

**What future sustainable funding model(s)
for grassroots sports in the internal market?**

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**THE IMPACT OF ECONOMIC CRISIS ON FUTURE FINANCE
FOR GRASSROOTS SPORTS**

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Introduction

In order to prospect the impact of current financial crisis and recession on grassroots sports finance in EU 27, I would:

- . Start from the knowledge gathered about the structure (model) of European sport finance (Amnyos, 2008).
- . Delineate all the *transmission channels* through which economic crisis can affect sports finance.
- . Provide a *few examples* that confirm a crisis impact.
- . Derive a first view about the most relevant *country sample* to be screened for further stages of the present project.

1. The European structure (model) of sports finance

Overall sports finance, of which grassroots sports is a major share in EU 27, has the following structure:

. *Household* expenditures for sports goods and services (49.7%), in part an indirect finance (namely through sports goods).

. *Local authorities* (24.3%), a significant share of which finances sports infrastructure investment.

. *Enterprises* (14.1%) of which sponsorship revenues are the major share ahead of TV rights revenues (more geared towards professional sports).

. *Government* (11.9%), a decreasing share in the long run.

+ two 'specific sources':

. *Lotteries* and *sport betting*, a percent of which is derived toward government sports finance (either through mandatory payments of para-fiscal revenues or taxation of privately owned commercial betting companies and bookmakers).

. *Voluntary work*: not a source of finance but a substitute to sports finance (EU average: about 0.4% of GDP, *i.e.* about 25% of overall sports finance, this source compares to local authorities, more than government or enterprises).

Since crisis may trigger substitution effects between grassroots sports and professional sports finance (see below), a brief look at the latter (Andreff & Staudohar, 2000) shows (ranked in decreasing significance order):

1. TV rights revenues (TV channels = enterprises)
2. Sponsorship revenues (enterprises)
3. Gate receipts (households)
4. Merchandising and naming (households & enterprises)

5. Subsidies and donations (local authorities and owners – corporations, tycoons, oligarchs, etc.).
6. Markets: flotation at the stock exchange (soccer clubs) and player transfers with a value added by nursery clubs.

2. Identifying transmission channels of crisis impact on sports finance

Household sports expenditures may be impacted (or not) by a fall or stagnation in purchasing power or in their willingness to purchase (indebted households, pessimistic expectations, increased precautionary savings, credit crunch):

- . Regarding sports (and associated) *goods*, it will depend on whether they are *normal goods* (demand decreases when revenue decreases), *luxury goods* (Veblen ‘snob effect’ goods, demand may increase), or *basic needs* (unchanged demand), but the impact is indirect on sports finance since sports goods producers and sellers form a hard core of sports sponsors.
- . Calculate household sport consumption elasticity to revenue variation...

... differentiated by levels of households income (data availability?) to see whether crisis impact is likely to be higher (or lower) than on overall consumption (all consumer goods and services).

. Possible control index: check variation of sports goods sales.

. Similar calculation for consumption of sports *services* which have a direct impact on sports finance (gate receipts, registration and entrance fees for sport practice), and a more or less impact on grassroots than pro sports?

. Possible index: check pro sport attendance and entrance fees in swimming pools, ski lifts, private sports halls, etc., for sport practice.

. Unemployment may also impact on *voluntary work* in the sports sector: unemployed people dispose of more time for participation as volunteers, ...

but like sport practice which attracts more active than non active people, unemployment may be a disincentive to being involved in sport and voluntary work (except if compulsory for unemployed, Scandinavian experiences).

. Recently fired people may spend much time on looking for another job or working in the informal economy rather than going on to sport participation, sports shows and voluntary work in sport.

. Impoverished (indebted) households may have to work more for salaries and reduce their supply of free labour as sports volunteers.

. To be checked in the questionnaire sent to a sample of sports clubs. All the more that we are missing studies about the (complementary or substitutive) relationship between voluntary work and unemployment (even pre-crisis).

. Last question: would it be a *substitution effect* between 1/ charged household sports practice (and attendance to pro sports events) and 2/ sports events Watched for free or at reasonably low price (pay per view) on TV?

Local authorities: in EU 27, many local authorities are indebted to banks, have to reduce (and repay) their debt namely to banks affected by the subprime crisis and its aftermath. Moreover, they face the general credit crunch.

. Difficult to increase local tax burden on households stuck in the crisis.

. Cuts in local authorities sports budgets are foreseeable, though unevenly distributed (small/big cities).

. Likely that authorities would tighten their pecking order in favour of fewer sports, clubs, athletes, events and infrastructures: more in favour of grassroots or high level sports would depend on local policy (and politics).

Two steps in crisis impact on *government expenditures* for sports:

1/ Sports infrastructures may benefit from recovery policies launched since Fall 2008 in EU 27. Namely in those countries (cities) which will host global sports events in the coming years: London Olympics 2012, soccer Euro 2012 Poland (the least affected CEEC by the crisis so far)...

... or which apply to hosting them: Annecy, Winter Games; France and Italy, Euro 2016.

2/ Rising fiscal deficits and public debt will soon call for stabilisation (austerity) policies (to reduce FD/GDP to 3%, PD/GDP to 60%): not good news for the government sports budget which already is not high in government priorities (between 0.01% and 0.88% of overall government budget in EU 27, see Amnyos, 2008) ...

but this would much affect high level sport and infrastructures than grassroots sports (not much financed by central governments).

Enterprises acting as ***sponsors*** may have various strategies during the crisis:
1/ no change; 2/ no change but simply providing less money in each contract;
3/ change their priorities in favour of the most (media) exposed sports, athletes, clubs, events; 4/ quit sport sponsorship considered as an unproductive expenditure when markets are shrinking.

Strategy 2 may be a bad news for grassroots sports, strategies 3 and 4 may be really disastrous and jeopardize the finance of concerned sports associations.

Media enterprises (TV channels), the crisis impact would be blurred:

1/ Recession in advertising and sponsorship budgets may reduce the TV godsend offered for sports events broadcast; this effect cannot be witnessed so far since most TV rights are bargained and signed on a pluri-annual basis. To be checked in the coming months and years. Would not affect grassroots sports or only slightly (TV revenues are polarised on pro sports).

2/ Countervailing tendency: in case of aforementioned substitution effect, the number of sports TV watchers would increase during the crisis, the audience rates of TV sports broadcasts as well, and TV attraction for advertisers may grow (in a crisis period, enterprises seek to reach more potential consumers for their products).

Check whether a substitution effect is at work in the project ?

Lotteries and bookmakers: due to European market deregulation (and de-monopolisation), competition and sales are likely to increase with the possible outcome of increased taxable bets (and somewhat countervail the crisis impact), ...but this money will no longer accrue mandatory payments by public betting companies to a para-fiscal fund (ex: French CNDS). In other countries (ex: UK) will increase tax revenues levied on commercial betting companies and bookmakers

Tax revenues levied on competing betting companies and bookmakers may (or not) go on being channelled to grassroots sports (political and policy issues).

3. Some evidence of the economic crisis impact on grassroots sports finance

President of the IOC: «the main crisis is taking place at grassroots level, as governments overwhelmed by other priorities reduce their supports for sports »

Through the *household channel*:

. Purchases of sports goods decline: as to Sport + Markt consultancy, sport consumption (sports equipment, merchandise and travel) has declined but less than electronics, mobile phones, computer equipment... (sport = basic need?)

... but Nike's sales are down (-7% in 2009), Adidas (-6%), Puma (-3%), in particular in sportswear and footwear (ex: Abercrombie – 29%) ...

which means both a decrease in household demand for sports practice and less money available to traditional sports sponsors.

. Purchase of sports services: Sport + Markt consultancy reports that 17% of Germans and 34% of respondents in the U.K. consider attending fewer sport events in the future to save money...

... and 19% (Germany) are planning to watch sport on TV rather than go to stadium = expected *substitution effect* (good news for TV sports, not grassroots sports).

. In various sports, attendance and gate receipts are stagnating or decreasing, with an outstanding exception: English soccer Premier League, but after ticket price decreases (stagnating ticket prices in Spanish league) and there is a season tickets ratchet effect.

. CCPR study: 39% of UK's sports clubs have seen membership renewals fall, clubs also suffer from a significant reduction in the number of new members, 40% of them have witnessed membership subscription income fall, a small proportion of clubs think they will have to close in the coming year (extrapolation from the sample: 6,000 community sports clubs across the UK).

. Sports clubs are forced to reduce investment in coaching and staff, in kit, facilities and community initiatives, and shorten opening hours and training offered.

. Sports clubs are all the more in trouble that *volunteering* is affected by economic crisis: over 20% of clubs have felt a negative impact in attracting and retaining volunteers in the U.K.

Through the *local authority channel*:

Local authorities watchword is: we do not want to reduce our sports budget, but we cannot increase our subsidies for a while.

In France, the Cour des Comptes (auditing all public expenditures) has called local authorities in the red to cut in subsidies allocated to professional sports teams ... a call which may also affect grassroots sports (policy choice).

Most cuts are still to come with forthcoming austerity policy (to be checked).

Through the *government channel*:

.After Hungary, Latvia, Romania (under IMF conditionality), now Greece, Possibly Portugal, Ireland and Spain, public budget austerity is under way (further in all EU 27) , no chance for sports budgets to escape austerity stagnation or cuts.

. The presidents of national Olympic committees have already complained to Mr. Rogge of falling government support, which may be exacerbated by deregulation of the sports betting market.

. Meanwhile, sports have somewhat benefited from recovery policies, Ex: 150 million €for financing stadium modernisation in view of France application to hosting Euro 2016.

Through the *sponsorship channel*: the most spectacular impact, but I would remind that this source of finance is not the most significant for grassroots sports.

Global market for sponsorship was in the range of 44 billion \$ in 2008 of which about 45% for sports.

60% of English sports clubs suffer from reduction in commercial revenues.

Some sponsors have *maintained* their financial aid, Ex: BNP Paribas / Roland Garros tournament, Bouygues Telecom / cycling and sailing, Ericson / sailing. They argue: a/ we are long run partners who benefit over many years (despite the current crisis); b/ do not exhibit that your company is not well in cutting sponsorship expenditures.

Sponsors who *reduce* their contribution to sport finance, Ex: Rock/ Newcastle, XL / West Ham, Fortis & Dexia / Anderlecht, Team Lagardère / various sports (- 30%), or athletes' salaries: Rossignol / French skiers

Sponsors who *concentrate* on most exposed athletes, clubs and events, Ex: Lacoste, detrimental to grassroots sports; + Lacoste relocates 30% of its investment in China and Brazil.

Sponsors who *quit* sports: Vodafone / cricket and horse races, Honda / F1, Royal Bank of Scotland / golf and tennis, Crédit Suisse / F1, Kawasaki / moto GP, Kodak and Ford / NASCAR, Air Astana / cycling, General Motors / Tiger Woods, ING / F1, Suzuki and Subaru / rallye raids, AIG / Manchester U, Lexus / women golf, Quinn Insurance / British golf Masters, etc.

This is the tip of the iceberg: more sponsors have left amateur grassroots sports.

A number of sports teams and events did not find sponsors in 2009, Ex: France fencing squad, Golf Open in Russia, one French pole vaulter, etc.

Through the *media* (TV) *channel*: ratchet effect of pluri-annual contracts, but few examples of downward bargained TV rights, Ex: TF1 and Canal + Lowered the price for Champions League broadcast (December 2008), the same with Sky Italia (Murdoch) and RAI in Italy, the French *Coupe de la Ligue* was not able to prolong its contract with public channels ... this will not affect grassroots sports.

Through *sport betting*: PMU sales (France) have increased by 1%, apparently a similar sale increase in various EU countries; in 2009, the CNDS has provided 138 billion €(coming from PMU and FdJ) to the sports ministry (60% of its budget) which has distributed 65% of this amount in subsidies to sport associations.

The French (and EU) market will be fully open to competing betting companies in June 2010 at the latest: PMU has already signed a partnership with Paddy Power and expects to keep 25% of the sport betting market (3/4 Less for CNDS?).

La Française des Jeux – FdJ (the other public enterprise) will keep its monopoly over on line lotteries and sport betting (how long?).

4. Selecting sports clubs in a country sub-sample (of EU 27)

France has the most representative sport financing structure compared to EU average: France, H = 50%, LA = 30%, E = 10%, G = 10% while EU average, H = 50%, LA = 24%, E = 14%, G = 12% + sports affected by crisis.

U.K. and *Germany* = also a must, have filled all data and possibility to Complete with several existing studies (sport/crisis); 10 other EU countries have filled all the data (Amnyos, 2008).

Most significant household finance: Cyprus, *Finland*, *Netherlands*, *Sweden*

Local authorities: Denmark, Finland, Sweden, *Luxembourg*, Netherlands

Enterprises: *Estonia*, *Slovenia*, Netherlands, Sweden

Government: Estonia, Latvia, Luxembourg, Slovakia, Romania, Slovenia, Bulgaria, Finland, Greece, Hungary, Lithuania, Ireland ...

Discussion is open: do we want in the sample the most or the least affected countries by the crisis, or both?

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