

# Chapter 2

## Economic model of a professional football club in France

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The economic model of football clubs is a revenue model but also a cost model in relation to their objective. It can be defined as the search for balance between revenues, costs and objective, and the latter can vary: profit maximization, sporting maximization under strict constraint (“hard” constraint), or “soft” budget constraint (Andreff, 2009). In France, the revenue model of football clubs has evolved with time. This mutation fits in the switch from an SSSL (Spectators-Subventions-Sponsors-Local) model to an MMMMG (Media-Magnats-Merchandising-Markets-Global) model at the European level (Andreff & Staudohar, 2000). Before 1914, sport financing came mainly from practitioners (Bourg et Gouguet, 2001, p. 19). Thereafter, with competitions as spectacle, spectators have become the primary source of revenue, ahead of the subsidies granted by the local authorities and industry patrons. Advertising revenues have gradually become more and more important and, in the 1960s and 1970s, sponsorship increased significantly as firms were seeking more direct identification in terms of audience, image, reputation and sales (Andreff et Staudohar, 2000, p. 259). In France, during the 1970s, operating revenues of first division football clubs came mainly from the spectators, supplemented by subsidies and sponsorship. The SSSL model was at its peak, with its “L” finding its justification in the fact that the revenues were generated from local or national residents.

The 1980s is the starting point of a continuous increase in the share of TV rights income for French clubs. The major event explaining this rise of TV rights is the emergence of a new television actor in 1984 following the abolition of the ORTF (Office de Radiodiffusion-Télévision Française, French Radio broadcasting-Television Office) public monopoly: Canal Plus. From the 1984-1985 season, the TV channel signed an exclusive contract for the football first division. It will then gradually increase its investment in French professional football in addition to having ownership of the Paris-Saint-Germain from 1991 to 2006. The 1980s also mark the birth of commercial investments with the advent of merchandising but also the appearance of the listing of football clubs on the stock exchange in Europe. Therefore, in England, in 1983, Tottenham introduced its title on the London Stock Exchange (also called the City). In the 1990s, the rise of the stock market listing and merchandising coincides with financial stakes. According to Bourg and Gouguet (2001, pp. 22-23), they "encourage more firms to take control of clubs by directing investment towards a discipline, football, and one team, often prestigious". After a first wave of takeovers of some clubs by business magnates (from Lagardère to Aulas) and media (M6 / Bordeaux, Canal Plus / Paris Saint-Germain, PSG), a second wave of club acquisitions by institutional investors followed - Colony Capital then Qatar sovereign fund for PSG - and oligarchs (Dmitry Rybolovlev / AS Monaco, Waldemar Kita / FC

Nantes, Hafiz Mammadov / RC Lens). These elements show the emergence of the MMMMG model for major European clubs (about thirty), translating into professional sports the cumulative effects of deregulation, financialisation and globalization of the economy (Bourg, 2004, p. 50).

In 1990-1991, the revenue model of the French first division football clubs corresponded mainly to the SSSL model since only 15% of revenues excluding transfers came from TV rights and merchandising (7.5% each). In 2012-2013, the distribution of revenues for French clubs as a whole seems to indicate a reversal towards the MMMMG model with 74 % of revenues excluding transfers coming from TV rights (49%) and other products, mainly merchandising (25%). Nevertheless, it seems necessary to observe the reality of the different clubs before generalizing the existence of a single revenue model. Besides, considering only revenues excluding transfers does not allow a complete overview of the revenue model idea, as transfer revenues should also be considered knowing that they are at least partly tied to the expenses excluding transfers, and to the possible imbalance between the latter and the revenues excluding transfers. On the level of the expenses excluding transfers, player salaries represented 61% of the total in 1990-1991 (Dermitt -Richard, 2003) against over 66% in 2012-2013 despite a drop in their weight compared to the previous season (70% in 2011-2012). For both seasons considered, revenues were sufficient so as to face expenses. However, these two seasons are far from representative of the 1990-2013 period during which expenses consistently exceeded revenues.

In this chapter, recent models of revenues and costs of a football club in France are considered first (1). These models lead to recurring deficits and debts despite management control of the clubs (2). The impacts of financial fair play implemented by UEFA and the organization of the Euro 2016 by France associated with the construction / renovation of stadiums are then discussed (3), before considering the place of marketing in recent and future economic models (4). The last section is the ending (5).

## **1. One or several models of revenues and costs?**

The purpose of this section is to address the revenue model and the cost model of a football club in France, but would not it be preferable to speak about some models of revenues and costs of the clubs? Thus, several models will be differentiated, both for revenues excluding transfers (1.1) as well as costs excluding transfers (1.2).

### **1.1. Which models of revenues excluding transfer?**

In Ligue 1, Paris is itself a case apart since 2011-2012 with only 21-23% of the revenues excluding transfers from TV rights (around 60 % on average for other clubs) and 56-58% from other revenues (around 11% for other clubs). In 2012-2013, revenues excluding transfers of the French capital club were four times higher than those of the other three French clubs with the highest revenues excluding transfers, namely Marseille, Lyon and Lille (€ 400 million against € 100 million). That year, Lille came closer to Marseille and Lyon in terms of the distribution of revenues excluding transfers, its new stadium allowing it to be less dependent on TV rights by generating more revenues from

sponsorship and matchday (nevertheless, with less merchandising than Marseille and Lyon). However, it is difficult to differentiate the revenue model excluding transfers from these clubs compared to that of a number of French Ligue 1 clubs, as their ability to generate more revenues excluding transfers seems to be a consequence of their more favorable local market (and potentially their participation in the Champions League). For Marseille, Lyon and Lille, as for most other clubs in Ligue 1, TV rights represent between half and two thirds of the revenues excluding transfers. Variations may occur depending on sports results (e.g. Montpellier with 73% of TV rights in 2012-2013, when the club participated in the Champions League).

Some specific cases other than Paris can be noted in Ligue 1. For example, Nice has always been in the upper range of TV rights in the period 2010-2013 (from 69 to 71% of its revenues) even though it had a weak capacity to generate matchday revenues. Its new stadium, opened in 2013-2014, should have allowed a rebalancing of revenues in relation to the strong growth in average attendance (24,186 spectators in 2013-2014 against 10,246 in 2012-2013). The other particular cases in Ligue 1 over the period 2010-2013 have been Arles in 2010-2011 and Ajaccio in 2011-2012 and 2012-2013 with nearly 80% of revenues excluding transfers coming from TV rights, which questions their ability to generate other revenues excluding transfers, and to belong sustainably to the elite (only one season for Arles, and three seasons for Ajaccio, when taking into account the 2013-2014 season, after which the club was put aside). If the analysis period is extended to the 2013-2014 season, for which the economic and financial data of the clubs were not available at the time of writing this chapter, it is very likely that Monaco has presented a breakdown of its revenues bringing it closer to Paris Saint-Germain than to other French clubs.

In Ligue 2, the distribution of revenues excluding transfers differs from Ligue 1 from the standpoint of the TV rights (just over 50 % instead of 60%), sponsorship (over 20% instead of 16-18%) and other products (15 to 20 % instead of 11%), but not so much for matchday revenues (from 10 to 11%). In 2012-2013, Ligue 2 clubs generated almost 6.5 times less revenues than Ligue 1 (slightly over €200 million against nearly €1.3 billion). A club going down from Ligue 1 to Ligue 2 gets 40-60% less revenues excluding transfers. So, as a result, the club has to adapt its expenses accordingly, as the transfers can hardly cover the shortfall in revenues.

## **1.2. Which models for expenses excluding transfers?**

For Ligue 1 and Ligue 2, expenses excluding transfers break down roughly into 60% of payroll expenses and 40% of other expenses excluding transfers. However, in Ligue 1, among other expenses excluding transfers, the depreciation charges of transfer fees represent around 12% against only 3-4 % in Ligue 2. Incorporating agent fees (2 to 3% in Ligue 1, 2 % in Ligue 2), we can estimate that about 75% of the expenses excluding transfers of Ligue 1 clubs are linked to employees and their agents against a percentage more along the lines of 65 % in Ligue 2.

Beyond the distribution of charges excluding transfers, it is to consider what percentage of revenues excluding transfers they represent. Expenses other than payroll charges, depreciation charges of transfer fees, and agent fees correspond to charges related to travels, organization of matches, external services, taxes, other depreciations and provisions and other charges. We assume that they are more or less fixed for a given club at a given level outside the rent increase caused by a

new stadium and therefore clubs may not actually decrease them. In Ligue 1, they represent around 30% of club revenues (32.5 % in 2012-2013 when excluding Paris Saint-Germain) against 48% in Ligue 2 in 2011-2012 and 2012-2013 when excluding Monaco (44% in 2010-2011) which is characterized by greater heterogeneity between clubs (standard deviation of about 15% against 6% for Ligue 1). Clubs that have the highest percentages in Ligue 2 are former Ligue 1 members of (Grenoble in 2010-2011, Metz in 2010-2011 and 2011-2012, Le Havre, Le Mans, Nantes and Sedan throughout the period 2010 -2013, Lens in 2011-2012 and 2012-2013, Auxerre and Monaco in 2012-2013) including Le Havre, which played its first season in its new stadium in 2012-2013. By removing these clubs from the calculation, the percentages are between 37.5 and 40% for Ligue 2. We can therefore estimate that previous expenses for a Ligue 1 club represent one third of its revenues and 40% for a Ligue 2 club. A club seeking to achieve balance for its profit and loss account excluding transfers should reduce its expenses in payroll, depreciation charges of transfer fees and agent fees by two thirds of its revenues in Ligue 1 and by 60% in Ligue 2.

Among the latest expenses mentioned, the approach taken is to focus on payroll expenses and what they represent as a percentage of revenues excluding transfers. Table 1 reports percentages exceeding the target to reach for a club seeking balance excluding transfers (except in Ligue 1 when including Paris in 2012-2013) even though the depreciation charges of transfer fees and agent fees are not taken into account. This excess is even stronger in Ligue 2 than in Ligue 1, particularly in 2011-2012 and 2012-2013 and the same result holds even when removing Monaco. From then on, the majority of clubs base their revenues on player transfers to try to balance their books. Some rely on the contribution of shareholders to clear their deficits. However, deficits and recurring debts of French football clubs show that economic models could be improved.

**Table 1** – Ratio between payroll expenses / revenues excluding transfers of French Ligue 1 and Ligue 2 clubs during the 2010-2013 period

|                               | <b>2012-2013</b> | <b>2011-2012</b> | <b>2010-2011</b> |
|-------------------------------|------------------|------------------|------------------|
| <b>Ligue 1</b>                | 66.4%            | 73.6%            | 74.6%            |
| <b>Ligue 1 without Paris</b>  | 71.4%            | 78.6%            | 75.2%            |
| <b>Ligue 2</b>                | 99.3%            | 93.2%            | 77.2%            |
| <b>Ligue 2 without Monaco</b> | 83.5%            | 87.0%            | 77.2%            |

*Source:* LFP/DNCG

## **2. Deficits and debt: "soft" budget constraint and management control**

The French football clubs operate in a system of open league, with promotion of better ranked clubs to higher leagues (or to European competition) and relegation of lowest ranked clubs to a lower league. In such a system, the purpose of the clubs is necessarily to maximize their number of wins on the field in order to be promoted or to avoid relegation. As a consequence, beyond the different models of clubs identified above, they all seek to recruit as many of the talented players as possible within their budget and beyond. Therein lies the origin of their "soft" budget constraints (2.1), and of their difficulties to control the wage bill and the need for management control (2.2).

## 2.1. The “soft” budget constraint responsible for deficits

Apparently, football clubs spend without constraint in France and Europe, i.e. beyond what their income would allow, especially to recruit and pay player salaries, particularly superstars. A “soft” budget constraint characterizes any business, organization or football club which can spend more than its income, not occasionally but repeatedly, without becoming bankrupt (Kornai et al., 2003; Andreff, 2014). The immediate consequence is the current and persistent deficit of the club. Repeated deficits then drive the football club into a cycle of debt. This is the case when football clubs are not given the goal of maximizing their profit, but rather of maximizing their wins on the field and, to that end, of recruiting the best possible talents. In the system of open leagues, virtually no football club is ever made bankrupt because of recurring or sustainable deficits, either in France or in other European countries; the survival rate of football clubs is extremely high despite recurring deficits (Kuper and Szymanski, 2009), although 56% of European football clubs in first divisions had a deficit in 2009-2010, and 63% in 2010-2011 (UEFA, 2012). The “soft” budget constraint of football clubs is perfectly illustrated by the fact that many of them are on the verge of insolvency without ever being put into liquidation (Storm and Nielsen, 2012).

A football club spends lavishly, beyond its income, when it knows that it will benefit from the financial bailout of its deficit and debt by banks, as is the case in Spain (Ascari and Gagnepain, 2006 ) or by the State as in Italy (i.e. the plan *salve calcio* of 2002, Baroncelli and Lago, 2006) or by *sugar daddies*, i.e. *sunk investors* who do not expect financial returns but rather an image, prestige, a reputation, as happens in the English Premier League, with Russian oligarchs, with sheikhs from the Middle East or with rich Americans. For a football club, a more common modality to release budget constraint is to simply not pay its debts, knowing it will not be put into liquidation, and thus to accumulate debt in the form of outstanding payments; this is the modality of mismanagement adopted by several French football clubs, even though some clubs are also in the hands of oligarchs (Rybolovlev, Kita, Mammadov) or Qatari funds.

## 2.2. Growing debt and management control

A football club’s outstanding payments may be due to suppliers, other clubs, sometimes consist in unpaid back wages, and often in back taxes and unpaid social security contributions. Even though the French Professional Football League (LFP) considers itself to be the best managed in Europe, thanks to management control by the National Direction of Management Control (DNCG), this has not prevented Ligue 1 from being in deficit before tax every year from 1999-2000 to 2012-2013, except for four years, in 1999-2000 and from 2005-2006 to 2007-2008 (Table 2). Table 2 also shows the extent of arrears in debt and in total liabilities of Ligue 1 clubs. Outstanding payments rose from €363 million in 1999-2000 to 725 million in 2012-2013 and represent usually 85% or more of the total debt of the clubs. This one has increased from €427 to €830 million between 1999-2000 and 2012-2013 and its weight has gone from half of the Ligue 1 liabilities in 1999-2000 to three quarters of them in 2012-2013. In other words, we can see a deterioration of the aggregated balance sheet of Ligue 1 clubs that has no reason to stop as long as the budget constraint will remain "soft", whereas the clubs can continue to accumulate debts without the threat of having to stop their business - meanwhile liquidation and termination of activity is the usual rule in all sectors of the economy except for sports leagues.

Table 2 - Deficit and debt in French League 1, 1999-2013 (€ Million)

|                                      | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Result before tax                    | 2.2     | -53.6   | -46.3   | -151.2  | -35.9   | -32.5   | 27.7    | 42.7    | 25.0    | -14.7   | -114.1  | -46.1   | -82     | -4      |
| Total of liabilities including:      | 803.2   | 929.3   | 847.2   | 720.5   | 601.0   | 668.7   | 819.3   | 892.8   | 999.7   | 947.7   | 929.3   | 925.1   | 1007.8  | 1112.6  |
| Equity                               | 89.3    | 84.0    | 142.8   | 93.2    | 139.4   | 111.7   | 159.6   | 208.6   | 213.4   | 265.6   | 189.0   | 183.7   | 143.2   | 167.5   |
| Shareholder accounts                 | 163.5   | 223.1   | 141.7   | 119.9   | 60.1    | 53.1    | 75.2    | 51.2    | 61.8    | 56.6    | 104.9   | 100.9   | 214.6   | 83.5    |
| Risk provisions                      | 123.0   | 101.0   | 59.6    | 49.9    | 37.3    | 37.5    | 52.5    | 54.0    | 34.6    | 32.7    | 25.4    | 29.0    | 24.6    | 32.1    |
| Financial debts                      | 64.5    | 96.3    | 86.1    | 112.7   | 66.1    | 63.0    | 70.4    | 71.3    | 62.4    | 60.2    | 94.2    | 87.2    | 105.2   | 105.0   |
| Other liabilities <sup>1</sup> = (1) | 362.9   | 424.9   | 416.9   | 344.8   | 298.1   | 403.4   | 461.6   | 507.7   | 627.6   | 532.6   | 515.7   | 524.3   | 520.2   | 724.6   |
| Total debt                           | 427.4   | 521.2   | 503.0   | 457.5   | 364.2   | 466.4   | 532.0   | 579.0   | 690.0   | 592.8   | 609.9   | 611.5   | 625.4   | 829.6   |
| (1) / Total debt                     | 85%     | 82%     | 83%     | 75%     | 82%     | 86%     | 87%     | 88%     | 91%     | 90%     | 85%     | 86%     | 83%     | 87%     |
| Total debt / Liabilities             | 53%     | 56%     | 59%     | 63%     | 61%     | 70%     | 65%     | 65%     | 69%     | 63%     | 66%     | 66%     | 62%     | 75%     |

<sup>1</sup> Outstanding payments, back taxes and social contributions and player transfer fees.

Source: LFP/DNCG

The fact that Ligue 1's debt is much lower than that of the English Premier League (over €2 billion) would not justify that some French football clubs revel in financial indiscipline, deterioration of their accounts and an increasing debt. It is especially the debt structure that is of concern, with outstanding payments that have climbed up to 91% of the debt in 2008 and still remained at 87% in 2013. In 2011, ten Ligue 1 clubs (and ten Ligue 2 clubs) were in deficit and as such in increasing debt: Bordeaux (deficit of €6.5 million), Caen (€1.6 million), Lens (€5.9 million), Lille (€8.7 million), Lyon (€35.1 million), Marseille (€14.7 million), Monaco (€0.3 million), Nice (€1.2 million), Paris Saint-Germain (€0.2 million after covering) and Valenciennes (€3.7 million). They were nine in 2012 (Auxerre, Bordeaux, Lyon, Marseille, Nancy, Nice, PSG, Toulouse, Valenciennes) and still seven in 2013, despite the prospect of a future implementation of the financial fair play rule by the UEFA: Ajaccio (deficit of €1.8 million), Bordeaux (€7.7 million), Brest (€2.2 million), Lille (€3.1 million), Lyon (€27.9 million), Nancy (€4.1 million) and PSG (€3.5 million). However, if five clubs had a deficit of over €5 million in 2011, the maximum amount that will be tolerated with the implementation of the financial fair play rule, they were only two in 2013, namely Bordeaux and Lyon (but PSG large deficit was covered by Qatari funds that the club attempted to identify as a sponsorship contract with Qatar Tourism Authority; see *infra* the penalty decided by UEFA).

The overall debt of the football league is not due to poor governance (and administration) of all clubs, of course, but some of them, usually with repeated deficit and accumulation of debts like Bordeaux, Lille, Lyon, Marseille and PSG. For the latter, the debt is the sure sign of poor administration linked to lax governance engendered by the "soft" budget constraint (Andreff, 2007). Judging from this situation, it appears that a football club management control is absolutely essential - this is the role of DNCG with LFP in France - just as it is important to harden the budget constraint by putting an end to the clubs' recurring deficits and their non-repayable bailout - which is the objective of the financial fair play rule. The DNCG action - management recommendations, expertise in payroll, temporary ban on recruitment, budget limitation and of the projected payroll or club relegation to a lower league - did not cause the deficits and debts of financially undisciplined clubs to decline. It is appropriate to ask if, with the cumulative effect of the DNCG management control and the implementation of the financial fair play starting in 2014, the French football clubs will finally all reach balanced management (expenditure = income) in compliance with budget constraints fixed by the rules of UEFA.

### 3. What are the impacts of the financial fair play rule and the Euro 2016?

Two major factors are likely to impact the economic models of French football clubs: on the one hand, UEFA has introduced a financial fair play device; on the other hand, France hosts the Euro 2016, an event constituting an opportunity for the stadium construction / renovation of several French clubs. This section discusses respectively the expected effects of financial fair play (3.1) and the Euro 2016 associated with the construction / renovation of stadiums (3.2).

### **3.1. What will be the impact of the financial fair play rule?**

The financial fair play applies to clubs participating in European competitions. It authorizes a deficit not to exceed €5 million for a three-year period. However, expenses related to training, investment in club infrastructure and spending on social welfare activities are excluded from the calculation (Scelles and Dermit-Richard, 2015). In addition, for the first period of application of this device, i.e. at the end of the 2013-2014 and 2014-2015 seasons, the clubs are allowed to present a cumulative deficit within the limit of €45 million, provided that it is financed by their shareholders (only two and not three seasons considered at the end of 2013-2014 as club accounts began to be controlled from 2012-2013). This threshold will be reduced to €30 million at the end of the three seasons for the period 2015/2018. Paris Saint-Germain has already been punished by UEFA at the end of the 2013-2014 season for non-compliance with financial fair play rule, with the obligation of respecting a surplus of player purchases compared to sales of a maximum of €60 million and the stabilization of its payroll (Haddouche, May 16, 2014). The scope of this measure was reinforced a few days later by the news that the legality of the mechanism was going to be confirmed by the European Commission (Haddouche, May 21, 2014). However, this did not prevent the Paris Saint-Germain from buying David Luiz from Chelsea for an estimated amount of nearly €50 million, a transfer which is obviously associated with an increase in the club's payroll (L'Equipe, May 23, 2014).

In the context of French football, one may question the real impact of the UEFA financial fair play rule since the DNCG controls the club accounts since 1990. The fundamental difference between the two mechanisms lies in the fact that the DNCG ensures club solvency while the financial fair play aims to achieve financial balance between the revenues and the expenditure of each club. The DNCG authorizes recurring deficits if the clubs are able each time to ensure the funds required to meet their expenses; conversely, the financial fair play rule wants to reduce those deficits and eventually cancel them. The consequence which is to be expected in France is a limitation of the economic benefit of the richest clubs who also often have the greatest deficit and debt. At the same time, financial fair play is at risk of freezing positions by not allowing clubs with lower potential to take advantage of the investment in players made by wealthy shareholders. Thus, Monaco is part of an urban area with a low number of inhabitants compared to other Ligue 1 clubs (around 70,000) and performs in front of limited crowds - 8,900 spectators on average in 2013-2014, which is the penultimate average attendance despite its second place in the championship. The club therefore risks being thwarted in its ambition to play regularly in the Champions League, except if it can generate significant sponsorship revenues (whose amounts must nevertheless be justified in the light of market prices and not be overvalued as was the case for the contract between Qatar Tourism Authority and the Paris Saint-Germain; Haddouche, May 16, 2014) and / or internationalize itself.

Another potential consequence of the financial fair play rule is its impact on changing transfer revenues. By limiting the richest clubs' scope for spending on players, the financial fair play rule should reduce the transfer revenues of other clubs since part of the richest clubs' expenditure is made to less wealthy clubs. Thus, the economic model of a number of clubs, based on player sale in order to ensure financial balance, could be called into question. From that point on, two alternatives are available to these clubs: to develop new revenues and / or reduce their payroll. The second alternative is constrained by the fear of not being able to attract enough talented players to achieve the sporting objective, i.e. no promotion or relegation in the open league system. The first alternative requires particularly the optimization of the working tool: stadium. In this context, the Euro 2016 can be an opportunity.

### **3.2. What will be the impact of the Euro 2016 and the construction / renovation of stadiums?**

In 2016, France hosts the men Euro football championship, the European championship in men category for all nations playing this sport. Ten stadiums were selected: the Stade de France (Saint-Denis), the Stade Vélodrome (Marseille), the Stade des Lumières (Lyon), the Stade Pierre-Mauroy (Lille), the Parc-des-Princes (Paris), the Stade Bordeaux-Atlantique (Bordeaux), the Allianz Riviera (Nice), the Stadium (Toulouse), the Stade Geoffroy-Guichard (Saint-Étienne) and the Stade Bollaert-Delelis (Lens). The first eight belong to the first seven French urban areas (Saint-Denis is part of the Paris urban area) - the seven cities with more than one million people - while the last two are located in urban areas with more than 500,000 inhabitants and with a strong potential audience. Among the 10 stadiums, four are new (Lyon, Lille, Bordeaux and Nice) and five are renovated (Marseille, Paris, Toulouse, Saint-Etienne and Lens), the Stade de France is the only one not to be changed. Besides these 10 stadiums, since 2005, other stadiums were built (Stade Parsemain for Istres, Stade des Alpes in Grenoble, MMArena in Le Mans, Hainaut Stadium in Valenciennes, Stade Océane in Le Havre) while the Stade Auguste Delaune (Reims) was renovated, the Stade de la Mosson (Montpellier) was also renovated before suffering from flooding in 2014 and Niort has a new stadium project (Montpellier has also announced such a project in May 2016). These constructions or renovations are often presented as opportunities for clubs. Several following chapters will discuss in more detail these opportunities, which are supposed to help develop revenues excluding transfers other than TV rights, and thus limit the TV dependency and the need to sell one's best players in order to achieve financial balance. If the next section briefly considers the economic and marketing optimization of the opportunities offered by the construction / renovation of stadiums, the point of view chosen here tackles, on the contrary, the risks associated with a new oversized stadium.

A new stadium obviously has a cost and requires funding. A Public Private Partnership (PPP) has been the preferred scheme in a number of recent cases (Le Mans, Le Havre, Lille, Nice or Bordeaux), in which infrastructure construction was done with funding in whole or part by the private partner, which acquires the use of the facility for thirty years and an annual rent paid by the community and the club in return (Gayant, 2014). The major problem with this arrangement is that the dealer is interested in operating revenues from the infrastructure business, tending to oversize it with harmful consequences for the clubs (beyond undesirable effects for taxpayers): the payment of a rent which is higher than it should have been while the additional revenues generated by the new stadium do not exceed the level that would have been achieved with a properly sized stadium. Moreover, this notion of "properly sized stadium" is very relative in view of the promotion / relegation system in place in Europe: a stadium suitable for Ligue 1 for a given urban area is oversized if it becomes part of Ligue 2 (not to mention a relegation to an even lower level). Thus, Grenoble and Le Mans found themselves in great difficulties, from a financial but also a sporting



standpoint, after their relegation from Ligue 1, as they were unable to spend enough to keep their best players. The result is known: the double sporting and administrative relegation from Ligue 2 for both clubs. Valenciennes, relegated from Ligue 1 at the end of the 2013-2014 season, is also in serious financial trouble. As for Le Havre, the opening of its new stadium at the end of the 2012-2013 season resulted in expenses outside of the payroll expenses, depreciation charges of transfer fees and agent fees from 50 to 75% of revenues excluding transfers. However, it was quite predictable that the club would not be able to fill its 25,000 seat stadium in Ligue 2 (average of 8,500 spectators in 2012-2013, only 7,500 in 2013-2014 despite a better sporting performance).

The aforementioned elements show the need that clubs have an appropriately sized stadium. Niort seems to have understood the challenge of having a suitable stadium, that is to say, modern and with sufficient capacity to avoid "losing" attendees without being too big. Indeed, the club's project - inspired by the Matmut Stadium of Lyon Olympique Universitaire (rugby) - plans a new stadium in modular structures whose capacity could range from 9,400 seats for the Ligue 2 to 12,500 seats in case of promotion to Ligue 1 (Jounier, March 26, 2014). However, the relegation of the club to National (i.e. third league) would make oversized this otherwise "reasonable" project. This is the dilemma faced by the promotion / relegation system, both generator of sporting stakes, and therefore attractive to the public, but also challenging for the economic model of a club.

#### **4. What is the role of marketing in the economic models of clubs?**

Recent events (including the financial fair play rule and the organization of the Euro 2016) are not without consequences for the future of economic models of professional clubs in French football. The implementation of the financial fair play rule suggests the need to balance revenue and expenses in the long run. The organization of the Euro 2016 is a potential pillar to generate new revenues. This requires suitable marketing and thus consideration of the place to be given to marketing in future club business models (4.2). Beforehand, it is important to note the role of marketing in recent economic models (4.1). In other words, what are the revenues and expenses that are already impacted by marketing?

##### **4.1. The role of marketing in recent economic models**

First, it seems important to clarify that TV rights and ticketing revenues - related to attendance that impact sponsorship revenues and merchandising sales - partly depend on outcome uncertainty (Scelles, 2009, 2010). This is itself induced by the competition format and sporting stakes associated (Scelles et al., 2013a, 2013b). These elements defined by the LFP (under the condition of French clubs qualified in European competitions) can be seen as a marketing tool to optimize the attractiveness of the products offered (Scelles et al., 2011). TV rights and ticketing revenues also depend on the capacity of the LFP and clubs to sell their products through effective communication (Scelles et al., 2015). In a more general way, the audience at large - which explains (directly or indirectly via the expected benefits by sponsors) all revenues (Bolotny, 2004) - is related to product quality, relevant pricing, distribution via appropriate channels and adequate communication, as many elements of the marketing mix. Therefore, marketing is necessary to optimize club revenues and therefore requires support from specialists in its thinking and implementation. All clubs today have marketing units, more or less developed according to their economic capacity. Payroll dedicated to this marketing unit remains limited in comparison to player expenditure and seems to have a significant impact on revenues, although further study would be required to verify this more precisely. Such a study should consider the recent and future developments which could impact marketing and future club business models.

## **4.2. The role of marketing in future economic models**

The observation of recent trends should help to anticipate the role of marketing in future economic models. Among these trends, the development of social and digital networks (commonly called "social media" even if this naming is questionable; Stenger and Coutant, 2011) changed the communication of clubs which use Facebook and Twitter to interact with their fans. These networks seem to create financial value even if the exact process of value creation remains unclear (Scelles et al., 2014b). Scelles et al. (2013c) hypothesize that the numbers of Facebook fans and Twitter followers could be two indicators of club internationalization, which is sometimes difficult to comprehend on the basis of available economic data. The internationalization of French clubs and more generally LFP - favored by the arrival of institutional investors and foreign oligarchs - is a major component of future economic models including the growth of TV rights internationally and needs the development of a marketing strategy thought within a globalization strategy. In addition to being a possible indicator of internationalization, social and digital networks are increasingly used into the stadiums. In this context, the organization of the Euro 2016 encourages the construction / renovation of stadiums thought in order to combine the use of socio-digital networks, marketing that could take advantage of it and generation of new revenues. This reflection on engaging clubs in modernity must be done with respect for their past and lend value to their historical sports performances, which constitute a major determinant of their financial value (Scelles et al., 2013d, 2014a). The example of the AS Saint-Etienne museum illustrates perfectly the benefits of a marketing strategy which links modernity and tradition. The capacity to bring together different elements which have been mentioned above constitutes a major challenge in future economic models of clubs which must seek to diminish the portion of revenues and expenses "undergone", that is to say, which depend upon the environment in broad terms (Dermit-Richard and Scelles, 2014).

## **5. Conclusion**

At the end of this chapter, it seems important to summarize the issues discussed. Section one shows that it is more appropriate to speak about some models rather than one unique economic model of French football clubs. Indeed, all the clubs do not have the same structure of revenues and costs excluding transfers, and the need to sell players is not the same for everyone. Moreover, promotions and relegations are changing the economic model of a given club, which can result in significant financial difficulties for relegated clubs. However, the latter are not the only ones presenting deficits and debts, since Section 2 shows that a number of clubs do not comply with the financial discipline of not spending more than one's income.

Will the financial fair play rule of the UEFA, considered in Section 3, put an end to these recurring deficits and debts? In the long run, this should be the case for clubs participating in European competitions, as they are obliged to comply with the rules set by UEFA. Assuming that every club wants to get the opportunity to participate in European competitions, the financial fair play rule is supposed to annihilate the deficits and debts of all clubs. To do this, a new economic model must be implemented by clubs, striving to be less dependent on TV rights and transfer

revenues. In this context, optimizing the stadium tool seems the best option. Nevertheless, optimization does not mean "megalomania". Some clubs have learned it the hard way since the beginning of the decade (Grenoble, Le Mans and Valenciennes). The organization of the Euro 2016 by France is an opportunity for several clubs to build a new stadium or upgrade the current one in order to optimize its use and the associated revenues. However, these constructions and renovations are a necessary but not sufficient condition, since along with this, clubs have to implement a suitable marketing strategy to take full advantage of the new tool.

More generally, Section 4 highlights the importance of marketing in recent and future economic models for clubs. These economic models are largely based on the optimization of TV rights and ticketing sales that depend in particular on sporting stakes and outcome uncertainty. In this regard, marketing plays a role on two levels: through the choice of the format of its competitions by the LFP (action on its products); via the communication made on the importance of sporting stakes by the LFP, media and clubs. In the future - but the process is already in motion - social and digital networks should take a leading role in the marketing of the LFP and clubs. Considered in the framework of economic models, they can be seen as an inexpensive tool (mostly wages of professionals that are expert in digital communication strategy) that could enable new opportunities of interaction with fans and generate new sources of income. The chapters that follow study in detail the contributions of social and digital networks, and more generally of new forms of marketing.

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