THE ENGLISH PREMIER LEAGUE AT 20; ECONOMIC CRISIS OR FINANCIAL POWER?

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Abstract

AIM OF PAPER
The aim of this paper is to examine the financial and sporting performance of clubs who have competed in the English Premier League (EPL) since its formation in 1992 by comparing the first 10 years of the EPL to the most recent 10 years.
THEORETICAL BACKGROUND OR LITERATURE REVIEW
During the course of the last twenty years the domestic landscape of English football has altered considerably. In 2011/12 the 92 Premier and Football League clubs combined revenues exceeded £3 billion for the first time, with average Premier League club revenues having risen to £118m, nearly 15 times their level 20 years previously (Deloitte, 2013). This remarkable rate of growth reflects the game's omnipresent domestic and global profile with the exposure and interest having relentlessly driven revenues. There is little doubt that the league is an incredible success in revenue terms and this success has continued in recent years through one of the most challenging economic environments in decades. Football, at the top end in particular, continues to thrive with capacity utilisation at EPL games standing at 95% (Deloitte, 2013). The impact of broadcasting is arguably the most important development in driving revenues in the EPL during the last two decades. In 1992, the first TV deals were worth £52m per season and the latest deal signed will generate around £3.4 billion over the next three seasons from 2013/14 (Deloitte, 2013).
However, there has been an academic argument that the English game has financial problems (e.g. Buraimo, Simmons and Szymanski, 2006) particularly at individual clubs. Collective net losses for EPL clubs totalled £285m in 2011/12 and only eight clubs recorded a net profit. In recent years, costs have risen exponentially in line with revenue and controlling player wages remains English football’s greatest challenge. Furthermore, UEFA have signalled their intent to combat spiralling debt levels and excessive spending across European football with the introduction of

Financial Fair Play (FFP). The EPL is now in its 22nd season and it is pertinent to analyse just how drastically English football has changed in recent years. Economists have long held the view that English football follows a utility maximisation approach as opposed to profit maximisation (e.g. Sloane, 1971; Szymanski, 2003) and this study attempts to analyse this, among other things, by comparing the first ten years of the EPL (1993-2002) to the most recent ten years (2003-2012). This study focuses on changes in revenue, wage costs and net debt during this time period as well as the principles of profit versus utility maximisation by analysing the financial and sporting performance of English Premier League clubs in a new performance assessment model for football clubs (PAM).

METHODOLOGY

The PAM takes its origins from the FOrNeX model (see Andrikopoulos and Kaimenakis, 2009). The PAM was developed to incorporate both financial and sporting variables and assigned weighting factors to each variable. Performance variables for each club are ranked against other clubs in the league providing an 'intra-industry' comparison and benchmark. The model subsequently produces an overall index score for both financial and sporting performance as well as an overall performance score which combines both aspects of performance. Data was obtained for 21 clubs in the English professional football industry dating back to the formation of the EPL meaning that a total of 20 seasons were analysed (1992/93-2011/12 inclusive). This time period was then split into two periods of 10 years to consider the changing nature of the EPL.

RESULTS, DISCUSSION, IMPLICATIONS

With reference to all clubs, there have been substantial increases in revenue, wage costs and net debt during the last decade in English football. Furthermore, there is evidence that some clubs have recorded an improvement in overall performance (10 out of 21 clubs) whilst others have experienced a decline in overall performance (11 out of 21 clubs). In relation to the debate surrounding profit and utility maximisation, clubs in this study have predominantly moved towards utility maximisation in recent years supporting the view of Sloane (1971) and Szymanski (2003). The findings have implications for FFP with clubs facing potential penalties at the end of the first reporting period (2014) for poor financial performance and it would be interesting to revisit this study in years to come to see if the direction of travel of clubs alters in line with the new regulations.

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