



interview

Carlos Martínez de Albornoz

Economic general director of Real Madrid CF, in charge of the Club's corporate direction

Named by FIFA in 2001 the best club of the 20th century, Real Madrid approaches the future with a multitude of projects in mind. This football club, with a history that spans over a hundred years, represents the most internationally renowned Spanish brand. It has 82,000 members, 150,000 registered fans, and over 50 million supporters worldwide. We have spoken to Carlos Martínez de Albornoz, economic general director of the Club, who told us about the evolution of the economic and insurance framework behind Real Madrid CF.

“ There are very few differences between our insurance programme and that of an industrial enterprise ”



Carlos Martínez de Albornoz Bonet was born in Huesca, where he began his studies. He obtained his degree of Industrial Engineer at the "Escuela de Ingenieros Industriales" in Madrid, and later did his PhD at the University of Glasgow. He continued his postgraduate studies at diverse US and European institutions, such as the Wharton Business School of the University of Pennsylvania and the London School of Business.

Mr Martínez de Albornoz joined Dragados y Construcciones in 1970 and worked on several industrial projects until 1988, having become Division manager. In 1988 he was appointed general manager of the Naval Construction Division of the "Instituto Nacional de Industria" (INI). He held that position until 1990 when he took over the executive chairmanship of the construction firm Auxini, that later merged with ACS. In 1983 he was appointed executive chairman of the group Astilleros Españoles y Astano, and was simultaneously chairman of the Association of European Shipbuilders and Ship Repairers (AWES) and of EUROYARDS (an association of the five major European shipbuilders). In 1996 he became the General Manager of Aceralia Corporación Siderúrgica. He also was chairman and director of several companies of the Aceralia and Arbed groups in Spain, Belgium and Brazil and was appointed vice president of the association of Spanish iron and steel companies "Asociación de Empresas Siderúrgicas Españolas (UNESID)", and director of the European Confederation of Iron and Steel Industries (EUROFER). He is the Economic General Director of Real Madrid CF since January 2002.



What are the sources of revenue of a football club?

The income and expenses of a football club, are of two kinds: on the one hand the ordinary or operating revenue and expenses, i.e. deriving from normal and recurring activities of the club and, on the other, the extraordinary revenue and expenses, deriving from the sale of assets: players or other assets or rights, such as land, buildings, etc. In the course of this interview I will refer at all times only to the ordinary or operating revenue and expenses.

Basically, a club such as Real Madrid obtains its revenue from four sources:

- ▶ Revenue from what we could call **"Stadium"**, i.e. the sale of tickets, seats and boxes, membership fees and season tickets.
- ▶ Revenue from the **participation of the teams in competitions** both official and friendly ones.
- ▶ Revenue for **television retransmission rights**, corresponding to participation of the teams in national and international competitions and those of REALMADRID TV Channel.
- ▶ **Revenue from marketing**, including from products branded with Real Madrid trademark, licences to use the trademark, from sponsorship, advertising, etc.

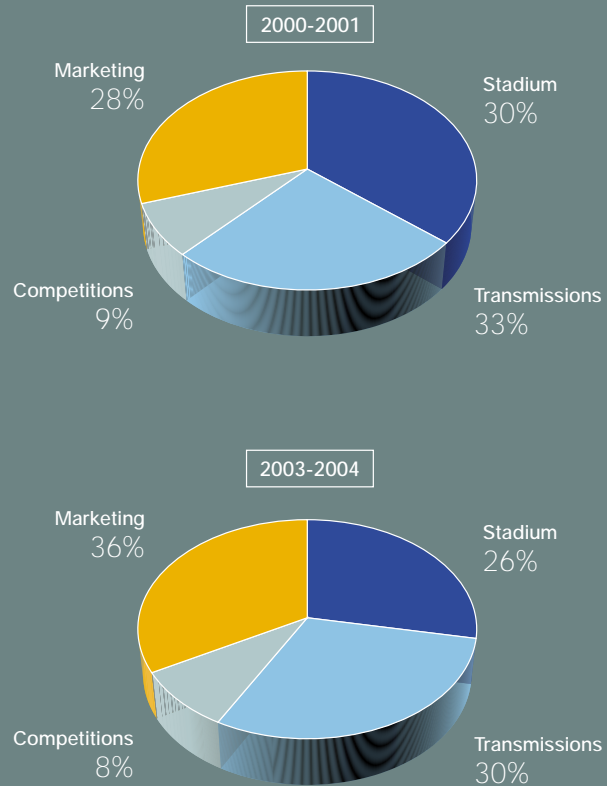
What are the objectives of Real Madrid with regard to growth of revenue?

With respect to income, the objective of the Club these past seasons has been to implement measures tending to:

"Innovative products to cover risks that are specific to sports clubs have not been developed at the same pace as products tailored to cover the needs of the industrial and services sectors."

- ▶ Substantially increase its operating revenue
- ▶ To change the proportions of its operating revenue, increasing the share of marketing revenue, so as to achieve a recurring and balanced structure of revenue sources.

Percentage growth in revenue sources



The success of these measures is evident from the following summarised data:

- ▶ Total operating revenue has increased nearly 70%, from EUR 138 million for the 2000/01 season to EUR 234 million for the current 2003/04 season.
- ▶ In this same period, and by virtue of a strategy designed to increase the exploitation of rights for merchandising, image of the club and of the players, distribution and internet, both in the national and international markets, marketing revenue has grown in excess of 140%, from EUR 34.6 million to EUR 83.7 million.



At Real Madrid we are working towards maintaining this pace of growth of our operating revenue, by implementing measures to:

- ▶ Strengthen our Real Madrid brand awareness internationally endeavouring to enter commercial markets with a good potential for growth, such as Asia and the USA
- ▶ Extend coverage of Real Madrid content through new technology media such as broadband, UMTS, etc.

Which are the main items of expenditure of a football club?

With respect to ordinary or operating expenses the largest, by far, is personnel, and more specifically, players and managers/coaches. Such is the extent of this issue that the G14 (association of the most important European clubs) recommended as a prudent economic measure, that total personnel expenditure, including both sport-linked and non-sport personnel, should not exceed 70% of the total operating revenue, and that this level should be achieved by the year 2005. This ratio, that was determined on the basis of experience as well as the analysis by external advisers, is beginning to be

accepted by the football world as the minimum requirement to ensure the viability of football clubs.

At Real Madrid the significant increase in operating revenue, as mentioned above, together with the control of expenditure, compatible with contracting of great players, we have been able to bring that ratio down from 86% as it was for the season 2000/2001 to 54% for this current season. In other words, we have achieved a much better ratio than the one recommended by G14 within a shorter time span, an entire year ahead of the date scheduled for the major European football clubs.

Well below the personnel expenses, but which merit a special mention are those for materials destined to be sold, travel expenses and insurance premiums.

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What is the financial position of Real Madrid?

The measures that Real Madrid has implemented in recent years to promote growth of revenue and control of expenditure, have enabled us to achieve an economic-financial standard that place our club, at least, among the most solvent in the world. Some of the data supporting this assertion are the following:



- ▶ The club has been able to reverse the trend of Operating Results before depreciation. It has gone from a loss of EUR 24 million for the 2000/01 season to a forecasted profit of EUR 48 million for the current season.
- ▶ Fixed assets such as the cost of acquiring players, use of rights, IT applications, patents and trademarks are to date fully amortized on the balance sheet.
- ▶ The positive generation of funds obtained in the past four seasons, has allowed investments to be made for a total of EUR 442 million, destined mainly to the acquisition of players, modernisation, refurbishing and extension of the Santiago Bernabéu stadium and repurchase of the rights of use.

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- ▶ The working capital (short term difference between assets and liabilities) has gone from negative figures, minus EUR 50 million at 30 June 2000 which meant that the functioning of the Club was at risk, to positive figures of more than EUR 100 million nowadays.
- ▶ As at 30 June 2000 our liquid assets were EUR 10 million, and that figure for the end of the current season is EUR 140 million. The current results

will enable us to deal with the investments that are necessary to build the new sports complex and to continue with a team and premises that are top class by international standards.



The insurance perspective

What about insurance? What aspects should a football club be more aware of?

I believe that insurance for a business is, basically, a tool to minimise economic loss arising from negative events, i.e. loss of property or the temporary or permanent inability to generate the usual income. From this perspective, there are no major differences between our insurance programme and the one of an industrial enterprise or service business, and it includes:

- ▶ Insurance related to managing our most important assets, the star players, which I will speak about later in more detail.
- ▶ Insurance covering damage to the premises and physical elements of our assets, the only peculiarity here is the nature of the assets covered, such as trophies, strip shirts, documents and other items that have a historical and representative value far higher than their real manufacturing cost.
- ▶ Public liability insurance that differ from other insurances of this type in that:
 - ▶ The large sum insured for operating public liability derived from the fact that over 70,000 people attend the events we organise.
 - ▶ The legal peculiarities of a sports club differ from those of a standard company, we are therefore forced to provide detailed explanations to insurers, particularly to foreign ones.
 - ▶ Insurance covering sports contingencies.

How are the star players protected by insurance?

Protection against risks relating to star players is provided by policies that include the following coverage:

- ▶ Indemnity for temporary professional disability. While these circumstances prevail, the club pays the player his full fixed salary and in turn receives from the insurance company, a daily sum as compensation after the period agreed as deductible, which varies depending on the age of the player. The total compensation amount payable is determined as a percentage of the player's income.
- ▶ Indemnity for permanent disability, life and accidents. The sums insured to cover this contingency are established for each player on a case-by-case basis, taking into account the market value of a player of similar standard if here were part of the team.

With respect to other insurance covering contingencies such as payment of win bonuses and prizes, purchase of retransmission rights, relegation of the club to a lower division, publicity agreements with companies, lease of premises. How do you deal with all this?

At present Real Madrid does not include in its insurance programme policies to cover contingencies of this kind. Our current position is to constantly monitor the development of the markets to analyse the possibility of obtaining specific cover at favourable rates, while considering at the same time other alternative non traditional cover that we can implement in a

more general form or for a longer term. The parameters we gauge when considering contingency cover are:

- ▶ Establishing the net economic loss that is to be covered
- ▶ The effect of the contingency on budgetary stability
- ▶ The cost/impact ratio of a loss

With respect to offering insurance to Club members; is it intended to develop the potential income stream that affinity groups could be?

This issue is under consideration and may be implemented in the future. In any event, our priority is that our members and registered fans should be aware that we shall only offer products that will prove to be to their advantage.

From an insurance perspective, what type of co-operation links could be established with football clubs?

Innovative products to cover risks that are specific to sports clubs have not been developed at the same pace as products tailored to cover the needs of the industrial and services sectors. There is plenty of room for manoeuvre, so experts in the insurance market can get to know our sports business environment and its requirements, in order to tailor innovative formulae that will deal with our specific risks with suitable coverage and cost ■