

La Liga's RCD Espanyol Analyzing the economics of soccer games

Jordi Sanchez, marketing officer for Reial Club Deportiu Espanyol de Barcelona (Espanyol), was enjoying the summer break from competition. During the season, all of his attention was focused on the day-to-day activities. He appreciated the break because it gave him time to study alternatives to improve the financial performance of the club. This particular morning in July 2015, Toni was studying a report analyzing the returns on the opening match of the season, the Ciutat de Barcelona Trophy – Fernando Lara Memorial (Ciutat de Barcelona). During this friendly match, Espanyol played an invited team at its stadium. Its format was similar to the summer tournaments that most La Liga teams organized to serve as the formal opening of the season. The 2015 Ciutat de Barcelona Trophy was the 41st edition. Despite their long tradition, these tournaments had been losing their appeal over time. The Ciutat de Barcelona used to bring together Espanyol with three other teams, who would play using a knock-out tournament to decide the winner. Since 1983, it had been reduced to just one match.

The report questioned the economics of the tournament. Yet Jordi had doubts about the analysis and its assumptions. Moreover, economic aspects were not the only criteria for making decisions.

The History of RCD Espanyol

RCD Espanyol was founded by students from the University of Barcelona on October 28, 1900, under its original name, Sociedad Española de Football. This name reflected the fact that its players were all from Spain, in contrast to other teams in the city at the time with only foreign players. Its original color was yellow. In 1906 the club went through a rough financial period and in 1909 it reemerged as Club Deportivo Español. In 1910, the team adopted the white and blue stripes with blue shorts in homage to the colors of the great 13th-century admiral Roger de Llúria – one of the most successful naval military figures from the medieval period in the crown of Aragon.

This case was prepared by Professor Antonio Dávila and Daniel Oyon, professor at HEC Lausanne, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. November 2016.

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Espanyol is the fourth team in terms of most games played in the top Spanish league (La Liga). It was one of the founding teams of La Liga in 1928. Despite never winning the league, the team has won four King's Cups (1929, 1940, 2000 and 2006), it reached the Europa Cup finals in 1988 and 2007, and has won many Catalan competition trophies. Its women's team won the league in 2006 and has won six Queen's Cups. (See Exhibit 1 for a summary of Espanyol's performance over the last five seasons.)

In 2015, Espanyol finished 10th in La Liga, missing out on European competitions yet another year¹, and made it to the semifinals of the King's Cup. Espanyol's budget was eighth in the league. Espanyol fans were happy with the team's performance in the King's Cup and with the fact that it avoided the threat of relegation, a serious threat in previous years. Yet, the excitement that had surrounded the team during its more than 100 years of history was losing some steam, despite its amazing new stadium.

The Economic Structure of Espanyol

The financial structure of RCD Espanyol was typical of soccer clubs. Revenues came from three main activities: media rights, match-day revenue and marketing. The cost structure was heavily dependent on players' salaries, which accounted for as much as 75% of revenues in certain clubs.

Match-day revenues included ticketing and any other purchases that fans made at the stadium – typically food, beverage, and merchandising. Ticketing was further divided into season ticket holders and match-day tickets. Season ticket holders bought the right to attend each game of the season, while match-day tickets were for a specific game. The total number of games varied from one season to the next, depending on the team's performance. For instance, the King's Cup was a knock-out competition, with few games if the team was kicked out early in the competition or as many as four home games if the team made it to the semifinals. Also, if the team made it to the top positions in La Liga, it would also play in European competitions the following season, adding more games depending on the team's performance in the competition. (See Exhibit 2 for a list of the number of games per competition for Espanyol's last three seasons.)

Season tickets brought in about €5.7 million in revenues in 2014–2015, down from €7.7 million in 2012–2013. Match-day revenues generated €1.5 million. Stadium revenues also included €2.50 per fan spent during games at the stadium (including merchandising). This additional spending was comparable regardless of whether fans were season ticket holders or coming just for a single match. (See Exhibit 3 for statistics on stadium assistance and Exhibit 4 for Espanyol's financial statements.)

An additional portion of stadium revenue came from VIP boxes. The Espanyol stadium opened in 2010 with a capacity for 39,000 fans. It was designed and built to the most modern standards and was named “Best Stadium” by UEFA in 2010. The stadium included 2,000 VIP seats, which were usually bought by companies for the entire season. VIP boxes were often part of the standard sponsorship package and treated as marketing revenue.

Media rights had become the largest revenue source for Espanyol. In 2015, they accounted for more than €22 million. The media package included all La Liga, King's Cup and summer

¹ The team had to qualify among the top seven teams in La Liga to have an option to play European competitions.



tournaments matches – basically, all home games for Espanyol except for European games whenever Espanyol participated in European competitions. The value of these rights was expected to significantly increase starting in 2016–2017 because of the new centralized selling of La Liga media rights. The value of La Liga rights was expected to increase from €800 million in 2015–2016 to more than €1.3 billion in 2016–2017. The distribution of this money among teams would include a fixed component and a variable component depending on their sporting performance and number of viewers.

The third significant revenue source was marketing. This concept included sponsorship, commercial events and merchandising as its main components. Espanyol structured its sponsors as main sponsors and category official sponsors. Apparel was an important category in soccer, and Espanyol received more than €1.5 million from Joma, its apparel sponsor. Merchandising included a wide range of products associated with the club and distributed at the stadium, across shops in Barcelona's metropolitan area and on the Internet. Match-day merchandising accounted for around 30% of the total €745,000 in merchandising sales.

Beyond sponsorship and merchandising, Espanyol also included in this category friendly matches that the team was invited to play. Most friendlies happened over the summer, although some were scheduled during season breaks. Travel time was an important consideration for friendlies happening outside Europe, where there was a demand for La Liga teams. For instance, in the summer of 2015, the team was scheduled to play in Ecuador (Copa Euroamericana of DirecTV), Italy, the United Kingdom and Austria (Betsafe Cup). Friendly matches balanced out business needs with the demands of an optimal sporting preseason. Some of these matches placed sporting priorities ahead of commercial objectives, while others were mostly driven by marketing purposes. Revenues for the four friendlies in 2015 added up to €600,000. The RCDE College was a new service that Espanyol had started to commercialize. The College offered young foreign players the opportunity to study in Barcelona, while training and playing with the club's farm teams.

Finally, Espanyol generated revenues from the selling of players. The club received a transfer fee for teams that bought the contracts of Espanyol players. These revenues varied significantly from one year to the next and were recognized as “sale of assets.”

The club's main expense was for players' compensation. In 2014–2015, it accounted for 50% of revenues. Players had two parts to their compensation: a fixed salary and a bonus. The bonus had a team component based on the performance of the team, and an individual component. Each player on the roster received a team bonus if the team achieved certain performance goals, such as winning the King's Cup or the final standing in La Liga. The individual bonuses were based on individual performance metrics and varied depending on the player's position.

Espanyol owned its stadium, giving the team a lot of flexibility in terms of looking for ways to exploit it. The stadium was built at a cost of €120 million and it was the main asset in the club's balance sheet. The use of debt to fund the stadium showed up in the significant leverage of the club's balance sheet. Both of these facts were also reflected in the income statement as depreciation and interest expenses. Other expenses were related to the management of the club and its farm system.



The Analysis of the Ciutat de Barcelona

The Ciutat de Barcelona was a legendary tournament. Over the years, teams such as Vasco de Gama, Liverpool and Boca Juniors had come to play against Espanyol. Except for the few years when Espanyol had played in European competitions, fans could only see top European teams at the Ciutat de Barcelona. It was also the only time teams from other parts of the world, mainly South America, could play at the Espanyol stadium. Still, the attractiveness of Ciutat de Barcelona had been declining over time. Part of it was an overall lack of fans' interest in friendly games; the same phenomena had occurred with other summer tournaments of top European teams. Also, La Liga, which used to start in September, had been starting earlier and the 2015–2016 season started on August 15. This schedule pushed summer tournaments into the early part of August, when most of the fans were just starting their vacations and were away from the city.

The conclusions of the report on the Ciutat de Barcelona were summarized into one table (see Exhibit 5, which includes the estimate for 2015). The revenues for the tournament had been estimated as match-day tickets, plus any additional purchases at the stadium from concessions such as food and beverage and merchandising. The average price for tickets was €20 to make it attractive for people in the city to come to the game. The game was part of the season ticket holders' package.

The report also included a detailed analysis of the expenses. Having a match at the Espanyol stadium had certain expenses that were incurred as a result of the match, such as security, VIP catering, cleaning and services. The report mentioned that about 80% of these expenses varied proportionally to the number of fans at the stadium, while the rest did not change. Ticketing expenses were associated with the commission that Espanyol paid to its distributors. In addition, marketing expenses to promote the tournament were €13,000. Finally, sporting expenses were related to the game itself.

The report also stated the need to include additional expenses, although it did not quantify them. The report mentioned four types of expenses: players' salaries, operating expenses, stadium depreciation and interest payments. To estimate the percentage of these expenses related to the Ciutat de Barcelona, the report suggested dividing these expenses by the expected number of games in the season.

Based on the analysis, the report concluded that the Ciutat de Barcelona match was not profitable and suggested that the club should consider alternatives. Jordi, who was not only the marketing manager but also a die-hard Espanyol fan, felt that the tournament was part of the club's heritage, and dropping it meant betraying the club's past. Still, the economics of the club were a crucial piece in bringing the team back into European competitions.

Questions

1. Based on the analysis of the consultants' report, how much does match-day attendance need to increase for the Ciutat de Barcelona to show a profit? How much should season ticket holders' attendance drop in order to show a profit? How much should match day attendance increase if Espanyol decides to spend an additional €30,000 to bring a more attractive guest team?



2. If decreasing ticket prices by 10% would increase match-day fans by 10%, should Jordi reduce prices?
3. If spending an additional €15,000 in marketing for the event would increase match-day fans by 15%, should Jordi spend the money?
4. Do you agree with the consultants' analysis? How profitable is the Ciutat de Barcelona (if at all)? Should Espanyol drop the Ciutat de Barcelona?



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La Liga's RCD Espanyol

Exhibit 1

RCD Espanyol Historical Sporting Performance

Season	La Liga final standing	King's Cup performance
2014–15	10th place	Semifinal
2013–14	14th place	Quarterfinal
2012–13	13th place	Round of 32
2011–12	14th place	Quarterfinal
2010–11	8th place	Round of 16

Source: Prepared by the authors.

Exhibit 2

Number of Home and Away Matches

Season	La Liga	King's Cup	Other	Total
2014–15—home	19	4	1	24
2014–15—away	19	4	5	28
2013–14—home	19	3	1	23
2013–14—away	19	3	6	28
2012–13—home	19	1	1	21
2012–13—away	19	1	6	26

Source: Prepared by the authors.

Exhibit 3

Stadium Attendance at Ciutat de Barcelona

Season	Ciutat de Barcelona	La Liga		
		Average	Minimum	Maximum
2014–15	15,000	18,531	12,710	30,253
2013–14	15,000	19,628	12,650	32,131
2012–13	17,000	20,926	15,280	30,023
2011–12	18,000	23,768	16,627	35,122
2010–11	18,000	26,099	20,134	40,240

Source: Document prepared by the company.



Exhibit 4

RCD Espanyol Financial Statements

(in '000)	Income statement		Assets		
	7/1/2013– 6/30/2014	7/1/2014– 6/30/2015	(in '000)	6/30/2014	6/30/2015
Revenues	€45,402	€51,981	Cash and short term investments	2,764	4,419
Media rights	22,623	22,923	Accounts receivable	42,966	50,415
Stadium revenues	9,253	8,572	Inventories	588	307
Marketing	9,851	9,186	Current assets	€46,318	€55,141
Other revenues	3,675	11,300	Intangible fixed assets	27,319	25,447
Expenses	-42,105	-44,210	Tangible fixed assets	118,797	118,312
Salaries	-20,363	-22,050	Long-term financial investment	13	13
Nonsporting salaries	-2,429	-2,488	Deferred taxes	988	3,116
Operating expenses	-11,058	-10,150	Total assets	€193,435	€202,029
Depreciation	-10,981	-11,602			
Selling of assets	3,546	5,429	Liabilities and equity		
Other expenses	-820	-3,349		June 30, 2014	June 30, 2015
Operating profit	3,297	7,771	Prepaid expenses	4,907	3,283
Financial results	-3,849	-8,281	Accounts payable	45,873	62,021
Taxes	441	145	Short-term debt	25,422	30,030
Net profit	-111	-365	Current liabilities	€76,202	€95,334
			Long-term accounts payable	62,291	54,302
			Long-term debt	41,562	39,384
			Equity	13,380	13,009
			Total Liabilities and equity	€193,435	€202,029

Source: Document prepared by the company.

Exhibit 5

Profitability of the Ciutat de Barcelona Tournament

	2015	2014	2013
Attendance	15,000	15,000	17,000
Ciutat de Barcelona revenues	121,000	124,000	122,000
Match-day tickets ¹	121,000	124,000	122,000
Ciutat de Barcelona expenses	-137,000	-137,000	-144,000
Sporting expenses ²	-44,000	-42,000	-39,000
Ticketing and marketing	-17,000	-18,000	-17,000
Stadium expenses, variable ³	-59,000	-59,000	-70,000
Stadium expenses, fixed ⁴	-17,000	-18,000	-18,000
Profit (loss)	-16,000	-13,000	-22,000

Source: Document prepared by the company.

¹ Match day tickets vary with the quality of the guest team.

² Includes fees for guest team, referees and the Spanish Soccer Federation.

³ Includes security, Red Cross services, VIP catering, cleaning and other match-day expenses (about 80% of stadium expenses).

⁴ Includes energy and lighting, IT and visualization, and fixed services (about 20% of stadium expenses).