



Football: The divide between clubs will grow wider

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With European football (and almost all sport) stopped due to the covid-19 pandemic, there are two very important questions that will impact the future of football. First, should leagues conclude the season by resuming matches, or should they simply implement a mechanism to rank teams based on their current win-loss records? Second, what will be the short-term financial impact of possible match cancellations, games played in empty stadiums, and renegotiations of advertising and television rights?

Answering these questions is critical for football clubs which are facing severe losses that will likely continue over into next season and a highly-disrupted transfer market. Not all clubs have shareholders with deep pockets and there is likely to be a widening of inequality between the big and small clubs.

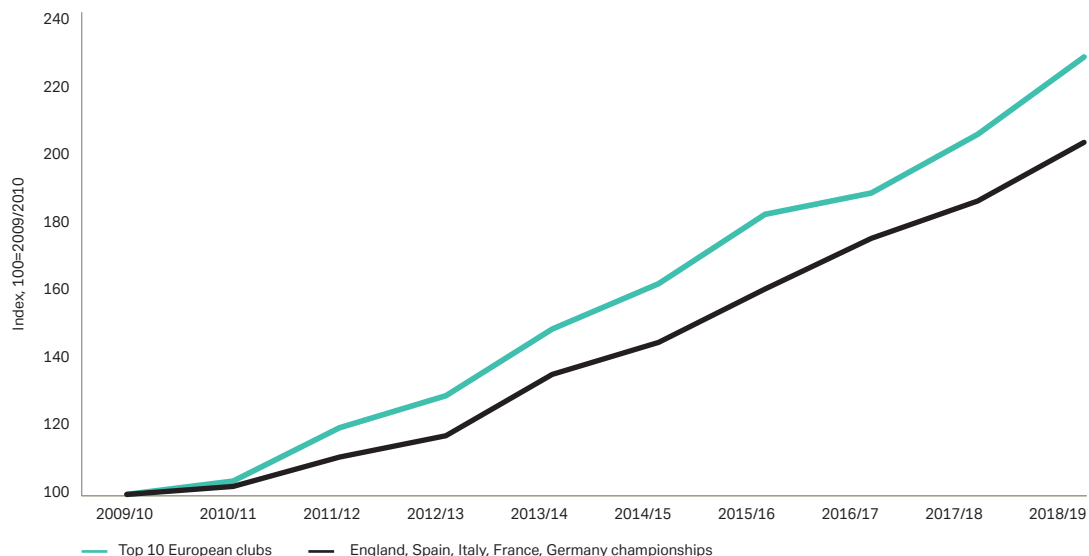
The football industry has grown, particularly the 'superclubs'

Until the pandemic halted all games, the football industry had enjoyed increased revenues generated by television rights and advertising, along with increased funding through the entry of new super-wealthy investors.

As in many industries, a "winner-takes-all" phenomenon has emerged in which the wealthiest clubs have benefitted from a virtuous cycle of abundant funding, international followers, and increased television and sponsorship revenues.

The emergence of 'super clubs' with ever-increasing financial means, has heated up the competition to attract the very best players. Those athletes have been the biggest winners as their salaries have skyrocketed.

Revenue growth



Sources: Deutsche Bank, Deloitte, Statista.

The covid-19 impact will first be felt by top teams

Cancelling championships two-thirds of the way through the normal season will hit football clubs in multiple ways: (i) loss in remaining ticketing and stadium revenues, (ii) renegotiation of television rights, even if matches are played in empty stadiums over the summer; and (iii) prorated or renegotiated sponsorship revenues, especially if matches are cancelled. To examine the issue, we simulated the impact of the shutdown on Europe's top 20 clubs. These are the teams that risk losing the most revenues and have the highest payrolls.

At this stage, championships will not resume at least in France, Belgium, and the Netherlands. Talks are still being held for resuming matches in empty stadiums in other championships. For our simulation, we took the following assumptions for the season 2019/20:

- Television rights: 10-30 per cent at risk for this season;
- Commercial advertising: 10-30 per cent at risk this season;
- Ticketing: pro-rata of remaining matches for this season.

It is very early to assess the economic impact on the 2020/21 season. Premier League clubs are preparing the scenario of playing behind closed doors. Final decisions will take time to unfold over the summer. We have modelled two scenarios: a fast recovery scenario and a prolonged crisis scenario.

In the fast recovery scenario, we assume that the season resume with only slightly lower attendance in stadiums:

- Television rights: no change from current contracts;
- Ticketing: 10-30 per cent at risks as less people dare joining the stadium;
- Commercial advertising: 5-20 per cent at risk given economic recession and lower stadium attendance.

In our prolonged crisis scenario, we assume the season is being played behind closed doors:

- Television rights: renegotiated up to 20 per cent lower as part of the show is impaired in empty stadiums;
- Ticketing/matchday: fully lost;
- Commercial advertising: 30-60 per cent at risk in particular matchday sponsoring.

Potential impact on revenue of the top twenty clubs

	2018/19	2018-19 Revenues breakdown			2018-19 Revenues (€m)			DB Est. loss due to covid-19 (€m)		
	Rev. (€m)	Commercial	Broadcast	Matchday	Commercial	Broadcast	Matchday	2019/20	2020/21 - RECOV.	2020/21 - PROLONG.
1 FC Barcelona	841	46%	35%	19%	387	294	160	[120 ; 260]	[30 ; 120]	[270 ; 450]
2 Real Madrid	757	47%	34%	19%	356	257	144	[100 ; 230]	[30 ; 110]	[240 ; 400]
3 Manchester United	712	45%	38%	17%	320	270	121	[90 ; 215]	[30 ; 100]	[215 ; 360]
4 Bayern Munich	660	54%	32%	14%	356	211	92	[80 ; 200]	[25 ; 100]	[195 ; 345]
5 Paris Saint-Germain	636	57%	25%	18%	362	159	114	[100 ; 195]	[30 ; 110]	[220 ; 360]
6 Manchester City	611	43%	47%	10%	263	287	61	[75 ; 185]	[25 ; 75]	[140 ; 270]
7 Liverpool	605	35%	49%	16%	212	296	97	[75 ; 185]	[20 ; 70]	[155 ; 280]
8 Tottenham Hotspur	521	29%	53%	18%	151	276	94	[70 ; 160]	[15 ; 60]	[135 ; 235]
9 Chelsea	513	41%	44%	15%	210	226	77	[60 ; 155]	[20 ; 65]	[135 ; 245]
10 Juventus	460	41%	45%	14%	188	207	64	[65 ; 140]	[15 ; 55]	[120 ; 215]
11 Arsenal	446	28%	47%	25%	125	209	111	[65 ; 140]	[15 ; 55]	[145 ; 225]
12 Borussia Dortmund	377	40%	44%	16%	151	166	60	[50 ; 115]	[15 ; 50]	[105 ; 180]
13 Atlético de Madrid	368	27%	57%	16%	99	210	59	[50 ; 110]	[10 ; 40]	[85 ; 155]
14 FC Internazionale Milano	365	42%	44%	14%	153	160	51	[50 ; 110]	[15 ; 55]	[95 ; 170]
15 Schalke 04	325	34%	50%	16%	110	162	52	[40 ; 10]	[10 ; 35]	[85 ; 150]
16 AS Roma	231	24%	62%	14%	55	143	32	[30 ; 70]	[5 ; 20]	[45 ; 90]
17 Olympique Lyonnais	221	26%	55%	19%	57	121	42	[30 ; 65]	[5 ; 25]	[55 ; 100]
18 West Ham United	216	19%	67%	14%	41	145	30	[25 ; 65]	[5 ; 20]	[40 ; 80]
19 Everton	213	21%	71%	8%	45	151	17	[25 ; 65]	[5 ; 15]	[25 ; 70]
20 SSC Napoli	207	22%	70%	8%	46	145	17	[25 ; 60]	[5 ; 15]	[25 ; 70]
TOTAL	9283				3689	4098	1496	[1225 ; 1225]	[330 ; 1195]	[2530 ; 4450]
As % of 2018/19 revenues		36%	49%	15%				[13% ; 30%]	[4% ; 13%]	[27% ; 48%]

Sources : Deutsche Bank, Deloitte.

The halt in transfers could spill over to smaller clubs

Based on our assessment in the recovery scenario, the top-20 clubs will see about ten per cent of their revenue at risk and should be able to weather the storm through minor or short-term readjustments, mostly to cover the lost revenues of 2019/20 season.

However, in an extended crisis, more than a third of their revenues could be impacted which would necessitate much more drastic measures. Football clubs are companies, so shareholders will have to decide which combination of levers to pull in order to cover their losses.

The first lever would be to reduce costs. This would require teams to renegotiate player salaries, with the risk of demotivating athletes or even losing them. The second option would be to decrease investments by reducing the amount spent on acquiring new players via transfers. A third alternative would be to increase funding. This would require some combination of shareholders injecting new capital, bank loans, and bond issuance. A final option would be to sell assets – in other words, top players. This choice would raise money in the short-term and decrease wages in the medium-term.

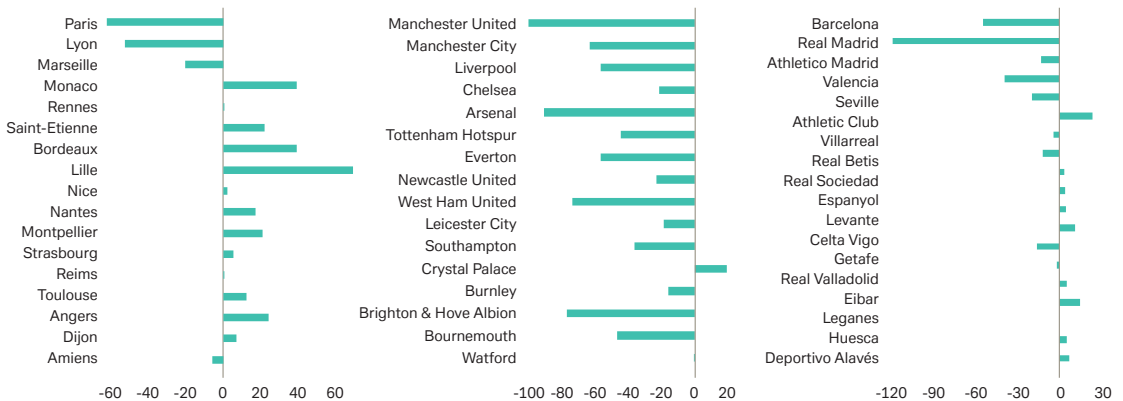
Pulling one or both of the latter two levers would increase supply and decrease demand for transfers. The Football Observatory forecasts that the total transfer value of players would decrease by 28 per cent, from €32.7bn to €23.4bn euros across the main five championships. The further covid-19 extends, the more clubs are planning for the worst. That means the decrease could be even more severe.

A decrease in transfers would severely hit smaller clubs. These teams have seen outlays for wages outpace revenue growth, and they have increasingly relied on grooming and selling their best players to supplement revenues.

We have estimated, over the last two seasons, the amount of net transfers (meaning the price paid for new players minus the price received from selling players). See the below table.

While it is common knowledge that the largest clubs are spending more than they sell on the transfer market, most other clubs have a positive transfer balance. In particular, for French Ligue 1 clubs this typically represents 20-30 per cent above and beyond revenues (television rights, matchday, and sponsorship).

Net transfer by clubs in France, England and Spain (ranked by revenues)



Sources: Deutsche Bank, transfermarkt.com. Note: net transfers are the average between difference transfer sum of departures and arrivals over 2019/20 and 2018/19.

Is now the time for industry disruption?

Regardless of whether matches resume this season or next, or in empty or half-empty stadiums, today's pandemic will have a long-term impact on the whole industry—from the top leagues down to amateur clubs. All football clubs will have to find solutions to finance losses. Some may go bankrupt and some may change ownership.

This will result in a widening of inequalities, in particular between clubs with access to funding and those without. Those clubs with deep-pocketed shareholders such as billionaires or investment funds, and access to capital markets will become more dominant. Teams that rely on less wealthy private shareholders could experience the disequilibrium of their financial situation and be hit by both the loss of direct revenues as well as financial income from the transfer market.

In this way, today's pandemic could be a catalyst that accelerates the already large inequalities between Europe's top clubs. That may add to the discussion between them to create their own supranational championship, leaving the smaller clubs to compete for national championships.

There is a solution that is potentially on the horizon. As a result of the pandemic, European clubs could now have a unique opportunity to curb the inflation of players' salaries without suffering from the 'prisoner's dilemma'. This occurs when a prominent club tries to reduce players' salaries but fears losing top athletes to other clubs. If the impact of the pandemic enables

teams across all main championships to reduce or regulate salaries, leagues could see more equal distribution of the best players. In turn, that could make the respective championships more competitive and exciting.

Could things go as far as UEFA and European championships agreeing together on a salary cap to replace current financial fair-play regulation? Indeed, salary caps are seen as enhancing the competition in many other leagues around the world. In the US, the National Basketball Association and National Football League both have a well-ingrained salary cap mechanism at the club level which forces the wealthiest clubs to readjust their rosters.

Another factor that helps with the competition of the American basketball and football leagues is the draft system. This is where clubs can recruit the most promising new players with an order determined by a lottery system that gives the highest probability to the lowest ranked teams.

The salary cap and draft systems mean the worst-performing teams have an opportunity to become top performers and vice versa. Consider that the Milwaukee Bucks basketball team managed to improve from barely making the play-off up until 2015, to now being one of the top teams after the emergence of Giannis Antetokounmpo, its draft choice in 2013. There is plenty of evidence to show that these systems improve the capacity for leagues to grow both interest and revenues. Might the covid-19 pandemic spur the same sort of change in European football?