Winner takes all in mega football shirt deals

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A battle between Adidas and Nike for dominance of the global football gear market is driving a steep rise in sponsorship payments to elite clubs - and cutting into the two manufacturers' profits.

Shirt deal inflation is reinforcing the advantage of about a dozen clubs with a global fan base - among them Barcelona and Real Madrid, the two Manchester clubs and Paris Saint Germain. These same clubs benefit from bigger revenues from broadcast rights, helping them pay for the best players.

The clubs' gain comes at Adidas and Nike's expense.

Nike stock dropped this week after Morgan Stanley downgraded it to "equal weight", primarily on concerns the firm is losing U.S. market share to Adidas and Under Armour, but also citing a profit squeeze from the rising cost of sponsorships.

"At the top, it is a pure power struggle between Nike and Adidas," said Peter Rohlmann, a marketing consultant who advises clubs and federations on such deals. "The costs don't play a role. They want to keep their competitor out."

Under the terms of sponsorship deals, the brand pays the clubs for the license to sell replica jerseys and other merchandise. The clubs usually receive a fixed fee, kit for the team, plus royalties of some 10-15 percent of the merchandise sold and performance bonuses if the team wins major trophies.

Only the highest-profile clubs, and a few national sides like Brazil and Germany, can shift the millions of shirts that justify deals now worth as much as 100 million euros ($111.58 million) a year.

Spanish champions Barcelona are market leaders, selling 3.6 million shirts last season, according to Euromericas agency, followed by Bayern Munich, Chelsea and Manchester United.

This top four has negotiated new kit deals with Nike or Adidas in the last two years worth double or triple what they were previously receiving. Champions League winners Real Madrid are demanding a big hike from Adidas.
POWER STRUGGLE ESCALATES

Competition has intensified since Nike took the lead in the market for football shoes in 2014, prompting Adidas - long the world's top soccer brand - to shift strategy to focus its spending on fewer top teams and players.

Its biggest win was to oust Nike at Manchester United in a deal worth 75 million pounds ($110 million) a year over a decade.

Nike, slipping in the U.S. market after it lost singer Kanye West to Adidas and basketball star Steph Curry to Under Armour, is now retaliating. Its new deal with Barcelona last month hit a new record of up to 155 million euros ($173.66 million).

Nike declined to comment for this article. Brand president Trevor Edwards has justified the Barcelona deal by saying the club has millions of fans worldwide, adding that the relationship "extends Nike's leadership position in football".

Nike has also trumped Adidas at Chelsea, more than doubling the value of the contract.

"We think Nike ... is willing to sacrifice margin to keep its stars and sign new ones," Morgan Stanley analysts wrote, noting that deals for Nike and Under Armour are up about 70 percent since 2013.

HALF A BILLION ON FIVE DEALS?

Adidas could be forced to stump up almost half a billion euros a year for its top five soccer deals - almost a quarter of its marketing budget - if it yields to demands from Germany and Real Madrid for more.

"Clubs are becoming increasingly sophisticated," said Glenn Lovett, head of global strategy at sports data firm Repucom. "Football is the most global sport and this is where you need to be if you want to be a global brand."

Adidas says the high media profile of top teams and players shifts merchandise - particularly in Asia - and also indirectly helps sales of training and running gear.

"The top clubs will get more expensive while those that are not so good will have problems," Chief Executive Herbert Hainer said. He sees a limit of not much above 100 million euros a year for the most expensive contracts.

The next tier of clubs are having to make do with much less, opening up opportunities for firms like Puma, Under Armour and New Balance.

Fans at Bayer Leverkusen complained after the Bundesliga's third ranked club only managed to secure around 2 million euros a year with local brand Jako after being dropped by Adidas.

Under Armour, which sponsored its first English side in Tottenham Hotspur in 2011, recently took over from Adidas at Southampton for 8 million pounds a year.

Puma faces demands for a hike from Leicester City after a fifteen-fold jump in demand for its shirts due to its surprise victory in the Premier League, although the contract - worth just 1 million pounds a year - runs until 2018.

With the European championships and Copa America about to start, Nike and Adidas are also competing for national sides.

World Cup winners Germany are pushing Adidas to leapfrog Nike's record contract with Euro 2016 hosts France worth 43 million euros a year.

The brands are also bidding to sign top footballers, with Adidas poaching France and Juventus midfielder Paul Pogba from Nike in March for at least 4 million euros per season.
Such deals allow the brands to reinforce club contracts, or undermine those of their rivals: Barcelona’s Lionel Messi wears Adidas shoes with his Nike shirt, while Real Madrid’s Cristiano Ronaldo does the reverse.

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