

## Record breakers

### THE RISE, RISE AND RISE OF THE WORLD RECORD TRANSFER FEE IN FOOTBALL

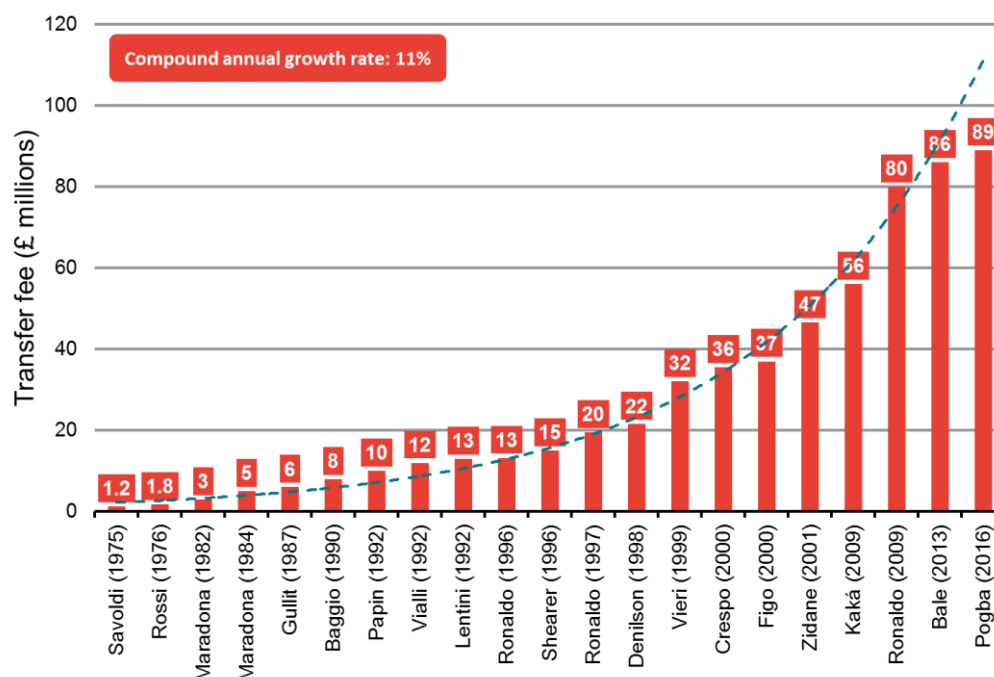


With the summer 2016 football transfer window now closed, pundits are taking stock of a frenzy of deals headlined by Paul Pogba's record-breaking move to Manchester United. But economists are taking note too. In a summer which saw English Premier League clubs collectively spend more than £1 billion on transfers for the first time, Pogba's £89 million (€105 million) price tag makes him the world's most expensive transfer to date – at least by some measures. In this bulletin we explore the seemingly unstoppable rise in the world record transfer fee over time. And – in light of the increasing globalisation of football, new money from billionaire owners and lucrative deals for TV rights – we ask just how much higher fees might rise in the future.

#### POGBA – THE FIRST €100 MILLION MAN

Giuseppe Savoldi became the first player to be transferred for more than £1 million when he was bought by Napoli from Bologna in the Italian league back in 1975. Fast forward 41 years to 2016, and Paul Pogba's transfer from Juventus to Manchester United makes him the latest player to hold the title of the world's most expensive player in a deal estimated to be worth at least £89 million (€105 million). Ironically, Juventus had originally bought Pogba from Manchester United just four years previously in a deal worth just £1.5 million.

**Figure 1. The elite club of world transfers**



Source: Frontier analysis of BBC data

Figure 1 above shows every world record transfer from Savoldi to Pogba. Previously record holders include some of the most famous names in world football, including Diego Maradona (twice) and Ruud Gullit in the 1980s, Roberto Baggio and the Brazilian Ronaldo (twice) in the 1990s, Zinedine Zidane and Cristiano Ronaldo in the 2000s, and Gareth Bale in 2013. This shows how the going rate for the world's elite players has escalated. Since the mid-1970s the world record transfer fee has been broken around once every two years on average. And over the past 40 years, it has increased by around 11% per year.

## POGBA OR CRISTIANO RONALDO?

However, comparing transfer fees over time is not exactly a like-for-like comparison.

- **Inflation:** First, there is an obvious point around inflation. £1 million was worth a lot more back in 1975 than it is today. However, even adjusting for inflation, the general growth trend would still remain, albeit it would be dampened slightly. The £1.2 million fee for Savoldi in 1975 would still only be worth around £9 million in today's money. However, after adjusting for inflation five of the nominal world record transfers listed above (Maradona 1982, Ronaldo 1996, Kaká 2009, Bale 2013 and Pogba 2016), did not break the previous record in real terms. For example, the £80 million paid for Cristiano Ronaldo in 2009 is equal to £97 million in today's money. So Pogba can only claim to be the world's most expensive player in nominal terms.
- **Exchange rates:** With the increasing globalisation of the game, large transfers may involve clubs from all over the world, and require that payments be made in Euros, British Pounds, Brazilian Reals, Russian Rubles or Chinese Yuans. Given exchange rate volatility, this tends to muddy the waters of comparison even further. For example, Kaká's transfer in 2009 broke the world transfer record expressed in Pounds Sterling (£56 million relative to the £47 million paid for Zidane in 2001), but not in Euros (€68 million compared to the €75 million for Zidane).
- **Structure of transfer fees:** The structure of transfer fees also varies. For example, transfers fees can range from being a simple one-off upfront payment, to more complex deals with staggered payments which may also include bonuses for the selling club if the transferred player goes on to achieve predefined successes at his new club (such as winning the Champions League)<sup>1</sup>. For example, the total cost Manchester United pay to Juventus for Pogba could rise by a further €10 million. It has been reported that Manchester United could pay a further €5 million (£4.5 million) in performance-related bonuses and €5 million (£4.5 million) if Pogba signs a new contract<sup>2</sup>.
- **Missing observations?** We should also remember that the data does not tell us the world's most valuable players, just the largest transactions. For example, Lionel Messi is widely recognised as one of the greatest players of all time. But he has never been transferred in his professional career. In a previous football bulletin, we used econometrics analysis to estimate that Messi's market valuation was around £130 million in 2014<sup>3</sup>. Had that transfer actually occurred it would have made the growth in the world record transfer fee even more pronounced, and it would most likely have set a record that would not be broken for many years. So the observed trend in transfers may understate the increasing value of the best players in the game.




---

Since the mid-1970s the world record transfer fee has been broken around once every two years on average.

---

<sup>1</sup> There is some debate around how much Real Madrid actually paid for both Cristiano Ronaldo and Gareth Bale. For Bale, the media reported various estimates ranging from €90 million to €100 million depending on the treatment of interest and instalment payments. Similarly, for Cristiano Ronaldo, estimates range from €94 million to €105 million. <http://www.telegraph.co.uk/football/2016/01/29/gareth-bale-contract-leak-sparks-panic-at-real-madrid/>

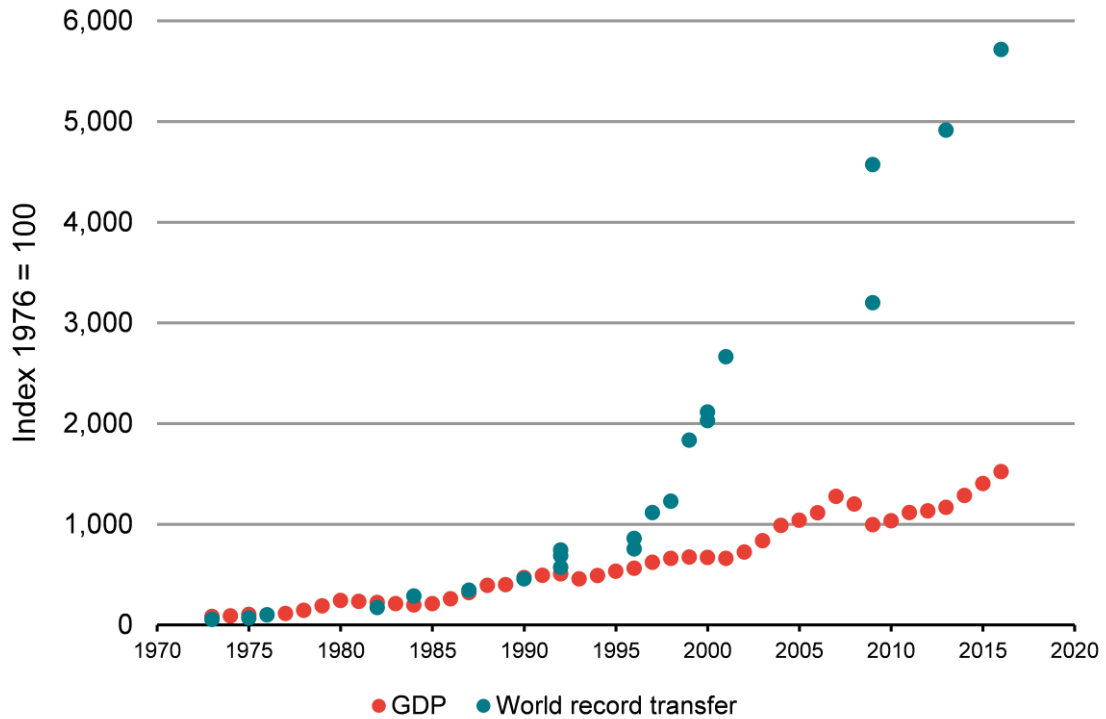
<sup>2</sup> <http://www.bbc.co.uk/sport/football/37016170>

<sup>3</sup> <http://www.frontier-economics.com/documents/2014/06/against-the-odds-frontier-bulletin.pdf>

### THE RISE OVER TIME

In Figure 2 below we report the growth in the world record transfer fee (in nominal terms) as an index since 1973 and compare this with nominal UK GDP growth over the same period. (The result looks broadly the same whether we consider GDP for the UK or for other countries).

**Figure 2. The growth in the world record transfer fee has considerably outstripped GDP growth**

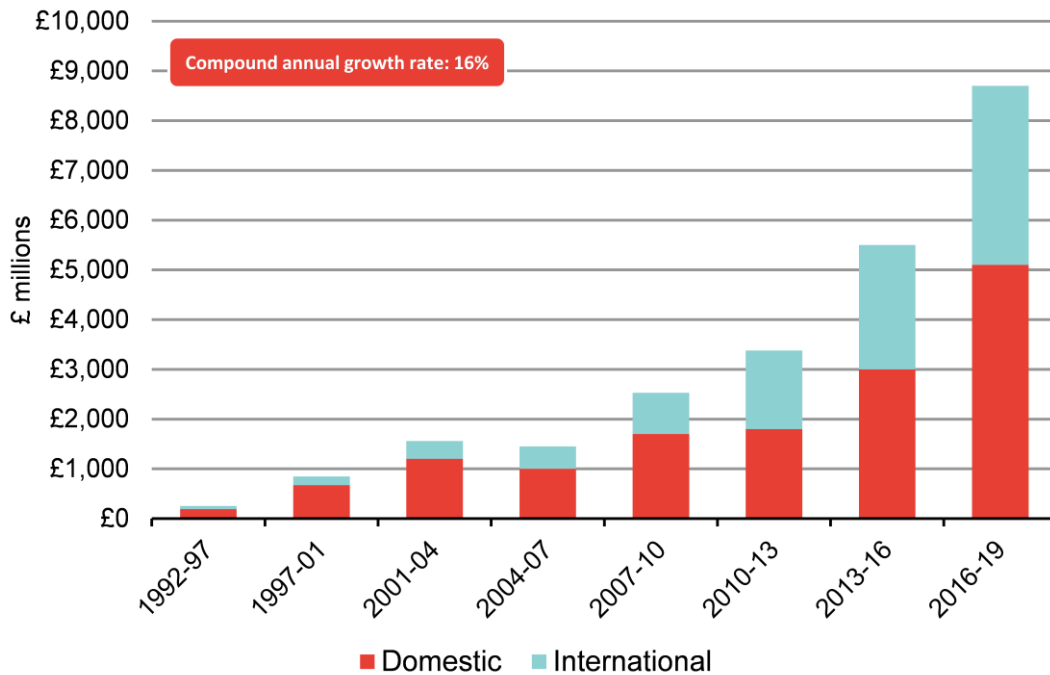


Source: Frontier analysis of BBC data and World Bank data

The world record transfer fee grew broadly in line with GDP until around 1992. However, from that point onwards, the growth in the world record transfer fee has outstripped GDP growth considerably. 1992 was the same year as when the rebranded ‘Champions League’ and English ‘Premier League’ both started, which may give us a clue about why there may have been such large growth. Before 1992, football clubs’ businesses tended to be local or national in nature. Individual lines in a club’s accounts were presumably growing broadly in line with GDP on average. For example, revenues from shirt sales and gate receipts would have drawn predominantly on local demand. However, with advances in satellite television and the internet, football’s reach has widened. Since 1992, the game has become more international, and revenue streams such as TV rights are now driven not just by local or national demand but by global interest.

Figure 3 below shows that revenues from TV rights for the English Premier League have grown significantly since 1992. In fact the growth in Premier League TV income (16% average annual growth rate since 1992) has outstripped even the growth in the world record transfer (11% p.a. over the same period).

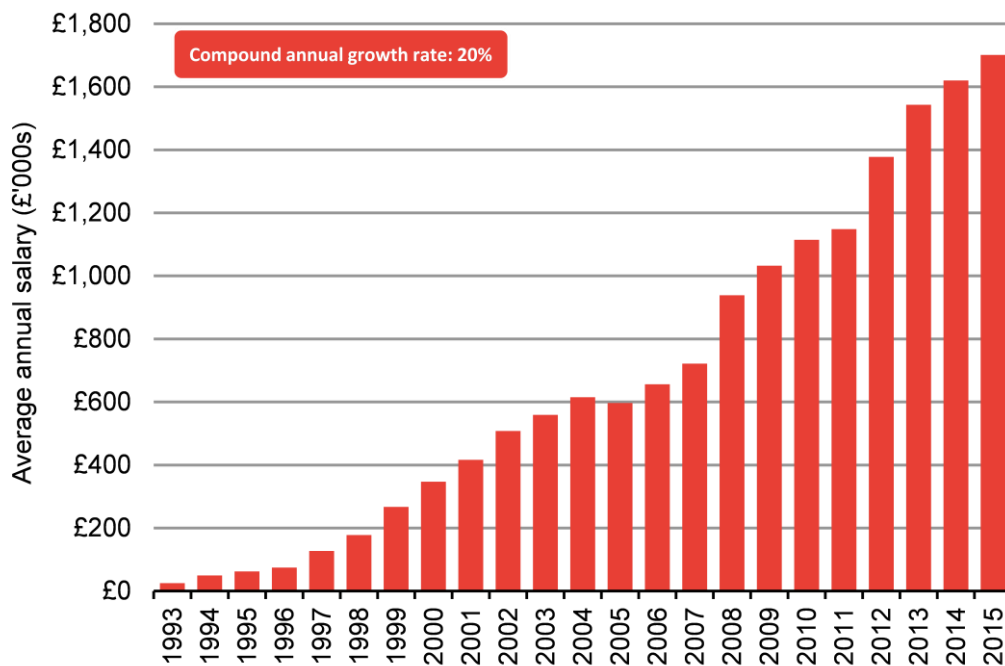
**Figure 3. Premier League TV revenues**



Source: Frontier analysis based on data from Sky and the BBC

But, this extra revenue has not particularly boosted Premier League clubs' profits. Instead, as with other competitive industries, while revenues have increased, would-be profits have accrued to the bottleneck facility, in this case players who have seen their wages rise hugely<sup>4</sup>. Figure 4 below shows that the average wage of a Premier League footballer has increased by around 20% a year since 1993 – which outstrips both the growth in TV income and the world record transfer fee.

**Figure 4. Footballers seem to have extracted the industry profits in the form of higher wages**



Source: Frontier analysis

<sup>4</sup> Some agents will have benefitted in the process: media reports suggest that Pogba's agent earned around £20 million from his transfer

## SO JUST HOW HIGH CAN THE RECORD GO?

With the considerable increase in TV income, top clubs have experienced a boom in revenues. As of yet there is no indication that this trend is slowing down. The latest TV deals signed by Sky and BT running from 2016 to 2019 equate to around £10m per game – a 70% increase over the previous deal, between 2013 and 2016. A similar trend can be seen in other sports in the US. For example, ESPN has signed a nine year deal until 2024-25 worth \$2.6 billion-a-year for the NBA TV rights – representing a 180% increase over the previous deal which ran for eight years until 2015/16.

New technologies continue to carve out new markets for sports. Greater competition for TV rights from new players such as BT as well as potential competition from the likes of Netflix, Amazon and Google could push bids even higher.

In parallel, football's popularity outside its traditional European heartland continues to go from strength to strength, driven by satellite broadcasting as well as pre-season tours by Europe's biggest clubs. And new leagues are starting to challenge Europe's traditional dominance. During the 2015/2016 winter transfer window, the Chinese Super League saw its transfer record broken three times in 10 days. The current record, at the time of writing, stands at £47 million (or just over half the world record), when Hulk moved from Zenit St Petersburg to Shanghai SIPG.

However, at some point, the boom will (surely) have to slow down as the market matures, approaches saturation, and revenues stabilise. After all, if the boom in revenues is driven mostly by TV rights, then presumably there are only so many more games that can be televised and only so many more people to actually watch them.

And it is not clear whether potential new billionaire owners will have the same impact on spending as they once did. The introduction of UEFA's Financial Fair Play regulations are intended to ensure that clubs live more within their means.

We have considered how the world record transfer fee may evolve over time. If the market is reaching maturity, then the growth in the world record may slow down. To model how the record would evolve if the market is indeed maturing, we have considered an 'S-shaped' curve. 'S-shaped' curves are widespread in nature (such as the rate at which a virus spreads through a population) and in human behaviour too (such as the rate at which users sign up to a new social network, or how quickly a new technology is adopted). And their shape reflects network effects:

- Slow growth to start off with: In the early days when there are only a few innovative users on a social network, the benefit for a new user signing up is relatively low because there are few other users to connect with.
- Positive feedback: Word spreads around from the early adopters that the network offers benefits and more users sign up.
- Mass market: The network achieves a critical mass of users, becomes more 'mainstream' and experiences a boom in demand.
- Slow down: After a while the market matures and approaches saturation as there are few customers left to take up the product.

We have applied the logic of the curve to model world record football transfer fees. And we have included our estimate of Messi's valuation in 2014 to help calibrate the analysis.

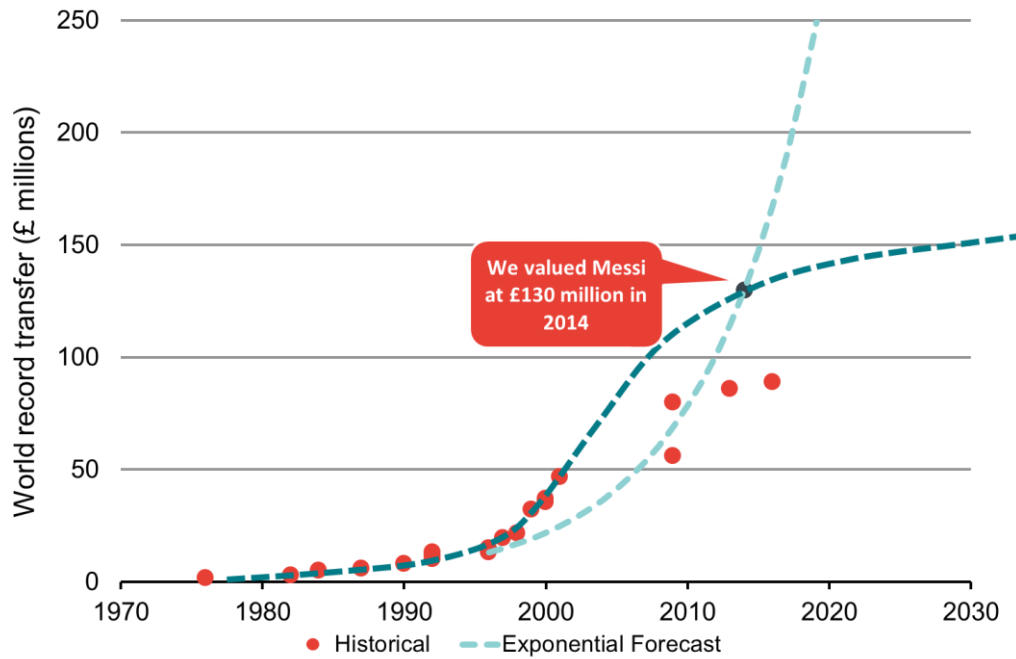



---

The latest TV deals signed by Sky and BT running from 2016 to 2019 equate to around £10m per game -- a 70% increase over the previous deal.

---

Figure 5. How high can the record transfer fee go?



Source: Frontier analysis

The results suggest that by 2020, if the market does indeed approach maturity, the world record transfer fee could be in the region of around £140 million, rising to around £150 million by 2030.

However, towards the higher end of the scale, if we assume that the world record transfer fee continues to grow at an exponential rate, then by 2020, it could stand in excess of £250 million.

The world record transfer fee has increased nearly tenfold in the 24 years since 1992. Despite the uncertainty it may be safe to assume that it will not increase a further tenfold any time soon.



Chris Cuttle

+44 (0)20 7031 7000

chris.cuttle@frontier-economics.com



James Arnold

+44 (0)20 7031 7000

james.arnold@frontier-economics.com