

## THE ORGANIZATION AND ECONOMICS OF ITALIAN SERIE A: A BRIEF OVERALL VIEW

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### *Introduction*

Italian football industry is at a crossroads. In fact, the football industry in Italy reached the aggregate value of Euro 3.6 billion.<sup>1</sup> This is in line with a growth registered in Europe. The European football market grew by 4% to Euro 16.3 billion in 2009/10 whereas Italian Serie A's revenues increased only by 3% to Euro 1,532m.<sup>2</sup> In fact, football is the most popular sport in Italy, with 31 millions of fans and 1.2 millions of active footballers. Moreover, 9 million of Italians regularly watch matches at stadiums, and 20 million read about football in newspapers and 25 million who follow football on television or radio.<sup>3</sup> It has been estimated that

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<sup>1</sup> Source: Report Calcio 2011

<sup>2</sup> source: Football Money League 2011, Deloitte

<sup>3</sup> Source: Lega Calcio.

football generates aggregate revenue amounting to Euro 6.272 billion.<sup>4</sup> Football is also the activity preferred by 53 percent of the firms that choose to communicate through sport. Football receives 54 percent of the total investment in sporting sponsorship. In the 2008-09 season, Italian TV networks broadcasted 3,115 hours in total of programming dedicated to football (including pay-TV non-specialised transmissions). The 25 most-watched television programs in the history of Auditel (Italian TV audience rating agency) have all been football matches. The clubs followed the economic development of the sport industry.<sup>5</sup>

Needless to say, it is clear that the organization of football in Italy is a sensitive issue which very often attracts prolonged attention and debate. Moreover, in Italy football is often interpreted as an element of national pride and identity. The national team has won the World Cup four times (second only to Brazil) and the Italian teams are second only to Spanish teams if considering the number of European cups won, and first if considering only the UEFA Champions Leagues after its inauguration in 1992.

In some cases, it could be also argued that this great popularity has been used to motivate and justify some exceptions to ordinary rules. Football teams for example have had a very favourable application of the fiscal regulation. The popularity of the game lies behind possible slippage of the authorities' toleration of financial misconduct when it concerns football clubs rather than «ordinary» firms operating in other fields and businesses. Moreover, the authorities seem to have a different attitude towards football-related hooliganism in comparison to riots occurring on other occasions which cause similar incidents.

This article is intended to analyse briefly the fundamentals of the organization of Italian top football and its economic aspects. Furthermore, we review the evolution of the financial situation in professional Italian football and attempt to depict what we think are the main causes of evident under-performance, which threatens to turn into a full-blown crisis. Moreover we will depict the evolution of the management of the most important source of funding for Italian football, namely the TV-rights.

### 1. *The institutions of Italian football*

The Italian Football Federation is the governing body of football in Italy. Founded in 1898,<sup>6</sup> it was originally called Federazione Italiana Football (FIF) since all terms

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<sup>4</sup> M. CAMPIOLI, *Il contesto industriale*, paper given at Business Club Italia [www.businessclubitalia.org/2010.htm](http://www.businessclubitalia.org/2010.htm) (22 January 2010).

<sup>5</sup> On the evaluation of sport economy please see W. ANDREFF, *Globalization of the Sport Economy*, in *Riv. Dir. Ec. Sport*, vol. 4, n. 3, 2008, 13-31. For a comprehensive economic definition of sport please see R. CARUSO, *Crime and Sport Participation: Evidence from Italian Regions Over the Period 1997-2003*, in *J. of Soc. Ec.*, (in press), 2011; R. CARUSO, *Il calcio tra mercato, relazioni e coercizione*, in *Riv. Dir. Ec. Sport*, vol. 4, n. 1, 2008, 71-88; P. DOWNWARD, A. DAWSON, T. DEJONGHE, *Economics of Sport: Theory, Evidence and Policy*, Butterworth-Heinemann, Oxford, 2009.

<sup>6</sup> It included originally just four clubs – Genoa (*Genoa Cricket and Athletic Club* - now *Genoa Cricket*

and rules of the game were those of the English FA. The first league took place on a single day, May 8, 1898 in Turin. This first federation was an «amateur» federation respecting FIFA rules since it became a member in 1905.<sup>7</sup> In 1909 FIF was renamed Federazione Italiana Giuoco del Calcio (FIGC). FIGC is one of the 45 national sports federations affiliated to the Italian National Olympic Committee (Comitato Olimpico Nazionale Italiano, CONI),<sup>8</sup> a public body responsible for the development and management of sports activity in Italy. Its annual budget is funded by the Italian government, private donations, and income from the various football betting pools in Italy (Totocalcio, Totogol, Totoscommesse etc.).

At the end of World War 1, Italian football saw an impressive development and several athletes were judged to be professional players and banned according to the FIFA agreements. From 1922 to 1926 more severe rules were approved for keeping the «amateur» status of players effective such as footballer's residence and transfers controls, but the best players were secretly paid and moved from other provinces illegally. Foreigners had to live in the country in order to get a residence visa and the player's card. In 1926 the Board of the Italian FA resigned following a severe referee's strike, thus Lando Ferretti, the fascist president of the Italian Olympic Committee appointed a Commission to reform all Leagues and federal rules. The Commission produced a document called the «Carta di Viareggio» where football players were recognized as «non-amateurs» and allowed to apply for refunds to the football teams they had played for. They had to sign a declaration stating they were not professional players so that FIFA rules were formally respected, since for the Italian FA they were still appearing as «amateurs» receiving just refunds. Despite this, it was the beginning of professional football in Italy.

The Italian FA organises the Italian national football teams for men and women and the Italian women's championship<sup>9</sup> while the men's top competitions are organised by leagues. The Serie A was created in 1929. Since 2004, 20 teams takes part into the championship which is organised in a round-robin format. Since Italy is currently rated as one of the top three European countries in terms of club football ratings, the top four teams in the Serie A qualify for the UEFA Champions League. The top three teams qualify directly to the group phase, while the fourth-placed team enters the competition at the third qualifying round and must win a two-legged knockout tie in order to enter the group phase. Teams finishing 5th and 6th qualify for the UEFA Europa League. The three lowest placed teams are relegated to Serie B, which is composed of 22 teams. Until 2010, two professional

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& *Football Club* was the first Italian club), FC Torinese, Internazionale di Torino and the Società Ginnastica di Torino. Other clubs existed, but decided not to join.

<sup>7</sup> Later on it was also a founding member of UEFA.

<sup>8</sup> Founded in 1914 (it was then reorganized as a legal body with the law 426/1942), and a member of the International Olympic Committee (IOC).

<sup>9</sup> The female competition was officially introduced by the Italian FA in 1986 as a non-professional competition, although a championship has been played in Italy since 1968. The women's Serie A currently includes 12 teams. The winning team qualifies for the UEFA championship and the last two teams are relegated in Serie B.

leagues co-existed: the Lega Calcio (founded in 1946) organising the top two professional championships (Serie A and Serie B) and the Italian Cup,<sup>10</sup> while the Lega Pro (founded in 1978 when semi-professionalism was abandoned) organises the First (two groups of 18 clubs) and Second Divisions (three groups of 18 clubs), making a total of 132 professional teams. Following a row over TV rights, Serie A clubs announced a split from Serie B in 2009; hence as of July 2010 there are three professional leagues: the Lega SerieA (organising the Serie A championship and the Italian Cup), the Lega SerieB (Serie B) and the Lega Pro. The interregional, regional and provincial committees of the Amateur League organises the six amateur levels. In addition to the clubs and the leagues, three important associations are affiliated to the Italian FA: the National Association of Footballers (created in 1968 by a group of leading players), the National Association of Trainers, and the National Association of Referees.

This helps to explain why even in the face of the enormous economic interests, the regulatory framework into which football has entered in recent years has been inspired by opaque principles and, notwithstanding the numerous scandals that have occurred. For example, in 2006, the Calciopoli match-fixing scandal, disclosed a complex system of coercion operated by managers of Juventus in accordance with some referees, other managers and some FA officials in order to influence the results of matches and championship. The Italian FA was placed in administration in May 2006. Juventus had been found guilty from the Sport judicial system. Therefore it was denied the win of the 2004-2005 championship and eventually it was relegated to serie B. Minor punishments were assigned also to Lazio, Milan, and Fiorentina.

Politicians and football authorities, in particular, have demonstrated a clear opportunistic behaviour by exploiting the popular impact of football, tolerating a widespread illegality in the management of clubs, the practice of doping, and the latent criminality in the sphere of supporters' organisations,<sup>11</sup> which often spills over into grave acts of violence. In other cases, politicians have given the impression of connivance, exploiting the world of football in order to win consensus, at the local level and above all at the national level, where populist measures have been adopted. This had been particularly true for right-wing post-fascist parties. For example, in the last electoral tournament held in Lazio region, the right-wing candidate for presidency showed up in the midst of Lazio fans who are traditionally considered to be extreme right-wing activists. In fact, the football influence is so pervasive that in the Italian Parliament in the latest years, the lawmakers have mimicked the organised groups of football fans by creating fan clubs of several Serie A teams.

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<sup>10</sup> This tournament was first introduced in 1922, but it has been regularly disputed since 1958.

<sup>11</sup> The main role of most local fan clubs is to provide a meeting place for fans (*tifosi*) and friends and organize away trips. However since the late 1960s many Italian fans rely on organized stadium groups known as Ultras. Although they are not represented in any club board, they are commonly expected to put a pressure on clubs owners and local communities. In some cases, some organized groups are also considered to shape and inspire hooliganism.

## 2. Ownership of Italian Serie A Teams

The floatation of football clubs on the Stock Market Exchange is one of the main factors that has turned Italian football, long considered as a sport activity with economic interest concentrated in a few top actors (players, teams, etc.), into a conventional business activity. Until 1981, professional football clubs were organised as not-for-profit associations. According to the 91/1981 law, clubs employing professional players had to organise joint-stock companies with the qualification that any profit had to be reinvested in the sport activity. In 1996 the quotation of football clubs was allowed by law 586/1996 and consequently the previous prohibition for sport companies to pay dividends and settling surplus like an ordinary profit company was cancelled (although it introduced the obligation for the clubs to reinvest at least 10 percent of operating incomes in soccer academies). The implementation of this law also meant that football companies were allowed to diversify into related activities or activities instrumental to the sport business. Previously sport companies had to deal with sport operations only. Thus, football companies evolved from non-profit organizations to for-profit entertainment companies dealing with any business that could generate incomes leveraged on the football clubs' visibility. This was expected to increase the financing opportunities for football clubs as well as the synergies with companies operating in various businesses and it made football clubs attractive to wealthy investors rather than to fan tycoons only.

Consequently, since Tottenham in 1983 in United Kingdom, some teams in Europe have been listed in the stock exchange. In Italy, the first club listed on the Stock Exchange was S.S. Lazio in 1998, followed by Juventus in 2001 and AS Roma in 2002. Unfortunately long-run returns of stocks seem not to payoff. On 3th July 2006 the stock price of A.S. Roma was 1.150 euros while on 1st July 2011 the closing price was at .699 (-39,2% in five years). In the same interval, the stock price of Juventus F.C. decreased from 1.165 euros to .872 (-25,15% in five years). In the same period only investors in S.S. Lazio got a positive return (+70.17% from .295 to .502 euros). More in general the whole football sector in Europe did not perform particularly well. The STOXX european football index on 3rd July 2006 was 120.5 while on 1st July 2011 it was 130.11 so recording an increase of 8.3%.<sup>12</sup> In general, there is a growing awareness that only sporting performances have a significant impact on the stock market valuation of football clubs. In particular, This is especially true in those countries – like Italy – where teams are not able to diversify the sources of income.

However even listed teams in Italian serie A are largely controlled by holding groups or individuals. For example, Exor, an investment company controlled by the Agnelli' family, owns more than 60 percent of Juventus, Italtipetroli, controlled

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<sup>12</sup> For a comprehensive account on listing of football teams please see A. CIARRAPICO, S. COSCI, P. PINZUTI, *Risultati sportivi e performance di Borsa nel calcio europeo in Riv. Dir. Ec. Sport*, vol. 6, n.2, 2010, 63-87.

by the Sensi family owns directly and indirectly around 67 percent of Roma while over 67 percent of the S.S. Lazio stock is owned by Claudio Lotito. Indeed, most clubs in the Serie A are owned by family groups or individuals controlling companies operating in unrelated businesses. Given the current financial outlook in the Italian football industry, it seems extremely unlikely for those owners to make any positive return on the football investment. Thus, we may infer that these clubs' owners, beyond giving paternalistic support, are spending personal (groups') funds in an attempt to acquire high media exposure, social status, and possibly political influence in order to facilitate other types of businesses. Table 1 below shows who are the owners of each Italian football company that participated in Serie A 2009-2010 as well as their main activities and most relevant trading brands.

**Table 1: Ownership and main activity of football companies in Serie A, 2010-11**

CLUB	PRESIDENT/PATRON	OWNERSHIP	OWNERS' MAIN ACTIVITIES	OWNERS' MOST RELEVANT TRADING BRANDS
AS Bari	Vincenzo Matarrese	Family	Construction	Salvatore Matarrese Spa
Bologna FC 1909	Albano Guaraldi	Individuals and corporations	Miscellaneous	Various (referred to the holding company shareholders)
Brescia Calcio	Luigi Corioni	Individual	Toilet seats and bathroom accessories	Saniplast
Cagliari Calcio	Massimo Cellino	Individual	Cereals processing and trade	Sem, Stipar, Simec, Ism, Sice
Catania Calcio	Antonio Pulvirenti	Individual	Airline, hotels	Wind Jet, Platinum Resort
AC Cesena	Igor Campedelli	Individual	Construction	Opera
Chievo Verona	Luca Campedelli	Individual	Baking and confectionary industry	Paluani
ACF Fiorentina	Andrea Della Valle	Family	Shoes, luxury leather goods, and casual wear	Tod's, Hogan, Fay
Genoa CFC	Enrico Preziosi	Individual	Toys manufacturing and distribution	Giochi Preziosi, Gig, Toys Center
FC Internazionale	Massimo Moratti	Family	Oil refine industry	Saras, Sarlux, Sardeolica

CLUB	PRESIDENT/PATRON	OWNERSHIP	OWNERS' MAIN ACTIVITIES	OWNERS' MOST RELEVANT TRADING BRANDS
Juventus FC	Exor (Agnelli family)	Family	Conglomerate (Motorcar, Banking, Miscellaneous etc.)	Gruppo FIAT, Intesa-SanPaolo, Alpitour
SS Lazio	Claudio Lotito	Individual	Cleaning, sanitization and surveillance	Snam LAzio Sud, Coopservice Scarl, Roman Junior Security
US Lecce	Pierandrea Semeraro	Family	Diversified	None
Milan AC	Silvio Berlusconi	Family	Conglomerate (Communication and entertainment, banking and insurance financial services, etc.)	Mediaset, Arnaldo Mondadori, Mediolanum, Medusa
SSC Napoli	Aurelio De Laurentis	Family	Production and distribution of films	Filmauro
US Città di Palermo	Maurizio Zamparini	Individual	Large Chain Stores	Mandi
Parma FC	Tommaso Ghirardi	Individual	Mechanics industry	Leonessa
A.S. Roma	Thomas Di Benedetto	NEEP Roma Holding S.p.A. (60% DiBenedetto AS Roma LLC, 40% Unicredit S.p.A.)-	Sport Management	Liverpool, Red Sox
UC Sampdoria	Riccardo Garrone	Family	Oil industry and Energy	Erg
Udinese	Franco Soldati	Family	Tools for wood processing and Fans' manufacturing	Casals Herramentas, Casals Ventilacion, Freud

Since football is widely reported to be economically unhealthy or non-profitable at the club level, we have tried to analyze the owners' main business activities to see if synergies emerged between their activities and the football business itself. Apart from the entertainment (e.g. AC Milan and Napoli) and the construction<sup>13</sup> sectors it did not seem predictable that the football club ownership we have identified among the Serie A clubs (please see Table 1) would facilitate exploitation of synergies between the clubs' owners main businesses of and football. Thus, we may conclude that also in Italian football business a pure economic rationale does not apply to the football industry. In many cases, clubs are dependent on contradicting institutions such as the civil sector, the market, the state, and the sport itself.<sup>14</sup>

Instead, entrepreneurs or corporations that have an interest in acquiring English clubs rely heavily on a business rationale. The primary concern is related to the availability of funding, either direct funding in the form of a takeover by a «patron», or indirect, where the acquisition is funded by borrowing against the club's assets and future income streams and then loading that debt on to the football club.<sup>15</sup> That is, in simpler words, the acquisition of an English club seems to be a pure commercial decision. As a consequence, several English clubs were bought by foreign businessmen. A novelty of the Italian next season will be a similar deal concerning the new ownership of AS Roma. Thomas Di Benedetto, a US private equity investor, has become the first foreign owner of a top Italian football club. An US consortium led by Mr Di Benedetto, who already has interests in the Boston Red Sox and Liverpool Football Club, acquired a 60 per cent stake in a new holding company (NEEP Roma Holding S.p.A.) for the club.

### 3. *Management of stadia*

In Italy, the sports facilities are typically owned by the municipalities and the clubs have almost no formal power to decide how the sports facilities should be used, particularly when grounds are shared by two clubs (e.g. in Milan or Rome). A few years ago, major Italian football clubs and also some of the minor ones realized that owning or renting a stadium for a long period is one of the main ways of increasing revenue. In times of economic crisis, as in the present period, ownership or long-term leasing (30-90 years) of a stadium is amongst the most highly debated topics in the business. Besides the opportunity to diversify sources of revenue

<sup>13</sup> In recent years, a few Italian construction groups have been attracted by the business opportunities inherent in stadia construction (e.g. Bari, Bologna, Cesena and Siena, promoted to Serie A in the 2010-11 season), and accordingly they have decided to invest directly in clubs in order to be able to control those prospective building projects more tightly.

<sup>14</sup> H. GAMMELSÆTER, B. SENAUX, *Perspectives on the Governance of Football Across Europe*, in Gammelsaeter H., Senaux B., (eds.), *The Organisation and Governance of Top Football across Europe*, Routledge, London, 2011.

<sup>15</sup> S. MORROW, *History, Longevity, and Change: Football in England and Scotland*, in Gammelsaeter H., Senaux B., (eds.), *The Organisation and Governance of Top Football across Europe*, Routledge, London, 2011.

ownership or long-term leasing it also represents important tangible assets in contrast to the volatile and hazardous intangible assets (such as players' contracts) usually found in clubs' balance sheet. In particular, the management of stadium is expected to be the core of new marketing mix of football teams.<sup>16</sup> Most Italian clubs participating in Serie A have announced plans to transform their stadia into highly impressive venues or to build new stadia in locations that should be more convenient for adding lucrative corporate hospitality. So far most Italian clubs' aspirations to build new stadia have remained on hold as clubs' owners are waiting for the appropriate time to obtain building permission from city authorities and to raise finance for their project. To date, only Juventus embarked on the construction of its own stadium which has been just completed and will be inaugurated at the beginning of the new football season.

#### 4. Some Economics of Italian Serie A

As noted above the Italian Serie A, in spite of the economic downturn, increased the revenues by 3% in the season 2009/2010. However, the imbalance between revenue and costs has worsened more than elsewhere among the main European Football Leagues. In particular, the sources of funding for professional teams of Serie A have severely changed their relative weight. This is clear while reading the figures of the period 1998-2008. Table 1 reports the breakdown of total turnover of Serie A from 1998-2008. The subtotal A summarizes the 'traditional sources of funding' which are related to attendance of matches, namely the *game tickets* and the *season tickets* sold. The subtotal B summarizes the sources which can be defined as *media-related*, namely (i) TV-rights, (ii) sponsorships and (iii) advertising. In spite of the evidence that advertising and sponsorships have always been a source of funding for sport clubs, their relative weight clearly increased in the presence of a larger audience due to TV broadcasting.

If we pay attention to the absolute figure, the total turnover of teams increased by 140 percent from 1998 to 2008. Needless to say, such increase depended mainly on the massive increase of TV related sources such as TV-rights, sponsorships and advertising. The revenues from TV-rights increased from a percentage quota of 37 percent in 1998 to a quota of 63 percent in 2008. This is in line with the process of transformation of European football which started in the early 1990s. In Italy, the introduction of pay-TV in 1993 and, subsequently, the introduction of the «Pay-per-View» system in 1996 led to a major increase in revenue from TV companies, and since then TV-rights have become the most important income stream for football clubs. However, in spite of increasing importance of TV-rights across Europe, we must consider also that such severe imbalance between TV-rights and the other sources of revenues is an Italian peculiarity.

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<sup>16</sup> Please, see on this point S. GIUDICE, *Il Marketing nella gestione di uno stadio moderno*, in *Riv. Dir. Ec. Sport*, vol. 4, n. 2, 2008, 37-65.

According to the Annual Review of football finance 2008 released by Deloitte, the TV rights to turnover ratio is the highest in Italy's Serie A (63 percent), followed by the French (58 percent), the Spanish (42 percent), the English (39 percent), and the German premier leagues (35 percent). Moreover, data from the Deloitte Football Money Leagues for the 2006-07, 2007-08 and 2008-09 seasons shows that the four Italian teams Milan, Juventus, Internazionale, and Roma generate a significantly lower percentage of their revenue from matchday receipts compared to other big European teams. In particular, Juventus is the least able in this respect because of the lowest average home match attendance among the top European teams. Table 2 reports the breakdown of total revenues as computed by Deloitte in its report Football Money Leagues. AC Milan, Juventus, Internazionale and AS Roma are the teams which are included within this European group of high-revenues teams. As it is clear from table 2, the Italian teams are the least able to generate matchday revenues. In particular, Juventus is the least able in this respect because of the lowest average home match attendance.

**Table 1. Breakdown of Total revenues**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(**)	(**)	(**)	(**)
Serie A	73,406	75,315	66,326	68,321	74,113	59,509	62,059	69,570	54,811	48,828	67,861
European Cups	20,676	19,776	17,015	20,771	30,513	46,335	14,116	28,759	22,911	20,811	22,721
Coppa Italia and Friendly Matches	24,916	21,567	17,481	13,173	10,633	19,522	16,704	20,969	16,988	10,651	24,646
Season Tickets	99,360	104,941	101,410	84,656	75,710	84,957	93,031	106,605	84,945	75,706	88,635
<b>Subtotal A</b>	<b>218,358</b>	<b>221,599</b>	<b>202,232</b>	<b>186,921</b>	<b>190,969</b>	<b>210,323</b>	<b>185,910</b>	<b>225,903</b>	<b>179,655</b>	<b>155,996</b>	<b>203,863</b>
Sponsorships	70,606	99,255	125,664	153,915	152,223	161,972	166,955	186,135	187,814	134,596	187,512
TV rights	241,303	248,371	595,543	618,609	602,266	646,141	631,801	765,559	872,875	731,693	984,932
Advertising	29,410	36,924	45,321	62,985	73,432	74,776	77,740	85,178	85,619	74,217	100,824
Other	90,155	107,588	90,141	128,246	107,228	68,781	90,311	72,918	73,364	66,463	84,488
<b>Subtotal B</b>	<b>431,474</b>	<b>492,138</b>	<b>856,670</b>	<b>963,755</b>	<b>935,149</b>	<b>951,670</b>	<b>966,807</b>	<b>1,109,790</b>	<b>1,219,672</b>	<b>1,006,969</b>	<b>1,357,756</b>
<b>Total (A+B)</b>	<b>649,833</b>	<b>713,737</b>	<b>1,058,902</b>	<b>1,150,676</b>	<b>1,126,118</b>	<b>1,161,993</b>	<b>1,152,717</b>	<b>1,335,693</b>	<b>1,399,327</b>	<b>1,162,965</b>	<b>1,561,619</b>

Source: Lega Serie A, \* 18 teams, \*\* 20 teams; data are at 30 June every year

**Table 2 - Composition of total revenues**

			<b>Total</b>	<b>Commercial</b>	<b>Matchday</b>	<b>Broadcasting</b>
		<b>Rank</b>	<b>Turnover</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
			<b>(m euros)</b>			
Real Madrid	2008/2009	1	401.4	35	25	40
	2007/2008	1	365.8	35	28	37
	2006/2007	1	351	39	23	38
Manchester United	2008/2009	3	327	25	39	36
	2007/2008	2	324.8	25	39	36
	2006/2007	2	315.2	27	44	29
Barcelona	2008/2009	2	365.9	31	26	43
	2007/2008	3	308.8	33	29	38
	2006/2007	3	290.1	32	31	37
Chelsea	2008/2009	6	242.3	26	36	38
	2007/2008	5	268.9	29	35	36
	2006/2007	4	283	30	39	31
Bayern Munich	2008/2009	4	289.5	55	21	24
	2007/2008	4	295.3	60	23	17
	2006/2007	7	223.3	48	25	27
<b>AC Milan</b>	2008/2009	10	196.5	33	17	<b>50</b>
	2007/2008	8	209.5	29	13	<b>58</b>
	2006/2007	6	227.2	20	13	<b>67</b>
<b>AS Roma</b>	2008/2009	12	146.4	28	13	<b>59</b>
	2007/2008	9	175.4	27	13	<b>60</b>
	2006/2007	11	157.6	19	15	<b>66</b>
<b>Internazionale</b>	2008/2009	9	196.5	27	14	<b>59</b>
	2007/2008	10	172.9	21	17	<b>62</b>
	2006/2007	9	195	19	15	<b>66</b>
<b>Juventus</b>	2008/2009	8	203.2	27	8	<b>65</b>
	2007/2008	11	167.5	29	7	<b>64</b>
	2006/2007	12	145.2	31	5	<b>64</b>

Source: Deloitte, Football Money League

The relative importance of media-related revenues is a relatively new phenomenon. In fact, media-related sources increased by 215 percent whereas the traditional sources decreased by 7.2 percent from 1998 to 2008. Whilst this could have been explained by a substitution effect between gates and TV broadcasting, there is evidence that it is hooliganism and the perceived insecurity and low standards in the grounds that actually determine the reduction in gate attendances.<sup>17</sup> More recently the trend seems to have turned.<sup>18</sup> According to data provided by the Serie A League (Lega Calcio), the average attendance (game tickets and seasonal tickets) increased by 7 percent. This corresponds with the decreased level of hooliganism. According to the figures released by the Ministry of Internal Affairs, the number of injured people in stadium decreased by 78 percent between 2003 and 2008,<sup>19</sup> perhaps as a result of the measures approved in the «Pisanu decree» in the summer of 2005 which strengthened the sanctions and tightened enforcement against hooliganism. Among other measures, the decree required football clubs to meet new safety standards in the grounds, something which was elaborated in the law n.41/2007.

Given the heavy dependence on TV-rights of Italian teams their governance and redistribution has been a highly disputed issue in recent years. In the period 1993-1999 the TV broadcasting rights were managed collectively by the League. The revenues originating from TV rights increased from 180 billion of Lira (Euro 93 million) to 447 billion, an increase by 148 percent. However, under the pressure of the most powerful clubs such as Juventus and Milan, supported by a regulation introduced by the Italian Antitrust Authority,<sup>20</sup> the TV-rights came to be managed exclusively by the clubs. This meant that starting with the 1999-00 football season, pay-TV and foreign television rights for the Serie A and Serie B had to be negotiated directly and individually by the football clubs and no longer through the League. Whilst the League continued to be entrusted with the task of negotiating rights for public television, each team had to bargain with TV companies the rights for broadcasting their home matches. This measure increased the amount of funding allocated to the Serie A teams. The rights' values for the Serie A and B championships and the Italian Cup more than doubled with respect to the previous period (from about Euro 231million to approx. Euro 511million). The positive trend continued in the following season, during which pay-TV channels paid out more than Euro 550million to obtain TV rights.

The drawback of the new measures was the huge gap between the top

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<sup>17</sup> R. PENN, Sport e sviluppo locale: l'esperienza del calcio inglese, in A. Baroncelli, U. Lago e S. Szymanski, (eds.), *Il Business del calcio*. Milan, 2004 EGEEA; M. DI DOMIZIO, *Competitive Balance e Audience Televisiva: una analisi Empirica della Serie A Italiana*, in *Riv. Dir. Ec. Sport* vol. 6, n. 1, 2010, 27-57.

<sup>18</sup> This assumption is supported also by the reduced hooliganism observed in Germany since the renovation of stadiums that took place after the 2006 World Cup.

<sup>19</sup> Figures retrieved from [www.osservatoriosport.interno.it/primo\\_piano/2009/marzo/3\\_marzo.html](http://www.osservatoriosport.interno.it/primo_piano/2009/marzo/3_marzo.html).

<sup>20</sup> Autorità Garante per la Concorrenza e il Mercato: Decrees N° 6869 dated 10 February 1999 and N° 7340 dated 1 July 1999, Proc. N° 1362 - Sale of TV rights.

teams and the rest of participants in the League that now increased. Because pay-TV companies started to apply a strictly market-based system, the income of the particular clubs was premised on subscriptions and other market indicators. This resulted in a concentration of resources in the hands of a few big clubs and to a controversy between the smaller clubs and the League which eventually caused the start of the 2002-03 Serie A and Serie B championships to be delayed. The small clubs pointed out the fact that the payments they were offered by the pay-TV companies were about one tenth the amount offered to clubs such as Juventus and Milan. It would not have enabled them to balance their accounts, and would have forced them to dramatically reduce salaries in order to avoid bankruptcy. In turn, this would have caused a weakening of their teams, making the championship far less interesting.

The problem was temporarily solved, as the major clubs agreed to pay out a small sum to level out the money offered by the pay-TV companies to the smaller clubs. However, the problem reappeared one year later, following the acquisition of Tele+ and Stream by Sky, which owns the TV rights for most clubs, including the largest. A group of small clubs (Brescia, Perugia, Ancona etc.) launched an alternative television platform called «Gioco Calcio», in which the League purchased a capital share. However, the enterprise failed at the beginning of March 2004 when all the Serie A clubs resolved to sell their TV rights to Sky.

The increasing gap in revenues between the top-teams and the rest made it pertinent to reorganise the allocation system and in 2007, according to the law 106/2007, it was ruled that collective and centralized sales of broadcasting rights should be introduced from the 2010-11 season. Therefore, the League now bargains the sale of TV-rights to media companies. That is, the Italian professional football league of Serie A sells different packages of service to media companies on behalf of the professional teams. The total amount for 2010-11 season is around Euro 900 million, which will increase up to Euro 930 million in 2011-12.<sup>21</sup> Infront Sports, a Swiss sport marketing company has been appointed as exclusive media rights partner to the League. However, a new struggle took shape to allocate the revenues. In fact the expected allocation was based upon the law and was supposed to allocate the revenues following three criteria: a) 40 percent of total revenues is equally distributed among participant teams; b) 30 percent of total revenue is allocated according to historical performance. In particular 5 percent will depend on past season's championship performance; 15 percent will depend on the latest five seasons of performance; and the remaining 10 percent will depend upon «sport tradition» and historical ranking; c) 30 percent of total revenues is allocated following the potential demand proxied by number of fans (25 percent) and the population of cities (5 percent). In particular, the number of fans will be calculated by means of surveys. The «low weight» that population is given in the criteria can be defended on the basis that the presence of large cities with two teams, such as Milan (Milan and Internazionale), Rome (Roma and Lazio), Torino (Juventus and Torino,) and

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<sup>21</sup> Source: Lega Calcio, 2010.

Genova (Genoa and Sampdoria) makes the calculation of team fan-base inaccurate.

These new rules would have significantly changed the allocation of TV revenues. «Middle level» teams like Fiorentina and Sampdoria would have gained considerably more from the new regulations and the top clubs would have faced cuts in their broadcast revenues. Needless to say, the historical ranking criterion clearly favours top team such as Juventus, Internazionale and Milan. However, as noted above, «middle level» teams such as Roma, Napoli, Fiorentina and Sampdoria will benefit more in relative terms because they have participated for many seasons in the Serie A tournament and even have won championships. In fact, the historical ranking has been calculated according the British rule which assigns points on the basis of the final standings of a season in a descending order, (i.e. 20 points for the winner, 19 points for the runner-up and so on). That is, this criterion awards also a continuous participation into Serie A. However, the new criteria have not been accepted quietly. IN particular, the measurement of fan base has been highly debated. According to A.C. Nielsen which in 2007 computed the fan base of Serie A teams, Juventus was around 10 millions followers followed by Internazionale and Milan with about 6 millions each, Napoli with about 3 millions and Roma 2.5 millions.<sup>22</sup> However, at the time the law 106/2007 passed, there was no official measurement of the fan base. Therefore, in may 2011 the governing body of the League assigned the contract to evaluate the fan base to a consulting firm. The results of the survey fuelled a new conflict between top-teams and smaller teams. In fact, the new evaluation of the fan base would have decreased significantly the quote of TV rights accruing to the top-teams. For example the Juventus which has been traditionally considered the most loved team in Italian football turned to «weight» for only the 19% of Italian football fans (this would have decreased its quota by 13 million of euros).<sup>23</sup> Therefore, after a complex mediation, a new agreement has been reached in July 2011. This novel agreement had halved the quota of TV rights to be assigned following the fan base criterion. This had lowered the loss which was to be experienced by top-teams.<sup>24</sup> In brief, the novel agreement also appears to be conservative. This is in particular, a confirmation of the peculiar feature of Italian football. In spite of the economic benefits deriving from a closer competition, Italian football seems to be designed to guarantee the long-term dominance of top-teams. That is, in Italian Serie A the competitive balance has always been in favour of few important top-clubs.<sup>25</sup>

<sup>22</sup> Il Sole 24 ore, 2 November 2009.

<sup>23</sup> Gazzetta dello sport, Inter, Juve Milan, Il conteggio dei tifosi dà meno incassi TV, 28 June 2011.

<sup>24</sup> Gazzetta dello sport, C'è l'accordo sui diritti TV, La Lega di A si compatta, 8 July 2011.

<sup>25</sup> On competitive balance in Italian football please see: M. DI DOMIZIO, *Competitive Balance e Audience Televisiva: una Analisi Empirica della Serie A Italiana*, in *Riv. Dir. Ec. Sport*, vol. 6, n. 1, 2010, 27-57; P. DI BETTA, C. AMENTA, *A Die-Hard Aristocracy: Competitive Balance in Italian Soccer, 1929-2009*, in *Riv. Dir. Ec. Sport*, vol. 6, n. 2, 2010, 13-40; T. DEJONGHE, W. VAN OPSTAL, *Competitive Balance Between National Leagues in European Football after the Bosman Case*, in *Riv. Dir. Ec. Sport*, vol. 6, n. 2, 2010, 41-61; L. GROOT, *De-commercializzare il Calcio Europeo e Salvaguardarne l'Equilibrio Competitivo: una Proposta Welfarista*, in *Riv. Dir. Ec. Sport*, vol. 1, n. 2, 2005, 63-91.

### 5. *Costs out of control. Financial fragility of Italian teams*

Even though revenues have soared over the last five years thanks to the revenue from TV-licences, costs have risen at an even higher rate. According to the data spread in ReportCalcio2011 the aggregate s of Italian professional football raised up to 2.7 billion of Euros. The main reason of such imbalance seems to be the amount of salaries for players and coaches. In particular, players' and coaches' salaries and wages show a constant growth rate since the 1996-97 season. According to the data of Lega Calcio, in 2006-07 wages and salaries accounted on average for 62 percent of the total turnover, up from 57.5 percent in 1997. In the meantime, in 2001-02, wage costs already accounted for almost 90 percent of sales revenue.<sup>26</sup>

In the season 2009-2010, before the January market window the main Italian sport newspaper *Gazzetta dello Sport* presented the data on the salaries for 500 Serie A players<sup>27</sup> and revealed that 22 percent of the Serie A players were paid more than Euro 1 million a year. In the 1994-1995 season 7.4 percent of 418 Serie A players had salaries at Euro 1 million or above. Most of these players play for the top clubs; hence the gap has increased between them and the other teams. Internazionale, the team at the top of the ranking in 2008-09, had a payroll amounting to Euro 150 million and 24 out of 25 players earned more than Euro 1 million. Milan, with a payroll of Euro 25.5 million, and Juventus, with Euro 115 million, both paid 21 out of their 25 players more than Euro 1 million. The wage bill of middle level teams, such as Fiorentina, Napoli, Genoa, Lazio, Palermo, Parma, and Sampdoria, were in the range of Euro 24 and Euro 40 million, whereas Atalanta and Chievo paid their players about Euro 13 millions. It was perhaps unsurprising that Internazionale won the league in 2010. Neither is it surprising that low salary teams finished at the bottom of the ranking. As a matter of fact Internazionale's payroll was more than ten times that of Atalanta's which was relegated and nearly four times that of Napoli which finished 6<sup>th</sup> in the ranking.

The previous figures highlight why Italian top football system suffered such a pervasive financial crises at the beginning of the 2000s. In the 2002-03 financial year operating losses of the Serie A and Serie B clubs were estimated at Euro 1.5 billion as compared to a turnover level of Euro 3 billion. Debts for the clubs in Serie A alone were also estimated to be in the region of Euro 1.5 billion. Virtually all Serie A clubs showed a net loss in their balance sheets and this loss would in fact have been much larger if extraordinary items had not been taken into consideration.<sup>28</sup>

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<sup>26</sup> for a deep analysis on this points, please see: M. NICOLIELLO, *Reddito e Capitale nelle società di calcio: la massima serie italiana 1998-2007*, in *Riv. Dir. Ec. Sport*, vol. 4, n. 2, 2008, 67-94; V. VENTURELLI, *Costi e ricavi, Investimenti e Finanziamenti nelle società di calcio*, in F. Bof, F. Montanari, G. Silvestri, (eds.), *Il Management del Calcio*, Milano: Franco Angeli, 2008.

<sup>27</sup> Source: *La Gazzetta dello sport*, retrieved from [www.gazzetta.it/Calcio/03-09-2009/eto-o-re-denari-campionato-501202803300.shtml](http://www.gazzetta.it/Calcio/03-09-2009/eto-o-re-denari-campionato-501202803300.shtml) (last access august 2011).

<sup>28</sup> Not to mention the fact that it has been suspected that a part of these extraordinary items have been faked.

Moreover, one should take into account that the Italian Government in 2003 issued an ad hoc decree, the «decreto salvacalcio» (popularly known as the «Spread-the-Losses» Decree), which allowed clubs to amortize players' transfer fees over a ten-year period. No similar regulation would have been approved for any other industrial sector. Despite this favourable regulation in 2009 the accumulated debts of the Serie A teams were still estimated at Euro 2.2 billion, with four of the biggest teams accounting for over half of it.<sup>29</sup>

### Conclusions

Italian football is at a turning point. As noted above, the novel mechanism of redistribution of TV-rights increasingly is expected to improve the competitive balance within the League and to benefit Italian football in the long term, whereas in the short term it is painful for the Italian top clubs.

What remains to be solved is the financial distress of the Serie A teams. The economic sustainability of Italian football is related to issues that will increase in importance with UEFA's accentuated focus on greater cost control in clubs and the implementation of UEFA financial fair play from the 2013-14 season.<sup>30</sup> The most critical issues for the change of Italian football business are perhaps stadia development and income diversification. The revenues generated by the exploitation of stadia accounts for as much as 35 percent in top European leagues, compared to less than 15 percent in Italy. This is due to the fact that grounds do not belong to clubs but to the municipalities and the revenues they can generate are therefore restricted to matchday income. Moreover, almost no corporate hospitality revenues are generated in Italy and average revenue per attendee are rather small considering the lack of additional services available in the grounds. A new bill that is meant to facilitate the construction of grounds by football clubs is currently being discussed in the Italian Parliament and its approval may in the short run be vital for the ambition of Italian clubs to remain among the European top clubs.

In addition, Italian clubs have not been very successful in developing commercial activities. The commercial revenues they generate are the lowest among European largest football leagues. A new attitude toward marketing activities, the protection of brands, the ability to better exploit the fans fidelity, and an improved customer service provided by both the Italian League and the clubs are critical to diversify the source of incomes in Italian football. Another major improvement area concerns the sale of TV-rights on international markets. The

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<sup>29</sup> Internazionale had a gross debt of around Euro 432 million, followed by Milan (Euro 365 million), Lazio (Euro 130 million) and Juventus (Euro 109 million). Please see *Il Sole 24 ore*, 19 settembre 2010 and 10 May 2009).

<sup>30</sup> On the financial fair play see A. BERNOLDI, C. SOTTORIVA, *La disciplina della redazione del bilancio di esercizio delle società di calcio. Confronto con l'esperienza internazionale ed impatto del c.d. financial fair play*, *Riv. Dir. Ec. Sport*, vol.7, n.1, 2011, 147-191. see also R. CARUSO, *Il Fair Play finanziario è già finito KO*, *Fin. Merc. Sport*, 21 June 2011.

visibility of Italian football worldwide could be improved if the Italian League and the clubs were able to create an international broadcasting format and develop selling synergies.

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