

# Foreword

By Dan Jones – Partner, Sports Business Group at Deloitte.

Welcome to the 17th edition of the Deloitte Annual Review of Football Finance, in which we analyse and comment on recent financial developments in the world's most popular sport. In this edition we profile recent changes and analyse the current situation in some detail, while providing insight into future trends.

Football has continued its outstanding commercial and financial growth in recent years, and it is worth noting how far the sport has come. Ten years ago when we reviewed the 1996/97 season the collective revenue of the 20 Premier League clubs was £464m – by 2006/07 revenue was over three times this level, while the combined revenue of the Football League clubs was a shade under £500m. Since its formation the Premier League has grown tremendously, with the profile of the league reaching unprecedented levels and relentlessly driving the clubs' revenues upwards. The clubs have been able to simultaneously develop state of the art stadia and other facilities, while attracting some of the world's greatest players in the prime of their careers, appealing to a new and increased fanbase and completing a virtuous circle of growth. It remains a privilege to continue to be involved with the football business and chronicle its ongoing success.

## The only place to be?

The Premier League continues to be the market leader, and its clubs' revenue generation in 2006/07 exceeded our expectations, with strong growth in matchday and commercial revenues, helping revenues to exceed £1.5 billion for the first time. Significant further growth occurred in 2007/08, with the impact of the new Premier League broadcasting deals. The Premier League is now the number one league in terms of revenue generated from each and every one of the three primary revenue categories, and its advantage over the other European leagues continues to grow, although the weakening exchange rate of sterling against the Euro is softening this impact slightly.

There is increasing evidence that it is also becoming the most popular league for players to ply their trade. The overall quality of Premier League football continues to improve and clubs successfully compete against their European counterparts for talent. On the pitch English clubs have upped their game in the UEFA Champions League with three semi-finalists in successive years and two English clubs reaching the final for the first time this season.

However, in terms of cost control a different picture appears to be emerging. In 2006/07 we have seen double digit wages inflation, resulting in the highest wages/turnover ratio we have seen since the Premier League began in 1992/93. This has been a key factor underpinning a second consecutive year of falling operating profits, while pre-tax losses have reached a new high. Although some of this impact may be due to advance spending of future broadcasting revenues, and we expect the picture to improve markedly when the 2007/08 accounts are analysed, this is a familiar trend.

We expressed our concern this time last year that player wages would consume most of the increase in revenue, with no improvement in profit margins. Current performance, and indications for 2007/08, suggest that this has indeed been the case. The improvement in cost control which would demonstrate a normal business culture of maximising profitability does not appear to be happening at the Premier League clubs.

Again we appear to be seeing game theory in action. A shared will, and action, individually by all the clubs to limit wages growth would deliver increased profitability for all, but the pursuit of on-pitch success and the intense competitive desire to gain an edge means clubs continue to invest heavily in their playing squads and bid the market up, to the detriment of all clubs' finances and the benefit of players and their agents.



This familiar picture has emerged despite two newer developments that we thought had the potential to stem the flow of red ink. Firstly, England has leapt far ahead of its competitors. In 2007/08 England's Premier League clubs will have had around €1 billion (or €50m per club) more than their nearest European rival leagues in revenues at their disposal. We believe all 20 Premier League clubs are now in the world's top 50 by revenue. We would have thought, therefore, that the competitive landscape for players would have altered – mid table clubs could now outgun their rivals for overseas talent and still have some left for the bottom line. So far, there is limited evidence of this profit improvement happening.

Secondly, the significant investment made by overseas investors, some of whom have experience of running sports teams elsewhere, might have been expected to change the market, bringing a more dispassionate focus on the bottom line and a need to earn a return on investment. For many of the new owners 2006/07 marks their first year of control, and while we are not witnessing the levels of expenditure which would raise fundamental concerns for the medium and long term health of the clubs, we do appear to be seeing – in broad terms – a continuation of the tendency to spend all available revenue to 'strengthen the squad'.

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### **Property ladder**

We have had to reflect therefore and assess whether, despite all the riches flowing into the English game, there is a real desire and drive among club owners to make significant profits. Despite the new entrants into the ownership market, the traditional model of operation is continuing – indeed, it is arguable that the new owners' strategies have been at the forefront of the trend. It may be the case that owners see their clubs delivering only minimal regular returns (with some owners providing significant levels of ongoing financial support), with a real return only emerging when the club changes hands. In this sense it seems that, as in prior decades, we are seeing football clubs treated as 'trophy assets', except with clubs now owned by billionaires from a range of nationalities rather than local businessmen made good, reflecting the global appeal of the game. The key strategy for earning a return from owning a club appears to be brand value and long term asset appreciation, rather than a more tangible ongoing measure such as profitability.

In this sense most clubs could be considered to effectively be 'not for profit' businesses, with surpluses made either invested in the business or in servicing debt payments. The key barometer of a club's success – in the eyes of fans – is of course on-pitch performance rather than profitability, and perhaps this is reflected in the views and actions of the owners. Interestingly, this approach may be based on the experience which we have seen over the years in owning US sports franchises – a purchase at a premium price, years of limited annual returns and sale at a much higher price.

A critical driver of a club's value is presence in the Premier League – which in overseas investors' eyes remains the only place to be. Unlike in the US, with three Premier League clubs replaced each season as a result of promotion and relegation, the market is therefore not limited and more than twenty clubs can make their case to be considered as top flight investments. This has led to ownership changes in the Championship, with new owners' objectives centring on gaining promotion and accessing the additional revenues and brand value available.

The Championship is one of the most competitive and unpredictable football leagues in the world, as 2007/08 has again illustrated. This has been reflected by increased interest in the competition and rising attendances, such that it is the fourth highest attended football league in the world. It will be interesting to monitor, going forward, whether the increased parachute payments to Championship clubs – now around £12m and more than many competitor Championship clubs' entire revenue – does start to more strongly determine on-pitch performance, or whether these advantages are outweighed by the competition's apparently inherent unpredictability.

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#### Vorsprung durch Technik?

One country which follows a different operational model is Germany, where this year's results are interesting. Although many Bundesliga stadia were comprehensively redeveloped in advance of the 2006 FIFA World Cup they retain many of the aspects which set German football apart from that in other European countries – indeed they are sometimes held up as a ‘fans’ paradise’. The state of the art facilities include designated standing areas, and clubs have kept ticket prices relatively low. As a result, the Bundesliga once again has the highest average attendances in Europe and German club revenues have increased strongly with a new broadcasting deal, moving the league into second place behind the Premier League in revenue terms.

In addition, Germany is now the most profitable league in Europe, with an operating margin of 18%, three times that of the Premier League. The German licensing system clearly influences clubs’ performance, but it is curious to compare the profit performance in Germany, where individuals are prevented from owning clubs, with that of the English clubs. Disappointingly for German fans, the price of Bundesliga clubs’ very good financial performance seems to be a struggle to reach the latter stages of European club competition in recent years.

#### Deloitte Annual Review of Football Finance

The sections of this year's Annual Review cover all the key areas to form an overview of football's financial situation. In addition to our analysis of trends up to the end of the 2006/07 season, where possible we include pointers to prospective performance, in particular with the Premier League's new broadcasting deal coming onstream in 2007/08. **Europe's premier leagues** provides a detailed review of current trends in European football. We then focus on the English situation, with the familiar **Revenue and profitability** and **Club financing** sections which form the core of our analysis of the domestic financial situation. **Wages and transfers** examines the primary area of expenditure for clubs while **Stadia development and operations** discusses a key area where English clubs continue to maintain a competitive advantage over their European neighbours. Sprinkled within the sections are a number of feature articles, where we discuss and comment on relevant topics and trends in the industry. The **Appendices** continue to provide the most comprehensive collection of financial, statistical and reference data available anywhere.

It is often said that football is more than a game. On the next page in **90 minutes and counting** we illustrate this using a snapshot of the wide-ranging impact of English football.

The Annual Review addresses clubs’ business and commercial performance in financial terms and strives to provide the most comprehensive picture possible of English professional football's finances. The basis of preparation, and some notes on the limitations of reliance on published financial information, are set out on the inside front cover.

A review of this nature cannot provide detailed answers to your football business issues. If a commercial, business, financial, tax or accounting issue arises, we suggest you consult professional advisers. Details for some members of our specialist Sports Business Group are set out on the back cover. All of us are dedicated to full time work in the sports industry and would be delighted to help you. More detail on our team, services and clients can be found at [www.deloitte.co.uk/sportsbusinessgroup](http://www.deloitte.co.uk/sportsbusinessgroup)

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My colleagues in the Sports Business Group, as always, also deserve a huge thank you – the co-authors, named on the inside cover, and those ‘back in the office’ particularly Catherine Bayley, Adam Bull, Jo Daly, Simon Hearne and Caspar Schmick who carried out the research and analysis and compiled the review with me. In addition we owe a great debt of gratitude to Henry Wong for his phenomenal support. We all put in a great deal of hard work.

We hope you enjoy this edition.



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