this also entails a significant cost for the club.
- Commercial: In the big clubs, this is the fastest growing stream, as it provides the clubs with the most possibilities for action. New sponsorship categories are being created (more segmented and with new assets, such as digital), new merchandising sales channels are being opened (such as online channels) and new products (every year the club sells between 3 and 4 different match T-shirts, and even special editions).

Through the use of technology, clubs are trying to reach out to their millions of fans around the world. FC Barcelona has more than 350 million fans worldwide, but those who visit their facilities each year are around 4 million. So, it is working on ways to capitalise on those people to give them the chance to have an FC Barcelona experience, albeit a virtual one.

According to reports by Deloitte or KPMG, the teams that are growing the most and are higher in the ranking are the ones that are developing the commercial side the most.

Figure 10: Top 20 clubs revenue growth

Chart 3: Revenue growth of top 20 clubs (2013/14-2018/19) (€m)



Source: Deloitte, 2020, p. 6.

Figure 10 shows how TV rights have grown the most, but industry growth and commercial revenues have the most capacity for growth.

Expenditure in football clubs

Now that it is clear how revenues work and how football teams make money, it is important to understand what expenses they incur. Expenses, like revenues, include recurring expenses (recurring expenses of the club, such as sports salaries, non-sports salaries and management expenses) and extraordinary expenses (mainly related to the purchase of players).

In a football club, most of the recurrent expenditure - 50% to 70% - corresponds to sports salaries. In the case of FC Barcelona, for example, which has 5 branches (football, basketball, roller hockey, futsal and handball), all costs derived from the branches fall under sports salaries.

Within the sports salaries, it is important to distinguish two parts:



1. The players' and technical staff's salaries.
2. Players' amortisation.

To understand this concept, let's consider an example:

Imagine we buy a player for a transfer fee of €10 million and sign a five-year contract with an annual salary of €1.5 million. In financial terms, the player is considered an asset that will be amortised over the 5 years of the contract on a straight-line basis (this is the most commonly used method), i.e. €2 million per year. If we add to this €1.5 million in salary costs, we will have a sports salary cost of €3.5 million per year for the next 5 years (without taking into account the variable costs for titles, for example).

If we sell this player before the 5 year period, for example, at the end of season 3 for €5 million, we will have sold them for €5 million in financial terms, but we would still have to amortise €4 million, corresponding to seasons 4 and 5. Therefore, we would only be making an accounting profit of €1 million.

In addition, there are also management expenses, which are the operation costs that any company has, such as professional services, legal and judicial consultancy, technology expenses, water, electricity, taxes, among others.

Although this situation varies from club to club, they all have a similar cost structure. Depending on the club's income, it will have more or less financial strength to invest in players.

In many clubs, especially the smaller ones, as their costs are very high and their ordinary activity does not allow them to have the same revenue as expenditure, they tend to sell players in order to receive this extraordinary income and compensate for their ordinary expenditure. This is a bad practice in football, as ordinary expenses are paid with extraordinary income.

The ratio between what is spent and what is earned should always be monitored, as clubs, like any organisation, should not spend more than they can produce.

Different bodies, such as the Fédération Internationale de Football Association (FIFA), the Union of European Football Associations (UEFA) or La Liga, are working on regulations to avoid unsustainable amounts of debt. This is known as financial fair play.

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