Professional Sport Leagues:

Contrasting Views on how to Structure the Business Side

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Comments by

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In their paper, the authors present an extensive overview of the important differences in management structure between the 4 major leagues in North America (NFL, NBA, MLB and NHL) and four rich national football leagues in Europe (England, Spain, Germany and France).

Question: Why France and not Italy?

The authors distinguish no less than 15 institutional arrangements or factors that are shaping the business landscape.

Of course, I will only concentrate on a few factors in my comments.

The peculiar international dimension of European football

The European football industry, with its many national football leagues, is characterized by an open European player labour market, but by nationally protected football product markets.

That is causing huge imballances.

- All top players ran off to the rich football countries since 1995 (Bosman verdict).
- Large and growing gaps between the budgets and the performances of the top teams in large and small countries.
- Possible solution: opening of the European football product market by creating a European super league or several European divisions.
- The current UCL is only making things worse.
- Also huge imbalances within the national leagues.

Ratios of the total budgets of large- and small-country leagues

	1995-96	2002-03
England / Holland	3.8	7.6
England / Belgium	7.0	15.0
Germany / Holland	2.8	4.7
Germany / Belgium	5.4	9.2
England / Germany	1.3	1.6
Holland / Belgium	1.9	2.0

Source: Deloitte, 2004 and own calculations

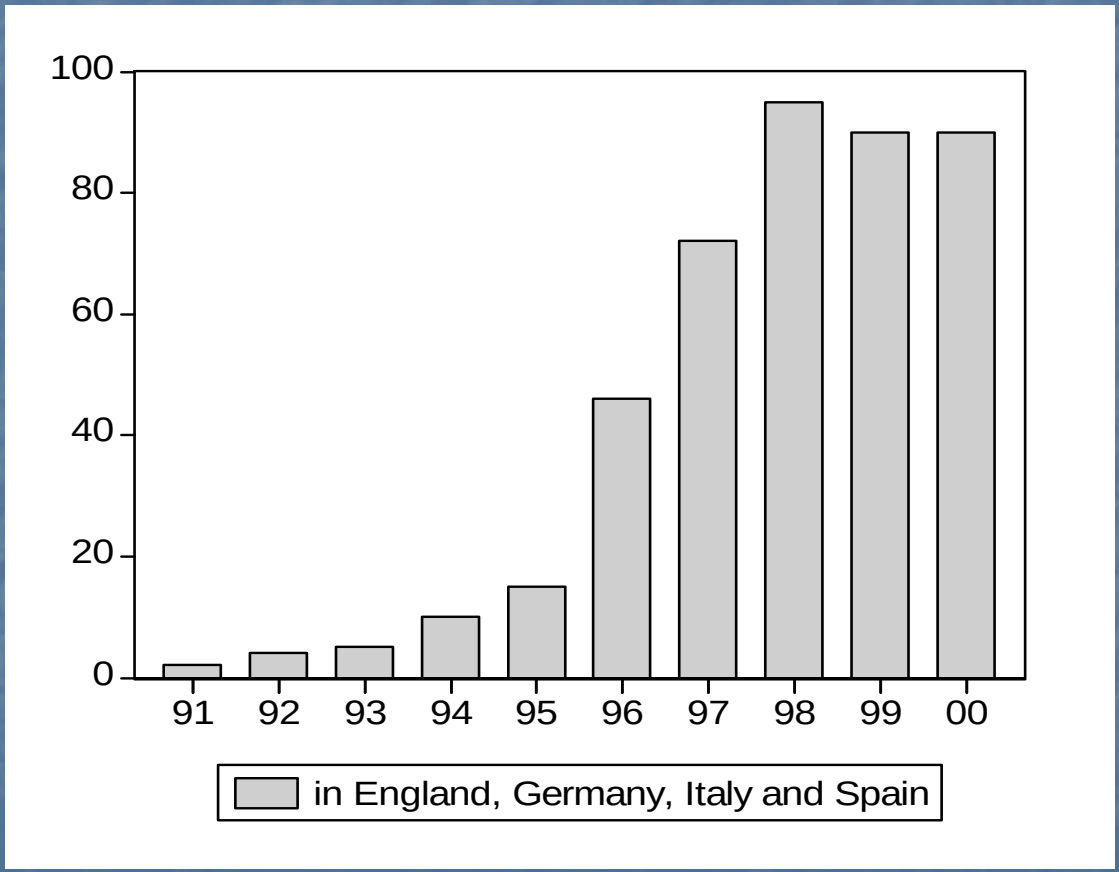
European Dominance of the Big 4

Clubs in Semi-finals of ECL

	1994 -1998	1999 - 2003
England	1	3
Germany	3	4
Italy	5	4
Spain	2	8
Rest of Europe	9	1
Big 4 share	55 %	95 %

Source: Bill Gerrard, Leeds University, 2003

Number of French players in Big 4



Competitive Balance

- The budget gaps and the competitive imbalance in European football is more pronounced than in US major leagues.
- Possibly also caused by differences in club objectives: profit max vs. win max.

Are sport clubs profit or win maximisers?

This is still an unsolved matter.

So far, all tests are based on the ticket-pricing rule, but this rule is the same under the profit or the win maximisation hypothesis, although ticket prices can be expected to be higher under win maximisation.

So, imposing maximum ticket prices can be justified.

NFL: revenue sharing and CB

- Under the profit-max hypothesis, one cannot expect any positive effect on CB of gate revenue sharing.
- Depending on the model, it has no impact (see Rothenbergs Invariance Proposition, 1956), or even a negative effect on CB (see Szymanski and Kesenne, 2004).
- Under the win-max hypothesis, revenue sharing improves the CB.

The selling and distribution of broadcast rights

It has been shown that the decentalised selling of tv–rights, with a performance based sharing of the rights, is the best guarantee to improve the competitive balance.

It is a general misunderstanding that it is necessary to monopolise the selling of the tv-rights in order to share the rights.

Moreover, several court cases in Europe have concluded that the legal owner of the tv-rights is the club and not the league.

Which type of salary cap?

- NBA type: same maximum payroll for every team improves the CB

  (but problems of enforcement).

- G-14 (ECA) type: maximum wage/ turnover ratio for every team worsens the CB

  (rather a gentlemen's agreement to guarantee financial health of the clubs).

The authors point out that in EU football, the budget ratio between the richest and poorest team is more than 10, while in the US major leagues it is less than 2.

Question:

Is there an optimal comp. balance

and what determines the optimal CB?

Optimal Comp. Balance

in a two-team league

Assume 3 groups of spectators:

- Supporters of large-market team x.
- Supporters of small-market team y.
- Neutral supporters.

The more neutral supporters prefer to watch close and tense matches; die-hard supporters of a specific team prefer to see their team winning.

A Simplified model

Starting from the utility functions: U_x, U_y and U_n

and welfare function: $W = U_x^m U_y U_n^\gamma$

with weights $m = \frac{m_x}{m_y}$

and γ indicating the size of the group of more neutral TV – spectators

$$U_x = w_x^{1-\alpha} uo^\alpha$$

$$U_y = w_y^{1-\beta} uo^\beta$$

$$U_n = uo$$

$$note: uo = w_x w_y$$

Optimal comp. balance is given by:

$$\frac{w_x}{w_y} = \frac{m + \beta + \gamma}{\alpha m + 1 + \gamma}$$

Simulation

$$With\ \alpha = 0.5\ \ and\ \ \beta = 0.5$$

$m = \frac{m_x}{m_y}$	1	2	3	4	5	10	20	50	100
$CB = \frac{w_x}{w_y}$	1	1.25	1.4	1.5	1.57	1.75	1.86	1.94	1.97

For whatever value of *m, CB* should stay below 2

Also, the larger the group of more neutral tv-spectators, the more balanced the competition should be.

THANK YOU