Professional club soccer in the USA
An analysis of promotion and relegation

Sports Business Group
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“Surely the time has come for the league to extend its borders [...] and allow the Second Division clubs their just reward of promotion by merit”

Charles Sutcliffe, Burnley Football Club, 1898
Executive summary

Club soccer has a long history in the United States and in recent decades has achieved comparative stability. However, the professional game faces a number of challenges to its long term future.

US professional club soccer
- Soccer in the USA has a long and colourful past, with leagues having traditionally struggled to remain viable.
- The growth of the sport in recent decades has been significant, most notably in terms of grassroots participation.
- Major League Soccer is currently the only Division I league in the USA and has seen steady growth, driven largely by expansion teams.
- NASL and USL are currently the two other main professional club leagues.
- Attendances and broadcast audiences in particular indicate that club soccer in the USA has yet to fully tap into the sport’s popularity.
- This presents long term challenges to the business models and sustainability of clubs throughout the leagues.
- It is a natural time to consider whether the current club and league structure is keeping pace with, and maximising the potential for, the growth of the world’s biggest sport in the USA.

Promotion and relegation
- The concept of promotion and relegation originated in England in the late 19th century.
- It was adopted as a meritocratic means of joining various leagues together to create a coherent soccer pyramid.
- The open league system has been adopted by all major soccer leagues in the world, with the exception of Major League Soccer and the concept is explicitly referenced in FIFA’s statutes.
- US soccer is organised in closed leagues, in line with other US based sports leagues.
- The topic is worthy of serious debate amongst stakeholders within the US.

“A club’s entitlement to take part in a domestic league championship shall depend principally on sporting merit. A Club shall qualify for a domestic league championship by remaining in a certain division or by being promoted or relegated to another at the end of a season”
- FIFA Statute IV.9
Promotion and relegation could assist US club soccer in capitalising on the undoubted interest in, and potential for, the sport in USA.

**Added interest throughout leagues and seasons**
- Promotion and relegation introduces competition at the top and the bottom of leagues, increasing the number of matches in a season with something “at stake”.
- Relegation battles can extend the interest in a season, with relegation often not decided until the final gameday weekend.
- The potential for clubs to move between leagues creates exciting narratives for fans throughout the pyramid.

**A driver of increased attendance and matchday revenue**
- Evidence from open league structures shows that the movement of teams between leagues can, over time, be of a net benefit, increasing overall match attendance.
- The current gap between Division I (MLS) and Division II (NASL) in terms of attendance is large, but evidence of the uplifts achieved by former NASL/USL teams entering MLS demonstrates that movement between divisions in the medium term could also be of a net overall benefit in terms of attendance in US soccer.

**Compelling content for broadcasters**
- There are challenges in growing domestic club broadcast audiences, sustaining them across a season and keeping pace with other soccer broadcast properties.
- Promotion and relegation offers appealing and exciting broadcast content throughout the season, in addition to the traditional narrative of a title race.
- Evidence from England and Italy shows that a match in the context of a promotion race can deliver average audiences in excess of three times the league average.

**Motivated ownership at all levels**
- Existing owners would be compelled to continually improve their organisations either in hope of winning the league or achieving promotion, or through fear of relegation.
- This encourages ambition, innovation and dynamism, with no room for complacency or inertia on the part of every ownership group.
- The opportunity to develop clubs further down the pyramid, with a view to promotion, can attract new owners to the game who wish to invest at a lower level. This impetus for ambition should improve the quality of clubs and management at all levels.

**Improved player development**
- Increased competition at all levels of the club pyramid would provide players at all levels with greater experience of competitive soccer matches.
- Ambitious ownership at all levels may improve facility and coaching provision at a larger number of clubs.
- Better player development would assist the US National Team’s ambitions, and provide a potential revenue stream for owners looking to realise value through player transfers.

**Further positions USA as a global soccer nation**
- Alignment with other major soccer nations positions soccer in the US as being a global player, whereas a closed league system characterises US soccer as locally led.
- This would align with FIFA’s statutes that states membership of a league “shall depend principally on sporting merit.”
- Improved player development and infrastructure would assist in realising some of US soccer’s international ambitions.

**A structure for the long term growth of the sport**
- Provides a clear mechanism for the growth of the sport in an organic way, with promotion and relegation (coupled with effective governance and licensing) providing an evolutionary way for club soccer to find its natural and most effective structure.
- Soccer in the US is now stronger with greater interest than ever and promotion and relegation could reflect this maturity and encourage and reward investment to allow clubs and players the opportunity to reach their potential.
The opening of the US club soccer pyramid could present a number of significant risks. However, through careful consideration these could be effectively mitigated.

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<th>The quality of soccer of promoted teams</th>
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<td>• The promotion of teams would obviously be of concern for those clubs in the upper division, with regards to the sporting quality of the teams being promoted.</td>
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<td>• By definition, promoted teams are the ‘best of the rest’ and relegated teams are the worst in the division.</td>
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<td>• As an initial step, play-offs between teams from two divisions to decide promotion and relegation could ensure sporting merit drives clubs’ divisional status.</td>
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<th>The quality of organisation of promoted teams</th>
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<td>• Given the history of US professional club soccer, stakeholders would be legitimately concerned as to whether promoted teams would have the quality of organisation (management) and be financially sustainable if promoted.</td>
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<td>• Implementation of thorough club licensing regulations, as used in other countries and sports, could ensure clubs were of a high enough standard of professionalism.</td>
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<th>Stadium infrastructure of lower league teams not good enough</th>
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<td>• Minimum stadium requirements form a key part of many leagues’ criteria, such as the English Premier League’s requirement that all stadia are all-seater, or UEFA’s requirement that matches in their Champions League competition from the group stage onwards are played in stadia with over 8,000 seats.</td>
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<td>• Similar stipulations within the US club pyramid would ensure that clubs seeking promotion would have to play in a venue that met a league’s requirements.</td>
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<th>Increased competition will increase costs (e.g. player costs)</th>
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<td>• The increase in risk (relegation) and reward (promotion) within the club pyramid may well see an escalation in player costs, as they become increasingly valuable commodities and the ambition of club owners grows throughout the leagues.</td>
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<td>• However, soccer is now full of examples of effective regulation controlling costs (as is common in US sports), such as UEFA’s Financial Fair Play regulations. The implementation of cost control measures would be critical considerations for any league.</td>
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<th>US leagues may be yet to reach maturity</th>
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<td>• A key part of any future plan for US soccer will be the decision in the near term of the ultimate size of the leagues (i.e. scale of expansion).</td>
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<td>• Promotion could be considered as a meritocratic means of growing leagues to their optimal size, with relegation introduced at a later date.</td>
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<th>Relegation could be seen as unfair on long term investors in a league</th>
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<td>• Clearly those who have invested in a league over time and/or through the payment of a franchise fee may feel that relegation represents a major new risk which would undermine and unnecessarily jeopardise this investment.</td>
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<td>• A managed transition with properly structured promotion and relegation could have upsides that could offset this loss and more importantly be of benefit to all stakeholders in the longer term. Equally the implementation of new equity structures and revenue distribution models for leagues may further offset and protect against any perceived or real losses.</td>
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Conclusions: Club soccer in the USA today

**Club soccer in the US has come a long way** – the last two decades have been comparatively stable in terms of leagues. Credit is due to Major League Soccer in particular for driving two decades of expansion and, for some clubs, attendance growth, especially given the competitive nature of the US professional sports market.

**However, soccer in the US as a sport has come further** – soccer has become a major sport in the US in terms of grassroots participation and audiences for major international soccer properties have also become significant. The current club system, while comparatively stable, has yet to meet the demands of fans, or deliver the broadcast and matchday audiences the potential of the sport in the US may warrant.

**Major League Soccer has done well to attract franchise and stadium investment** – but there is a limited lifespan to the franchise fee model and without significant increases in broadcast and matchday audiences, the business model may face challenges in the medium term.

**Fan interest in non-US based club soccer is increasing** – with growing interest in foreign soccer broadcast properties, the revenue potential from broadcast rights deals faces long term challenges.

**The closed league system, while understandable in the context of when leagues were established, may hinder the longer term growth prospects of club soccer** – the closed league system is one that seeks to maximise profit for owners and protect a league’s financial sustainability. To date however, this model in US soccer is more about loss and capital call minimisation, rather than profit maximisation, struggling to grow revenues and to an extent reliant on expansion franchise fees that have a limited lifespan.
Conclusions: The future of club soccer in the USA

Open leagues may attract more fans to matches – evidence from other leagues demonstrates that the spectacle of promotion and relegation, and the churn of teams between divisions can actually be of net benefit to attendances across the club pyramid as a whole.

Increased attention and audiences will translate into increased revenue – with increased competition at all levels of the club game, and at both ends of a league, matchday and broadcast audiences may be increased. In so doing, this can deliver increase in matchday (e.g. ticket sales), broadcast (e.g. greater viewing figures leading to enhanced broadcast rights deals) and commercial (e.g. more attention delivering greater returns for commercial partners) revenue.

Promotion and relegation will motivate ownership at all levels – by enabling the ambition of owners further down the pyramid (through promotion), as well as by removing the safety net for owners (through relegation), this will motivate ownership to invest and/or develop their club so as to capitalise on the benefits of promotion or avoid the penalties of relegation.

Opening the pyramid will attract investment at all levels of the game – owners looking to develop a long term club project, growing a club from a grassroots organisation to a professional one, may be more motivated to become involved than would be the case with no prospect of promotion or entry to a professional league without a franchise fee payment.

Increased opportunities and competition would assist with player development at all levels – with more competition throughout the pyramid through the prospect of promotion and the threat of relegation, the intensity of competition for players would increase, as would the emphasis for clubs throughout the country to develop their coaching infrastructure.

Opening the leagues can be done in a way so as to mitigate any risks – effective implementation of governance regulations and minimum league standards would ensure that the financial security and sporting integrity of leagues was preserved whilst also allowing the leagues to benefit from the potential identified upsides of promotion and relegation.

As it stands however, US club soccer is not immediately ready for promotion and relegation – for the topic to move forward several key topics needs to be addressed including:
- Decisions made on the optimum number of teams in the existing leagues;
- The continued development and stability of a second tier competition to develop clubs capable in management and football terms of joining the first tier; and
- Consideration of the mechanism by which long term league investors have their “equity” protected, at least in the short term, from relegation.
This summary document has been prepared pursuant to our engagement with Silva International Investments (UK) Ltd, solely to
assist an understanding of the key findings arising from a preliminary assessment of factors for and against the introduction of
promotion and relegation in professional club soccer in the USA. It is necessarily a summary, limited to matters which we have
identified that appear to us to be of significance within the context of our engagement, and does not necessarily contain all matters
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