How to be an elite club – and will the losers go bust and disappear?

Ten years ago clubs like Leeds United, Valencia, Rangers and Lazio believed they could join the elite by “investing” tens of millions of euros. Their reasoning went like this: if they hired top players, they would win trophies, and those trophies would attract fans around the world, and the revenues from those fans would turn them into elite clubs on the long term. You could call this the “growth model” of becoming an elite club.

We now know that the growth model failed. The vast majority of clubs now accept that they can never join the elite. There is no real way to rise steadily over time to catch up with the Barcelonas, Liverpools and Bayern Munichs. The “growth model” doesn’t work. Most clubs that tried it now owe hundreds of millions of euros. They still borrow enormous sums to buy players, but they no longer believe that they can become the next Man United - which Leeds did think a decade ago.

That leaves only 2 ways to be an elite club:
1. Have a very strong historic brand that you can convert into high revenues – the method used by Barcelona, Bayern Munich and Manchester United.
2. Have a billionaire sugardaddy – the method used by Chelsea and Manchester City.

Let’s look at the brand model first. What we’ve discovered in the last decade, with clubs frantically trying to build brands, is that football brands are created very slowly, over many decades. Here’s a list of the clubs with the most European fans:

The most popular clubs among European fans

<table>
<thead>
<tr>
<th>Club</th>
<th>Estimated number of fans (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barcelona</td>
<td>44.2</td>
</tr>
<tr>
<td>Real Madrid</td>
<td>41.9</td>
</tr>
<tr>
<td>Manchester United</td>
<td>37.6</td>
</tr>
<tr>
<td>Chelsea</td>
<td>25.6</td>
</tr>
<tr>
<td>Zenit St. Petersburg</td>
<td>23.9</td>
</tr>
<tr>
<td>Liverpool</td>
<td>23.0</td>
</tr>
<tr>
<td>Arsenal</td>
<td>21.3</td>
</tr>
<tr>
<td>AC Milan</td>
<td>21.0</td>
</tr>
<tr>
<td>Bayern Munich</td>
<td>19.8</td>
</tr>
</tbody>
</table>
Take a look at the top ten. Almost all those clubs were big in the ‘70s too, or even before then. The one exception is Chelsea, but Sport+Markt’s research shows that their fanbase is very brittle. In the survey done the previous year, for instance, Chelsea supposedly had nearly 6 million fewer fans. So it’s a good bet that if Abramovich stops funding Chelsea and club drops out of the elite, lots of those fans will disappear too. Chelsea has a weaker brand than the other clubs now in the global elite.

Only 8 or 9 clubs – Arsenal, Bayern, Barcelona, Real Madrid, Man U, Liverpool, Milan, Juventus and just possibly Inter can even hope to become an elite club on the strength of their global brand. Only Galatasaray can realistically hope to join that list; Zenit St Petersburg has almost no fans outside Russia. The oddity of Real on this list is that although it converts its brand into revenues like the others, it supplements these revenues with enormous helpings of debt.

So that’s the brand model of being an elite club. The only other way of joining the elite is to have a sugardaddy: like Chelsea or Manchester City and most of the big Russian and Ukrainian clubs.

Now there’s a big debate in European soccer about whether sugardaddies are a good thing, and I just want to answer this question once and for all, so that it’s settled forever.

Michel Platini in particular doesn’t like sugardaddies. There are various schemes in the works to keep them out of football. German clubs as yet don’t allow sugardaddies to buy a majority stake in the club. Let’s discuss the objections that are usually made against sugardaddies:
1. It’s not fair that a club gets money from sources outside football. The sugardaddies bid up the price of players – who are almost the only important asset in football - which is bad for the other clubs.

Well, it’s true that the sugardaddy club are more like charities or hobbies than businesses, but it’s a personal moral choice as to whether that bothers you. Is it immoral to waste a fortune on putting a football club into the global elite? Surely everyone is allowed to lose money in the way that they choose?

2. What happens to the club if the sugardaddy walks away or gets locked up or gets gunned down by mafiosi?

There should be a rule in football that if a sugardaddy takes over a club, he must promise to stand guarantee for all debts through a certain period. So if he buys Didier Drogba, he has to promise to guarantee for Drogba’s salary until the end of his contract. But that can be arranged.

And anyway – and this is a key point - football clubs don’t go bust. That scenario is always warned against but almost never happens. Stefan and I explain this in our book, Why England Lose. Most clubs are very small companies that have debts that would crush normal businesses twice their size. Premier League clubs owed a combined £3bn even before recession hit. Spanish clubs owe perhaps €4bn. Each country in Europe has its own sorry tally.

Clubs say, “We must be sustainable,” which is the new global cliché. In fact football clubs are fantastically sustainable. Francisco Roca of the Spanish league says Spanish clubs are always going bankrupt, but then he adds, almost as an afterthought, that they never disappear. It’s similar in England, where dozens of professional clubs have entered insolvency proceedings since 1992 yet only Aldershot folded, and even they returned again under practically the same name. Football clubs survive even when they go bust. You can’t get more sustainable than that.

We haven’t seen a Lehman Brothers in football.

Clubs are immortal chiefly because creditors don’t dare pull the plug on them. No bank manager or tax collector is going to say, “OK, Valencia is closing. I’m turning off the lights and selling the stadium.” And so clubs can incur debts without fear. That’s called moral hazard. If football clubs went bust for running up enormous debts, there would now be almost no football clubs in Spain, England or Italy.

Most of football’s debt will therefore never be repaid. So it will be written off. Large chunks of debt will be nationalized. In many countries – Argentina, but even Spain and Italy - football already lives off state support. In effect, taxpayers are funding footballers’ Porsches.

Thankfully, saving football is cheap. This is a piddling industry. Total
European professional football revenues for the 2007/'08 season were €14.6bn. The British supermarket Tesco turned over four times as much.

3. The third objection to sugardaddies: some of them are bad people.

But bad people are generally allowed to own companies – in fact, arguably bad people *often* end up owning companies.

Still, many people, including me, believe that it would be nice to keep very bad people out of football. The Premier League should certainly have a stronger “fit and proper persons” test. If a crook like the former Thai prime minister Thaksin could get through and buy Manchester City, the test isn’t strict enough. In Holland there is no “fit and proper persons” test of any kind. In Italy, the owner of AC Milan should probably be in jail. A good “fit and proper persons” test would surely have kept Silvio Berlusconi out of football.

But the sugardaddy method is so attractive that even the Germans are now considering it. Christian Seifert, the head of the Bundesliga, says so. And when the Germans get sugardaddies, the rest of us are going to have to watch out, because they have the biggest economy and best stadiums in Europe.

I’d actually like to make a point in favour of sugardaddies. These billionaires are a force for equality in football: only with a sugardaddy can a club like Chelsea, Hoffenheim, AZ Alkmaar or Manchester City ever hope to reach the top.

But the sugardaddy clubs cannot stay at the top without their sugardaddy. Abramovich had hoped to guide Chelsea over time from the sugardaddy model to the growth model. His aim when he came in was to turn Chelsea into a self-sustaining club, drawing revenues from the new fans attracted by success, and to break even by 2010. It’s now obvious that that will never happen. A Chelsea director told me recently: “We have a great business, if you leave out our player wages.”

Chelsea just don’t generate the revenues to pay those wages. They can only keep players like Lampard and Drogba as long as Abramovich pays. That’s because the “growth model” of reaching the top in football doesn’t work.

So where does that leave us? With a tiny elite: only 2 or 3 clubs per country. That’s a problem: the tiny elite can leave the rest of the league behind and create a sort of Scottish scenario where the league is boring because the same 2 clubs win it all the time. This is happening in Spain in a way that’s never happened before:

**Spanish league champions and runners-up: notice the pattern?**
I can find no other period in Spanish history when the same two clubs monopolized the top 2 positions in the league so thoroughly. If Barca and Real increase their dominance, some Spanish fans may start to turn off.

The only way to expand the elite is by bringing more sugardaddies into football. If Bayern were somehow to succeed in banning the sugardaddy model - and I would be amazed if they achieved that – then football success would be even more predictable.