

The Business of the Beautiful Game

With the World Cup just a few months away, and Chile's team "La Roja" in the mix, bUSiness Chile looks at the economic potential of the country's football industry and compares it with the multi-million dollar leagues of Europe.

By Gideon Long



For many Chileans it was one of the highlights of 2009: Jorge Valdivia splitting the Colombian defense with an inch-perfect pass to Fabián Orellana, who slid the ball past the goalkeeper into the net to seal a 4-2 victory in Medellin that sent Chile through to the World Cup finals in South Africa.

Thousands of fans spilled out into downtown Santiago's Plaza Italia on that memorable night last October to celebrate Chile's return to the world's greatest football tournament after an absence of 12 years.

But it wasn't just the fans who were celebrating. The sponsors, the television channels, the Chilean football association and the merchandisers all reveled in the success of La Roja because these days, football is big business, and there's nothing that generates money quite like a World Cup.

FIFA, the governing body of world football, will hand out US\$416 million in prize money to the 32 teams at this year's tournament. As an indication of just how quickly football is growing economically,



that is more than double the amount from France 1998, the last time Chile made it to the finals, and 60% more than at the last World Cup in Germany four years ago. The global financial crisis might have hit some industries hard, but football isn't one of them.

Of that total, Chile will get around US\$8 million for qualifying, part of which will pay for hotels, transport and training facilities during the group stage of the month-long tournament, which kicks off in Johannesburg on June 11. If the team progresses to the second round and beyond, the prize money will increase, and if coach Marcelo Bielsa pulls off a miracle and guides Chile to victory in the final, the team will come home US\$30 million richer having secured a place in the history books.

Chile's National Professional Football Association, the ANFP, has already struck a deal to give a portion of the prize money, reportedly around 15%, to the players. The rest will go into the association's coffers to pay off debts and fund growth of the sport in Chile.

But the prize money is just a small

part of the story. Around the world, millions of people will watch the finals on television. FIFA estimates that 715 million souls watched Italy beat France in the 2006 final – more than 10% of the world's population - and that some 2.2 billion people watched the competition at some stage. Television rights are therefore a huge business.

All Chile's matches will be screened

live by state broadcaster TVN, starting with the opening match against Honduras on June 16 in the town of Nelspruit. La Roja will then take on Switzerland in Port Elizabeth on June 21 and Spain in Pretoria on June 25.

But while TVN will ensure that Chileans see their team, real football addicts might consider subscribing to DirecTV for the duration of the tournament. The satellite



“In England they spend 0.14% of GDP on football, in Spain 0.12% and in Chile 0.02%. You can draw your own conclusions from those figures.”

Harold Mayne-Nicholls,
president of the National
Professional Football
Association (ANFP)

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“There is the potential for other football clubs in Chile to follow the big three on to the stock exchange.”

Guillermo Tagle,
executive director of
brokerage IM Trust

service has exclusive rights in Chile to broadcast all 64 World Cup matches in high definition. At the moment, the channel has 150,000 subscribers. It hopes to add another 70,000 this year, purely as a result of its World Cup coverage.

The fact that Chile will be among the 32 teams competing in South Africa is a huge bonus for the ANFP as it seeks to give football in Chile a boost. “There’s no doubt that Chile’s classification for the World Cup puts us in a different position when it comes to negotiating with companies, both now and in the future,” ANFP President Harold Mayne-Nicholls told bUSINESS Chile.

Home Team Advantage

Once the tournament in South Africa is over, Chile’s football fans will turn their attention back to their national championship. It might lack the glamour and big-name players of the World Cup, but it’s followed with at least as much passion, as anyone who has been to a football match in Chile will testify.

But the Chilean championship faces a number of challenges. Average attendance is low and many of the country’s stadiums are in disrepair. The ANFP has seen how successful and lucrative football can be in England, Spain and Italy and would like to follow those examples. But for now, the championship is a long way from maximizing its financial potential.

One of the problems is that Chilean football is dominated by three clubs: Colo Colo, Universidad de Chile and Universidad Católica. In a poll conducted last year by Adimark, 44.7% of respondents said they supported Colo Colo, while 24.2% swore allegiance to Universidad de Chile and 7.1% to Universidad Católica. No other club polled more than 3%. In terms of income and merchandising potential, these three clubs dwarf the other teams many of which struggle to stay afloat.

Cristián Aubert, the general manager of Universidad de Chile’s owner Azul Azul, says the club’s business model is divided into five segments: ticket sales,

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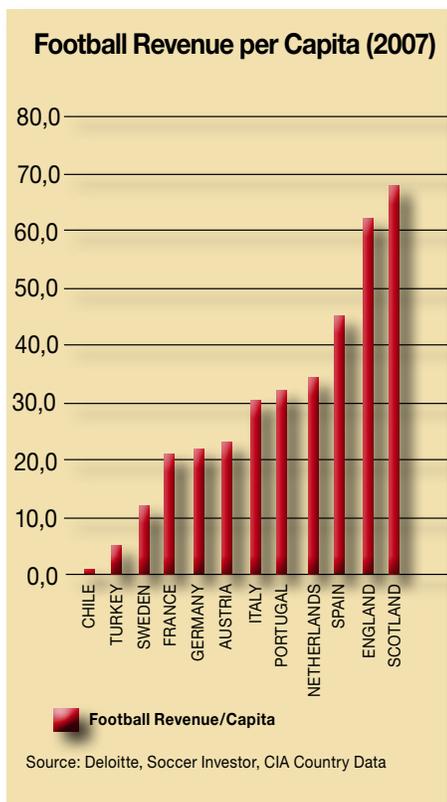
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marketing, merchandising, media and player transfers.

The most lucrative of these is ticket sales, accounting for around 50% of income. Merchandising and marketing bring in another 30% and media 20%. The club doesn't budget any income from the sale of players because it's too unpredictable, said Aubert.

Marketing income includes money from the club's main sponsor, Mexican telecom giant Telmex, which has its name emblazoned on the team's shirts. Another source of income is shirts and accessories. Universidad de Chile has a deal with its kit supplier, Adidas, which means that every store in Chile has a section dedicated to the team's merchandise.

The media segment includes the sale of television broadcast rights, which Aubert estimates accounts for around 10% of Universidad de Chile's total income.

Broadcast Rights

Since 2003, the exclusive rights to broadcast Chilean football matches have been held by the cable channel

Canal del Fútbol (CdF). Under the terms of their deal with the ANFP, CdF keeps 20% of the money it makes from the business. The remaining 80% goes to the association for distribution between the clubs.

When it started broadcasting six years ago, CdF had just 60,000 subscribers for its premium service, which allows viewers to watch five matches each weekend. Its annual contribution to the ANFP was US\$3.6 million. These days, it has around 500,000 subscribers, and the number is growing. Each year, the channel ploughs more money into the ANFP, which dishes it out between the clubs. Next year, CdF expects to make around US\$35 million, and has projected a three-fold increase in that amount over the next five years.

But the way in which the money from CdF is distributed is contentious. Much of it is divided equally between the 32 member clubs of the ANFP, to the annoyance of the big three clubs, which want a bigger slice of the cake.

"We feel that we're getting less than we really deserve," said Aubert, who points out that the big three clubs get only 30% of the income from CdF even though their fans make up around 80% of the channel's subscribers.

The issue is likely to become even more fraught in late 2010, when the ANFP's contract with CdF is due for renewal. "The so-called big clubs have every right to demand more, but it's an issue that needs to be resolved by the presidents of all the clubs, in a clear and transparent way," ANFP President Mayne-Nicholls said.

For its part, CdF says it is committed to constantly improving the service it offers subscribers, but it also points out that covering football – particularly in a country with Chile's geography – is a tough logistical challenge, and is not cheap.

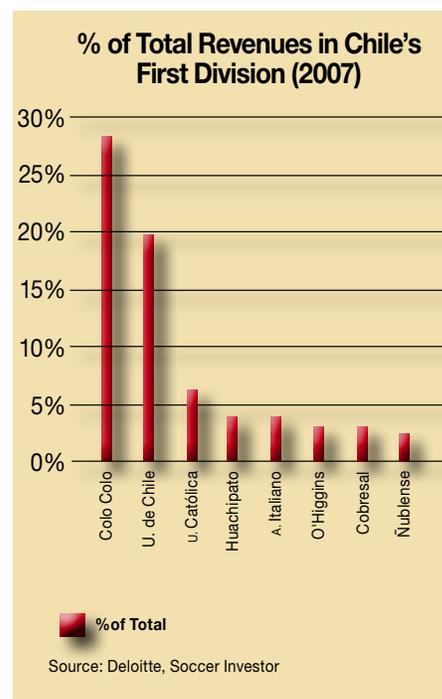
To cover a match you need several television cameras placed around the stadium and a large film crew. Every time CdF leaves Santiago to film, it takes a huge roadshow with it.

"Think what it involves to go all the



"I really believe we should be moving towards the European model for football club income – a third of the money from ticket sales, a third from marketing and a third from media."

Cristián Aubert,
general manager of
Azul Azul



way up to Calama to cover a match involving the local side Cobreloa,” says Jorge Claro, president of CdF. “It’s over 2,000 km there and back, with a large crew and a lot of equipment. It’s costly.”

Learning from Europe

CdF’s rapid growth and increasing subscriber base shows just how much appetite there is for football in Chile but, even so, when compared to the big European leagues, the local championship is dirt poor.

According to the ANFP, 0.14% of GDP in England is spent on football and in Spain 0.12%. In Chile, the figure is just 0.02%. The average person in England spends US\$60 a year on professional football, either on tickets or merchandising. In Chile, the figure is just US\$2 a year.

CdF pays millions of dollars each year for the rights to broadcast Chilean league games, but it is still around 160 times less than Rupert Murdoch’s Sky TV pays for the rights to broadcast the English Premier League. At Azul Azul, Telmex is one of the biggest paying sponsors in Chile. But the amount it pays is still peanuts compared to the amount that, say, Samsung pays to sponsor Chelsea or Pirelli to sponsor Inter Milan.

A report by business advisors Deloitte, submitted to the ANFP a year ago, found that Chile’s first division clubs made US\$40 million between them from sponsorship and advertising in 2007. But that is modest compared to even the smallest European countries. The equivalent Swedish clubs made US\$119 million in the same year, the Austrian clubs US\$207 million and the Portuguese US\$327 million.

Deloitte urged Chilean football to follow the European example in order to prosper financially. This means the country’s clubs need to attract more sponsorship and sell more merchandise. As they do, their business models will change as has happened in Europe. In England, Spain and Italy, the

days are long gone when clubs made most of their money from ticket sales. Nowadays, the top Italian clubs, for example, make only 13% of their money from gate receipts. The rest comes from the sale of broadcast rights, sponsorship and merchandising.

Playing the Market

One way Chilean clubs can raise money is via the stock exchange. Just last month, Universidad Católica became the third club to list on the bourse, following Colo Colo (Blanco y Negro) in 2005 and Universidad de Chile (Azul Azul) in 2008.

Católica’s Initial Public Offering of 40 million shares, or 80% of the club, raised US\$24.6 million. It was seven times oversubscribed and attracted interest from abroad as well as within Chile. In all, the market capitalization of the three big football clubs on the Chilean stock exchange is now around US\$100 million.

“I think there is the potential for other football clubs in Chile to follow the big three on to the bourse,” said Guillermo Tagle who, as executive director of local brokerage firm IM Trust, was one of the architects of Católica’s IPO.

As they get richer, Deloitte says clubs urgently need to make their stadiums safer and more pleasant. At the moment, many Chileans avoid football grounds which are regarded as intimidating and potentially dangerous. But if the clubs invested more in their stadiums, they would be able to charge higher ticket prices and soon recoup their investment.

This is what happened in England, which has long since shaken off its reputation for football hooliganism. These days, a ticket to see an English Premier League match averages around US\$80, and yet matches are sold out because of the quality of the spectacle. In Chile, the average seat at a first division match is only US\$6, and many people still don’t want to go.



“As our service improves, as prices come down, as teams get richer and invest in better players, more people will subscribe.”

Jorge Claro,
president of
premium football
channel CdF

As the Chilean football league prepares to kick off again after the summer break, and as La Roja turn their attention to the World Cup, it is clear Chile has some work to do if it wants a truly first class football championship.

But there are plenty of examples to follow. All the major European football leagues have undergone a transformation over the past decade or so, and there’s nothing to suggest the local championship can’t do the same.

In the meantime, most Chilean football fans will be hoping for their team’s success on the pitch rather than worrying about the long-term economic wellbeing of the sport. The World Cup is only a few months away, and what better way to celebrate the country’s Bicentenary than with a victory. **bUSINESS CHILE**

Gideon Long is a freelance journalist based in Santiago. He also works for the BBC.