David Beckham and the Selling of European Football

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Earlier this summer, an earthquake shook the world of football. Spanish team Real Madrid, considered by many the best team in the world, signed David Beckham, the icon of sports marketing who, until then, had played for England's Manchester United. Beyond its impact on the world of football – called "soccer" in the U.S. – this move is part of a deliberate management strategy aimed at transforming football into a world-class marketing machine. The message is clear: "It is no longer enough to score goals," says one observer. "You also have to sell jerseys."

At Real Madrid the emphasis is very definitely on selling the jerseys, and anything else it can. The team paid Manchester United a hefty $41.3 million transfer fee for Beckham, who will receive an annual base salary of $6.8 million. What the organization wants in return is more than good corner kicks.

"Purely from a football perspective," says Scott Rosner, a lecturer in Wharton's legal studies department, "Beckham is a terrific player, but Real Madrid is so good that Beckham may not make the starting lineup. His real value to the team is in the branding of the club worldwide. He is yet another star that Real Madrid can sell as they try to enhance their world image."

Indeed, on the same day that the signing was announced, Beckham landed in Japan accompanied by his famous wife, ex-Spice Girl Victoria Adams, and an entourage of bodyguards. There to greet him was a legion of fans eager to see the most famous couple in the United Kingdom – a vivid demonstration of the level of interest that inspired Real Madrid to go after Beckham. According to a study by Sportsnet.com last May, Beckham is the most popular athlete in the world, beating out such stars as Michael Jordan, Tiger Woods and Brazilian football star Ronaldo, his new teammate.

"Beckham is a sociological phenomenon, with more than 60,000 web pages of information about his movements. His popularity is greater than that of the British Royal Family," says Miguel Angel Sastre, professor of corporate organization at the Universidad Complutense de Madrid. "Getting him onto the squad of Real Madrid is not just a case of betting on a sports plan. His arrival on a team so laden with stars is going to relaunch his image throughout the entire world. And his image generates more income than his performance in football stadiums."

Money Machine

Beckham is captain of the England team and, on two occasions, was judged the second best player in the world by FIFA (the international football governing body). But it's his ability to make money for himself, his team and his sponsorship partners that is unique. When Beckham's agents, SFX Sports, were pitching their man to Real Madrid, they included a long list of his commercial successes. Revenues from his advertising campaigns during the last two years alone, for example, are estimated at $23.8 million.

Among the brands that have used Beckham's image are Adidas, Castrol, Vodafone, Marks & Spencer and Pepsi. The payoff for the sponsors has been impressive. According to *Marca*, the leading sports daily of Spain, British department store chain Marks & Spencer expanded its market share from 3% to 6% during the first six months of its contract with Beckham. Vodafone also saw how profitable it was to sign up Beckham; sales of the [cellular phone] company grew by 41% during the first six months of the year when he was its icon – the same growth numbers that candy company Meiji posted when it, too, showcased the English star.

"David Beckham is the best example of the new management model in football," notes José María Gay, professor at the University of Barcelona. "It is no longer enough to score goals; now you have to sell jerseys ... In 1995, 50% of the income of football teams was generated by [ticket holders]. Today, that represents barely 30% percent of revenues. The other 70% comes from advertising, merchandising, rights for televising and re-broadcasting the games … As a result, it is the players who are pulling the cart."

Alex Rodriguez Bobbleheads

Players like Beckham may be pulling the cart, but they don't get paid as much as their counterparts in the U.S. Even though the European salary structure is beginning to move higher, "salaries are much lower in European football than they are in the professional sports leagues in the U.S.," says Rosner.

Beckham and the other stars on Real Madrid make annual salaries of between $6 million and $7 million, with the ability to earn several million more based on performance goals. In the U.S., the salaries in the National Basketball Association (NBA) are capped at $14 million. In the National Football League (NFL), Donovan McNabb, quarterback for the Philadelphia Eagles, last year signed a $115 million 12-year contract, with an additional $20 million in bonuses. Baseball player Alex Rodriguez, shortstop for the Texas Rangers, has a contract that pays him $252 million over 10 years.

In addition, the system that Beckham plays under operates differently than the one in the U.S. Beckham, for example, has agreed to give part of his advertising revenues to Real Madrid, instead of pocketing it all as he had at Manchester United. But in the U.S., a more common example is that of NBA rookie sensation LeBron James, who recently signed a $90 million endorsement contract with Nike and gets to pocket the entire amount.

At the same time, however, most players in U.S. sports leagues give up some of their group marketing rights to the leagues and their teams. "Because the players have a union negotiating on their behalf collectively, the players associations during the process cede some of their rights back to the league," says Rosner. The Texas Rangers baseball team, for example, is allowed to give away Alex Rodriguez bobbleheads, and use Rodriguez' name to promote the team and sell clothing. The team keeps the money.

In the NFL, says Wharton legal studies professor Ken Shropshire, "the NFL players association has its own marketing arm, as does the league. The individual teams also have the ability to market their own products. In addition, the association gives all the players some percentage of the revenues that the enterprises bring in. Even if you are the worst player, you get some amount of money."

A few years ago, Shropshire adds, the NBA adopted the same arrangement. But some of the players in the NBA players association – such as Michael Jordan and Charles Barkley – "backed out of that deal because they didn't want their image to get too diluted. That was allowed because they are such big stars. All they did was turn down a check that was smaller than anything they could earn on their own."

In Europe, Shropshire adds, "the leagues seem to be much less structured; they aren't the marketing machines that the NBA or NFL are, so the onus falls a lot more on the individual teams to figure out ways to get their name out there and make more money."

Madrid's Turn

That appears to be the strategy of Florentino Pérez, who became president of Real Madrid three years ago. One of his first moves was to sign up the Portuguese player Luis Figo – the 2001 FIFA player of the year – for a $61.7 million transfer fee. The Frenchman Zinedine Zidane, the best player in the world in 1998 and 2000, was the second big acquisition, this one at a cost of $75.1 million. Ronaldo, star of the

Brazilian team that won the 2002 World Cup and top goal scorer of the tournament, also joined Real Madrid during the past season. Despite worries over Ronaldo's damaged knee, Florentino Pérez bet on his recuperation and, above all, on his commercial drawing power; Perez signed up Ronaldo after paying the $45 million transfer fee to Inter Milan.

Beckham is the latest arrival and clearly the one with the most earning potential. One team sponsor – Siemens, the Munich-based electronics and electrical engineering firm – is already rubbing its hands in anticipation of the impact that Beckham will have on its profits. During the past fiscal year, the first with Siemens sponsoring the team, the German company's share of the market in Spain grew from 17% to 24%, according to Sastre. And in Brazil, Siemens achieved a 60% market share thanks to the appeal of Ronaldo and another Brazilian star, Roberto Carlos.

Beckham's four-year contract with Real Madrid could also be a great opportunity for Siemens and other sponsors to grow in the Asian and British markets where Beckham is an authentic idol of the masses. The club recently completed a tour that began in China on August 2, and then went to Tokyo, Hong Kong and Thailand – following in the footsteps of Beckham's former team, Manchester United, which brought in close to $7 million on each of its Far Eastern tours.

The Search for Profitability

In short, the "search for profitability" is on, says Santiago Alvarez de Mon, a professor at IESE. "Although some people criticize the new direction that Real Madrid is taking, it's clear that, in order to maintain a similar line-up of stars, you need a lot of revenues. Advertising has been shown to be the best way of getting that."

Accountability, apparently, is part of that. "A management trend among teams is to make payments that vary according to how well players succeed in their sport, or by measuring their involvement in terms of the number of games they play," says Sastre. "This allows management to transfer the economic risk to the players and make the main component of its costs more flexible. For example, Barcelona announced at the beginning of the year a new salary policy for all its players that tries to establish a general payment [based on] the number of games they play and the number of personal goals they achieve during each season."

Initially, there are reasons to think that the game can turn out badly for the Real Madrid players, in part because its squad is endowed with [so many] top stars. "It's like the Los Angeles Lakers basketball team," says Shropshire, listing the number of top stars on the team today, including Shaquille O'Neal, Kobe Bryant, Gary Payton and Karl Malone. "It's always tricky if you have too many stars in any sport to figure out how to keep everybody happy." In the case of Real Madrid, adds Rosner, "there is only one ball and they have 11 guys who play on the field together. It could backfire in terms of (Beckham) fitting into the team."

A second concern is the economic impact on players who have ceded part of their advertising income to the club. "Let's not forget that Real Madrid earns about $30.6 million a year from advertising," notes Sastre. "In Beckham's contract, Madrid is guaranteed 50% of the revenues from image royalties, [an arrangement it had] with Figo and Ronaldo. Those sources of income are very important." The fact that Beckham would agree to sign this clause "is an example of the player's interest in being with Real Madrid," adds Alvarez de Mon, suggesting that Beckham was moved more by prestige than by money.

Other risks include possibly injury to Beckham or even the possibility that "he just doesn't play well," says Rosner. On the financial side, the risk is that "he doesn't enhance the value of Real Madrid's world wide brand by the amount they are paying him, although I don't think there is much of a risk of that happening. On the day Real Madrid signed him, orders for its jerseys on the web site were record breaking."

In the last analysis, Rosner says, “because Beckham is such a big star, only a handful of clubs can really take advantage of his star power. Real Madrid, as one of the top three clubs in the world, is able to capitalize on that star power. They are able to pay him more, and he is worth more to them than he is to any other club.”

But Rosner does see a potential problem in “the larger issue of competitive balance. Is this move good for football as a whole? Think of the New York Yankees. One of the criticisms of this team is that they are ruining baseball because they spend more than everybody else. The same thing is happening in Europe. You have a handful of clubs that dominate the scene and the rest of the clubs are like off-Broadway players. It is only going to get worse. The handful of ‘haves’ will continue to thrive and the rest, the majority of the clubs, will be left to gather the scraps.”

Shropshire wonders whether European football will even be able to catch on in the U.S. to the degree that the teams would like. “Marketing soccer in the U.S. is not working as rapidly as people kept predicting it would,” he says. “If Real Madrid spent $41 million [on Beckham] expecting to capture more of the U.S. market, I don’t think they will be too successful. But is there more to capture in Europe and Asia? That seems to be the case.”

In Manchester United’s Footsteps

Although it is Real Madrid that is getting all the attention now, its strategy is not a new one. The first team to capitalize on its image was Manchester United, one of the most important clubs in the world and, according to *Business Week*, the most popular. With sales of $203 million and a profit of $50.3 million, barely one-third of its revenues (39%) come from ticket sales. The rest are derived from television contracts (36%), commercial agreements (18%) and merchandise royalties (7%). Moreover, the team can count on filling its stadium – the largest in England, with 67,700 seats – during every game.

Conscious that football is a mix of spectacle and business, Manchester follows a strict financial policy that does not allow player contracts to exceed 50% of its revenues. Moreover, its presence on the stock exchange requires Manchester to regularly show convincing financial results. This year, the club expects to take in $260 million, an increase of 28%, and to issue shares in the U.S. stock market.

With this objective in mind, the club recently completed a four-game tour of the U.S., playing in Seattle, Los Angeles, New York and Philadelphia, playing to sold out crowds everywhere but in Los Angeles and winning all four games. It was clearly an attempt to win the affections of the 28 million Americans who play football, and to take advantage of the recent attraction that the sport has enjoyed thanks to the fact that the American team reached the quarter finals during the 2002 world championships in Korea.

Manchester also wants to convince investors on Wall Street of the profitability of investing in a company such as theirs, where customers and sales grow year after year. According to Sastre, “Manchester and Real Madrid are the teams that have the highest brand value – an intangible asset that keeps giving a better economic return … Entrepreneurial vision and professionalism,” he adds, “will be imposed on the management of [football] clubs, and those that don’t do so will have serious problems.”

Alvarez de Mon believes that this model is inevitable “because clubs are conscious of the fact that they cannot continue running up debt the way they have been; they need to find new sources of income outside their partners.”

He also recognizes that “an economist’s view of a sport as passionate as football can seem a bit sad, since such aspects as loyalty to the team or the importance of reserve players lose their value. But it is clear that, if teams are going to be profitable, they cannot continue to manage themselves the way they have been until now, not if they want to be a great club studded with stars that have million-dollar contracts.”

To many observers, this new model of football management seems to be a positive one for everyone – for the teams, which fatten their coffers with the advertising contracts of the players and their commercial drawing power, but also for the football players, who enrich their images by taking part in the most prestigious clubs. Yet it is also apparent, says Alvarez de Mon, that "as much marketing strategy as these teams have, in the end they must score goals. The clubs will never lose that sense of perspective because, when everything is said and done, fans are going to ask for results."