

Foreword

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

Welcome to the 16th edition of the Deloitte Annual Review of Football Finance, the latest instalment in our analysis of, and comment on, football's extraordinary commercial and financial growth. It has been a fascinating journey so far, and one that is entering a new and exciting stage.

Football has a global appeal which eclipses every other sport, a fact underlined by the huge worldwide interest in the World Cup held so successfully in Germany last year. The sport's omnipotence has led to an increase in revenue which has facilitated a complete transformation of the Game – particularly in Europe's largest leagues. Many clubs now have state of the art stadia, and the continent attracts the world's leading players.

The Premier League continues to be Europe's market leader, and is likely to remain the standard bearer for the foreseeable future. Consider how far English football has come in financial terms since the early 1990s. In 1991/92, the last year before the formation of the Premier League, the total revenue of the then Division One clubs was £170m. In 2005/06 the turnover of just one Premier League club – Manchester United – is of a similar magnitude at £168m. Football is now one of the highest profile business sectors in the UK and one of the UK's most visible exports.

It remains a pleasure to be a part of the football business and our Annual Review again records recent developments, describes the current situation in detail and aims to offer insights into the future direction of the industry. We hope that you find the publication a useful contribution to the debate.

Kicking off

In some ways football is experiencing the calm before the storm, with some changes in club ownership, and the new Premier League broadcasting deal, having the potential to deliver real and far reaching impacts in the medium term. By the time of our next Annual Review we should be able to comment on some of the initial impacts. Here however, we make some preliminary observations.

Premier League clubs will get a significant boost to revenues as a result of the new broadcasting deals from 2007/08 which firmly cement the Premier League's status as the world's most popular sports league. This presents another opportunity for Premier League clubs to deliver a step change in profitability. However, we reproduce a note of caution from the foreword of our 2000 edition of our Annual Review.

"This really is a golden opportunity... to put things back on an even keel. We dearly hope to see investment in youth development, stadia and facilities, skilled business managers, the marketing and commercial infrastructure and brand development that will secure revenues for years to come, community and fanbase programmes etc. We worry that a lot of it will fairly quickly trickle through the club's fingers to the players and their agents and to overseas clubs in transfer fees, if history is anything to go by."

Subsequent editions of the Annual Review reported that player wages had consumed most of the increase in revenue, with no improvement in profit margins. Will things turn out differently this time?

There does currently appear to be a different feel about the industry. Many more Premier League clubs have to deliver profitability, to ensure that that club's business model works by servicing loan finance requirements or delivering real investment returns to new owners.



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One of the most significant developments in recent months has been this interest from overseas investors, resulting in changes of ownership at a number of clubs. The pioneering transaction was the high profile takeover of Manchester United, completed in time for the 2005/06 season, which then concluded with the announcement of the new Premier League domestic broadcasting deal. These events alerted other parties to take a closer look at the revenue and profit potential of English football clubs and subsequently a number of deals have taken place, with many more rumoured to follow.

Investors have tried, and failed, to generate returns from Premier League football clubs before of course. But this time may be different. The wave of new owners are successful businessmen in their own right, often bringing prior experience of operating large sports organisations to their new clubs. Importantly, they are also likely to be more business focussed in their approach to managing their clubs than may have been the case in the past. Their *raison d'être* is likely to be different from many of their predecessors – with a greater emphasis on making money (while of course winning matches and having some fun along the way). The fact that a number of new owners are arriving broadly at the same time is important. A collective impetus to change rather than being a lone voice could, we believe, herald a step change in the financial performance of Premier League clubs.

As we have stated for many years, cost control is the key to delivering a successful and profitable football club business. It will be interesting to see how much of the incremental revenue of around £300m in 2007/08 is spent on wages by the Premier League clubs. Even if the Premier League were only able to maintain its current wages to turnover ratio of 62% in 2007/08, operating profits may be around £260m, over £100m above their current level and an average of about £13m per club. Furthermore, every percentage point reduction in the wages to turnover ratio could deliver additional operating profitability of £17-18m. We will monitor performance in coming years with interest.

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Coming up

Some commentators have noted that the improved broadcasting deal will mean that those clubs in receipt of parachute payments will have such a competitive advantage over their counterparts in the Championship that promotion back to the Premier League will be a formality. However, parachute payments have been a part of the Championship since the formation of the Premier League and as we have shown, there is not a clear, direct relationship between wages expenditure and on-pitch performance in the Championship. The top division of the Football League remains one of the most unpredictable and therefore exciting leagues in football, as this season has ably demonstrated.

The difficult early years of the decade saw the Football League struggling to adjust following the ITV Digital collapse in 2002. At the time, in previous editions of the Annual Review, we consistently viewed those challenging times as a slowdown rather than a meltdown, with the sport retaining a strong, loyal and committed fanbase which would help it to recover strongly.

The outlook outside the Premier League is now significantly brighter. The Football League has returned to its long term revenue growth path, and 2006/07 was the first year of a new and significantly improved broadcasting deal, providing further opportunities for growth. Championship clubs' collective revenues have grown strongly to a level comparable with the revenues of Premier League clubs ten years previously. There remains some work to be done for the division to deliver profitability, but the simplistic view of the 'poor getting poorer' in the Football League while the Premier League alone thrives is clearly wide of the mark.

The Football Association has also recently negotiated a very significant uplift in broadcasting rights values (reportedly worth over £100m per season from 2008/09) as well as putting in place the largest sponsorship programme in FA history. These record breaking achievements will help deliver increased revenues for all levels of the game. And, of course, the new Wembley Stadium now provides both additional revenue generation and a magnificent asset for the English and world game.

Tickets, please!

Despite the relatively benign current climate, one area where we have witnessed a real change in the last 12-18 months is in clubs' attitudes to attendances and, in particular, ticket pricing. Although Arsenal and Manchester United successfully implemented capacity increases in 2006/07, there is a debate raging over how best to maintain the last decade's success in filling England's football grounds. Supporters' groups, and some media outlets, have argued vociferously that demand for football is price elastic, and that the drop in attendances suffered by some clubs is a response to rising costs.

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There appears to be a real concern from many clubs in relation to ticket pricing and supporter relationships. At the time of writing, most of the Premier League clubs which have announced their 2007/08 ticket prices have either maintained their 2006/07 levels or reduced prices. In some cases we have seen groundbreaking strategies employed, including radical ticket price reductions at Blackburn Rovers, and an innovative scheme at Charlton Athletic where supporters can get a free Premier League season ticket as thanks for their continued support, should the club win promotion in 2007/08. Of course pricing is not the only variable and clubs can still learn lessons from other commercial organisations – and, perhaps, at some clubs, from new owners – in terms of customer relationships and marketing in the face of competition from other leisure activities. Nonetheless, these strategies will provide useful case studies for others to test the relationship between price and demand for live football.

These interlocking factors – new owners, increased broadcasting monies, the wage demands of players, the impact on competitive balance and the cost concerns of fans all set up a fascinating period in English football's finances. We look forward to tracking the outcome of these seismic shifts in future editions of the Annual Review.

Deloitte Annual Review of Football Finance

The chapters 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 2005/06 season, where possible we include pointers to prospective performance in particular when the Premier League's new broadcasting deals come into force in 2007/08. **Europe's premier leagues** provides a detailed review of current trends in European football. We then focus closer to home with the familiar **Revenue and profitability** and **Club financing** sections which form the core of our analysis of the financial situation in English football. **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 opposite 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. Guidelines for interpreting the Appendices are provided on the inside front cover of that document.

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

We would like to thank all the clubs who sent us their accounts and, in England, the Football Association, FA Premier League and the Football League for their support and information. Outside England thanks are due to the Liga Nazionale Professionisti ('Lega Calcio'), Deutsche Fußball Liga ('DFL'), Ligue de Football Professionnel ('LFP'), Koninklijke Nederlandse Voetbalbond ('KNVB'), Österreichischer Fußball-Bund ('ÖFB'), Norges Fotballforbund ('NFF'), Svenska Fotbollförbundet ('SVFF') and UEFA.

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 Amelia Ashton-Jones, Catherine Bayley, Jo Daly, Steve Dunham, Martyn Hawkins, Grant Ingles and Rich Parkes 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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