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**Article**

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## THE ECONOMICS OF “BIG FIVE” EUROPEAN FOOTBALL LEAGUES

Teodor DIMA\*

**Abstract:** *European football is a business with more and more attractive numbers for investors, shareholders or partners all over the planet. It has significantly changed especially over the last 20 years, following an intense procedure of acquisitions and marketing, a process that has brought important sums of money in this industry. This paper presents the overview of the “big five” European football leagues (England, Germany, Spain, Italy, France). The study is primarily focused on economics, but is also considering various social or cultural aspects (media, social media followers). The case-study on the five major leagues corroborates the theoretical underpinning. The paper investigates also the roots of financial regulation divergence in Europe and underlines the main issues regarding the UEFA financial fair-play rules.*

**Keywords:** economic outlook; football leagues; financial fair play; social media

**JEL Classification:** L83; M21; J31

### Introduction

European football market value has seen an upward trend in the last two decades, reaching 20 billion euros in 2014 (Deloitte, 2015). The revenues of the national competitions represent a significant percentage of the total market. The cumulated income of the five strongest domestic competitions ("big five") represents approximately 10 billion, i.e. half of the total value. This explains the emphasis shown to the economies of these competitions as well as the challenges and opportunities faced.

For this academic study, I have used documentation as a proper method of research in this field following the usual steps of a scientific research:

- Revision of the UEFA official documents and documents of the institutions that manage the organization of the strongest leagues in Europe - financial reports, organizational documents, market analysis;
- Sourcing of data from documents prepared by Deloitte & Touche: Annual Review of Football Finance for the period 2003-2014;
- Critical analysis of scientific materials, books and research articles addressing topics of importance for European club competitions and current trends in the field;
- Analysis of revenue growth, cost and market value of the strongest players in domestic competitions.

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Going through the research conducted in this niche field of sports management highlights the academic interest for the debate on the economic dimension of European football and its social impact. As such, the scientific focus on the economic segment is aimed at topics such as: the types and sources of income dynamics in European football (Dobson and Goddard, 2011); high cost of labor (Capasso and Rossi, 2013), whose dynamic is higher than revenue (Baroncelli *et al.*, 2004); alarming increase of the debt recorded in soccer (Rossi *et al.*, 2013). The social dimension aims to maximize the satisfaction of supporters (Madden, 2012), the methods used by sports organizations to increase the involvement of the fans (Ioakimidis, 2010) or using social networks and the efficiency of using this instrument (Kuzma *et al.*, 2014).

### **1. Economic outlook of the „big five” football leagues**

Current economic debates pertaining to the strongest European football championships are mostly focused on their business performance, high cost of labor seen both in nominal value as well as value relative to the business size and the estimated value of the lots of football players. In this regard, research has focused on presenting and interpreting the following: volume of revenues, the ratio of wage costs to total income, and the market value of the players of this elite championships.

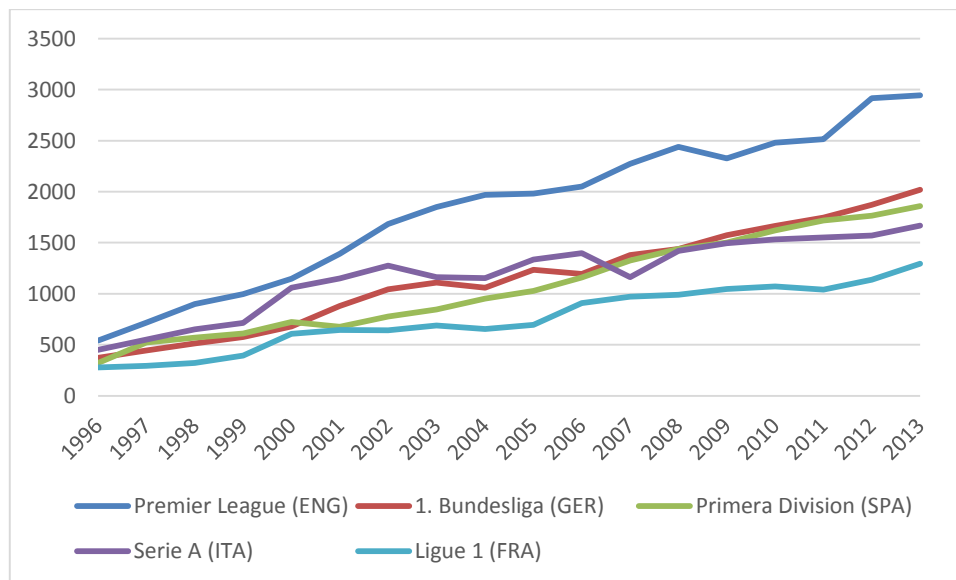
To measure the business value of a national sports competition, the relevant parameter is the turnover of the first division. This is determined by adding the income obtained by the participating clubs, plus the budget of the organization that manages the national competition. In this study I used data from the Annual Review of Football Finance, conducted by consulting company Deloitte & Touche for more than two decades.

The current revenues of sports companies do not include the proceeds from transfers which are considered exceptional revenue. In order to calculate the turnover of the top five championships the consulting company used data from the audited financial results of the clubs or directly from the annual reports of sports companies. The figures are converted to the same currency (Euro) and sometimes slight adjustments are applied to give a true and easily comparable dataset for the competitions (Deloitte & Touche, 2014).

Analysis of the period in question reveals that the five championships obtained in 1996, the first year under review, a total aggregate revenue of nearly 2 billion, the amount increasing about five times to nearly 10 billion Euro in 2013 (Figure 1). We can see the obvious supremacy of England for this criterion, with almost 3 billion in revenue and the continued presence of France in the last position, which only in the last five years has exceeded 1 billion in revenue per season. Between the

two extremes, the other three championships stand very close to each other, with revenues ranging from 1.6 to 2 billion Euro (2013). From the point of view of dynamics, the highest rate of multiplication of total revenues was obtained by the first Spanish league, 5.7 times, and the lowest belonged to the Italian championship, 3.68 times.

**Figure 1 - Total revenue - “big five” leagues (1996-2013)**



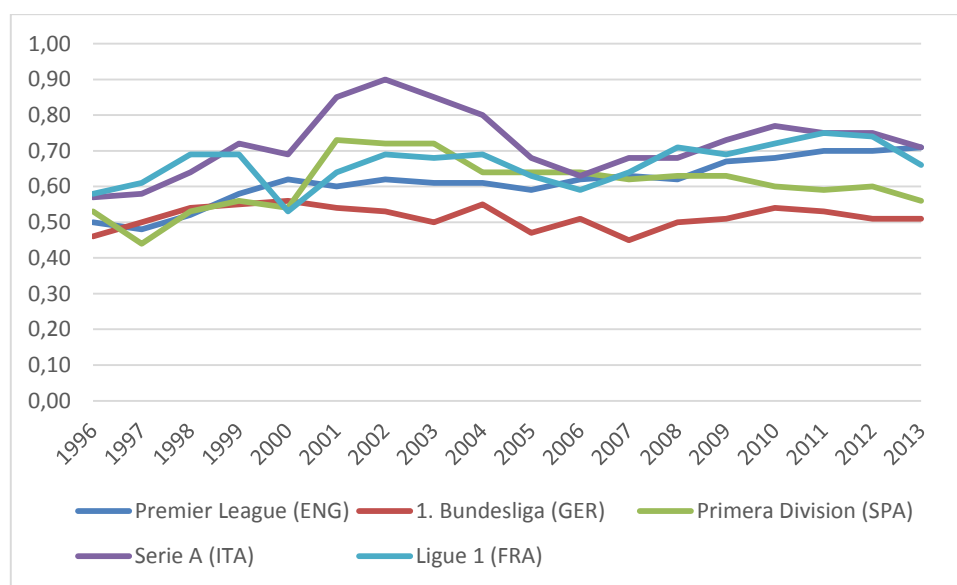
Source: author's processing based on data from Deloitte & Touche – Annual Review of Football Finance (ed. 2003-2014)

Controlling labor costs is one of the academic debates of this niche research and at the same time, one of the priority concerns of the management of sports entities. Capasso and Rossi (2013) stress the high cost of labor in this industry, and Baroncelli *et al.* (2004) analyze the higher dynamics of the wages compared to the dynamics of revenue. We used data from Deloitte’s Annual Review of Football Finance, on the percentage of wage costs in total revenues at the level of the strongest championships. The cost of wages includes both athletes, technical management and administrative staff (Deloitte & Touche, 2014).

Figure 2 illustrates the superiority of the German championship in keeping labor costs under control, being the only top national football competition which manages to keep about 50% of revenues for expenditures other than salaries. Interestingly, the trend for the first part of the review period was one of increasing the share of labor costs, but after 2010, we observe a preoccupation for decreasing the percentage of revenue earmarked for the payment of salaries in almost all championships. Italian Championship measured the highest values of this parameter (between 0.8 and 0.9 between 2001 and 2004). English Championship, the richest in Europe, as evidenced by the

analysis of income, is the only one following an ascending trend of the share of wages to revenues in the last five years. Growing labor costs in the Premier League are reflected in much higher salaries compared with the other championships, but this maintains a competition that generated and can still generate significant economic imbalances.

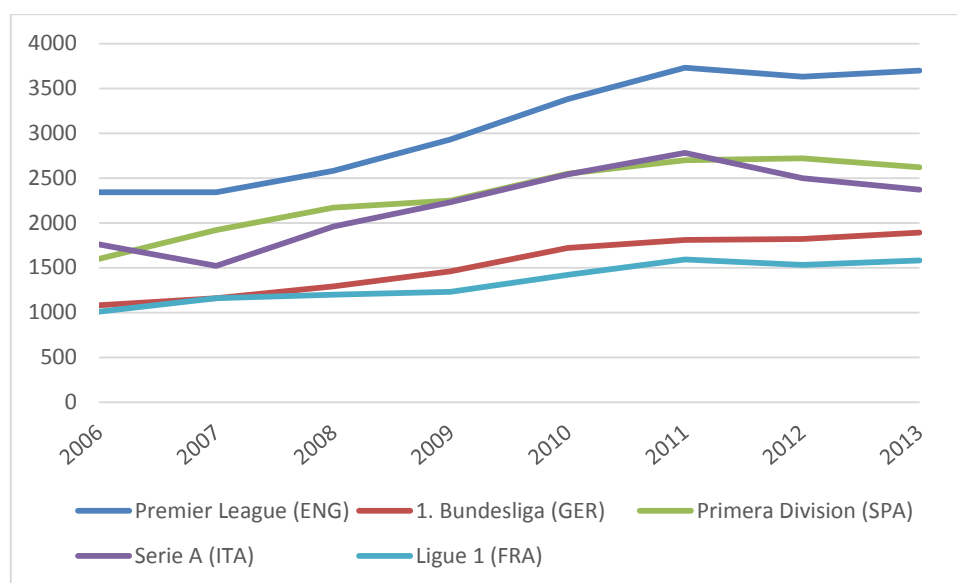
**Figure 2 - The share of wages in total revenue - "big five" leagues (1996-2013)**



Source: author's processing based on data from Deloitte & Touche – Annual Review of Football Finance (ed. 2003-2014)

The market value of players in a league is a parameter that contains economic, sporting and social aspects. In this respect, the economic component is given by the value of intangible assets represented by players, the sports component reflects the fact that the value of each player is influenced by his athletic performance and his current form and the social component shows the direct relationship between the players values and the fans interest in the team. Data available for this parameter spans a shorter period than previous analyzed parameters.

We note the English championship's leading position with a total value of the lots of players approaching 4 billion (Figure 3). It is followed at a notable distance by the first Spanish and Italian leagues, who switched the positions 2 and 3 over the 8 years analyzed for this parameter. Germany ranks fourth for the entire period, with the market value of players closing in 2 billion euros. France occupies the last position being the only of the "big five" championships to have an average lot of players value under 100 million euros.

**Figure 3 - The market value of the squad of players - “big five” leagues (2006-2013)**

Source: author's processing based on data from Transfermarkt (for further details see: <http://www.transfermarkt.co.uk/wettbewerbe/national>)

## 2. Current challenges and tendencies of „big five” competitions

The challenges and trends of the strongest European championships are influenced by various aspects. We opted, in this respect, for a detailed presentation of the impact of placing regulations of financial fair play and the opportunity of using social networks for the sport domain. These have the capability to change the way of thinking and the relation with the European football industry.

### 2.1. Financial fair play

Financial Fair Play rules represent the main change in the governance of football, producing the first effects in 2013/14, with major implications for the entire management system in European football. On the one hand, many clubs have repeatedly reported significant deficits, have experienced liquidity shortfalls and failed to pay on time their debts to other clubs or to its own players, and others have gone into insolvency, judicial reorganization procedures or even bankruptcy. On the other hand, private investors with great financial power took control of professional football clubs and have spent huge amounts of money in order to create strong teams.

These two market tendencies threaten financial stability and disturb the competitive balance, both between clubs and the European football championships. To ensure the financial stability of the

industry and to restore competitive balance, UEFA introduced new Financial Fair Play regulations. They mainly state that teams can only spend in proportion with their revenues, the "break even" rule.

In the first step, UEFA asked for clarifications and additional financial documents from the 76 clubs that have qualified for European competitions in the 2013/14 season and have recorded a deficit of over 5 million euro in the monitored period. Also in May 2014, 9 clubs were sanctioned for breaching financial fair-play. The most severe penalties were received by Manchester City and Paris Saint-Germain (Table 1), the other clubs found in breach of the rules being Zenit St Petersburg, Rubin Kazan and Anzhi Makhachkala from Russia, Galatasaray, Bursaspor and Trabzonspor from Turkey and Levski Sofia in Bulgaria.

**Table 1 - Penalties for Manchester City and Paris Saint-Germain**

	<b>List of sanctions</b>
1.	They lose 10 million of the money that they ought to receive for participating in the Champions League 2013/2014 season and another 10 million from participating in UCL's next season.
2.	The value of maximum acceptable loss is reduced for the next two seasons from 30 million to 20 million (first season) and 10 million (2 <sup>nd</sup> season).
3.	The team for Champions League season 2014/15 can only use of a batch of 21 players.
4.	The maximum expenditure for transfers in the next mercato period, the summer one, is limited to 60 million euros plus the money from eventual sales.
5.	The total salaries of members of the club (both players and staff) for the 2014/15 season should be the same as in the 2013/14 season. It is important to note that performance bonuses may be paid outside of these limitations.

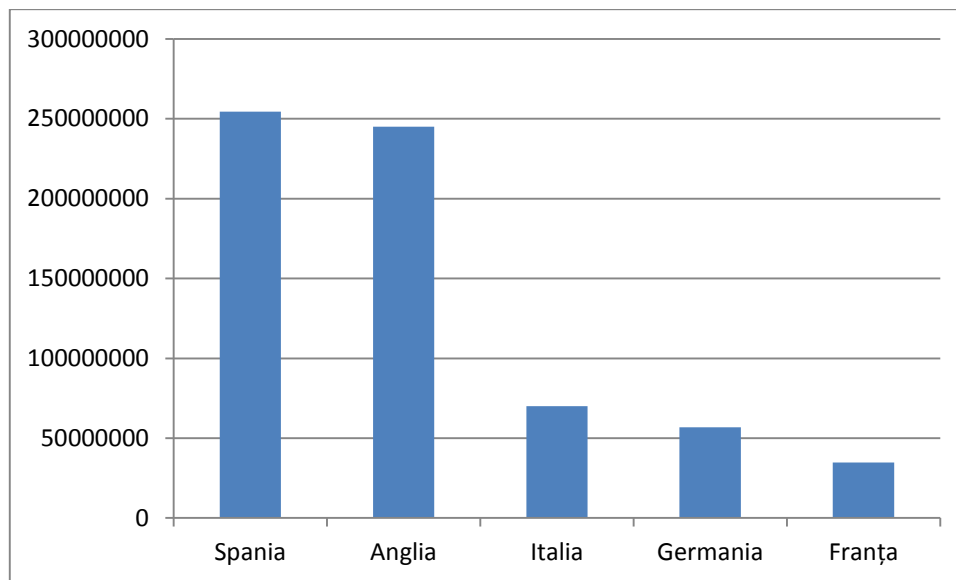
Source: CLFFPR, 2014

## **2.2. Social media in football**

An important opportunity for the football industry is the use of social media. Social networks have enabled football teams to develop a closer relationship with their fans around the globe. Moreover, clubs are able to use this marketing tool for the development and expansion of their brand at regional and global level. The large value of clubs' digital reach at the end of 2014 and their trend for the last season shows that companies understand and capitalize on the benefits of social media in sports.

The interest in football can be globally measured by the attachment expressed on the internet on various social networks. Adding the values provided by Sports Digital Media (2014) representing the number of digital fans of each of the "big five" teams, I constructed a ranking of football fans for each of the strongest leagues (Figure 4).

**Figure 4 - National competitions ranking – digital fans (2014)**



Source: author's processing based on data from Digital Sports Media (2014)

Thus, we can see that Spain and England sit comfortably in the top two spots, each having about 250 million digital fans. In Spain, FC Barcelona and Real Madrid fans represents 90% of total, the internal competition being divided between the two world football powers and the rest. England is also a championship with a high degree of concentration in which 90% of fans are supporters of five teams (Manchester United, Chelsea, Arsenal, Liverpool and Manchester City). Far from the first two competitions are Italy with over 70 million fans (71% say AC Milan and Juventus), Germany with about 57 million (97% Bayern Munich and Borussia Dortmund fans) and France with almost 35 million (over 50% support Paris Saint-Germain). Therefore, the increased popularity enjoyed by clubs with worldwide recognition is a landmark of current realities and further proof of the polarization of some of the strongest domestic competitions, Germany and Spain being the most eloquent examples.

## Conclusions

The "big five" economy is a highly complex topic, involving numerous perspectives, variables and interpretations. I did not try to exhaust the subject, but only to present the most important and



current aspects of this niche of sports management industry. In this respect, the analysis of three relevant parameters for this market (level of income, the wage to revenue ratio and market value of players) indicates the supremacy of English football with a higher business value. The first German league is distinguished by the better control of labor costs. Spanish and Italian championships occupy positions 2-4 for the analyzed criteria and the French championship is the last one.

Management and shareholders of Europe's top football businesses must adapt to the principles and mechanisms introduced by the "financial fair play" regulations. At the same time, they can capitalize on the economic, social and cultural opportunities represented by the exponential growth in the number of digital fans using various social networks.

This research covers only a part of the theme and the economic implications of the strongest leagues in Europe. It can be continued with academic research on other significant parameters for the industry, or even by integrating the most relevant indicators in a composite index to synthesize the highly complex dynamics of this area.

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