Breaking the code; A Financial comparison of Rugby Union and Rugby League in England.

Abstract ID: EASM-2015-104 - (619)

All authors:
Robert Wilson (corresp), Daniel Plumley

Date submitted: 2015-03-19

Date accepted: 2015-04-01

Type: Scientific

Keywords: Rugby Union, Rugby League, Finance, Financial Health.

Category: 6: Sport Economics and Finance

Synopsis:

Abstract:
AIM OF PAPER
The aim of this paper is to compare the financial situation present within both codes of rugby in the UK (rugby union and rugby league) and to discuss future prospects for the sport.

THEORETICAL BACKGROUND
Professional team sports tend to be linked to the concepts of uncertainty of outcome, competitive balance and profit and utility maximisation (see Vrooman, 2015) with economists citing differences between the North American and European model of professional team sport (Szymanski, 2003). Questions remain however over the adoption of these concepts and models which effect revenue generation and competition intensity.

Rugby union in England displays elements from both models of professional team sports, including promotion and relegation, unequal sharing of broadcasting revenue (European) and salary caps ‘franchise-like’ relocations of clubs (American). In terms of structure, there are similarities in rugby league. Rugby league, built with closer alignment to the American model has transformed since the emergence of BSkyB and a £90million broadcasting deal to support the Super League. Traditional sources of finance in both codes have been difficult to secure and facilities need upgrading. The games need more widespread promotion to secure revenues required to complete on a European and/or world stage.

Evidence from Wilson, Plumley and Barratt (2014) has explored the financial crises that affect the Super League. With a sister code in rugby union, competition for spectators, sponsors, commercial partners and broadcasters is intense and both codes experiencing financial problems at club level. This
paper examines the future financial prospects of both codes to establish the market potential for growth and sustainability.

METHODOLOGY
Data for this research was obtained by dissecting the annual accounts of 9 rugby union clubs between 2006 and 2013 and 10 rugby league clubs between 2006 and 2012. Analysis was conducted using recognised industry techniques (see Wilson, Plumley and Ramchandani, 2013) and using the Performance Assessment Model (PAM) which is developed from the ExPAM (see Plumley, Wilson and Ramchandani, 2014). Moreover, Active People Survey was used to determine levels of participation.

RESULTS, DISCUSSION, IMPLICATIONS
Initial findings indicate that there is financial disparity amongst clubs in both codes which has widened over the period of the study. In rugby union, total average revenues have risen from £8.4m to £10.9m (an increase of 29.7% in total). However, total debt has also increased by 235.7% during the same period (increasing from £4.2m to £14.1m). The debt figures are somewhat inflated by certain clubs, notably Harlequins, Saracens, London Irish and London Wasps but in 2013 only three clubs made a pre-tax profit and the highest of these only amounted to £329,000 (Northampton Saints). Average wages/turnover figures are relatively stable totalling 71% in 2013 (because of the salary cap) although average wage costs have almost doubled since 2006 rising from £4.4m to £7.1m.

In rugby league, the total average debt for clubs was c.£4.7m against average revenues of c.£4.5m. However, these averages are again somewhat inflated by certain clubs, particularly the revenue figures. The more successful clubs in recent years; Leeds Rhinos, Wigan Warriors, St. Helens and, Huddersfield Giants have all seen increases in revenue during the time period analysed with Leeds Rhinos and St. Helens having average revenues of £10.5m and £9.4m. These clubs own their own or share a stadium. Consequently their fixed assets value is higher and that they have better liquidity and points to a more manageable debt position. However, there are clubs where debt substantially exceeds revenues. London Broncos show average turnover of £1.8m against average debt of £7.2m. This debt has increased to £13.3m against revenue of £1.6m in the latest accounts. A similar story at clubs such as Hull FC, Hull KR and Castleford Tigers who all have problems with debt and insufficient asset value cover the debt.

This financial uncertainty is compounded by the data from the Active People Survey, particularly for rugby league, which indicates a sharp decline in participation in the sport and dwindling attendances at a number of SL Clubs. In summary, both codes of the sport are faced with clubs that do not appear financially sustainable. It is arguable on the evidence of this paper that rugby union is in slightly better financial health than rugby league, although only due to it being the more popular sport in relation to spectatorship and participation. However, evident in both codes is a significant gap between the high performers and the rest which points to a long-term management problem for both leagues.
References: