Club revenue disparities in the English Premier League: A time series analysis

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Abstract

AIMS

The aims of this paper are to highlight the main sources of revenue generated by football clubs in the English Premier League (EPL); to examine what changes to revenue streams occurred during the period 2004-13; and to account for the huge disparities in revenue earned by the six largest clubs compared to the remaining clubs in the EPL.

METHODOLOGY

Analysis is based on secondary data using the annual reports and audited financial statements for every club that played in the EPL between 2004 and 2013 together with accounting information from other sources including the Deloitte Annual Review of Football Finance. Over a 10 year period 198 sets of annual reports and audited financial statements were obtained and examined. A database was constructed using Microsoft Excel and a number of accounting ratios and other financial indicators were calculated each year for each club and for the EPL as a whole allowing a detailed financial analysis. Several studies including Horrigan (1965), Beaver (1966), Altman (1968 and 2000), Lev (1969) and Taffler and Tisshaw (1977) have shown the usefulness of ratios as a technique for analysing financial performance and predicting corporate failure. During the last decade clubs have started to provide more information about revenue usually in the form of a note to their financial statements that breaks down total revenue between matchday, broadcasting and commercial activities. This greatly assists analysis and allows investigation as to whether a club is over-reliant on a particular revenue stream.

FINDINGS

By 2012 the six largest clubs were responsible for around 58% of the EPL's aggregate revenue and earned average revenue of £227 million. This meant that the remaining 14 clubs shared less than £1 billion and had average revenue of £70 million.

In 2012 the EPL generated aggregate revenue of over £2.3 billion (calculated from the 2012 annual reports of clubs playing in the EPL) which in terms of revenue made it the largest league in Europe (Deloitte 2013:15). Further analysis showed significant changes in the relative importance of revenue streams. In 1992 the year immediately before the EPL commenced, clubs in Division 1 reported aggregate revenue of £170 million (Deloitte 2012:30) of which 48% was from traditional matchday activities and just 9% from broadcasting (Deloitte 2012:30).
By 2012 broadcasting made up 48% of aggregate revenue and matchday (24%) had fallen behind commercial revenue (27%) (calculated from the 2012 annual reports of clubs playing in the EPL).
The growth in commercial revenue reflects the growing importance of shirt sponsorship, kit supply and the sale of stadium naming rights. This movement away from traditional revenue streams corresponds with the findings of several recent studies into the financial performance of European club football including Andreff and Staudohar (2000), Baroncelli and Lago (2006), Andreff (2007), and Bosca et al (2008).
However these aggregate figures hide huge disparities in the revenue earned by the six largest clubs when compared with the rest of the EPL. Collective agreement means that EPL broadcasting revenue is split fairly evenly between clubs, however commercial sponsors are mostly attracted to the largest and most successful clubs and matchday is affected by the capacity of stadia. Regular participation in European competition (particularly the UEFA Champions League) further widened the gap in resources raising the profiles of the largest clubs which in turn helped generate additional revenue from the global sale of club related merchandise. This meant that in 2012 Manchester United‘s broadcasting revenue was just 2.5 times greater than that reported by Blackburn Rovers (the lowest broadcasting revenue in the EPL). However Manchester City and Manchester United each earned around £120 million from commercial activities which was 40 times greater than the amount earned by Wigan, and Manchester United’s matchday takings were 27.5 times higher than Wigan’s.
Although between 2004 and 2012 average revenue increased from £68 million to £117 million, in each year no more than six clubs (and in 2004 and 2009 just five clubs) earned revenue in excess of the average.

CONCLUSIONS

Since the formation of the EPL in 1992 we have seen rapid and sustained growth in revenue and a significant shift in the relative importance of revenue streams. Growth in revenue has been primarily driven through broadcasting contracts negotiated collectively by the EPL. However analysis indicates that several clubs are very reliant on broadcasting revenue and this will become a significant problem if the largest clubs decide to negotiate contracts on an individual basis (see research by Baroncelli and Lago (2006) and Bosca et al (2008) on the problems caused in Italy and Spain by clubs negotiating broadcasting contracts individually).
Despite huge increases in revenue the EPL has been unable to generate

profits and the aggregate pre-tax loss of £203 million in 2012 (calculated from the 2012 annual reports of clubs playing in the EPL) actually exceeded the aggregate revenue generated during 1993 (Touche Ross 1993:25), the EPL's first season. Future analysis will identify and utilise key accounting ratios to investigate control of costs; establish whether clubs in the EPL exhibit similar characteristics in terms of financial performance; and assess whether these characteristics can be used to assist with financial regulation.

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