Is European Football Too Popular to Fail?

A.T. Kearney EU Football Sustainability Study 2010

This summer, the eyes of the world were on the 2010 FIFA World Cup in South Africa. With 547 of 736 players belonging to European football clubs, the importance of Europe to world football has never been stronger. But what will happen if football leagues are no longer financially viable? In an A.T. Kearney study of the top football leagues in Europe, we found that, running as normal companies, the top leagues in Spain, England and Italy would be bankrupt within two years. Is Europe’s favorite sport close to collapse?

A new A.T. Kearney study of the top five football leagues in Europe—Germany’s Bundesliga, England’s Premier League, France’s Ligue 1, Spain’s Primera División and Italy’s Serie A—finds that the leagues in England, Spain and Italy could fail financially within the next two years. Indeed, if these leagues were run like normal businesses, lenders would call their funds, investors would shorten their positions, and hedge funds would bet on their downfalls. But we are talking about a sport, the most popular in the world, one that benefits from the backing of the largest corporations, the enthusiasm of the entire media industry, and the infallible support of governments. Football, by all accounts, is just too popular to fail. Or is it?

The Bundesliga Tops the Sustainability Chart

Last year, we identified the German Bundesliga as having a more sustainable business model and would eventually overtake England’s Premier League. This year, we decided to take our analysis to the next level, and evaluate football as we would any other business or industry. We reviewed EU football using a comprehensive business model—not only analyzing football as a sport in terms of wins, losses and ties, but also as a business in terms of its economic, social and environmental performance. In so doing, we found that the German Bundesliga ranks first overall, followed by the English Premier League and the French Ligue 1 (see figure 1 on the following page).

The German Bundesliga’s number one position is not that surprising. While England’s Premier League may produce better on-field results (recently) and generate higher revenues, German football is structurally more profitable, thanks to a more stable financial setting and larger crowds. The investment made for the 2006 World Cup, particularly in terms of modernized

Without decisive action or substantial subsidies, three of the top five European football leagues could collapse within the next two years.
stadiums, is paying off. German clubs also invest close to €100 million per year in football academies to develop new talent, reduce player transfers and curb salary expenditures.

In addition, the Bundesliga leads in the environmental dimension of our study, with 10 projects underway in different clubs, and ranks second on the social dimension. However, media revenues are still not what they should be in Germany, which paradoxically is the most competitive media market in Europe.

Overall, the Bundesliga is highly profitable with a 2.5 percent positive return on investment and ample room for economic growth.

FIGURE 1: Bundesliga is the overall leader in all four categories

<table>
<thead>
<tr>
<th>Categories</th>
<th>Economics</th>
<th>Sport</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundesliga</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Premier League</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Ligue 1</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Primera División</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Serie A</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

FIGURE 2: Germany’s Bundesliga is financially strongest when evaluated against normal business standards

<table>
<thead>
<tr>
<th>Sales (millions of €)</th>
<th>Equity to assets (%)</th>
<th>Return on assets (%)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1,715</td>
<td>36%</td>
<td>1</td>
</tr>
<tr>
<td>France</td>
<td>1,263</td>
<td>25%</td>
<td>2</td>
</tr>
<tr>
<td>England</td>
<td>2,382</td>
<td>4%</td>
<td>3</td>
</tr>
<tr>
<td>Italy</td>
<td>1,700</td>
<td>19%</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>1,455</td>
<td>7%</td>
<td>5</td>
</tr>
</tbody>
</table>

Notes: For the 2008-2009 season. Equity to assets and return on assets are estimated for France, Italy, Spain and England. Sales for Italy are estimates based on Serie A club sales. Rank is based on the estimated overall economic performance, equal to (sales in millions of euros divided by 100, plus equity to assets % divided by 1.5) + return on assets for the top league in each country.

Sources: Annual reports, Bureau van Dijk (BvD) databases; A.T. Kearney analysis
The Economics of European Football

Our economic analysis takes a closer look at leading performance indicators, including sales, the relation between equity to assets, and the return on assets (RoA) of the leagues and their individual clubs (see figure 2).

When evaluated as normal businesses, the football leagues in England, Italy and Spain would be less than two years away from bankruptcy (see figure 3).

Why is EU football on the brink of bankruptcy? A main reason is the huge profitability gap that football leagues experience compared to normal companies. The Premier League has an RoA of minus-5 percent, the Primera División minus-7 percent and Serie A minus-12 percent—9 percent, 11 percent and 16 percent lower than non-sports companies in those countries. France’s Ligue 1 has an RoA of 1 percent, which means a profitability gap of 3 percent compared with normal practice. Only the Bundesliga can be considered solid by normal business standards, with an RoA of 2 percent compared with 3 percent for other German companies.

One major factor behind this profitability gap is players’ high salaries and the negative import balance from player transfers, a situation not likely to change anytime soon. Since the now-famous Bosman ruling in 1995 gave players tremendous freedom of movement—and stronger bargaining positions—they have shared a significant part of the value created through 15 years of industry growth. Indeed, in 2009-2010 the five leagues in our study had a combined negative import balance of about €566 million (see figure 4).

FIGURE 3: By normal business standards, the top leagues in England, Spain and Italy would be bankrupt in two years

![Graph showing equity to assets and return on assets for different countries, with arrows indicating bankruptcy after 1 year and 2 years.]

Notes: All numbers are for the 2009 financial year. Football size equals total assets in 2009. Return on assets = earnings before interest and taxes divided by total assets.

Sources: Annual reports, Bureau van Dijk (BvD), Deloitte; A.T. Kearney analysis

FIGURE 4: The five leagues had a combined negative player balance of €566 million in the 2009-2010 season

<table>
<thead>
<tr>
<th>Total investments in players</th>
<th>All numbers in €millions</th>
<th>Total income from selling players</th>
<th>Net player balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>270</td>
<td>France</td>
<td>208</td>
<td>−62</td>
</tr>
<tr>
<td>243</td>
<td>Germany</td>
<td>125</td>
<td>−118</td>
</tr>
<tr>
<td>498</td>
<td>Italy</td>
<td>460</td>
<td>−38</td>
</tr>
<tr>
<td>502</td>
<td>Spain</td>
<td>245</td>
<td>−257</td>
</tr>
<tr>
<td>580</td>
<td>England</td>
<td>489</td>
<td>−91</td>
</tr>
</tbody>
</table>

Note: Net player balance refers to total investment in players minus total income from selling players.

Sources: http://www.transfermarkt.de, annual reports, Bureau van Dijk (BvD) databases; A.T. Kearney analysis
For example, the Primera División spent €580 million on players, and received €245 million from selling players, for a net player balance of minus-€257 million. The Bundesliga (minus-€118 million), the Premier League (minus-€91 million) and Ligue 1 (minus-€62 million) had negative balances as well. The Italian Serie A recently cut back on its purchases of expensive players, and its transfer balance was only minus-€38 million this year. In Italy, some of the excesses have caused bankruptcies, such as Fiorentina in 2002.

In Spain, Real Madrid and FC Barcelona continue to rank among the most aggressive buyers of star players in Europe and globally. The two clubs are owned by supporters—called socios—who in turn elect the team president. Popular initiatives that increase debt such as buying expensive players are always given higher priority over less popular moves such as raising ticket prices or getting a jersey sponsor, which would generate cash. In three years the Premier League has had a negative transfer balance of almost €1 billion and the Primera División nearly €600 million. Unlike French and German clubs, these leagues lack a sophisticated system of financial checks to monitor transfers.

**A Domino Effect?**

Economic fundamentals clearly indicate that the failure of one of the leagues, or at least several clubs within a league, cannot be excluded, at least in the near future. The more financially sound French and German leagues are not immune from risk. In fact, the failure of one league could trigger a systemic failure similar to what happened during the recent debt crisis in Europe, where even the soundest countries felt the impact of Greece’s woes.

In fact, the entire football business is failing to provide decent returns. Consider the Premier League.

The Glazer family, which owns Manchester United, is able to extract cash from the club, but it could be at the expense of its future competitive-ness, which infuriates its loyal fan base. Tottenham Hotspur, the first club to be listed in 1981, never paid any dividends, and most other listed football clubs have now exited the stock exchange.

Under these conditions no “economically rational” investor would enter football as a medium-term investment, unless it was coupled with other factors such as property development potential. The only interested parties left would be the same as today: those in search of trophy glory, those trying to build political capital, or those hanging onto childhood dreams.

Money scores goals, but goals are not profitable. Overall, it is rewarding to spend money on star players. This was on display at the World Cup, where Spain won the championship with the most valuable roster (see sidebar: Focus on the 2010 World Cup). The fans love the stars and

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**FIGURE 5:** There is a strong correlation between high net transfer balance and success on the field

Notes: Football size refers to total sales in 2009. Sales for Italy calculated based on league clubs sales. Equities and assets for Italy, Spain, France and England are calculated based on limited financial information available for respective clubs. On-field performance is the UEFA country yearly score for the past three seasons (2007-2008, 2008-2009, 2009-2010). Net transfer balance is for 2008-2010. Net transfer balance is the income from selling players minus expenditures for buying players. Sources: Union of European Football Associations (UEFA), annual reports, Bureau van Dijk (BvD) databases, Deloitte, www.transfermarkt.de; A.T. Kearney analysis

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**The German Bundesliga is highly profitable with a 2.5 percent return on investment and ample room for economic growth.**
our analysis, not surprisingly, finds a strong correlation between the transfer balance and on-field wins. For example, the French league has jeopardized its European competitiveness by building a business model based on a football academy and cashing in on player transfers to other leagues (see figure 5). Even spending wisely on talent, as the Bundesliga has done, may not be rewarded unless you are willing to spend big. In addition, good financial health is not necessarily rewarded as we found no correlation between economic performance and on-field performance (see figure 6).

Players: assets, or weak links?

In 2010, transfer values of players in the top five European leagues total €11.2 billion, led by England at €3.2 billion, followed by Spain (€2.5 billion), Italy (€2.4 billion), Germany (€1.6 billion) and France (€1.5 billion). The leagues mainly import players from Brazil, Argentina, Eastern Europe and the “lower” leagues. Barcelona’s team is the most valuable, totaling €550 million.

These values reflect both the competition for talent and the ego of club owners who want to make the biggest splash. However, financial issues in any of the top leagues could change the values by reducing the amount of competition, thus limiting the market value of the clubs’ main assets. This demonstrates how the collapse of just one league could lead to systemic failure, similar to the recent failure of the banking industry.

It’s already more than mere speculation. In its annual report for the 2008-2009 season, Ligue 1—highly dependent on player exports to the other top four leagues—saw an overall return to deficit. Because the transfer market had softened so much, profits decreased 21 percent compared to the previous season. Further softening could have an impact on the entire industry, especially if there is a domino effect.

It is becoming clear that structural change to the European football business model is urgently needed, to keep finances in order without upsetting the quality of play. The union des associations Européennes de football (UEFA) is planning to implement a “financial fair play system” to do just this. It is a great step forward. But is it bold enough? And will it be soon enough?

Social and Environmental Performance and Diversity

England’s Premier League leads the overall ranking in social performance, particularly in diversity, an area becoming more important both from an ethical standpoint and as a way to market football beyond nationalities. Diversity refers to finding the right balance between local and foreign
sports talent, which is critical to maintaining a sense of identity and economic stability.

Our analysis on social performance includes evaluating the mobilization of fans (live spectators), the fairness of players (tally of yellow and red cards), the number of registered association members and the number of foreign players (diversity) in the leagues. England and Italy are leaders in this last category, with 44 percent of their players coming from foreign countries. Germany is last, with only 29 percent (see figure 7). However, the Bundesliga leads in both attendance and player fairness.

New Business Models Required

Will any of these leagues disappear through bankruptcy in the next few years? It is highly unlikely a league will disappear, but it is possible that some individual clubs, including some of the larger ones, will go under.

Our analysis demonstrates that it is time for football leagues to embark on radical change. During their years of prosperity and dominance, English clubs in particular refused to pursue the reforms that would ensure their long-term sustainability. No wonder clubs such as Chelsea and Manchester City must now rely on very wealthy

FIGURE 7: Bundesliga leads in social issues, especially fairness, but trails in diversity

<table>
<thead>
<tr>
<th># of visitors/ year/match</th>
<th>Total social rank</th>
</tr>
</thead>
<tbody>
<tr>
<td># visits/year/match</td>
<td>Rank #</td>
</tr>
<tr>
<td></td>
<td>Rank %</td>
</tr>
<tr>
<td>Premier League</td>
<td>35,592</td>
</tr>
<tr>
<td>Bundesliga</td>
<td>41,904</td>
</tr>
<tr>
<td>Serie A</td>
<td>25,304</td>
</tr>
<tr>
<td>Ligue 1</td>
<td>21,034</td>
</tr>
<tr>
<td>Primera División</td>
<td>28,478</td>
</tr>
</tbody>
</table>

1 Totals for the 2008-2009 season
2 Number of registered members of football clubs divided by total population in 2010; Italy’s share is for 2006.
Sources: Bundesliga, Factiva, club websites, Covers Media, www.transfermarkt.de, country football associations, FIFA; A.T. Kearney analysis

It would be wise for European football to go beyond UEFA’s financial fair play system—and quickly
personal investors to stay afloat—although even this type of investment could not keep Portsmouth out of bankruptcy.

Passing all profits on to the players through increased salaries is no longer sustainable. And the current economic system, which encourages overinvestment and extreme risk-taking to fulfill stakeholders’ on-field expectations, does not make sound economic sense. To avoid a systemic crisis and ensure long-term economic sustainability, European football needs to evolve to a viable, profitable business model.

In fact, it would be wise for European football to go beyond UEFA’s financial fair play system—and quickly. Rather than operating as individual clubs, leagues or federations, the European leagues should collaborate as one entity. Some ideas could come from the U.S. sports leagues, such as the National Football League (NFL), the National Basketball Association (NBA) and the National Hockey League (NHL), and other sports such as rugby and cricket. They all manage to balance profitability and sports attractiveness.

Additionally, economic cooperation must be expanded drastically, including implementing strict financial controls at both the national and European levels. Both Germany and France have such financial controls in place. And curtailing the enormous power today’s players enjoy should be addressed immediately.

Furthermore, investment programs will prove vital to success, including stadium upgrades in Italy and France and academy development in England, for leagues to bridge the gap to the German league. Finally, increasing media revenues, especially in Germany, will be instrumental in strengthening economic viability.

Any continued lack of action could be fatal for European football. Even as good memories of South Africa linger, the hangover could be just around the corner.

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