

MONEY

AND

SOCCER

A SOCCERNOMICS GUIDE



Why Chievo Verona, Unterhaching,
and Scunthorpe United Will Never Win
the Champions League; Why Manchester City,
Roma, and Paris St. Germain Can; and Why Real Madrid,
Bayern Munich, and Manchester United Cannot Be Stopped

STEFAN SZYMANSKI

INTRODUCTION BY SIMON KUPER

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ALSO BY STEFAN SZYMANSKI

Soccernomics: Why England Loses, Why Spain, Germany, and Brazil Win and Why the US, Japan, Australia—and Even Iraq—Are Destined to Become the Kings of the World's Most Popular Sport
(with Simon Kuper; Nation Books, 2009)

Fans of the World, Unite! A Capitalist Manifesto for Sports Consumers
(with Stephen F. Ross; Stanford University Press, 2008)

Il business del calcio
(with Umberto Lago and Alessandro Baroncelli; Egea, 2004)

National Pastime: How Americans Play Baseball and the Rest of the World Plays Soccer
(with Andrew Zimbalist; Brookings Institution, 2005)

Playbooks and Checkbooks: An Introduction to the Economics of Modern Sports
(Princeton University Press, 2009)

Winners and Losers: The Business Strategy of Football
(with Tim Kuypers; Viking Books, 1999; Penguin Books, 2000)

Football Economics and Policy
(Palgrave Macmillan, 2010)

The Comparative Economics of Sport
(Palgrave Macmillan, 2010)

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Stefan Szymanski

Introduction by Simon Kuper



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For the fans of Scunthorpe United and all the other clubs who prove that winning is not the *only* thing

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FOREWORD

Simon Kuper

IN 2007 I MET STEFAN SZYMANSKI AT A CONFERENCE IN ISTANBUL, and almost immediately we were having conversations about soccer that I'd never had before. Everyone in soccer has opinions. Stefan, very unusually, had data too. He had been assembling it since the 1980s, a time when almost no serious economist on earth was thinking about soccer. He was even willing to let the data change his opinions. And he could explain his opinions clearly to people who weren't economists. "So here's one way of thinking about it . . ." was a formulation that I've become familiar with in the years since.

Further, Stefan is more than an economist. He's a historian of sports who understands how the origins of professional soccer in nineteenth-century Britain have shaped the game's path. By 2009 we had written a whole book together, *Soccernomics*, and remained friends and interlocutors. Whenever I'm wrestling with a question about the soccer business, Stefan is the first person I call.

He also has a distinctive view. Back in 2007, I must admit I shared the conventional wisdom about the soccer business: that it was riding for a fall. At the time I imagined that big banks were entirely safe, but that many big football clubs, with their unpayable debts, risked disappearing. The rich kept getting richer and spending more, and everyone else was overspending in an effort to keep up. When the global financial crisis struck in September 2008, many of us imagined it was the beginning of the end for big soccer. Michel Platini, president of the Union of European Football Associations (UEFA), said that half of Europe's professional clubs had financial troubles of some kind. "If this situation goes on," he added, "it will not be long before even some major clubs face going out of business." I rang Stefan to ask what he thought. Patiently and politely he explained why Platini and I and almost all the other pundits were wrong. Soccer clubs almost never die, said Stefan. This book—Stefan's mature thinking on soccer—explains why.

As I write, six years into Europe's worst economic crisis since World War Two, Stefan has been proven right. No "major club" anywhere on the continent has gone out of business. If you search hard, you can find about a dozen smaller ones that have collapsed since 2008: UD Salamanca, Lorca Deportiva, and CD Badajoz in Spain; HFC Haarlem, SC Veendam, AGOVV, and RBC Roosendaal in the Netherlands; Beerschot in Belgium; Gretna in Scotland; FC Arsenal Kyiv in Ukraine; and Unirea

Urziceni in Romania. Admittedly, Unirea played in the Champions League in 2009/10, but historically it was a tiny club from a small town. It owed its brief rise to a passing sugar daddy. When he lost interest, Unirea expired.

Anyway, several of the defunct clubs were immediately refounded in a slightly different form. Gretna 2008 now plays amateur soccer in Scotland, as do RBC and AGOVV in the Netherlands. Salamanca actually has three successor clubs, each claiming the mantle. In other words, Stefan was prescient to argue that the top end of soccer didn't need the unprecedented, draconian regulation represented by UEFA's misnamed "Financial Fair Play" rules. That is because he understands the soccer business and its history like no one else.

In this book, Stefan explains that two basic facts have always been part of the soccer business: dominance and distress. Always, there were a few big clubs that dominated, both nationally and in European competitions. Always, most clubs made losses. Unlike American sports, European soccer has never been a profitable industry.

The book shows why dominance and distress persist, and why the industry thrives regardless. Big clubs like Real Madrid and Manchester United built their brands over the decades by winning prizes. They still have to spend heavily each year to maintain their brands because otherwise they will start losing and be rejected by fans. But as long as they are willing to spend, they can dominate the soccer market. It's simply too expensive for their rivals to build comparable brands. Distress, too, is as old as professional soccer. That's chiefly because very few soccer clubs are out to make profits. Most put every penny they have into trying to win matches.

In this sense, clubs are not like normal businesses—and Stefan has always rejected the facile "Soccer is a business" mantra. Because there are some rival clubs willing to spend even more than their last penny, the inexorable logic is debt. And yet soccer clubs almost never fold, because hardly any creditor wants to pull the plug on a beloved and ancient local institution. Even when a creditor does, it's easy enough simply to refound the club at once. In fact, this often happens.

It's true that the recent tendency has been for clubs' debt to keep growing. But then clubs' revenues keep growing too. Manchester United's debt is in the hundreds of millions, but the club's estimated market value is nearly \$3 billion. In any case, as Stefan points out, very few clubs owe debt to banks. Rather, most owe it to owners—the modern sugar daddies who have poured \$4 billion into English clubs alone since about 2000. Most of these owners are pursuing glory rather than profits. Buying a soccer club is rather like buying a Picasso. It won't make you an annual return, but it will impress your friends, and if one day you want to sell it again, you'll probably find you've made a capital gain along the way.

The club owners' funds are therefore better understood as philanthropic donations rather than loans. Roman Abramovich, the Russian oligarch who owns Chelsea Football Club, as Stefan points out here, formally converted the "debt" that Chelsea notionally owed him into an equity stake in the club. He will never get that billion quid back. But it bought him glory.

Neither Chelsea nor Manchester United is going to succumb beneath its debt. The tendency of Stefan's work is to deflate the hysteria peddled by many critics of the soccer industry. Reading his book, you come to see that the Platinesque critique of the sport is at bottom a moral critique. We all grew up with a simpler, poorer, more local

soccer. Many fans yearn for it still. To them, the sight of Russians or Arabs throwing millions at Latin Americans to play for English clubs seems loathsome. So they conclude that it is unsustainable. Stefan, by contrast, tends to steer clear of moral critiques and makes a cool-headed economic argument.

Taking his point of view, you start to question the prevailing narrative—pushed by UEFA and many pundits—that soccer is in economic crisis. Instead, in Stefan’s telling, these are probably the best of times. Back in the 1970s, the soccer industry was tiny compared with any of the American major league sports. (Stefan’s vantage point at the University of Michigan equips him perfectly for transatlantic comparisons.) Then, from 1978 to about 1989, the game sank into what Stefan terms the dark ages: decaying stadiums, hooligans, shrinking crowds, and contempt from the media. Since the 1990s, attendances have soared in the big European countries. Today’s rising ticket prices and spoiled overpaid soccer players are problems of success.

It’s quite likely that times will get even better. The four biggest countries on earth, India, China, the United States, and Indonesia—with about 45 percent of the world’s population between them—are just starting to switch on to soccer. Further, the growth of social media will help. For decades, clubs had no idea how many fans they had, let alone have any way of reaching them. But now clubs can talk to their supporters (or perhaps consumers) every day, offering them all manner of stuff to buy.

In September 2014, Real Madrid announced annual revenues of over \$600 million—the highest of any club in any sport in history. When Stefan first began studying the game, such numbers were unthinkable. A few years from now, they may seem rather modest.

The same month, a fresh wave of scandals was breaking in the most popular American sport, gridiron football. A player had been filmed beating his fiancée unconscious in an elevator; another player had given his four-year-old son a “whooping” with a tree branch that left the boy cut and bruised; some sponsors were pulling out; and hanging over the game was the recent revelation that a third of all players will end up with brain damage. Gridiron has barely any fans outside North America. No US sport comes close to soccer’s global popularity. Which sport would you bet your money on in the next few decades of globalization? Amid the prevailing anguish over the soccer business, this book offers a cool and optimistic corrective.

AUTHOR'S NOTE

I STARTED WRITING ABOUT THE FINANCES OF SOCCER CLUBS A quarter of a century ago, soon after joining London Business School as a post-doctoral fellow. Back then I worked in a research center that was trying to use economic analysis to understand what it is that makes some businesses successful in a competitive environment (monopolies are not so interesting—they don't have to work for their success). Soccer clubs were perfect because they operate in very competitive markets, there is not much argument about who is successful (we know who won the game), and financial accounts for dozens of clubs stretching over decades were available. This made it possible to establish the connection between investment in players, success on the field, and financial results. There are very few competitive industries in the world where one can do that.

Over the last twenty-five years my views have evolved, but my fundamental assessment has not changed: this is a highly competitive business where money buys success and profits are negligible. Moreover, despite the constant financial problems of individual clubs, the business has been on an extended boom that, coincidentally, began about twenty-five years ago and shows no sign of ending any time soon. A lot of my own work over the years has been about collating the data (I now have financial accounts for most English clubs stretching back to 1958 and intend to push back at least to the 1920s) and testing different theories using the data. In due course, I will publish all of the data so anyone can look it up for themselves.

The English accounting data is audited data: it has been signed off by the club's accountants and can therefore be considered reliable in the sense that it is derived directly from the financial records of the clubs themselves. For various reasons, it is not easy to obtain similar data for other countries, although gradually some is becoming available. For this reason English soccer is the most commonly used example in the book. England's Premier League also happens to be the wealthiest soccer league in the world today. That was not true twenty-five years ago, and it may not be true in twenty-five years' time. Although I lived all my life in England until joining the University of Michigan in 2011, the focus on England is not about nationalism or parochialism—it just happens to be the soccer nation with the longest and most complete financial records. That said, part of the point of this book is to show that the organizational model of soccer, which England shares with almost every other nation, generates similar results around the world; so this book also relies on newly emerging data sources from other countries. The two most-cited sources in the book are the Deloitte *Annual Review of Football Finance* and the UEFA *Club*

Licensing Benchmarking Report, both of which provide invaluable financial information on data for countries outside England. The UEFA data is especially useful because it summarizes the financial accounting information that clubs from fifty-four national leagues are required to supply to the governing body of European soccer. I also use *Wikipedia*—mainly for league tables, numbers of championships won, when games were played, and other factual information over which there can be little dispute. I am a big fan of crowdsourcing, which is particularly good for gathering detailed information on sports statistics that are non-controversial.

There are many other data sources that offer financial information, and while they can be useful (and I do use them), they need to be treated with caution. One of the best examples is the website transfermarkt.de. This provides individual valuations for players generated by groups of fans that subscribe to the website. These are therefore *estimated*, not actual valuations. They may be highly *correlated* with actual transaction values, but they are not the same thing. The problem is that there is no number of opinions that can ensure we get to the true figure in such cases—if player wages or transfer fees are not released publicly, no amount of guessing will get us there. Again, such figures may be useful in some contexts, but they are of limited value if we are trying to understand the decision making of clubs or players, which will be based on the actual values, not guesses.

Likewise, figures published in the newspapers about transfer fees and wages are only indicative. Usually these figures are leaked by the club or the player's agent, and are not necessarily reliable or complete—they are certainly not audited numbers. Unlike the accountant, the reporter did not see the contract, the invoice, or the bank statement related to the transaction. Finally, video games, such as Football Manager, and fantasy soccer games often publish data on player wages and transfer values for the purposes of playing the game, but again these figures are only estimates. They do not have access to audited data because in public both clubs and players observe confidentiality (unlike players in the North American major leagues whose salaries are made public by the player unions). As in many fields, it's important to be clear about the quality of the data source if one is to rely on it for making statements about what is going on.

There are many people I need to thank for their help and support. Over the years, I have worked with many coauthors whose insights have helped me to understand the operation of sports markets in general: Kevin Alavy, Wladimir Andreff, Giles Atkinson, Tunde Buraimo, Luigi Buzzacchi, Bastien Drut, Filippo dell'Osso, David Forrest, Pedro Garcia-del-Barrio, Steve Hall, David Harbord, Takeo Hirata, Tom Hoehn, Todd Jewell, Georgios Kavetsos, Stefan Késenne, Simon Kuper, Tim Kuypers, Umberto Lago, Stephanie Leach, Victor Matheson, Susana Mourato, Susanne Parlasca, Thomas Peeters, Ian Preston, Steve Ross, Rob Simmons, Ron Smith, Tommaso Valletti, Jason Winfree, and Andy Zimbalist. I have also benefited from the advice of colleagues at work (especially Rod Fort and Mark Rosentraub), conferences, and seminars (I hope you know who you are).

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1

DOMINANCE AND DISTRESS

DOMINANCE

IN 2014 REAL MADRID ACHIEVED THE UNPRECEDENTED FEAT OF winning *La Décima*—its tenth Champions League title—three more than its nearest rival (AC Milan) and twice as many as the next nearest (Bayern Munich and Liverpool). Appropriately enough given its name—“real” means “royal” in Spanish—Real Madrid is the closest thing in the world to soccer royalty. According to Deloitte’s *Annual Review of Football Finance*, the Spanish club generates more revenue annually than any other soccer club in the world, and according to *Forbes* it is the most valuable soccer “franchise” in the world. If Real Madrid were for sale (and in 2014 there were rumors of a partial stock flotation) *Forbes* reckons it would be worth \$3.4 billion, making it the most valuable team in any sport anywhere.

The basis of Real Madrid’s strength is its dominance of La Liga. It has played continuously in the Spanish league since its foundation in 1929. It has won the league thirty-two times altogether and twenty-two times in the last fifty years alone, well ahead of archrival FC Barcelona (fourteen times) and way ahead of anyone else (in fact, only five other teams have won the league in the last half-century).

Real Madrid has a lot in common with HB. Havnar Bóltfelag, to give the club its full name, is the largest team in Tórshavn, a town of 18,000 souls that also happens to be the capital and largest town of the Faroe Islands. Founded in 1904 (two years after Real Madrid), HB was a founder member of its national league in 1942 and has won the league twenty-two times, well ahead of nearest rival KÍ Klaksvík (eight times). Only nine other clubs have won the league in the last fifty years.

To take another example of dominance, Jeunesse Esch of Luxembourg (founded in 1907) has won twenty titles in the last fifty years, nine more than its closest rival, F91 Dudelange. Jeunesse also once held Liverpool to a 1-1 tie at Anfield, the best international result in the club’s history. Compared to HB, Jeunesse is a giant. According to the popular website transfermarkt.de, the total squad value of HB in 2014 was half a million euros (\$625,000), compared to nearly one and a half million (\$1.8 million) for Jeunesse. The revenue of the Luxembourg league is 50 percent larger than that of the Faroese clubs according to the Union of European Football Associations (UEFA). Yet in both countries we see the same pattern. Real Madrid is larger still, with a squad valued in 2014 at more than 600 million euros (\$750 million).

But large or small, the relationship of these clubs to the other teams in their domestic leagues is the same—they are dominant.

BOX 1.1: FAROE ISLANDS SOCCER

Tórshavn, the capital of the Faroe Islands, translates as “Harbor of Thor,” the hammer-wielding Norse god of thunder and strength. Since 2005, a hammer has been on the crest of HB Tórshavn (usually shortened to HB) in recognition of the team’s power. As the team of the capital, the most populous city, and the nation’s most successful team, HB is the Real Madrid of the Faroe Islands, beloved by its fans and hated by everyone else.

The Faroes is a group of eighteen islands located between Iceland, Scotland, and Norway. It is a self-governing nation within the Kingdom of Denmark. The population is just under 50,000 and the local economy relies primarily on fishing; it is also a soccer-crazy nation. Almost everyone on the islands plays, and everyone follows an English Premier League team. The oldest surviving team of the Faroes is Tvøroyrar Bóltfelag (TB) founded in 1892, which still plays in the (Faroese) Premier League.

There are four tiers in the system, with a First and Second Division below the Premier League, and each of these three contains ten teams. The fourth tier varies in composition depending on the number of teams that want to enter. The bigger clubs have second and third teams that play in the lower divisions (but cannot be promoted to play alongside the first team). Soccer clubs are mostly member associations that run women’s, youth, and senior sections.

The league was founded in 1942, during the wartime occupation by British troops. The large-scale presence of British soldiers seems to have reignited interest in the game—although the competition remained low-key, consisting of only five teams as late as 1970. Traveling between the islands was difficult and playing an away match could mean up to three days away from home. This began to change in the 1970s with the development of a better road system and the construction of tunnels between islands.

It was during the 1970s, under the forward-looking coach Johan Nielsen, that HB started to dominate competition on the islands. When it entered UEFA in 1990, the extra money the Faroe Islands Football Association received for participation in UEFA competition also helped it secure the services of the best players. Although almost all players remain amateurs to the present day, the best players can now make some money from the game, and the richer clubs gather the best talent from across the country, compared to the old days when players always stayed with their local clubs.

Not that this has been without problems—as Marni Mortensen, chief annalist of Faroe Islands soccer, HB fan, and designer of the club crest, explained to me. Clubs are community enterprises and are run by local people who are voted into office; ticket prices are low (80 Dkr, about \$15, for an adult, with children free) but crowds are small—maybe 400 for a typical game and 1,500 for a big game. Financial controls are often weak and the financial accounts are not always well kept, leading to a good deal of insolvency. HB itself got into financial troubles in 1990 and was bailed out by the municipality, which owns the stadium. The club turned the organization of the first team into a limited liability company in 1990 in order to separate the “business” element of the association from its leisure activities, but this was not entirely a success and the association took over control again in 2012.

In recent years, there has been an influx of foreign players into Faroe Islands soccer, mostly from Eastern European—countries such as Poland and Russia—but even from Brazil. Mortensen reckons about 20 percent of current players in the Premier League are foreign. A few Faroese have gone abroad to play over the years, including Todi Jónsson, from the rival team Klaksvík, who had an illustrious career with FC Copenhagen. And Gunnar Nielsen, currently goalkeeper for the Scottish team Motherwell, is something of a national hero for being the only Faroese player to appear for an English Premier League team, having played several games for Manchester City.

Dominance is a feature of almost every soccer league in the world. Table 1.1 shows a selection of leagues from across Europe ranging from the plutocratic (England, Germany, Spain, Italy) to the impoverished (Faroe Islands and Luxembourg). Regardless of size, most leagues tell a very similar story: a small number of big clubs dominate. The most dominated league in the half-century was Scotland, where Celtic won twenty-four titles—almost half. Not far behind were

Germany (dominated by Bayern Munich), the Netherlands (AFC Ajax), Spain (Real Madrid), Portugal (FC Porto), and Norway (Rosenborg Ballklub). Only in the Republic of Ireland, France, and Poland did the dominant club not get into double figures. On average, the dominant team in the leagues of each of these countries won one third of all the titles.

One of the most important features of the soccer league system as it operates in most of the world is the promotion-and-relegation system. National leagues are arranged in a hierarchy, and the best-performing teams in a given division are promoted at the end of each season to play in the immediately superior division, swapping places with the worst-performing teams from the higher division. The process is determined by sporting merit rather than financial capability. Over time, this means that even if there are only twenty teams in a league at any given moment, there are potentially many more league champions. If every team in the league hierarchy were of equal strength, and each game played was equally likely to end in a win or loss for the home team, then over a fifty-year period you would expect to see about forty different teams win the league championship.¹ Yet in Portugal only four different teams have won the league in the last fifty years, and in the Netherlands, Scotland, and Turkey there have been only five winners over the half-century. The greatest number of teams winning a national championship over this period is fifteen, in the Republic of Ireland, and across the twenty leagues in our sample the average is ten, a long way below what you would expect to see if there were balance in the league.

TABLE 1.1 Dominance in 20 European leagues over the last 50 years

<i>Country</i>	<i>Average club revenue 2012 \$m</i>	<i>Most league championship wins in last 50 years</i>	<i>Number of league championship winners in last 50 years</i>
England	173.8	15	11
Germany	135.0	23	12
Spain	116.3	22	7
Italy	107.5	18	11
France	72.5	8	14
Russia	70.0	13	14
Turkey	38.8	17	5
Netherlands	30.0	23	5
Switzerland	23.8	16	11
Portugal	22.5	22	4
Norway	13.8	22	12
Scotland	12.5	24	5
Poland	7.5	9	12
Romania	7.5	19	11
Hungary	2.9	11	11
Finland	2.0	16	14
Republic of Ireland	1.1	7	15
Luxembourg	0.8	20	11
Faroe Islands	0.5	19	11
Champions League		12	11

Note: Champions League refers to nations, not clubs. Figures cover seasons 1964/65–2013/14 except Faroe Islands, Hungary, Iceland, and Norway refer to the period 1963/64–2012/13, Finland to 1962/63–2011/12

SOURCE: UEFA and Wikipedia

Looking at [Table 1.1](#), there seems to be no relationship between the size of the league and the extent of domination. Small leagues are as likely to be dominated by a small number of teams as are big leagues. Germany, the country with the largest population and the greatest wealth in our sample, looks rather like tiny Luxembourg or the Faroe Islands.

The UEFA Champions League, the pan-European club competition for the fifty-four national associations that belong to UEFA, tells a similar story.² Until 1997 the competition involved only the national champion, but since then the larger nations have been permitted more than one entry, and currently up to four teams. Over fifty years, teams from England have won the competition twelve times, and teams from only eleven nations have ever won it. This resembles the averages for the twenty leagues. In this way, at least, the Champions League looks like just another European league.

Many people believe that dominance is a relatively recent phenomenon in soccer, or that dominance has increased significantly over the last two decades. Commercialization, according to this sentiment, has dumped large amounts of money into the game that has corrupted the system, and created a world of “haves” and “have-nots.” There is no question that the amount of money in the game has increased, but in fact there is little evidence to suggest that dominance has intensified dramatically. When we compare the last quarter of a century to the preceding one, the pattern of dominance appears almost indistinguishable. In the last twenty-five years of the Champions League, the highest number of wins for one nation is eight (Spain), and clubs from eight different nations have won the Champions League trophy. Lo and behold, the quarter of a century before that the numbers are identical. [Table 1.2](#) illustrates the difference between the two periods for twenty leagues.

To be sure, the story does play out with some variations, and some countries have indeed seen an increase in dominance in their domestic leagues. For example, Germany stands out: not only did the most successful team win more frequently in the last twenty-five years than during the previous twenty-five (Bayern Munich in both cases), but the number of different teams winning the championship fell from nine to six in the same period. In Scotland, always dominated by Rangers and Celtic, at least some other teams won the league in the earlier period; no one else made it past those two in the last twenty-five years. In total, however, there were only nine leagues where the highest number of wins increased, compared to eleven where it stayed the same or fell. There were twelve cases where the number of different champions fell—suggesting increased dominance—but eight where the number stayed the same or increased. Across the nineteen national leagues, the total number of championships won by the most successful team increased from 188 to 205—an increase of 9 percent—while the total number of different winners fell by 9 percent from 143 to 130. If dominance increased, then surely not by that much.

TABLE 1.2 Dominance in each of the last two quarter-centuries

<i>Country</i>	<i>Most wins by one club 1964/65– 1988/89</i>	<i>Most wins by one club 1989/90– 2013/14</i>	<i>Number of winners 1964/65– 1988/89</i>	<i>Number of winners 1989/90– 2013/14</i>
England	11	13	9	7
Germany	10	13	9	6
Spain	14	12	6	5
Italy	10	8	10	7
France	7	7	8	11
Russia	11	10	11	7
Turkey	9	11	4	4
Netherlands	12	11	4	5
Switzerland	7	9	8	7
Portugal	15	17	3	4
Norway	6	17	9	8
Scotland	15	16	5	2
Poland	9	8	9	8
Romania	8	11	8	7
Hungary	9	6	6	10
Finland	6	10	9	8
Republic of Ireland	6	6	11	9
Luxembourg	13	11	8	6
Faroe Islands	10	9	6	9

SOURCE: Wikipedia

Of course, a small shift is not no shift at all, and to some fans, even a modest increase in dominance will matter. I am not arguing with that point of view—I do maintain, however, that dominance has always been a part of the soccer system, regardless of time, and regardless of the size of the league. Another way to crunch the numbers is this: 79 percent of national championships in our sample have been won by the top three teams in each country in the past quarter-century. In the previous twenty-five years it was 73 percent. In other words, a pattern of dominance was already well established twenty-five years ago.

BOX 1.2: MEASURING CONCENTRATION

There is no unique way to measure dominance. The two measures used here—the highest number of championships won by any one team and the number of different teams winning a championship—are correlated but not identical (the correlation coefficient for Table 1.1 is -0.64 ; the minus sign means that the more championships won by one team, the fewer the total number of champions is likely to be). There has been a lot of research on measuring concentration for soccer and for North American league sports (the term “competitive balance” is often used). These studies tend to look at three types of concentration—(1) within each game (how close individual matches tend to be), (2) within the season (how close the championship is), and (3) dominance over time, which is the type of dominance analyzed here. Each type of dominance can be measured differently, although different measures tend to be correlated.

In a recent paper, John Curran, Ian Jennings, and John Sedgwick¹ looked at teams finishing in the top four places in the top division in England and showed that there had been a gentle increase in the dominance of the four most successful teams until the end of the 1990s—since when the top four have been increasingly dominant, which is almost certainly a consequence of the growing financial importance of the Champions League.

Using an approach that focuses on the dispersion of results within a given season, Arne Feddersen and Wolfgang Maennig² show that there is very little evidence of any trend in concentration of results—so even if the big clubs are more dominant, they do not seem to win championships by a wider margin than in the past.

Back in 2003, I did some research with Luigi Buzzacchi and Tommaso Valletti³ in which we compared the number of teams that in theory have the potential to reach the top five positions over a period of time compared to those that actually do. Because of promotion and relegation, the number of clubs that could in theory reach a top-five place if they got the right results becomes very large once you consider a long period of time. Suppose, for example, that every team in every division had an exactly equal probability of winning each game it played. Then, over the fifty seasons from 1950 to 1999, we would have expected 105 different teams to finish in the top five places of Serie A in Italy. In reality, through this half-century, there were only nineteen teams that finished the season in the top five.

1. Curran, John, Ian Jennings, and John Sedgwick (2009). “‘Competitive Balance’ in the Top Level of English Football, 1948–2008: An Absent Principle and a Forgotten Ideal,” *The International Journal of the History of Sport*, 26:11, 1735–1747.

2. Feddersen, A., and W. Maennig (2005). “Trends in Competitive Balance: Is there Evidence for Growing Imbalance in Professional Sport Leagues?” *Hamburg Contemporary Economic Discussions*. 01/2005.

3. Buzzacchi, L., S. Szymanski, and T. M. Valletti (2003). “Equality of opportunity and equality of outcome: open leagues, closed leagues and competitive balance,” *Journal of Industry Competition and Trade*, Vol: 3, ISSN: 1566–1679, pp. 167–186.

If dominance has characterized the leagues for so long, what accounts for it? It is, I suggest, the natural consequence of the competitive structure of soccer, which is almost identical everywhere on the planet. The patterns of dominance can be explained by some relatively straightforward relationships, which then account for the success or failure of individual teams. The object of this book is to explain how competition in soccer works, both at the sporting level—who wins on the field—and from the perspective of a commercial enterprise—how does soccer operate as a business.

If dominance emerges from a common competitive framework, clubs still become dominant in different ways. Take Real Madrid, Manchester United, and Bayern Munich.

THE ROYAL TEAM

Real Madrid was founded in 1902, but it was only in 1920 that King Alfonso XIII granted the club his royal patronage. Before the Spanish Civil War and the victory of the fascist General Francisco Franco, the club was by no means the most successful club in Spain. Its fortunes rose under Franco—but how was this possible? During Franco’s rule as dictator (from 1939 to 1975), the country was a political outcast because of the Generalissimo’s barely concealed support for Hitler and brutal repression at home. So how did Real Madrid establish itself in the 1950s, not only as the dominant team in Spain but also as the first dominant team of Europe?

The memory of the Franco years still generates strong emotions, and Spaniards in general find it hard to talk of the rise of Real Madrid dispassionately. It’s not as if Franco issued large sums of cash to bankroll the team, or even that he took a direct interest in the management of the club. But surely there was never a political environment more favorable to a team that embodied the pride of Castile and the

capital of the nation. Santiago Bernabéu, a player, club captain, and then manager before World War Two, became club president in 1943. His ambition to create a great club was symbolized by almost his first act—the decision to construct a new stadium, which would ultimately bear his name, adjacent to the old one but three times as large. Far larger than many people at the time thought a “small club” needed, and right in the heart of the swankiest part of Madrid, the new stadium made a statement. Bernabéu surrounded himself with financially savvy administrators who managed the club as a proper business, not in the amateur way that most clubs were run in those days. The right contacts with the regime were essential—and Bernabéu was able to ensure that Real got the best of everything. Barça fans in particular will point to the peculiar tale of the legendary Argentine player Alfredo di Stéfano’s signing: he had first agreed to terms with and even played for Barcelona, only to be spirited away by Real Madrid. Even more sinister, many detractors will say that the core of the club’s strategy was fixing the referees.

Once he had his stadium, Bernabéu set about hiring the greatest players of the era from all over the world—not only di Stéfano, but also the Hungarian Ferenc Puskás and Frenchman Raymond Kopa. While most clubs firmly focused on domestic competition, Bernabéu set out to prove that Real was the best club in Europe. Between 1956 and 1960 it won five European Cups (forerunner to the Champions League) in a row. And from that point the club became an aristocrat of soccer.

Like the Habsburg dynasty of old Spain, the club’s decadence opened the door to northern Europeans. By the 1970s, Dutch, German, and English marauders had singed the King of Spain’s beard. The death of Franco in 1975, the transition to democracy, the devolution of power to Catalonia and the Basque Country all sapped the strength of Real. But the Madridistas never forgot, and as the economy of Spain emerged into the light of a Europe without borders in the late-1980s, the city of Madrid now represented a golden opportunity. Hot money flowed in from all over Europe in a frenzy of construction and modernization, and the construction magnate and Real Madrid president Florentino Pérez promised to bring a share of this wealth to the club.

Nothing sells better than royalty, and so Pérez launched a global marketing campaign to make the image of Real the image of soccer. To do this he needed to show that the club was really the heir to di Stéfano’s throne, so in one of the most important deals in soccer history he sold the club’s training facility to the city and bought players so out of this world they could only be called the *galácticos*—Zinedine Zidane, Luis Figo, Ronaldo (the Brazilian, not the Portuguese Cristiano Ronaldo, who came later), and David Beckham added to homegrown talent such as Raúl and Iker Casillas.³ It was proof positive that the royal blood line had survived—as was the team’s victory in the 2002 Champions League final, which produced one of the greatest goals in the history of European soccer: Zidane’s left-foot volley from the edge of the penalty box.

There is a Marie Antoinette quality about Real. All around it, Spanish soccer clubs (all except Barça) are in financial meltdown, unable to afford the perquisites necessary to shine in the royal presence, but the club has no intention of sharing what it has with the peasants.⁴ Unlike the major clubs in every other league, Real does not have to share its sparkly broadcast rights revenue. Its courtiers struggle to muster 20,000 fans per game, while Real glistens in the Bernabéu with 70,000 subjects on average and 80,000 on state occasions. The club demands in tribute some of the highest ticket