

The A.T. Kearney EU Football Sustainability Study

Is European football too popular to fail?

The eyes of the world are on the football World Cup in South Africa. With 547 of 736 players coming from European football clubs, the strength and the importance of Europe for world football is greater than ever. But what will happen when the party is over? A.T. Kearney's Sustainability Study of the top 5 EU Football Leagues found that most are financially unsustainable. Running as normal companies, the leagues in Spain, England and Italy would be bankrupt within two years. So is the European football system close to collapse?

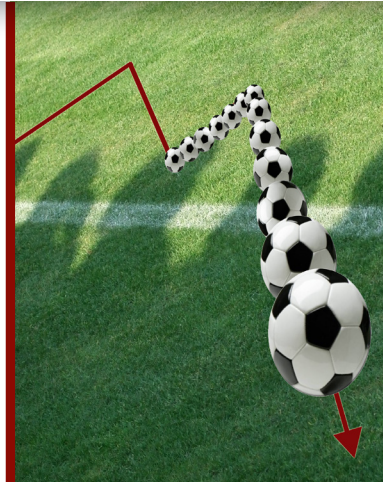
"Negative return on assets with double digit" ... "Recurrent cash outflows of up to 600 million Euro" ... "Undercapitalization leads to bankruptcy" ... these are the kind of front-page headlines we have been reading about banking and Greece over the past two years. They could soon enter the sports pages. These figures in fact relate to the top 5 leagues in European football.

If we were dealing with normal businesses, lenders would call the funds, investors would shorten their position, hedge funds would bet on the fall. But we are talking about a game, the most popular sport in the world, which benefits from the backing of the largest corporations, the enthusiasm of the entire media industry, and the infallible support of governments. Football is too beautiful, too popular to fail ... isn't it?

The Bundesliga tops the chart

Last year we identified that the German Bundesliga had a more sustainable business model, and would overtake the Premier League in the medium term. We decided to take this analysis further. Our idea was to review football in the same way we do with other industries: as a comprehensive business model, going beyond the sports results to include the economic, social and environmental performance.

In order to analyze the level of sustainability of the European top football, we evaluated the sporting, economic, social, and environmental performance of the German Bundesliga, the French Ligue 1, the English Premier League, the Spanish Primera División, and the Italian Serie A. Therefore we looked into the leagues as entirety of their clubs. Our study shows that the German Bundesliga ranks first overall. Sec-



Without decisive action or substantial subsidies, three of the five top European football leagues would collapse within the next two years.

ond position is held by the English Premier League, principally because of their tremendous sports performance. The French Ligue 1 ranks as number three, even topping the Spanish and Italian Leagues. (see Figure 1). We shouldn't be surprised at the Bundesliga's performance. The Premier League may be ahead in recent sporting results and revenue generation, but German football is structurally more profitable thanks to a more stable financial setting and larger crowds. German clubs are fully benefiting from the investment made for the 2006 World Cup, particularly the modernised stadia. The clubs also invest close to €100M a year in football academies to develop new talents, reducing future transfer and somewhat limiting the salary bills. Yet the media revenues are still under-developed, in what is paradoxically the most competitive media market in Europe. The Bundesliga is not

only profitable with a positive RoA of 2.1% but has also ample room for economic growth. On the environmental dimensions, the Bundesliga is also ahead of the pack, with 10 environmental projects underway in different clubs and ranks #2 on the social dimension.

European Football is on the verge of bankruptcy

In the economic study we took a closer look at the key performance indicators of sales, relation between equity to assets and return on assets (RoA) of the clubs and the leagues (see figure 2). These financial statistics are shocking - as normal businesses the football leagues in England, Italy and Spain are less than two years from bankruptcy. This is primarily because of a huge profitability gap in football leagues compared to normal companies. The English Premier League shows a negative RoA of -5%, the Spanish Primera

División -7%, and the Italian Serie A -12%. As non-sport companies, England, Spain and Italy are running with an average RoA of +4%. The profitability gap of the clubs are -9% in England, -11% in France, and -16% in Italy, compared to normal practice.

The France Ligue 1 runs with a positive RoA of 0.5%, which means a profitability gap of -3%. The German Bundesliga is most solid by normal business standards, with a RoA of 2% - which means a profitability gap of -1%, as German non-sport companies are running with an average RoA of +3% (see Figure 3). And the media revenues for the clubs are still significantly under-developed in all leagues compared to England.

Next to the enormous salaries paid to the players a key reason for this bad financial constitution is the negative import balance from players. This situation is unlikely to change. Since the

FIGURE 1: Bundesliga is leading overall in benchmarking

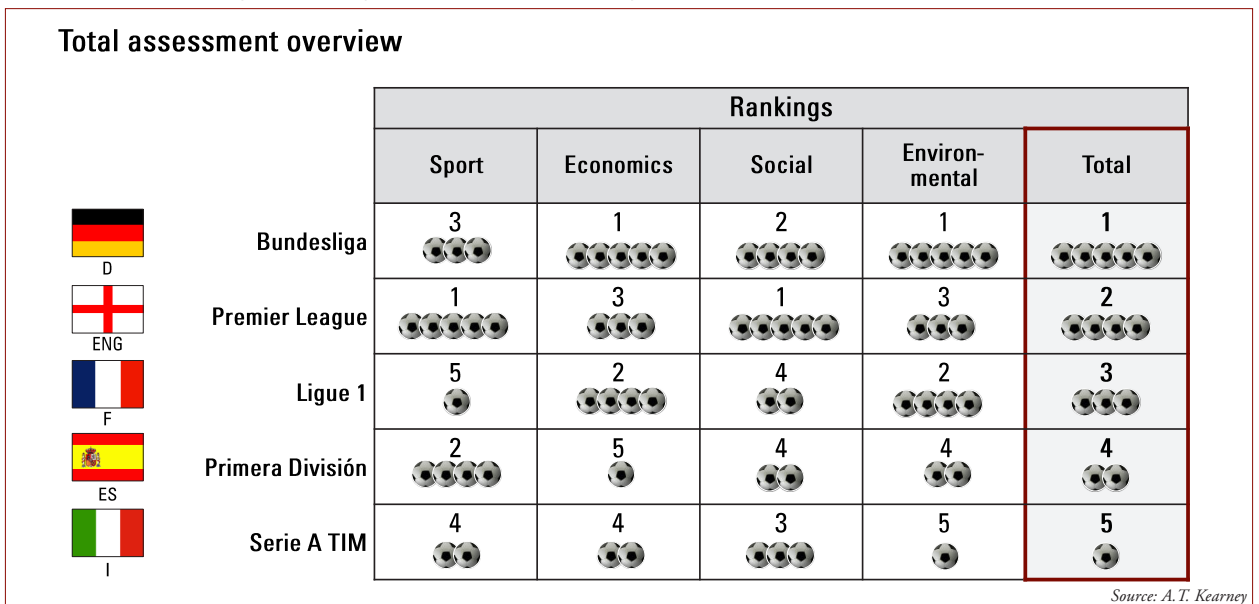


FIGURE 2: The German Bundesliga is financially strongest by normal business standards, with France second

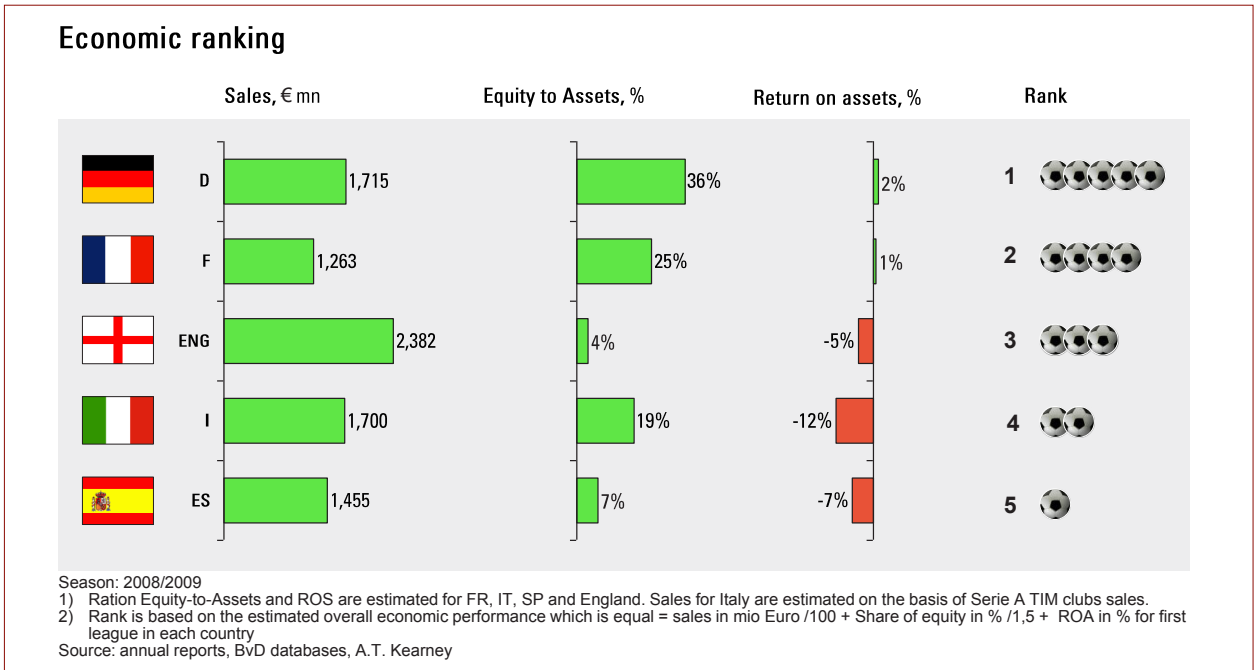
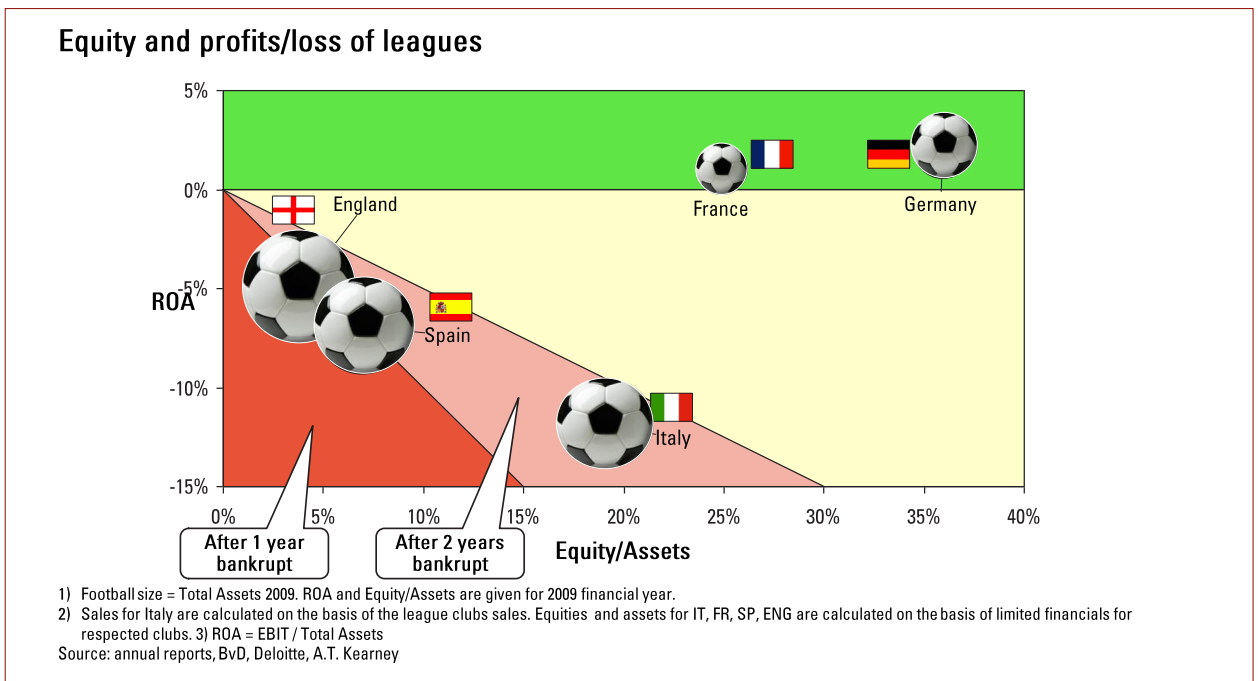


FIGURE 3: The largest EU leagues would be bankrupt within 2 years by normal business standards



infamous Bosman ruling, players have had greater freedom of movement, which has put them in the strongest bargaining position, and helped them capture the value created through 15 years of industry growth.

Taking the season 2009/2010 as an example, there was a negative import balance of about 566 million Euros from transfers. In this negative ranking the Spanish Primera División is leading, with a net player balance of €-257 million followed by the German Bundesliga (€-118M), the English Premier League (€-91M), and the French Ligue 1 (€-62M). The Italian Serie A has recently slowed down its import of expensive star players, with a negative transfer balance of only €-38M this year. Some of the excesses of the past have already led to bankruptcies, such

as Fiorentina in 2002 (see figure 4).

In Spain, Real Madrid and FC Barcelona continue to be among the most aggressive buyers of star players in Europe and globally. As the two major clubs are owned by the supporters, the socios, who in turn elect the president, popular initiatives such as buying expensive players (thus increasing debt) are always given higher priority than less popular ones such as raising ticket prices or having a shirt sponsor (which generates cash).

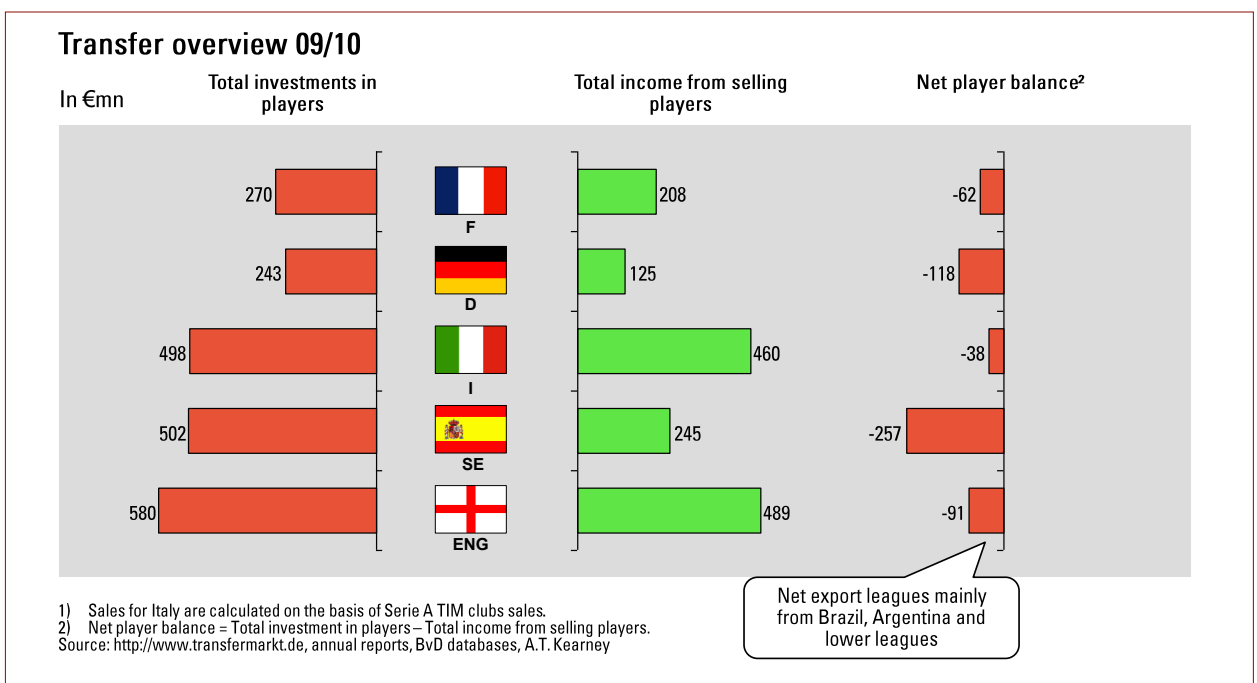
Over 3 years the English Premier League has a negative trade balance of one billion Euros on players, and the Spanish Primera Division nearly €600 million. Unlike French and German clubs, these leagues lack a sophisticated system of financial checks, where guarantees must be in place prior to the transfer.

A domino effect?

Economic fundamentals clearly indicate that the failure of one of the leagues, or at least a number of clubs within these leagues, cannot be discarded in the medium term. Nor does it mean that the French and German leagues are immune from such a risk. In fact, the failure of one league could trigger a systemic failure similar to that seen in the banking industry. This means that even the leagues that have remained virtuous will be impacted. It is also very similar to the recent Eurozone experience after the near-default of Greece.

In addition, the English Premier League provides a great illustration of the failure of the current business model to provide a decent return. Tottenham Hotspurs, the first club to be listed in 1981, never paid any dividend. The

FIGURE 4: The top 5 leagues have a negative player balance totalling €566m



owners of Manchester United, the Glazer family, are able to extract cash from the club, but it could be at the expense of its future competitiveness, which infuriates the fans. Meanwhile most of the listed football clubs have now exited the stock exchange. Under these conditions no “economically-rational” investor should enter football, as a medium term investment, unless there are other factors such as property development potential. The only interested parties would have the same interests we see today: those in search of trophy glory, needing to build political capital, or to fulfil a childhood dream.

The German Bundesliga has the most sustainable economic model in the long term, but is not immune from systemic effects.

The tragedy of success - money scores goals, but goals are not profitable

The risk of a systemic collapse is real. On the pitch, it is highly rewarding to spend money on players. There is a very strong correlation between the transfer balance and sports success. The French League has really put its European competitiveness in jeopardy by building a business model based on football academy and player transfer to other leagues (*see figure below*). Even spending wisely, like the Bundesliga, is not rewarded by the ultimate success, unless you spend big. In addition, it is not rewarding to be in good economic health. There is no correlation between the financial performance and the sporting performance, as shown in the chart below.

In today’s football industry, virtue is not rewarded. It becomes clear that a structural change to the European football business model would be needed urgently. UEFA is planning to implement the “financial fairplay system”. This is a great step forward, but is it *bold* enough? And is it *quick* enough?

Players: the greatest asset, or the weakest link?

At the same time, there are high assets in leagues and teams linked to player value. In 2010 the transfer values of the players in the five European top leagues was 11.2 billion Euro. England leads, with a value of 3.2 billion, followed by Spain (2.5 bn), Italy (2.4 bn), Germany (1.6 bn) and finally France (1.5 bn).. The leagues mainly import players from Brazil, Argentina, Eastern Europe and

FIGURE 5: We found a strong correlation between sporting success and net transfer balance

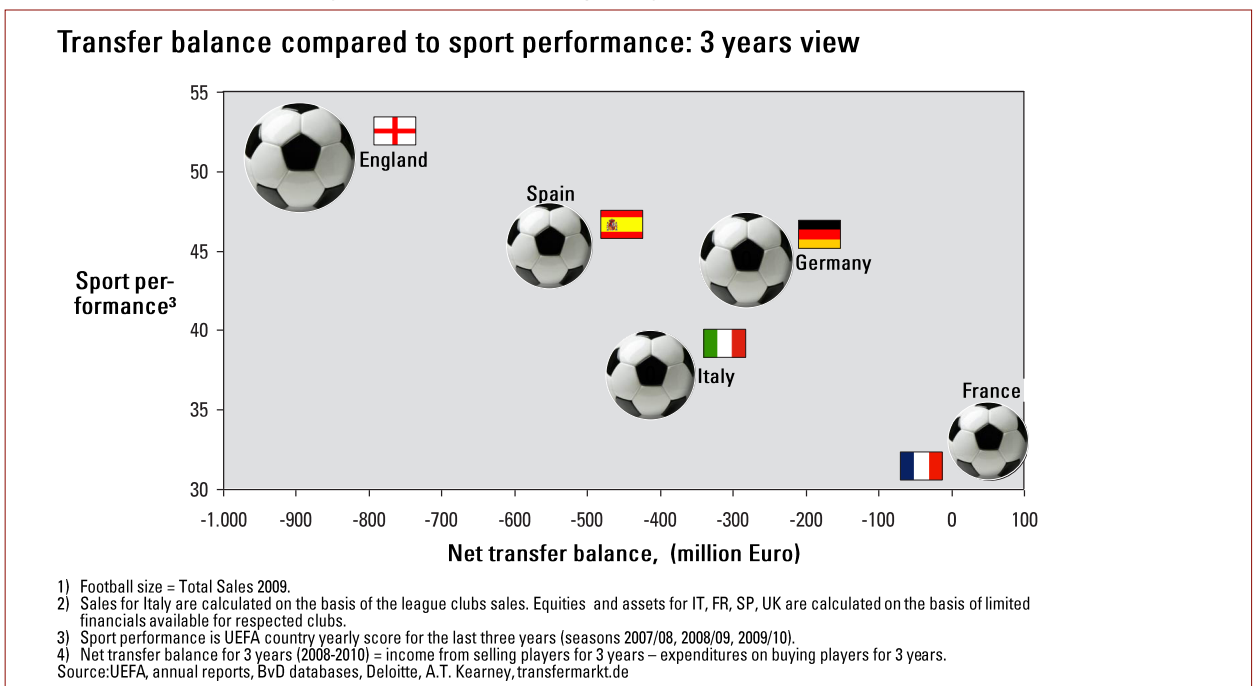
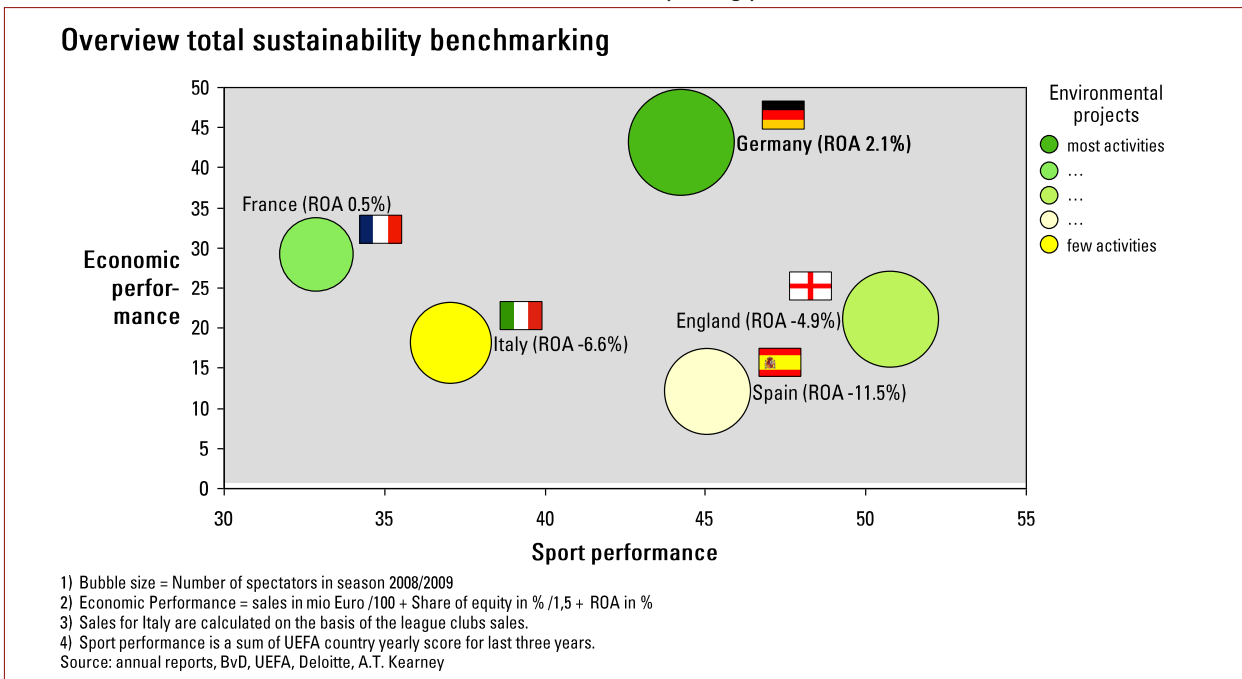


FIGURE 6: There is no correlation between economic and sporting performance



“lower” leagues. Barcelona is the club with the most valuable team, totalling 550 million euro.

This value reflects the competition for talent and the ego of certain club owners. This competition will reduce if financial issues develop in one of the top leagues, limiting the market value of the main club assets. In fact, the failure of one league could bring a banking-style systemic failure, in which even the leagues that have remained virtuous will be impacted. This effect is already being felt. In its annual report for

the 2008-09 season, the French league - highly dependent on player exports to the other top 4 leagues - saw an overall return to deficit, explained partly by the softening of the transfer market. It resulted in a 21% decrease of the profit from transfers compared to the previous season. The entire industry may be impacted if a domino effect develops.

Social Performance and diversity

The English Premier League is leading in social performance – especially in di-

versity. Diversity is becoming more important both from an ethical view as well to leverage best competencies independent of nationality - in sports like in business. In sport however achieving the right balance between local and foreign talent pool is critical to balance economic sustainability and sense of identity. We reviewed the mobilization of people (live spectators), the fairness of players (number of yellow and red cards), the number of association members, and the number of foreign players in the leagues. In this last area England

Focus on the World Cup in South Africa

We also took a closer look at the national teams in South Africa. We found that the most diverse teams come from France and Germany, each with 11 players with a migration background. They were followed by the Netherlands (6), Portugal (6) and England (5).

The Spanish national team is already world champion in player values, with 650 million euro, followed by England (449 m) and France (368 m). The values of other favourites such as Brazil (353 m) and Argentina (347 m) is only slightly more than 50% of the Spanish team. The 2006 world champion Italy is only 6th in this ranking, with a team value of 320 m ... and it lost in the first round of the 2010 competition.

and Italy are leaders, with 44% of the players coming from foreign countries. Here Germany is last, with only 29% (see figure 7).

Environmental ranking

The environmental dimension includes climate, resource and environmental protection. Researching these dimensions, we found many light-house projects in the clubs, rather than a structured and overall approach with clear recommendations or policies from the leagues.

Photovoltaic technologies are used in stadiums in Germany as part of their environmental efforts. Here we also identified professional waste management projects for the stadia, to increase the resource efficiency. Energy saving/efficiency and recycling initiatives for sport facilities can be found in England.

Sustainable infrastructure or building constructions and CO₂ reduction initiatives as part of climate protection programs were found in France. This adds up to 10 environmental projects in Germany, 8 in France, 7 in England, 6 in Spain and 1 in Italy (see figure 8).

European football needs to go far beyond UEFA's financial fairplay – and quickly

New business models required

We don't believe that one of the assessed leagues will disappear through bankruptcy in the next few years, although some clubs, even the bigger ones, may do so. But our analysis shows that the leagues can't go on without radical changes.

To pass all profits through to the play-

ers in the form of increased salaries is not a sustainable model. The German Bundesliga shows promising approaches, which should be adapted by others in order to develop an attractive sustainable business model. The financial control has been put in place first in France in the 90's and then adopted by Germany in the 00's.

The English clubs in particular have refused to establish reforms to ensure long-term sustainability during its years of prosperity and dominance. No wonder that the likes of Chelsea and Manchester City had to rely on significant investment from super-rich individuals. But all this investment did not prevent the recent bankruptcy of a Premier League club, Portsmouth.

European football needs to go far beyond UEFA's financial fairplay – and quickly. The current economic system

FIGURE 7: The Bundesliga leads in social issues, especially fairness

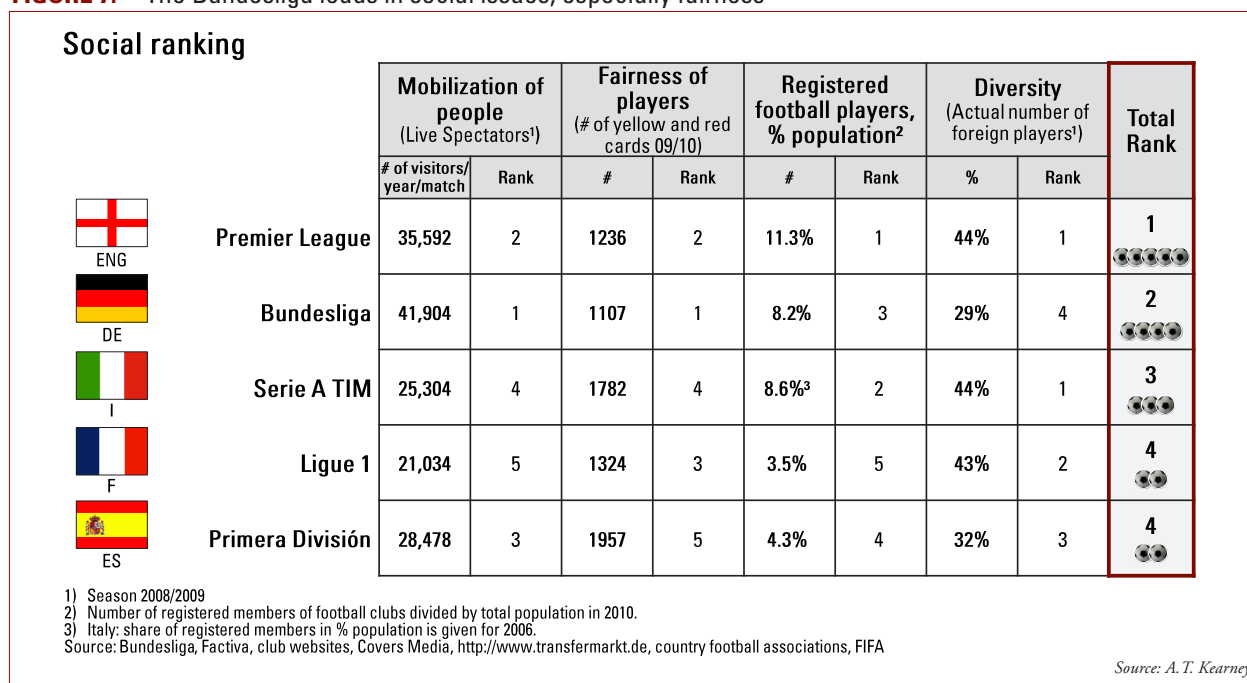
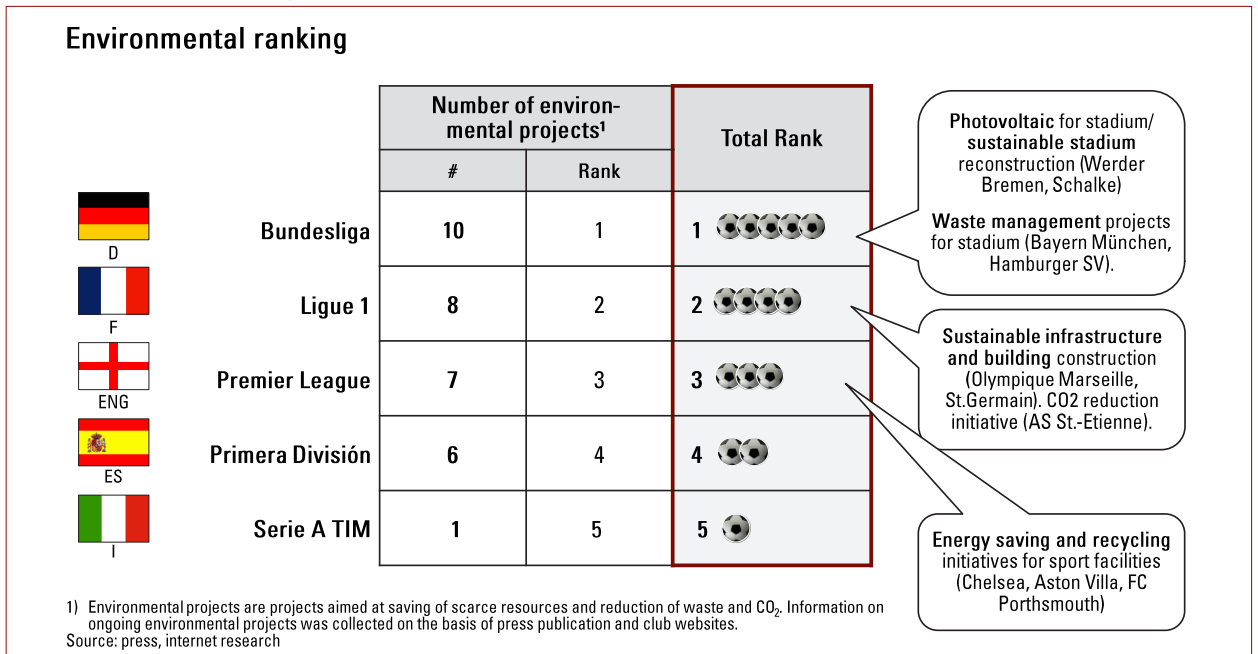


FIGURE 8: The Bundesliga is also the environmental leader



encourages overinvestment and extreme risk-taking to fulfil the stakeholders' expectations to win, far beyond normal economic sense. In order to regain long-term economic sustainability, and avoid a systemic crisis, European Football needs to evolve in several ways. The European leagues need to act increasingly as a single entity, rather than individual clubs, leagues or federations. Some ideas can come from US sports leagues like the NHL, NBA or NFL,

or from other sports such as rugby or cricket, which have cohesively balanced profitability and sportive attractiveness. Economic co-operation has to be extended drastically, including the implementation of strict financial control at national and European levels. The enormous power enjoyed by today's players must be reduced. Investment programmes need to be launched including, a programme to upgrade the stadia in Italy and France, development of

academies in England, or these leagues will be unable to bridge the gap to the German league. And under-development in media revenue must be addressed, especially in the Bundesliga. Any continued lack of action in these areas could be fatal to European football. While the party is still on in South Africa, the hangover may be just around the corner.

Authors:

Dr. Jürgen Rothenbücher is vice president in the Munich office and can be contacted at Juergen.Rothenbuecher@atkearney.com
Xavier Mesnard is vice president in the Paris office and can be contacted at Xavier.Mesnard@atkearney.com
Luca Rossi is vice president in the Milan office and can be contacted at Luca.Rossi@atkearney.com
Manuel Garcia Ramos Lucero is manager in the Madrid office and can be contacted at Manuel.Garciaramos@atkearney.com
Emmanuel Hembert is a principal in the London office and can be contacted at Emmanuel.Hembert@atkearney.com

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For more information please contact

A.T. Kearney GmbH
 Marketing & Communications
 Kaistraße 16 A
 40221 Düsseldorf

Tel.: +49-(0)211-13 77-0
 Email: marcom@atkearney.com
www.atkearney.com