

La Liga's RCD Espanyol

Analyzing the Economics of Soccer Games

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Jordi Sanchez, marketing officer for Reial Club Deportivo 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, Jordi 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.

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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 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

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



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