



The UEFA Champions League:

Time for a new formation

The need for reform, not revolution



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About Oliver & Ohlbaum

Oliver & Ohlbaum is one of Europe's leading independent policy and strategy advisors to the sports, media and entertainment industry, where we have unrivalled knowledge and expertise.

Established in 1995 and based in London, O&O has been an advisor to over 200 different clients on many of the major developments in the UK, European and global television, radio, publishing, on-line and sports markets. From supporting BT in their move into sport, to helping Discovery with their purchase of Olympic rights, we have been at the heart of the deals that have transformed sport over the last two decades.

Executive summary

The UEFA Champions League has become one of the world's most valuable sports properties. Much of its success has been attributable to its ability to respond to developments in the European football market and the changing broadcast landscape throughout its twenty-five year existence. But pressure is building from clubs and broadcasters for further and potentially more radical reform.

Without reform, external pressure for more radical change may be impossible to withstand – with negative consequences for the European football system.

€3.2bn

Reforms to the Champions League would increase the broadcast value by between 15%-20% above underlying market inflation.

There is a growing perception that as the world's premier club competition, it could be more appealing to fans and worth much more to broadcasters. Champions League broadcast fees have not grown as fast as other top sports properties over the last decade. UEFA faces the risk of a breakaway club competition which would not only break the current European football ecosystem but could also undermine the integrity and value of domestic leagues such as the Premier League.

UEFA has a short term opportunity to implement reforms that will address many of these concerns and avoid a breakaway. A new round of broadcaster deals (for 2018 – 2021 seasons) is due for completion in 2017. Without immediate reform, external pressure for more radical change may be impossible to withstand – with negative consequences for the European football system.

New O&O research has found clear audience appetite for a Champions League with more fixtures involving the biggest clubs – and that the current format features matches that have limited global appeal.

Having examined several tournament configurations, O&O believes moving to a 24-team format, with 20 of them coming from the five largest leagues, the other four qualifying as the best of the other leagues – probably in three groups of eight – would address many of these issues. It would mean:

- Broadcasters would have more of the content they want
- Audiences to these bigger fixtures would be higher
- The value that consumers place on these fixtures would also increase
- As a “must have” sports property, UEFA would be better placed to capitalise on the battle between broadcasters, pay TV platforms and new market entrants.

Group stage matches would move to three mid-week slots. An enlarged Europa League would continue as a clear complement, with no involvement from eliminated Champions League teams in the latter stages.

In the longer term, such a revitalised competition featuring multiple guaranteed fixtures between the largest and most successful clubs would become a must-see complement to Europe's leading national leagues across the globe. O&O analysis suggests that in ten years' time, the competition could be worth a minimum of 30 to 40% more than a continuation of the current format. Further increases in value can be expected for UEFA and club commercial revenues as the revised structure would have more global sponsor appeal and would attract larger audiences. However, it might take two more rights cycles to achieve this uplift, with a more likely 15 to 20% short term increase in Champions League and Europa League annual value to €3.2 billion.

Longer term, leading clubs' guaranteed income from the Champions League could increase by 40 to 50%, but the status and earning power of national leagues would be preserved. The appeal and competitiveness of the Europa League could also be enhanced, with stronger clubs involved and greater revenues as part of a combined rights sale with the Champions League.

The new competition would seal Europe's leading position in global football, ensuring the clubs remain the most recognised brands in the world, attracting the best players and cementing football as part of Europe's shared cultural heritage.



Introduction

Introduction

This paper has been produced in response to the current debate on the future of the UEFA Champions League. It considers the history and evolution of the competition, and how it can maintain and increase its value in today's ultra-competitive sports market

We believe that some of the proposals for "Super Leagues" that are currently being aired would be detrimental to European football. They would require a large amount of fixtures and would undermine the current calendar balancing league, cup, European and international football; any large gain in rights values would require weekend fixtures, which would undermine the domestic leagues and their existing (and highly successful) rights models. Importantly, it is not clear that there is significant fan demand for a league-type format which would undermine the importance of the domestic leagues and cups.

We believe that reform is possible within the current framework, and this paper sets out the evidence to prove it. It is an update of O&O's 1999 report Super Leagues and Super Clubs, which contributed to the debate and helped prevent an earlier breakaway.

It has been supported by a detailed, two-stage consumer survey conducted across seven international markets. This was designed to evaluate current perceptions of the Champions League, its position versus other sports, how consumers perceive the current format and their reaction to potential reforms.

Online surveys were commissioned in the UK, Germany, Spain, Italy, Netherlands, USA and Singapore, with a nationally representative sample size of 1,000 respondents in each market. Respondents were asked about their interest in the Champions League, their viewing habits and the influence it has over their choice of TV and broadband providers.

Further surveys, including a choice-based conjoint exercise, were carried out in the UK, Germany, Italy and Spain to provide additional, more granular insight on the potential impact that changes to the competition would have on viewing habits and willingness to subscribe.

Survey response data was used as an input to support Oliver & Ohlbaum's in-house rights valuation model, enabling a robust forecast of the broadcast rights value of the Champions League under various scenarios of potential reform.

New O&O research

2

Stage survey process

7

Markets surveyed

7,000

Total respondents



The UEFA Champions League - One of the world's biggest sports properties

European club football has been at the core of the explosion of the global sports industry over the past twenty years

European football associations, leagues, clubs and players attract fans from across the world and are estimated to make up 77% of football's global media rights value. European clubs dominate the global game – every one of Forbes' top 20 most valuable clubs in 2016 is European. The five major leagues (England, Germany, Spain, Italy and France) are by far the most popular and valuable constituent parts of European club football, accounting for 86% of the combined value of all European leagues' media rights, and these five leagues provided exactly half the players at the last world cup. Outside the NFL (itself an overwhelmingly domestic property), European football dominates the list of the world's most valuable sports properties [Figure 1].

Despite several reforms over the last 20 years to increase the appeal and earning power of European club competitions, the Champions League and Europa League together account for less broadcast revenue than the Premier League, only 26% of the combined revenue of all five top leagues and less than the sum of their non-European media rights revenue. While the Champions League has grown in popularity and value, it still only accounts for 5-20% of the income of the average participant club. In the major leagues, this ranges from 15% for an Italian club to just 7% for a top English club.

We have moved into a global, hyper-connected age where consumer tastes and habits are changing rapidly. Sports, especially football, are billion dollar industries in their own right, and find themselves as key properties in a global battle for consumers. The Champions League will need to continue to evolve if it is to thrive.

The UEFA Champions League - one of the world's biggest sports properties

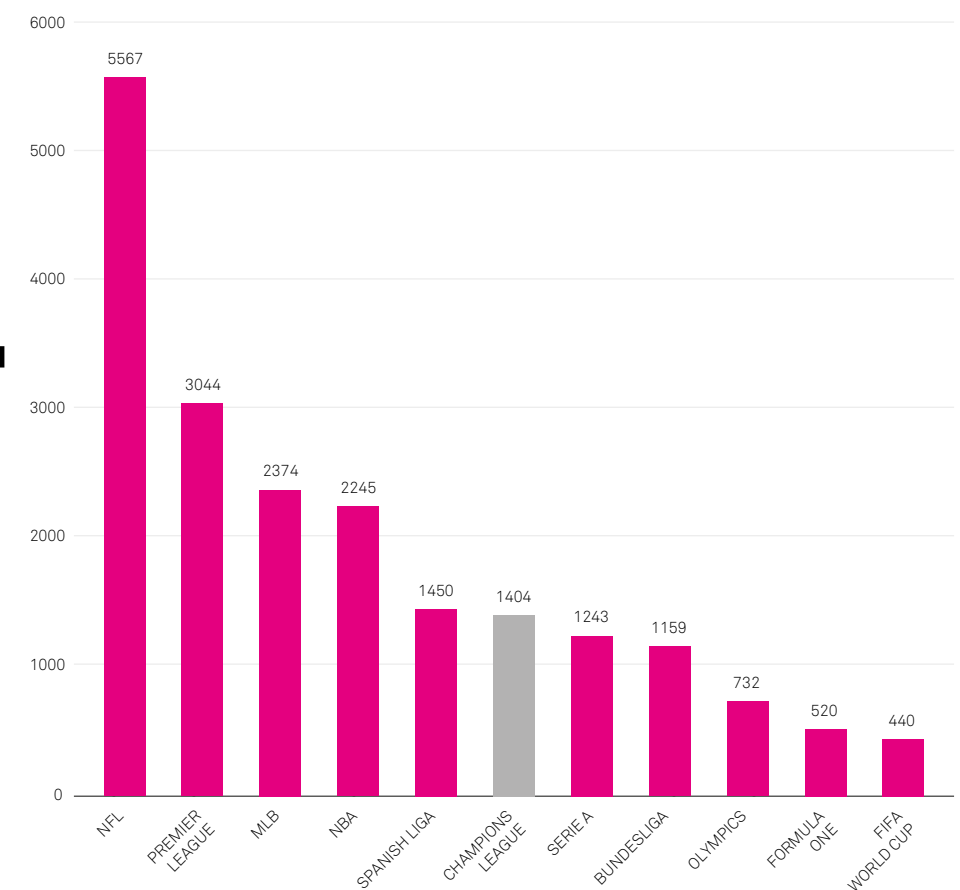
86%

The Premier League, Bundesliga, Serie A, La Liga and Ligue 1 account for 86% of all European leagues' media value

66%

of UK football fans think the Champions League is the best football competition in the world

Figure 1: 2016/17 Major sports broadcast rights fees (estimated) - €millions



SOURCE: SPORTCAL, OLIVER & OHLBAUM ANALYSIS

The UEFA Champions League - One of the world's biggest sports properties

Starting in 1955, the European Cup became Europe's premier football club competition – a knockout tournament between the champions of each of the league members of UEFA.

The European Cup quickly established itself as an integral part of footballing folklore – from Real Madrid winning the first five in a row, through Celtic's "Lisbon Lions" of 1967, to the English dominance of the late 1970s and early 1980s. However, in its latter years it was criticised for not responding to the changing landscape of European football, the increasing popularity of the top clubs and the options available to rights holders following the advent of pay TV. In 1992 the old Cup format was replaced by the Champions League.

Since its inception, the Champions League has undergone several reforms in tournament structure, in the qualification process and in the number of participating clubs

The first Champions League was introduced in the 1992/3 season and preserved most of the qualification and knock-out format of the preceding European Cup, but with an eight club group phase included after a second knock-out round.

In 1994/5, the tournament was extended to 16 clubs and switched to an initial round-robin group stage followed by knock-out rounds. Qualification was still primarily for domestic league champions. Three years later, it was expanded further to 24 clubs, and with wider qualification to non-champions of the major leagues. In 1999, the competition grew to 32 clubs with many more non-champions now included. The format also changed – this time to two group stages, plus subsequent knock-out rounds.

The second group phase was removed in 2003 and an extra knock-out round was introduced in its place. The structure and number of clubs (32) has not changed since 2003; however, in 2009/10 the qualification format was altered to guarantee at least 17 league champions in the group stage.

The current Champions League match scheduling is optimised for European audiences and has protected the value and integrity of the domestic leagues.

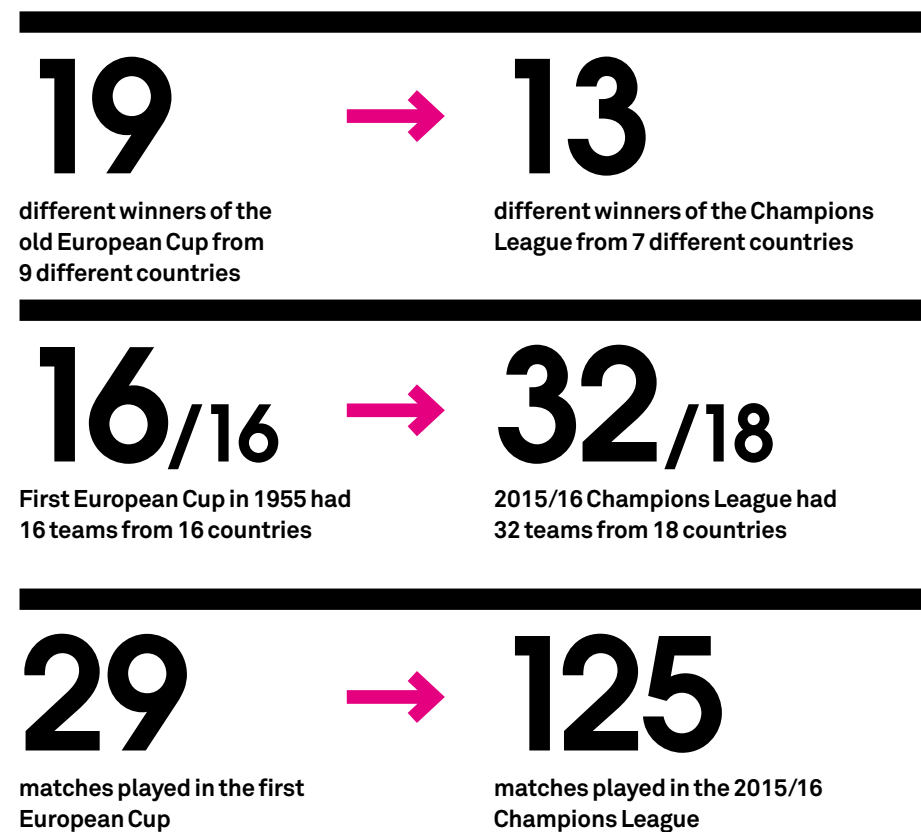
These successive reforms of the Champions League have boosted its appeal to fans and value to broadcasters:

- Currently, the group stage guarantees each club six matches and provides broadcasters with regular programming and sufficient content supply to create a season-long narrative and marketing asset
- Matches played over two midweek slots give broadcasters the flexibility to show not only multiple matches, but also to choose more of the most appealing matches in any given market, for example showing matches featuring two domestic clubs. This allows UEFA to maximise rights value through rights packaging and where appropriate have more than one broadcast partner per market (often sharing rights between free-to-air and pay TV).

Maintaining a structure with midweek fixtures only (with the exception of the final, now played on a Saturday) has been crucial in preserving the current European football ecosystem and the importance of the individual domestic leagues; not just in terms of club involvement, but also by maintaining the leagues' own media rights value, centred around weekend fixtures. Weekends provide the flexibility for European leagues to extract huge value not only from large domestic audiences but also from foreign markets where desirable kick-off times can be accommodated. By focusing on midweek slots, the Champions League has acted as a complement to domestic leagues, not a substitute.



European Cup 1970, Schalke 04 vs. Dinamo Zagreb



The UEFA Champions League - One of the world's biggest sports properties

There has been strong media rights inflation but this may be slowing

The various competition reforms, together with the revolution in sport broadcasting values, have helped UEFA secure strong growth in Champions League television rights fees, making the competition one of the most valuable global sports properties. From 2000 to 2015, the Champions League rights fees increased at an annual growth rate of 5.4%.

Much of the growth in media rights has come from the globalisation of sport. However, UEFA's rights fees from markets outside Europe [Figure 2] make up a smaller proportion of the total than in other top tier sports properties, such as the Premier League and Formula One. This is mostly attributable to the time zone impact of European midweek evening kick-off slots. At present Champions League matches occur in the middle of the working day in the Americas and in the middle of the night in Asian Pacific territories, neither of which is optimal to achieve high television audiences or for significant interest from subscription services.

The current qualification model ensures a broad representation of European leagues

Clubs qualify for the Champions League based on a mix of domestic league performance and UEFA coefficients; this gives a guaranteed participation to 17 of UEFA's national league members. The other 15 slots are allocated to the associations with the leading performance coefficients and to clubs participating in qualification playoffs [Figure 3]. Whilst this increases audience reach across European markets, it does not necessarily result in the inclusion of all the most popular clubs and all the best players

The current distribution of broadcast revenues to participating clubs has significant impact

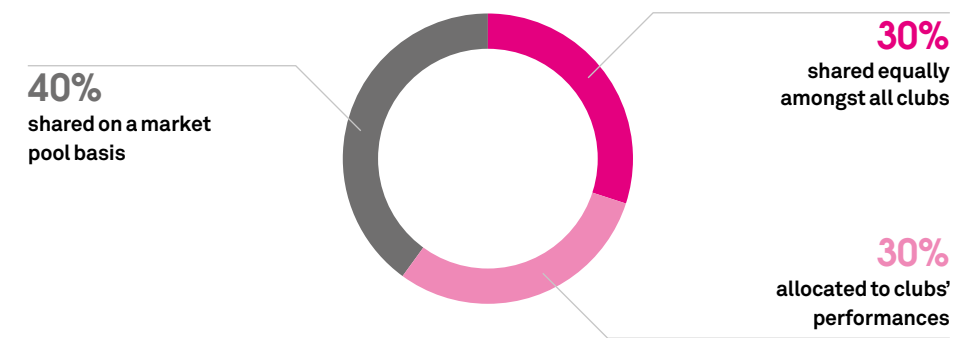
UEFA redistributes Champions League broadcast and sponsorship fees to participating clubs along the following lines:

- 30% shared equally amongst all clubs
- 30% allocated to clubs' performances
- the remaining 40% shared on a market pool basis

For the 2015/16 competition, each club was guaranteed a fixed fee of €12 million, plus group stage bonuses of €1 million for every win and €500k for every match they drew. Knock-out stage bonuses ranged from €5.5 million for clubs reaching the round of 16, up to €33.5 million for the tournament winner.

The size of the market pool is correlated to broadcast fee payments from each market, with clubs from bigger markets eligible to receive more revenue. In the 2014/15 season, APOEL Nicosia received €2.5 million from the Cyprus market pool, whilst Paris-Saint-Germain were awarded €35.6 million from the French market pool. However, the market pool is shared between all the clubs from the relevant league – so for leagues with more participating clubs the final allocation can be less. This can raise certain issues and potential tensions between participating clubs, and is one of the main factors cited by many pushing for a breakaway competition.

UEFA redistributes Champions League broadcast and sponsorship fees to participating clubs along the following lines:



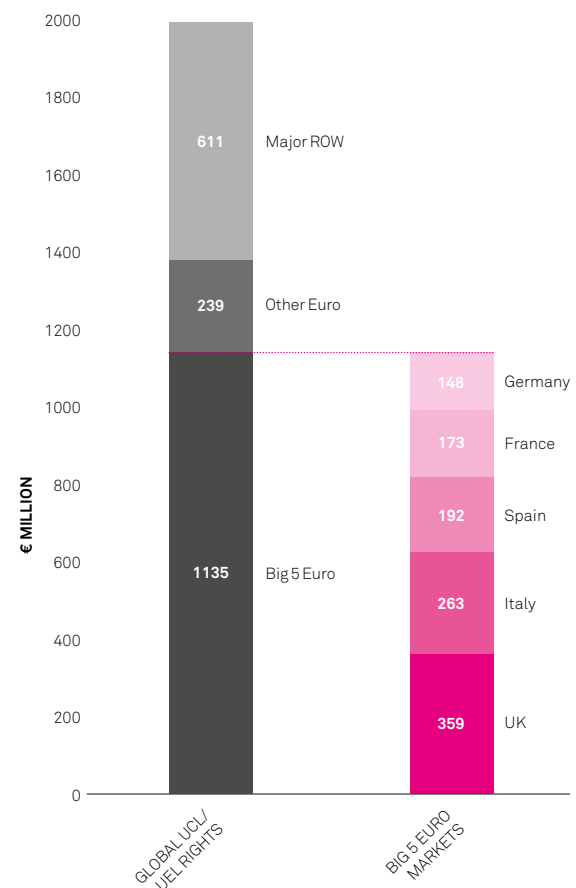
5%

annual growth rate for Champions League media rights fees from 2000-2015

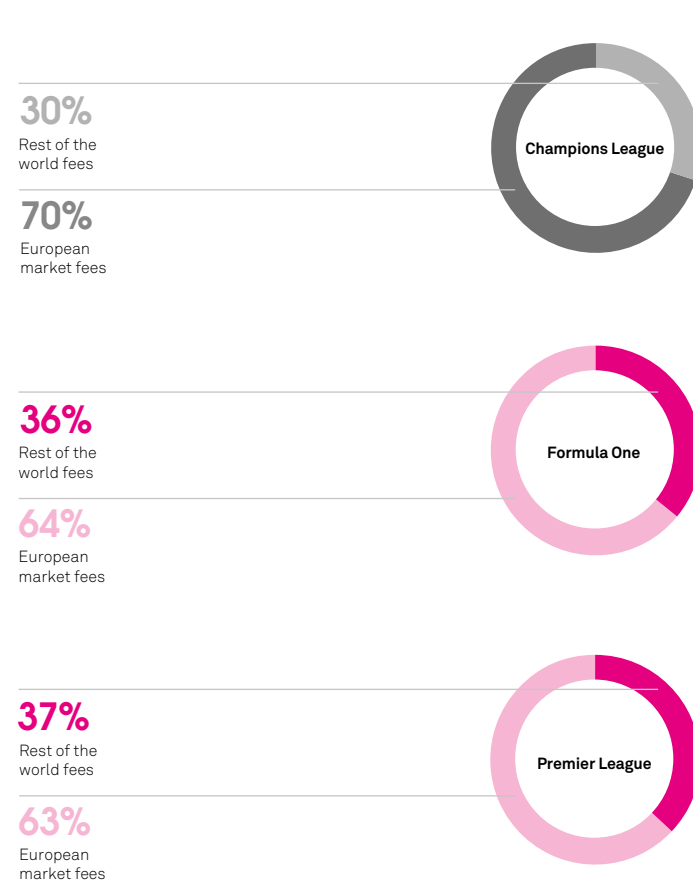
16%

annual growth rate for Premier League media rights fees from 2000-2015

Figure 2: Total UEFA TV rights fees by area (per annum)

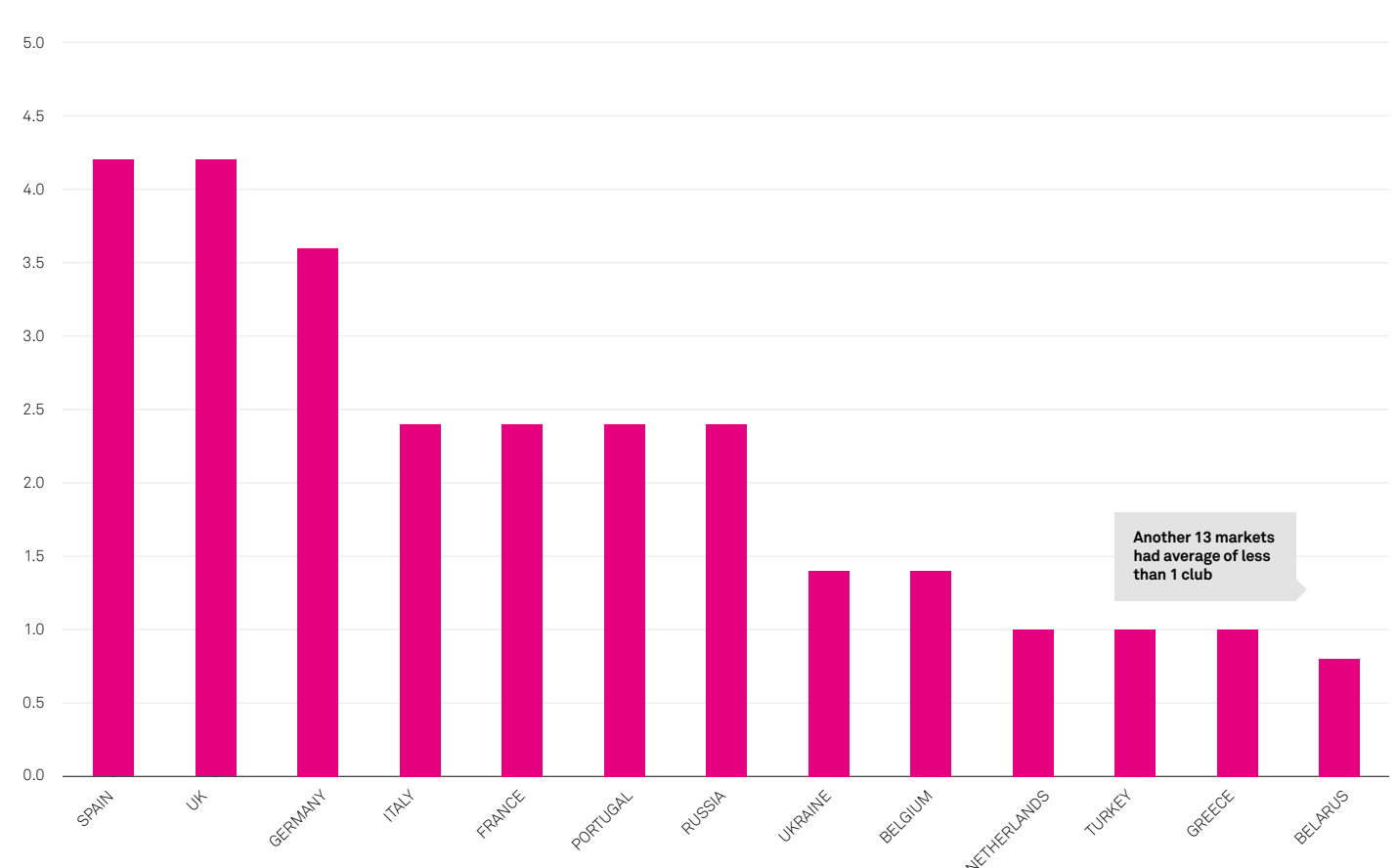


Broadcast fees by region



SOURCE: SPORTCAL, OLIVER & OHLBAUM ANALYSIS

Figure 3: Average number of domestic teams participating in Champions League over the past 5 seasons (2011/12 to 2015/16)



SOURCE: UEFA, OLIVER & OHLBAUM ANALYSIS

Pressure for change - Why the need for reform?

Towards the end of the 1990s, the Champions League came under pressure to enact significant reform or face a breakaway of the larger clubs. This resulted in the format changes outlined in the previous chapter. A number of similar issues are once again emerging and the spectre of a breakaway of the biggest clubs looms.

There is a view that the current format does not maximise the value, particularly to the biggest clubs in the largest leagues, and these clubs could be vulnerable to approaches from an alternative, private competition.

Interest in the Champions League is driven by the leading clubs

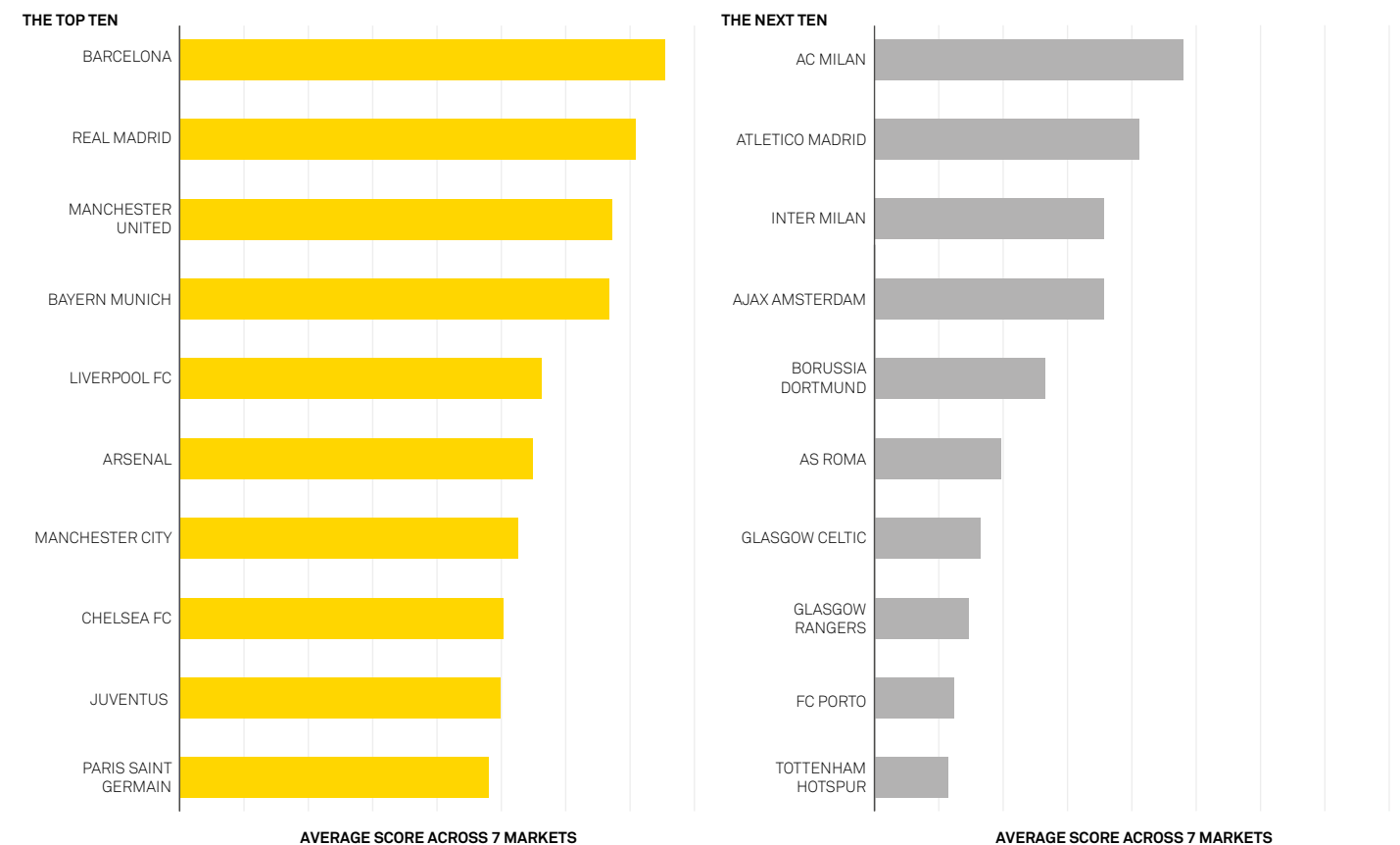
Fan interest in the Champions League tends to skew heavily towards the biggest and most followed clubs. Our recent surveys showed that fans from the major European markets tend to be interested in matches involving both the leading clubs from their domestic market, as well as those they considered to be top clubs from other markets. Fans in “emerging” markets (for example Singapore and the US) display an even stronger tendency to prefer matches involving the top clubs.

When asked which ten clubs they would ideally like to see in a European competition, respondents from the seven markets in our study had a consistent view of the clubs they would be. Of the top ten which were chosen most often, five are from the Premier League, two from the Spanish Liga, one from Serie A, one from the Bundesliga and one from the French Ligue 1 [Figure 4].



Pressure for change - why the need for reform?

Figure 4: O&O Survey – Top 20 ranked clubs to compete in a European tournament



SOURCE: OLIVER & OHLBAUM ANALYSIS

Pressure for change - Why the need for reform?

TV audiences reflect the importance of fixtures between the leading clubs

TV audience figures also show the clear preference of fans to watch matches with the biggest clubs.

Oliver & Ohlbaum has classified clubs which have participated in any of the last six years of the Champions League into five tiers, based on recent and long term performance, popularity, resources and to broadcast value each brings to the competition. Our analysis shows matches involving two clubs in the top two tiers on average attract audiences 20-30% higher than matches involving only one top tier club, and a further minimum 10% higher than matches between two lower tier clubs. The pattern is the same for matches broadcast on either free-to-air channels or pay TV; however, with fewer matches broadcast on free channels, these tend mostly to feature only top tier and domestic clubs.

Top tier matches where a domestic club is involved have the greatest appeal in the biggest European markets such as UK, Spain, and Italy. In smaller markets, such as Greece or Switzerland, domestic clubs are more likely to be in the lower tier, so tend to drive higher viewing to those matches than top tier fixtures [Figure 5].

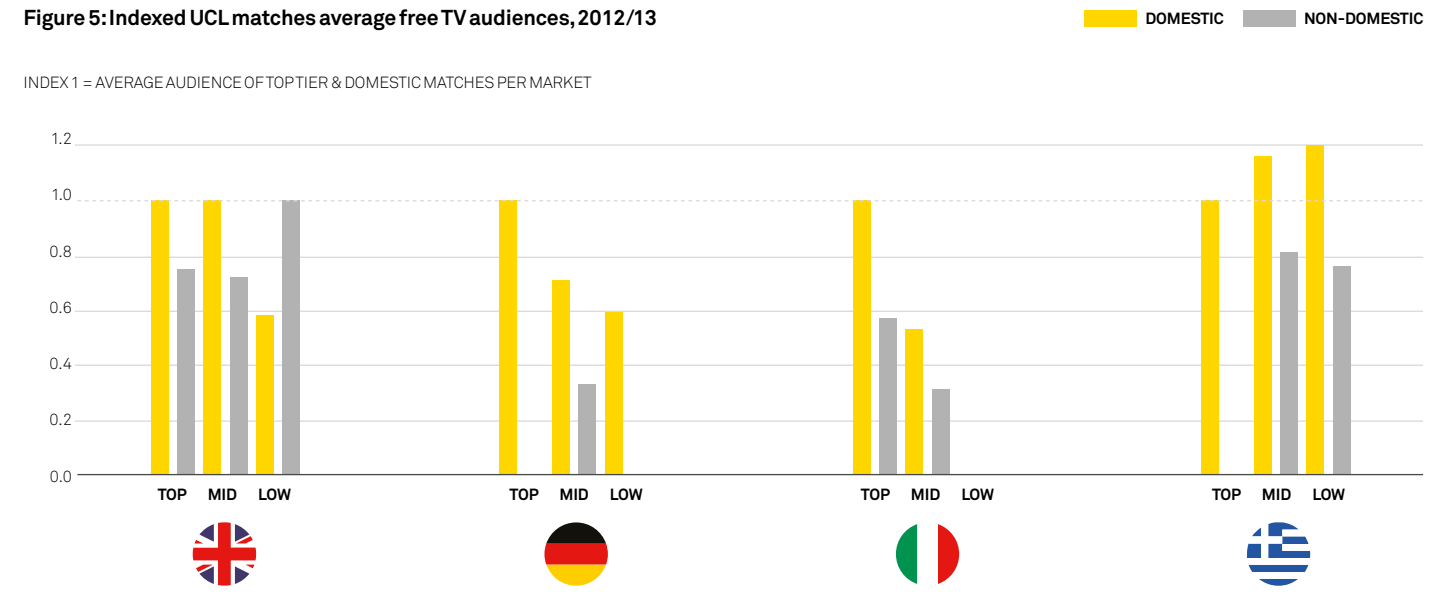
The current structure of the Champions League leads to a large number of matches between smaller clubs

Although the Champions League has been restructured several times to increase appeal for broadcasters and fans, the current structure could be further improved. Despite a clear indication that fan interest is heavily skewed towards the bigger clubs, under the current competition structure, they do not feature in the majority of fixtures.

Across the past six Champions League seasons, only around 8% of group stage matches were between two top tier clubs, with more than 40% of group matches between two lower tier clubs [Figure 6]. Across the whole competition, top tier matches have only accounted for 15% of fixtures, despite the top club dominance of the knock-out stages.

Of all the Champions League matches broadcast on Sky in the UK from 2012 to 2015, there were fewer than an average of eight matches per year between the English clubs and other top tier European clubs. There were around 40 low tier fixtures broadcast each season, but on average these attracted less than a quarter of the number of viewers who would watch a top tier match [Figure 7].

Figure 5: Indexed UCL matches average free TV audiences, 2012/13



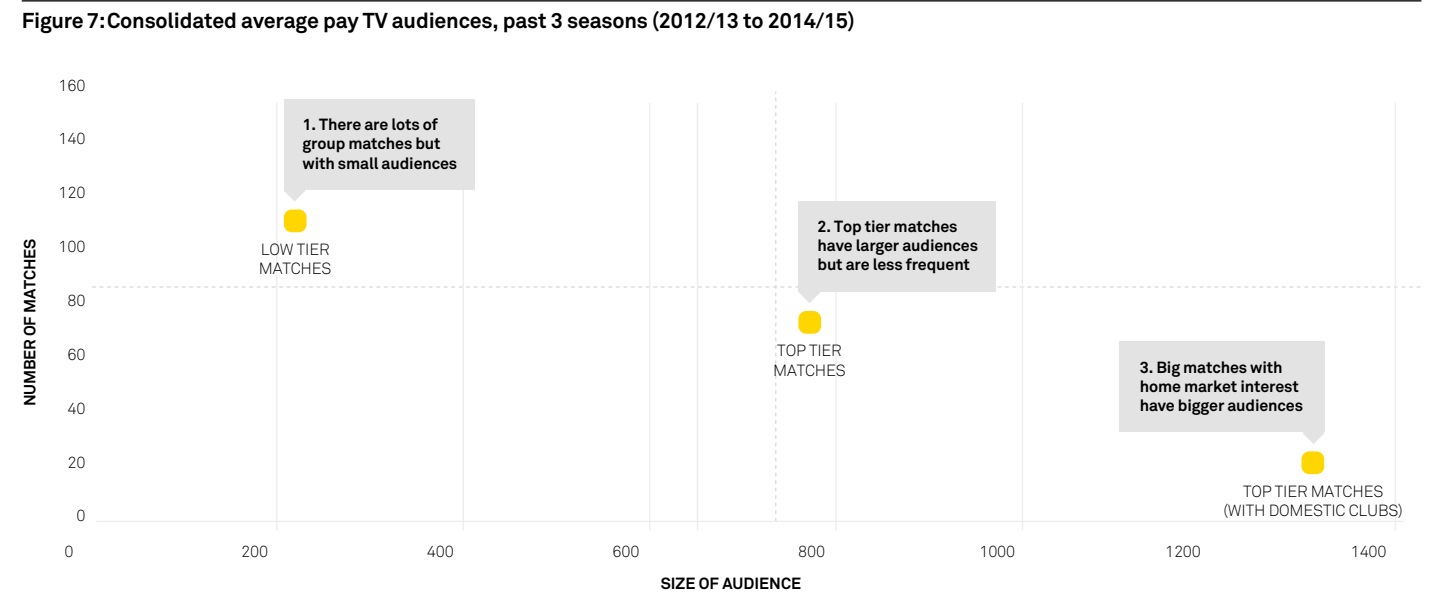
SOURCE: SPORTCAL, OLIVER & OHLBAUM ANALYSIS
NOTE: DEPENDING ON THE MARKET, NOT EVERY TIER OF MATCH WAS SHOWN IN 2012/13

Figure 6 : 2009/10 – 2014/15 Champions League games split by tier



SOURCE: OLIVER & OHLBAUM ANALYSIS

Figure 7: Consolidated average pay TV audiences, past 3 seasons (2012/13 to 2014/15)



SOURCE: OLIVER & OHLBAUM

We have segmented participating Champions League clubs from the past six seasons into five tiers based on a number of criteria:

- RECENT RECORD** – Champions League pedigree
- HISTORICAL STANDING** – Longer term European Cup record
- TV MARKET** – Value brought to the rights fees pot
- GLOBAL FANBASE** – Current support, domestic and international
- UEFA COEFFICIENT** – Recent European competition track record
- WEALTH** – Position in Deloitte's Money League

Clubs are given 1-5 points in each category and subsequently allocated a tier (split in even quintiles) based on their total score. The top tiers (A,B) feature the richest and most supported clubs, who regularly play in the Champions League. The lower tiers (D,E) feature clubs typically from smaller leagues who do not have much of a track record in the Champions League.

For Example

Tier A contains clubs with the largest supporter bases, greatest wealth and a strong record in European cup football such as Barcelona, Bayern Munich and Manchester United.

Tier E is mostly made up of clubs from the smallest markets and which do not always feature e.g. BATE Borisov, Debrecen and Genk.

Pressure for change - Why the need for reform?

Many fans are put off by the lack of top tier matches in the group stages and consider the competition only truly comes alive when the knock-out phase starts, six months after the first group stage matches. Fans in the US and Singapore were the most likely to be ambivalent towards the group stage matches, mostly due to the perception of the lack of top tier fixtures [Figure 8].

Clubs from larger markets can often receive less Champions League money than those from smaller markets

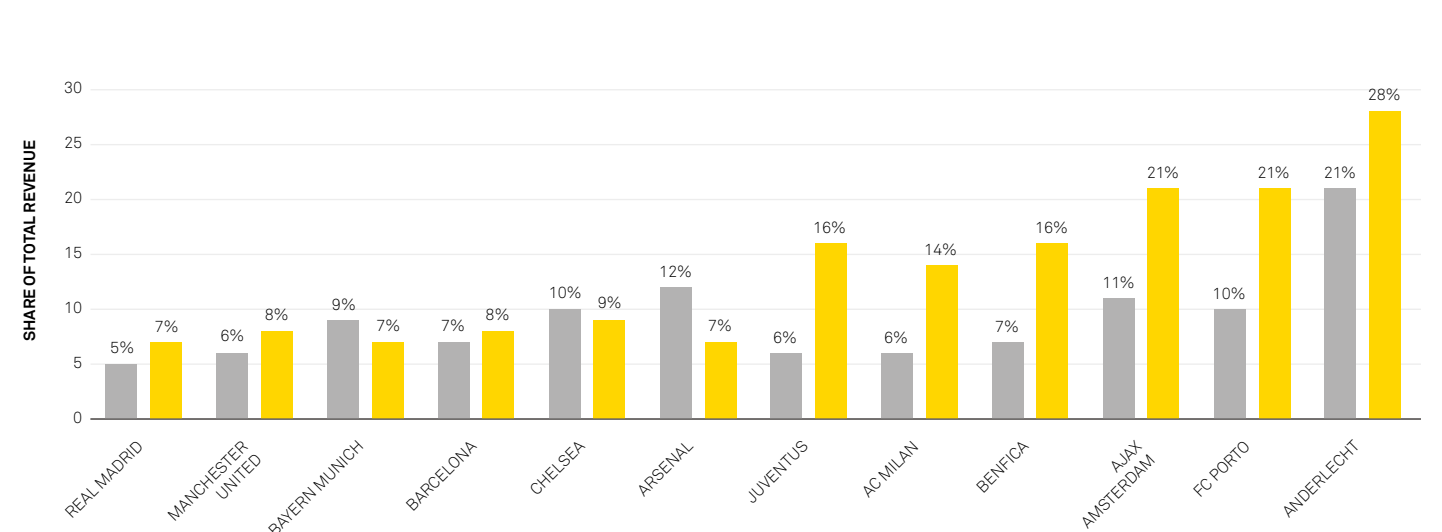
Although the TV market pool provides a reflection of the contribution made by broadcasters in the larger markets, this does not always translate into more income for individual clubs. The more clubs in the competition from the same market, the smaller the proportional share-out they receive from the market pool.

When these market pool effects are added to the current split of equal revenue distribution, clubs from the bigger broadcast markets, such as England, Germany and Spain, receive proportionally

less per club when compared to the payments their domestic broadcasters make to UEFA for media rights. Despite English clubs having a bigger pot available to them, once it is split between four participating clubs, it can equate to the same amount as a club which is its league's only participant (such as Greece's Olympiacos in recent seasons).

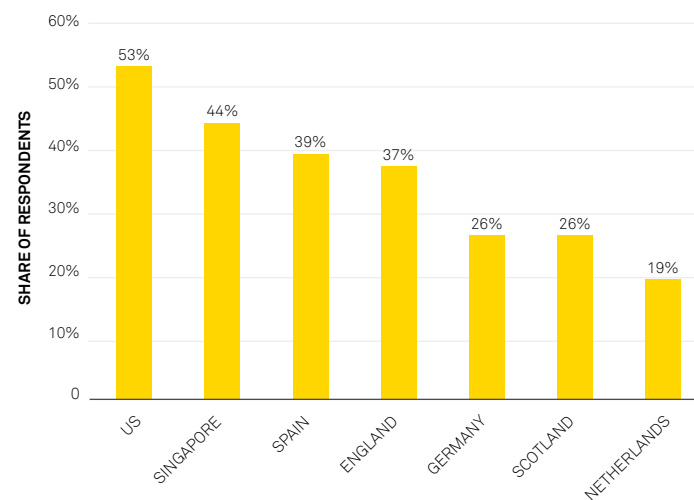
In the last season of the previous rights cycle (2014/15), Premier League clubs in the Champions League and Europa League received roughly the same amount in prize money as that paid by Sky and ITV for the UK broadcast rights [Figure 9]. This represents a lower return on the domestic rights fee than clubs from other major European leagues (Spanish, German, Italian) and was much lower than clubs from the next tier of broadcast markets e.g. Swiss, Dutch and Portuguese clubs. These clubs, such as Basel, PSV Eindhoven and Porto received between 3-6 times the sums paid for rights by broadcasters in their home markets.

Figure 10: Share of clubs revenue coming from UEFA (UCL group stage only) out of total club revenues, 2006 vs 2014



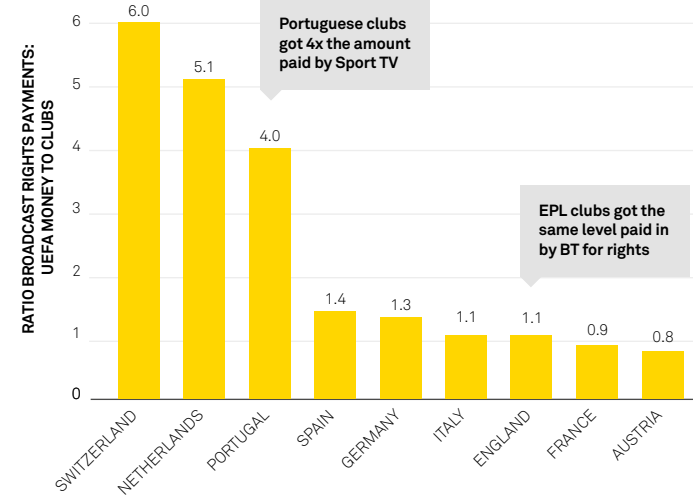
SOURCE: UEFA, DELOITTE'S MONEY LEAGUE REPORTS, COMPANIES ACCOUNTS, OLIVER & OHLBAUM

Figure 8: Share of respondents who agree with 'The competition doesn't excite me until the knock-out stage'



SOURCE: OLIVER & OHLBAUM ANALYSIS

Figure 9: Estimated flows of funds from domestic broadcasters to UEFA club payments, 2014/15



SOURCE: UEFA, OLIVER & OHLBAUM ANALYSIS

UEFA revenues are becoming less important to clubs from the biggest leagues

The five richest leagues in Europe have seen their rights payments increase significantly faster than those for UEFA competitions. To clubs from the five top leagues, UEFA competition prize money is becoming an increasingly smaller contribution to their overall revenues. UEFA revenues only accounted for 4% of all Premier League club revenues in 2014; this proportion was the third lowest of UEFA's top 20 richest leagues. In 2016/17, with Sky and BT's new domestic rights deal in place, the proportion of UEFA money is likely to reduce to around 3%. The pattern is similar in each of Europe's largest markets.

The polarisation in importance of UEFA income is also evident at individual participant club level. It accounted for less than 10% of revenues for many of the richest clubs in 2014, while for clubs from smaller markets it made up a quarter of their revenue [Figure 10].

Some markets may be approaching the limits of growth

Whilst the Champions League is widely considered to be one of the biggest global sports properties, its recent rights inflation has been lower than other major competitions. In many European markets, Champions League rights fees may be reaching their maximum commercial value; any further fee inflation will be driven by general market forces alone. For example, BT's £900 million purchase of the current Champions League and Europa League rights was more than double the amount previously paid by Sky and ITV. In order to monetise the rights, BT altered its 'free' sports channels business model and introduced a £5 a month subscription channel, BT Sport Europe. Oliver & Ohlbaum analysis suggests that the willingness of the UK consumer to pay to access exclusive Champions League matches has a commercial value close to that which BT is currently paying. For Sky or BT to justify paying a lot more for rights, beyond market inflation levels, would require more customers to consider joining than currently, or customers to value the Champions League enough to pay more; neither of which is evident.

4%

UEFA revenues only accounted for 4% of all Premier League club revenues in 2014.

<10%

UEFA revenues accounted for less than 10% of revenues for many of the richest clubs in 2014.

Fans in the US and Singapore tend to be ambivalent towards Champions League group stage matches, mostly due to the perception of the lack of top tier fixtures.

Pressure for change - Why the need for reform

Advances in technology offer new options for rights holders

The adoption of high speed fixed and mobile broadband services in developed markets has been hugely transformative, both in terms of how people consume media and in opening up the market to new entrants and business models. Direct to consumer models or different models of content bundling are opening up the market for new entrants, such as mobile networks, or the global giants like Netflix and Amazon.

Sports rights are becoming increasingly valuable to pay TV networks and platform owners who, in this growing world of on-demand access to content, are looking for exclusive content for differentiation and competitive advantage. Sport's ability to drive customer switching between platforms is becoming the principal driving force behind a global rights market which Oliver & Ohlbaum forecasts to grow at an annual rate of 6.5% over the next four years.

20%

Top sports properties will see around 15-20% annual inflation in rights fees from underlying market factors.



There are four principal ways to increase the value of sports rights:

01

Growth in commercial airtime value

Incremental advertising revenues can be driven from two sources:

- a) larger audiences – i.e. the matches have greater appeal
- b) an increase in supply – i.e. the number of matches or the capability to watch more matches (usually through more kick-off slots or more attractive timing).

02

An increase in new subscribers to a pay TV channel carrying exclusive content

PayTV networks would be prepared to pay more for rights fees if they believed that securing the exclusive content would directly result in either attracting more subscribers or dissuading subscribers from leaving if the rights were lost to a rival.

03

An increase in the price subscribers are willing to pay

In addition to attracting new subscribers, changes in the format can persuade existing consumers to pay more. In the UK, BT has already shown a price increase is possible - following its acquisition of Champions League rights, with the addition of BT Sport Europe, a premium channel costing £5 per month as a departure from its model of "free" sports content for its TV and broadband subscribers.

04

An increase in the strategic value a platform attributes to key assets

In a world of triple and quad play communications bundles, the value of a new consumer can approach €1,000 per year. The small number of sports assets that have the ability to get consumers to switch between providers have seen the highest levels of inflation in recent years. Making a sports property a "must have" or increasing the number of consumers who would churn to a new provider helps secure this bundle value.



Time to rethink -
the impact of reform

Time to rethink - The impact of reform

In the coming months, UEFA is due to begin the market-by-market sales process of broadcast rights for the next cycle, spanning the seasons 2018/19 to 2020/21.

Competition reform could draw more fan interest and drive increased value for broadcasters

Without any major reform, the level of competition in the sports market means that UEFA can expect a reasonable degree of increase in rights value. However, we believe there is potential for an additional significant increase in value if changes to make the Champions League a more attractive broadcast property are implemented.

In recent months, there have been a number of proposals for a reformatted Champions League, mostly involving some degree of breakaway "super league" structure. The number of participants in these proposals varies, but most start

at 20 clubs. Even if there were no knock-out stages, in a true league where each club played every other twice, this would require clubs to play 38 matches a season (excluding any potential end of season play-offs or finals). Clubs would be unlikely to be either capable (with even significant increases in playing squads) or willing to accommodate this number of matches in the current calendar.

A league of this scale would therefore require a true breakaway from the current European structure. Moreover, to obtain some of the valuations that have been discussed would require matches to be played at weekends, undermining the successful model of the domestic leagues.

We have attempted to provide a solution which provides scope for substantial rights increases, satisfies the demands of the leading European clubs as they become global brands, yet deters any breakaway, retains the existing European structure and maintains the integrity of the domestic leagues.

36%

of Spanish fans think too many small teams participate in the Champions League group stage.

50%

of fans across the seven markets want to see a Champions League with more fixtures.

70%

of German fans would be interested in decreasing the number of teams in the Champions League.

Time to rethink - The impact of reform

The opportunity for reform – the time is now

There is considerable evidence to suggest change to the Champions League is needed. A number of factors mean there is currently a window for that reform.

Upcoming rights cycle

The current Champions League and Europa League rights deals expire in June 2018. UEFA would normally begin the rights process 18-24 months before this, which means that renewal is likely to be in early 2017 at the latest. If changes to the format are to be introduced, they need to be done in time to give broadcasters a chance to assess and to evaluate – or the format will be locked until 2021, the opportunity will be lost and voices of dissent will only grow louder.

New UEFA presidency term

UEFA leadership and governance are in a period of transition, a new president is due to be elected in the coming months. This provides a good opportunity to debate and introduce any potential reforms to its club competitions and receive a mandate from national leagues and associations for any proposed changes.

40%

of UK football fans wish the UEFA Champions League was on every week.

77%

of US football fans think it's the best football competition in the world.



A larger uplift in fees would require changes to the Champions League to create a more valuable broadcast property.

There are two principal avenues open to UEFA which would increase the broadcast value of the Champions League:

01

Change the competition format to provide more fixtures between top tier clubs and thus more consumer interest.

02

Change the broadcast schedule to provide more kick-off slots and thus more opportunities for broadcasters.

Time to rethink - The impact of reform

Change the competition format

Results from our surveys indicate that the current format has too many fixtures of limited interest in many markets. To ensure a more compelling competition with greater interest in each fixture, we suggest it is limited to 24 clubs – and that these 24 places include a much bigger proportion of Europe’s top tier clubs. To maximise broadcast rights value, these clubs should be the ones that consumers want to watch (and pay for). This would ensure high competition for rights in UEFA’s major European markets as well as the lucrative and growing markets in Asia and the Americas.

Such a structure is likely to have around 80% of the clubs from the leading five leagues, with the remaining places allocated through a system similar to the current qualifying rounds. As there would be no group stage, there would be no mid-competition entry into the Europa League.

The corollary is that it will reduce some interest in the secondary European markets where domestic participation is limited to a single club, often through the qualification process. However, a more consistent Europa League format is likely to prolong interest in this competition. Moreover, in these smaller markets most of the value is in the bigger fixtures and the knockout stages – which often have no local club participation.

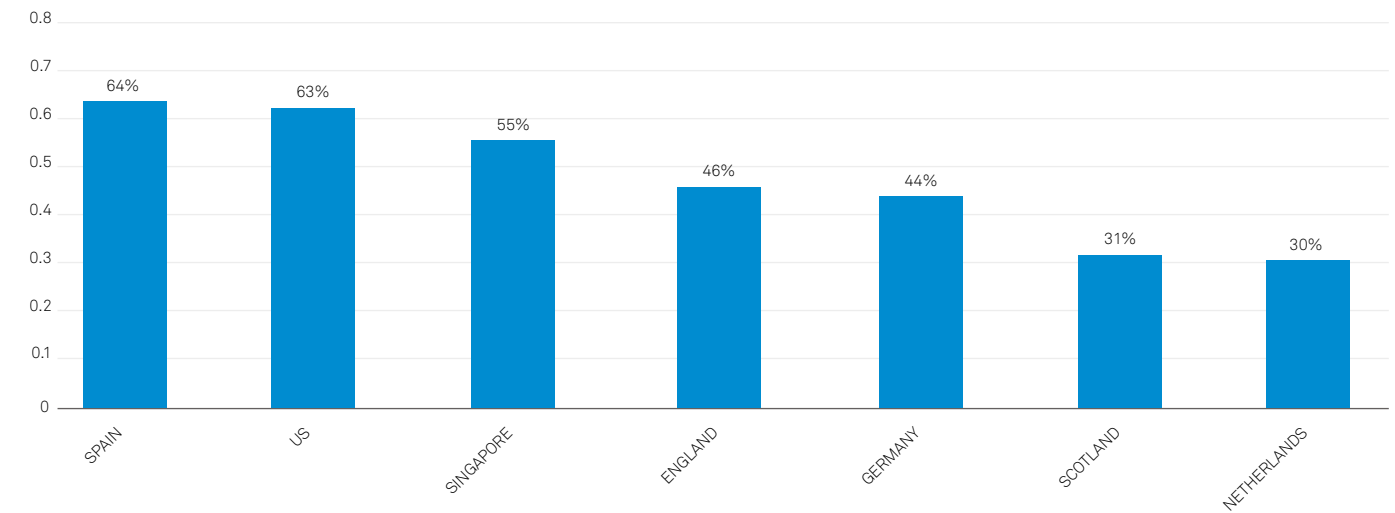
Our research also reveals there is fan appetite for more matches [Figure 11]. The Champions League could be restructured with more guaranteed matches for each club – this would result in more top tier matches and a more appealing competition for fans. This could be achieved by switching to three groups of eight clubs or four groups of six clubs; both would provide more matches than the current format.

A first stage featuring three groups of eight clubs would create 168 fixtures, a significant increase on the 96 fixtures in the current structure of the group stage (Each club would play 14 matches rather than the current six). We consider this to be the limit that clubs could reasonably accommodate given their other competition commitments. The current round of 16 could be removed to create more space in the calendar, progressing straight to the quarter final stage.

On average, the number of top tier fixtures in the group stage would increase from around eight in the current structure to potentially 60 matches – over a third of all group matches. With the competition limited to 24 clubs, lower tier matches would only make up around 10% of group stage matches, down from over 40% currently [Figure 12].

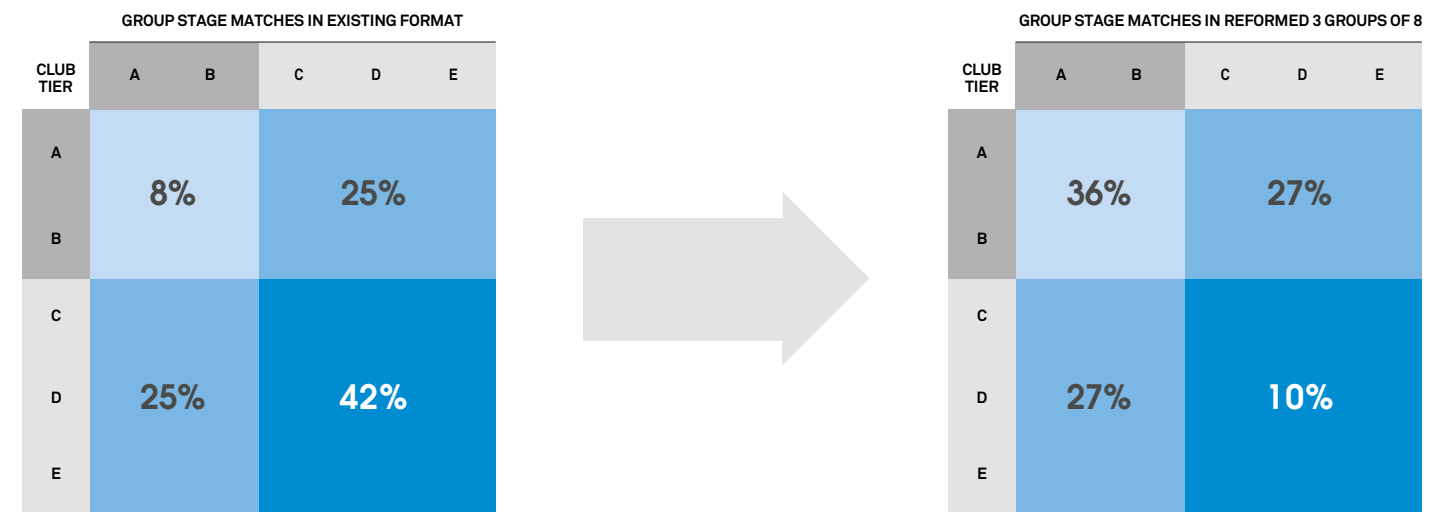
O&O research also reveals there is fan appetite for more matches. The Champions League could be restructured with more guaranteed matches for each club – this would result in more top tier matches and a more appealing competition for fans.

Figure 11: Share of respondents who agree with 'I'd like to see more fixtures in the Champions League'



SOURCE: OLIVER & OHLBAUM ANALYSIS

Figure 12: Champions League games split by tier



SOURCE: OLIVER & OHLBAUM ANALYSIS

36%

of group fixtures in a reformed Champions League would be between two top clubs.

72

There would be an additional 72 matches in a reformed Champions League.

Time to rethink - The impact of reform

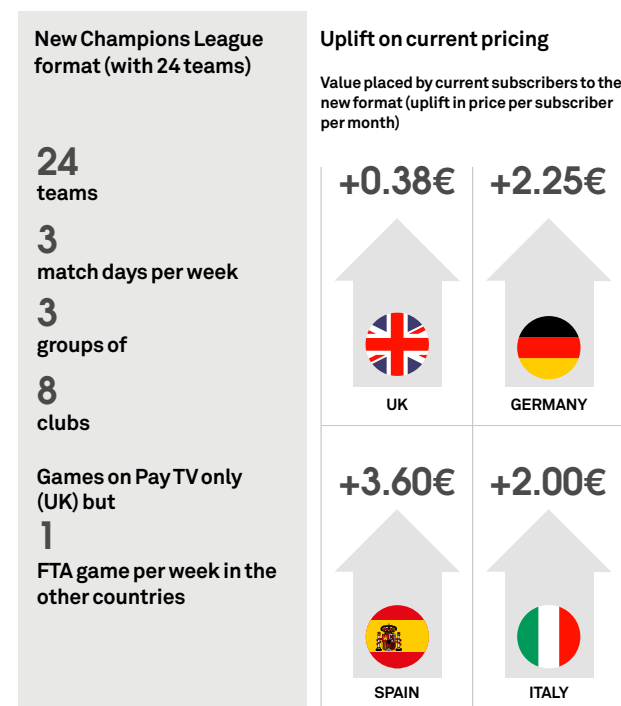
Change the broadcast schedule

Reforms to guarantee more fixtures with large audience appeal would only be fully effective in securing more broadcast value if more kick-off slots were also introduced to enable broadcasters to show them. Showing more fixtures simultaneously tends to fragment audiences rather than increase them. Unlike many other TV programmes genres, sports are still mostly watched live. When multiple matches are played at the same time, football fans will tend to focus on the one they consider the most important to them rather than recording the other for later viewing. Only by giving broadcasters the ability to show more matches in individual kick-off slots can you unlock substantially more value.

The two clearest options to create more kick-off slots are:

- Two separate kick-off slots rather than one on both Tuesday and Wednesday (i.e. like the current Europa League programme on Thursdays), and
- Arrange Champions League and Europa League matches over three days i.e. Tuesday, Wednesday and Thursday – this would give broadcasters more fixtures to choose from each night.

Figure 13: Consumer willingness to pay for a reformed Champions League



SOURCE: SPORTCAL, OLIVER & OHLBAUM ANALYSIS

What effect could these reforms have?

01

Could you obtain larger audiences?

In the current structure, most free-to-air TV partners already have the ability to choose the most attractive fixture on one of the two midweek evenings – usually a match featuring either a domestic club or a foreign top tier club. Reforms to increase the number of top tier fixtures would therefore be unlikely to have any significant impact on audience levels in a single broadcast slot. To increase the airtime value, more broadcast slots would need to be created to give the opportunity for viewers to watch several matches per week.

A reformed Champions League structure with six kick-off slots per match week would be more attractive to free-to-air broadcasters in the European markets, giving them the ability to show at least two top matches per week. The increase in kick-off slots would also appeal to pay TV operators, who currently find themselves having to simulcast matches. There would be additional airtime value for non-European broadcasters too, however with matches taking place in the morning or during the night in many markets, any incremental gain would be limited.

Oliver & Ohlbaum analysis indicates if both reforms were implemented, each of the current 100 Champions League fixtures per season, that are currently non-top tier fixtures, could benefit from a 50% uplift in audiences. Likewise, we estimate slots for current mid-tier fixtures featuring a domestic club would see a 25% increase in audiences if those fixtures were guaranteed to be between top tier clubs.

02

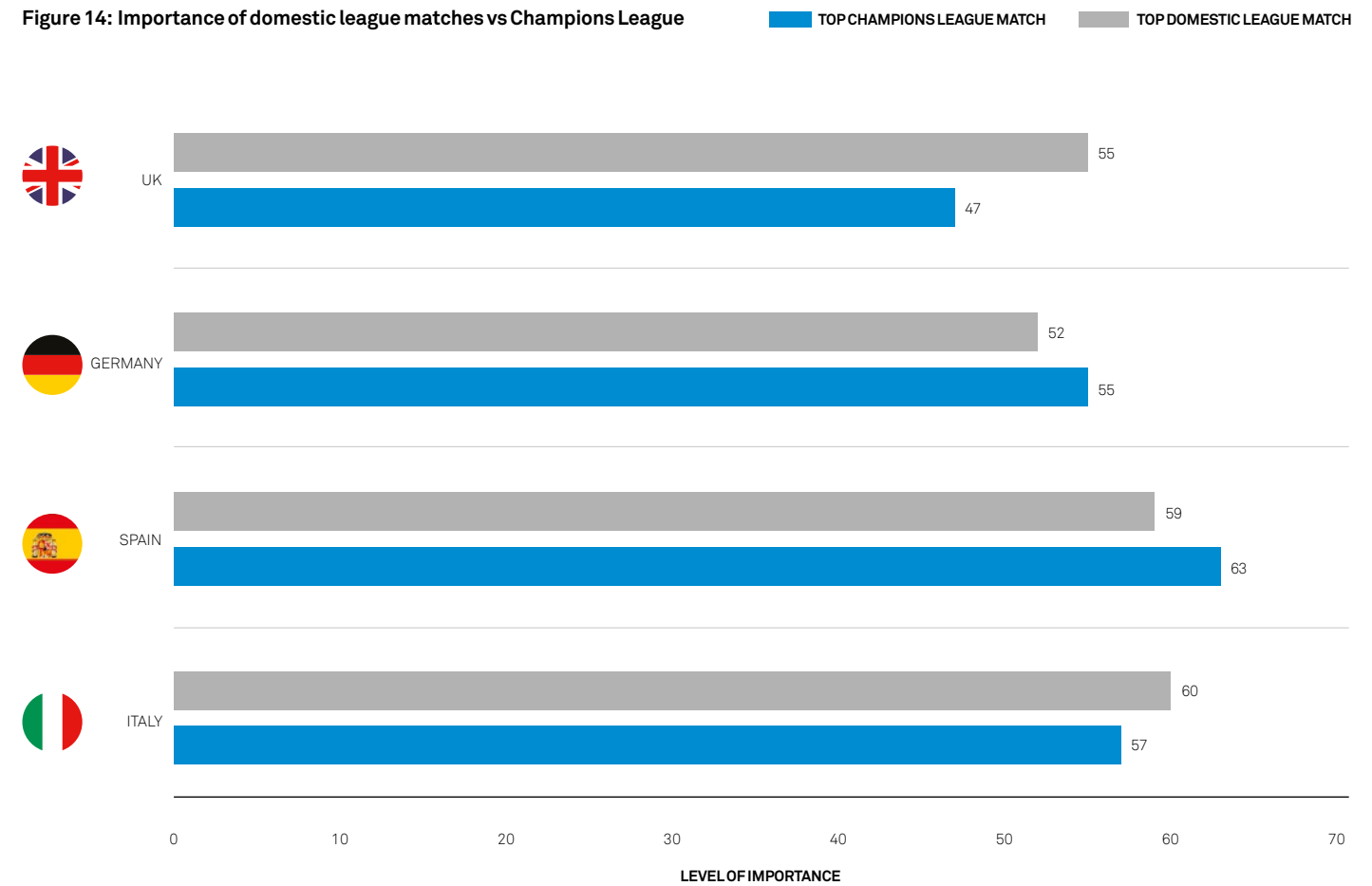
Would more fans subscribe to pay TV?

The Champions League is a relatively mature sports property and has pay TV partners in the vast majority of major markets. The current format has sufficient involvement of the biggest clubs to appeal to fans worldwide. Changing the format is unlikely to convert casual viewers to subscribers.

Results from our consumer research in the UK, Germany, Spain and Italy supports this - only 1-2% of football fans who do not currently subscribe to pay TV sport would be likely to join to access a reformed Champions League. This is unlikely to be sufficient to persuade pay TV broadcasters to pay significantly more for the rights.

It may be that a reformed competition, marketed correctly – where the biggest clubs play each other every week – could in the long term broaden its appeal and attract the more casual viewer. This is likely to be seen in the second and third rights cycles rather than in the immediate term.

Figure 14: Importance of domestic league matches vs Champions League



SOURCE: OLIVER & OHLBAUM ANALYSIS

03

Would fans be prepared to pay more?

In the vast majority of cases, the pay TV broadcast partners of the Champions League offer the competition alongside other sports content on premium networks, such as BT Sport, Sky Deutschland and beIN Sport. These networks usually have a single monthly subscription fee and are often exclusive to individual platform providers. Whilst there has been a strong level of inflation in sports rights fees over the past twenty years, pay TV subscription fees have not increased at the same rate. Rights spend has been justified by subscriber acquisition growth rather than increases to package prices.

However, O&O research has found that fans in four of UEFA's biggest markets would be prepared to pay more for a reformed Champions League with more guaranteed top tier fixtures. Pay TV providers would be able to extract this value if their premium channels were appropriately priced.

Fans across the UK, Germany, Spain and Italy all showed a willingness to pay a higher monthly price than the value they currently place on the competition. Fans indicated, on average, they would be prepared to pay an additional €0.40 - €3.60 per month when given the choice of a reformed Champions League, played over three match days per week, in a three eight-club groups stage format [Figure 13]. This is a substantial premium over the current position (it is likely that the smaller potential uplift in the UK was due to BT already explicitly charging £5 per month for access to European football).

04

Would pay TV platforms value a reformed Champions League more?

A reformed Champions League with more guaranteed top tier fixtures has the potential to develop into a top-tier 'must have' property for football fans in every market. The resulting increased strategic importance to broadcast platforms would be reflected in an increased willingness to pay – to reflect the role it has on attracting new (or keeping existing) subscribers.

Over time in some markets the competition may even supplant the domestic league as the most important single property; in some markets it is already on a par for some consumers. If a revised Champions League could achieve this number one status, it would lead to a step change in value in these markets.

Our analysis revealed that in Spain and Germany top fixtures in the Champions League are considered to be more important than top domestic league fixtures (the volume of domestic league means that it retains its top status). In the UK and Italy, the domestic leagues' top fixtures (Premier League and Serie A) scored higher than those in the Champions League, but even here the margin was small [Figure 14].

Time to rethink - The impact of reform

How big an impact would reforms have on the value of the Champions League?

Oliver & Ohlbaum analysis indicates competition reform would bring significant uplift in the value to both free-to-air and pay TV broadcasters, beyond what UEFA could reasonably expect from underlying market inflation for rights.

A reformed structure would go further in increasing the rights value across most of UEFA's biggest markets. Our analysis estimates rights fees would be worth up to an additional 25-30% over and above the growth due to market inflation. Combined with the Europa League, the media rights value of the Champions League would be worth an estimated €3.2 billion by 2021 [Figure 15].

However, this is a long term effect – some of the value from additional subscribers and much of the strategic platform value will only be evident in the second and subsequent rights cycles as the competition has established itself as a must have property that consumers are willing to pay for. Broadcasters are unlikely

to take a risk on an unproven format in the short term. We thus expect the short term uplift to be in the order of 10-15% (on top of market inflation), with the combined rights worth an estimated €2.6 billion per year.

Further increases in value can be expected for UEFA and club commercial revenues as the revised structure has more global sponsor appeal and attracts larger audiences. The Europa League would also benefit from greater revenues, if its rights were sold in a combined tender with the Champions League and a higher revenue share was implemented. The Europa League rights value could grow by up to 20% on top of underlying inflation in a first cycle.

25-30%

Oliver & Ohlbaum analysis estimates rights fees would be worth up to an additional 30% over and above the growth already factored from market inflation.

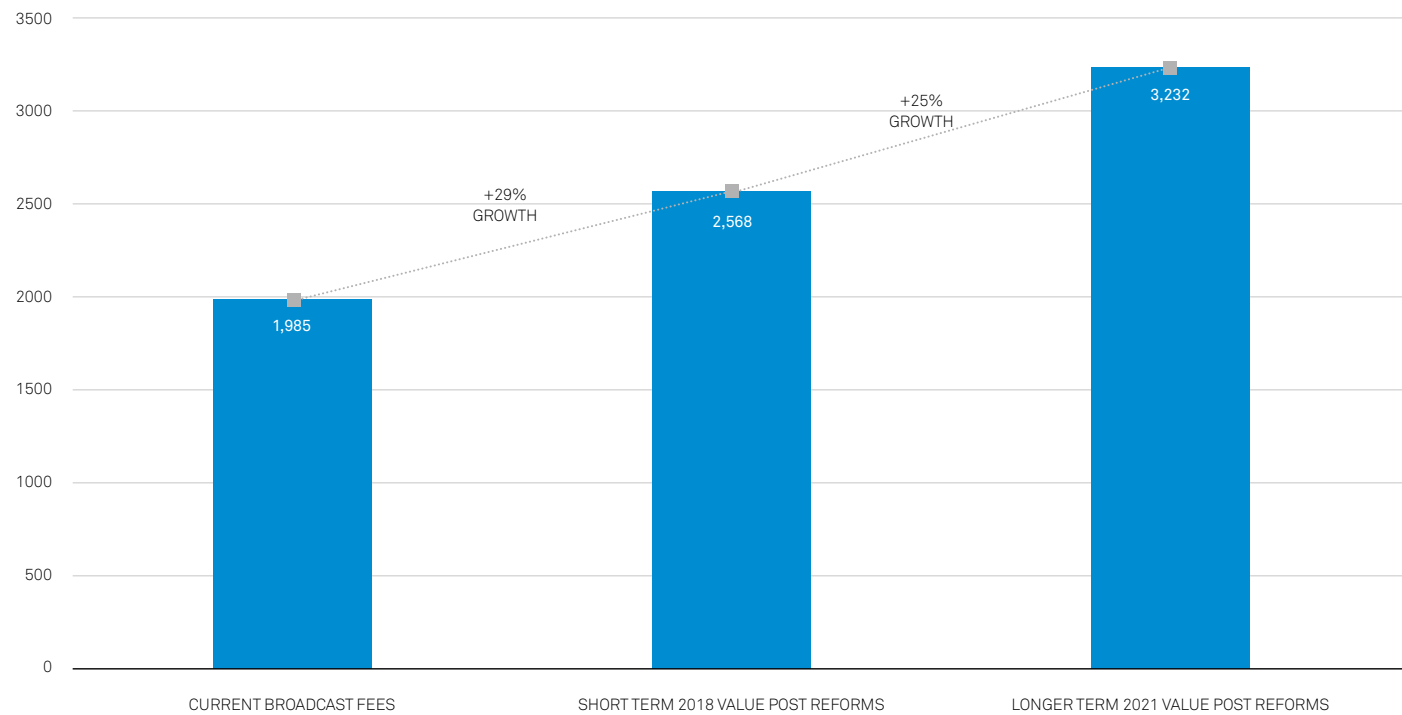
€3.2bn

Combined with the Europa League, the media rights value of the Champions League would be worth an estimated €3.2 billion by 2021.

+€20m

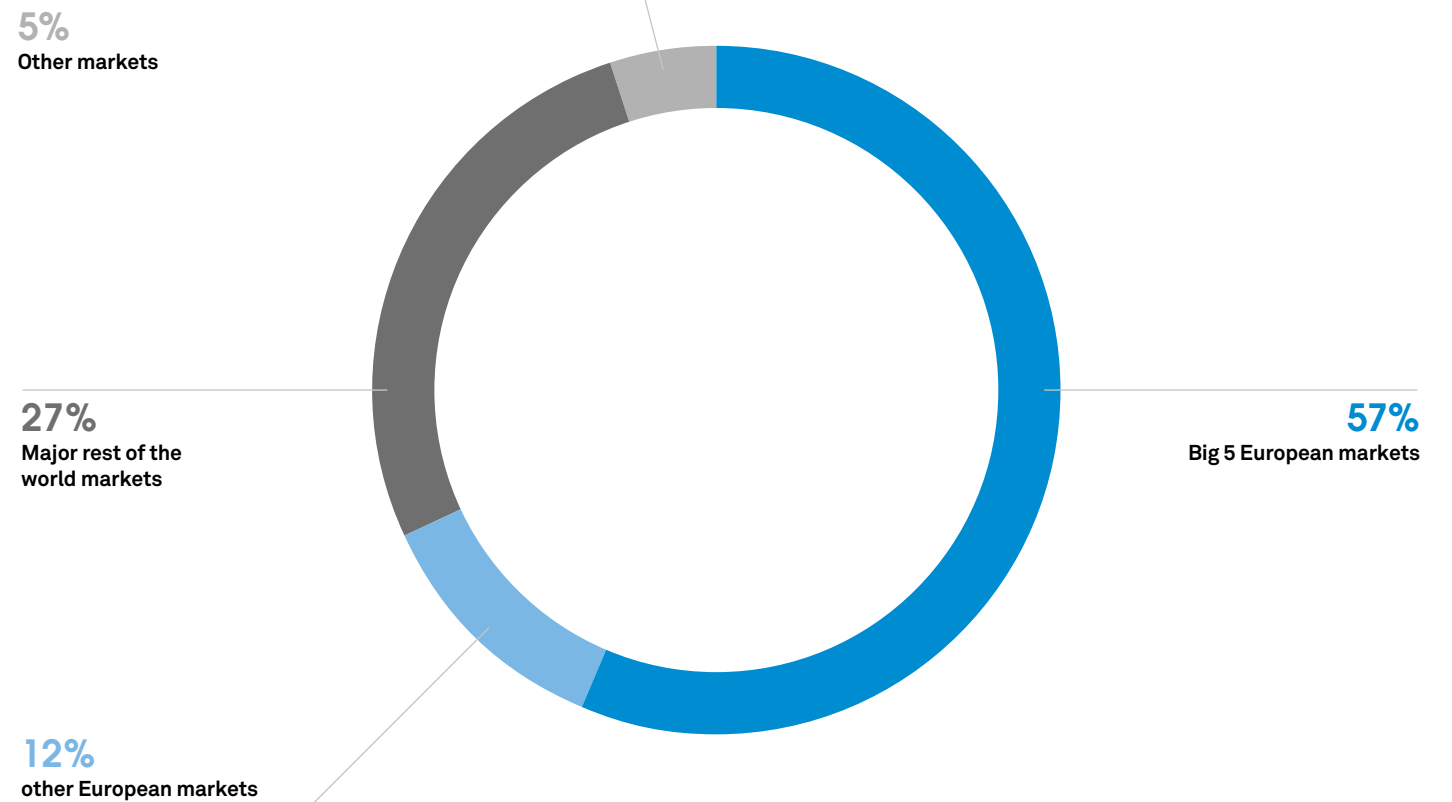
As a result, participating clubs could each see an increase of at least €20 million per season of guaranteed income on the current distribution levels.

Figure 15: Estimated uplift in UEFA competition media value, 2018 & 2021



SOURCE: OLIVER & OHLBAUM ANALYSIS

Figure 16: 2021 value split by source



SOURCE: OLIVER & OHLBAUM ANALYSIS

Why UEFA should act now

O&O estimates these reforms to the Champions League could bring in an additional €500-€600 million per year in the first rights cycle and a further €600-€700 million in the next. Coupled with a decrease in the number of participants, competing clubs in the 2018/19 season could see an increase of at least €20-€25 million of guaranteed income (before any additional success-based fees) under the current distribution levels.

Some breakaway “Super League” proposals have claimed there is a higher potential total value than these estimates. Obtaining greater increases in value would require more significant changes in format with all the attendant ramifications to the domestic league and European football structures.

There would likely need to be a move to weekend fixtures and more frequent matches in a league structure. Both of these reforms would cause substantial disruption to the running and value of domestic leagues and cups and would have significant impact on fans of clubs both involved and excluded from such a competition.

The reforms proposed in this report would maintain the general structure and hierarchy of European club football, as well as secure UEFA’s position as the governing body and its role in running and promoting club competitions.

The Champions League has had to evolve constantly over the past 25 years, reacting to both the changing landscape of European club football and technological advances. This report highlights there is a new opportunity for reform of the Champions League, which if it is taken, will maintain and improve its position as one of the biggest, most successful and most followed global sports properties.

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