in brief...

Unequal shares: the economics of elite football clubs

A few elite clubs dominate the football leagues of Europe. **Eran Yashiv** examines what drives the success of these clubs both on and off the field, how it has generated the big increase in footballers' pay and transfer fees – and prospects for the clubs and their owners.

The top clubs in the major football leagues of Europe invariably come from big cities. In England's Premier League, for example, the top nine clubs last season came from four big cities: London, Birmingham, Manchester and Liverpool. Why do we see this empirical regularity and what does it imply for players, managers, fans and owners?

The logic is as follows: big cities allow for a big fan base and a big stadium – and cities are typically old enough to have clubs with a rich history. The combination of the fan base, the stadium and the history makes for high revenues. High revenues allow for the purchase of the star players who are crucial for both commercial and football success. The stars attract more TV coverage and enhance merchandise sales, thereby augmenting revenues. And with football games often decided by a one or two goal margin, the stars' skills prove crucial.

Positive feedback follows: with commercial and football success, the fan base rises, star players are more easily attracted, revenues increase and the process is repeated. While it is true that not every club in a big city joins the elite and not every big city has an elite club, the elite clubs do come from the big cities.

This positive feedback mechanism leads to a very skewed distribution of clubs, with a handful dominating in terms of both football and revenues. The numerous other clubs are left with relatively low revenues and few trophies. In terms of players, the distribution is also skewed, with the stars concentrating in the big clubs.

Take the following striking example: in the 18 seasons of England's Premier League, it has been won by Manchester United 11 times. The other seven times were won by just three clubs: Arsenal and Chelsea (three times each) and Blackburn (once).

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In the other major European leagues the situation is similar if not more extreme. There are two big Spanish clubs – Real Madrid and Barcelona – which are placed much higher than the rest in terms of both revenues and football. Together they have won 51 out of 79 league titles. Similarly, there are four Italian clubs topping the revenue list and the league – Juventus, Inter Milan, AC Milan and Roma. The situation is similar in Germany, Italy, Portugal and other European countries.

Will global mass communications change this? Probably not, as TV viewers and web users are attracted to the successful, rich clubs with the stars, thereby yet again augmenting their revenues and profits.

Can a club break into this elite group? Given the circularity of big city size, big fan base, big revenues and big football success, it is hard. The implication is that only a club that is able to buy stars and to build a big fan base with a big stadium can enter the elite group. Manchester City is probably an experiment in progress in this direction, but the outcome is still uncertain.

In any case, it looks like very few clubs will be able even to try. This means it makes sense for investors to buy clubs like Manchester United, Chelsea or Liverpool. Buying a club like Portsmouth or even Newcastle is much less interesting.

Another issue is the difference between the very top teams (such as Manchester United) and the second tier of the elite group (such as Arsenal). The very top teams have a squad with more stars. It therefore pays to invest in these players to move up within the elite group.

This explains why the wages paid to footballers and their transfer fees have risen so much. There are few elite clubs and they compete for a small number of stars. The high wages and high prices of the stars pull up the wages and prices of the rest. The 'small elite' set-up generates a 'race to the top' as each star can make a big difference.

This is a bad outcome for club owners and managers. No wonder that the latter keep complaining about the high cost of players. And in recent years, we have seen only small profits or even losses at the big clubs. This is due to the high expense of footballers as well as the need to keep investing in stadiums and merchandising to maintain elite club status. So being at the top may mean high wages for players and satisfaction for fans but not necessarily handsome profits for the shareholders.

This structure of the industry evidently has important implications for potential buyers and sellers of clubs, as well as investors. There are two ways in which it may eventually change: one is when profits in the elite clubs are so low or negative (due to high wages and high costs of buying players) that a new regime emerges, one of lower costs and a more even distribution. This may happen through the piling up of debt, which will require the clubs to scale back.

Change may also occur if governments intervene and impose salary caps: this would also lead to a more equal distribution. But until such things happen, football will remain a very unequal sport and a very unequal business.

Football is likely to remain a very unequal sport and a very unequal business

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