SPORTS: MORE THAN JUST AN EXPENSIVE HOBBY?

Soccer teams are new toys for the Chinese super rich. Why have they become soccer fans so suddenly?

By Yaojuan

The Chinese love soccer. It's not uncommon to see a stadium full of soccer fans.

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Considering that Xu Jiayin, Wang Jianlin and Jack Ma all number among the wealthiest entrepreneurs in China and could have pretty much anything they want, just what is it about the sports industry that has grabbed their attention? Although China's sports industry is currently undergoing reform, looking at China's history and the current situation overseas, the industry poses no small risk to wealthy investors' businesses and reputation. Just look at the Glazer family, owners of Manchester United, the highest earning team in the world. Although they can be considered financial experts, their investment in the team 10 years ago has only brought them an approximately 60% return.

The money spent by these men has been considerable. First we have Xu Jiayin, who has spent an enormous amount recruiting domestic stars and foreign players and coaches to pave the way for Guangzhou Evergrande's AFC Champions League win in 2013 . Next we have Jack Ma's purchase of a 50% stake in Guangzhou Evergrande for $192 million in June of 2014. Then there's Wang Jianlin's trip overseas to acquire a 20% stake in Atletico Madrid and the huge amount invested in sports marketing leader Infront Sports & Media.

Next, we had rumors indicating that the Hangzhou Wahaha Group was looking to partner with Huawei, Alibaba and other companies to acquire Silvio Berlusconi's AC Milan, before Berlusconi has settled on Thai businessman Bee Taechaubol as a buyer.

Looking at the industry, it's clear that huge expenditures are nothing out of the ordinary, and yet China's wealthiest still remain entranced by sports.

Interception!

Although these wealthy men may appear to be laymen when it comes to sports, taking a closer look shows they may actually know what they are doing. Unlike most industries, people are the core of the sports industry, and if you want to get the right people, that takes money. When it comes to this, these men have been opening their wallets to recruit the right people without even blinking an eye. The money Guangzhou Evergrande used to ensure its path to success proves this point.

It seems that when it comes down to it, if you want to dance you'll have to be prepared to pay the band!

In 2010, the Evergrande Real Estate Group took over the Guangzhou Football Club for $16 million. Soon after, Xu Jiayin began implementing changes in a number of areas, first by hiring coaches and foreign players. Coaches, from Jose Antonio Camacho to Marcello Lippi, were some of the best in the world, while foreign players were setting new transfer records in the Chinese Super League. For instance, in 2011 the team spent $10 million in transfer fees and the promise of a $7 million annual salary to bring Dario Conca into the team.

For a player in the Super League, having Evergrande take an interest in you could change your fortunes overnight. The average annual salary for frontline players in the Super League is $240,000, whereas there are more than 10 Evergrande players who make more than $480,000 a year.

Another strategy that Xu implemented is offering high monetary rewards for matches, with rewards for a win or a tie at an away game being far higher than a home game. In 2012 alone, the total amount of rewards reached $23.7 million.

Xu Jiayin even ended up establishing a football training school, sending young players over to Europe for training. According to statistics, over these past five years Evergrande has invested no less than $480 million in football.

Although these expenditures may have seemed like the acts of a kid with a new toy, they had a huge impact on the club. Over the past several years, the Evergrande team has become increasingly more competitive, winning four league championships and the AFC Champions League in November of 2013. These wins earned the team a huge following in China. On the night of the AFC Champions match against FC Seoul, ticket sales reached $8.8 million, setting a new record for Chinese football and the AFC Champions League.

Does Xu Jiayin himself know how to play football? Not really. Although he may love the sport, he understands he is just an amateur. Although he may own the team, he doesn't enter the player's changing room nor does he decide who gets to play on the field, let alone interfere with the decisions of coaches. What he does understand, however, is human nature and how to manage and create encouragement. Commercial returns aside, as a lover of football, his investments

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have certainly not been a waste of money.

The huge success of the Evergrande team eventually caught the attention of Alibaba's Jack Ma. Although some might think, as a Hangzhou native, Ma may have a soft spot for the Hangzhou Greentown Football Club and its owner, real estate tycoon Song Weiping, when it comes to investments Jack Ma has always held to the idea, "If you can't be No.1, invest in No.1. If you can't do that, then cooperate with the No.1 in the field."

Jack Ma might as well be coming from another planet when it comes to understanding football. He has said that at the time Song Weiping told him, "Stay away from football. You don't understand it." Although this may seem like sound advice, Jack Ma has pointed out that he was never an expert on the Internet or computers either, and everyone knows how that turned out.

In June of 2014, Alibaba spent $192 million to purchase a 50% stake in Evergrande, changing the team's full name to Guangzhou Evergrande Taobao.

What's interesting is that although these entrepreneurs are involved in an industry not their own, this hasn't prevented them from enjoying taking swipes at each other.

Not long after Alibaba's acquisition, Wang Jianlin's Dalian Wanda Group announced that it would be acquiring a 20% stake in Spanish club Atletico Madrid for $50.85 million (the group ended up spending $56.27 million). While making this purchase, Wang Jianlin didn't forget to take a shot at Evergrande by pointing out that Jack Ma had spent the amount of money the entire Atletico team was worth to purchase only half of a domestic team. Xu Jiayin was of course not very happy when he heard this comment and followed with a barb of his own, "It would be meaningless for us to go to Europe or some other country to buy a top class team. What we want to do is make our [China's] teams become the best in the world."

Of course both sides have their own reasons for staying at home or going abroad. For Wanda, the purchase of Atletico goes beyond a love for football. Wanda has been looking to expand in Europe, for instance purchasing the Edificio España in 2014. Investing in one of the local football teams was most likely a quick way to create an emotional bond with locals and help maintain good community relations.

Also, in recent years, the cultural and sports industry has been one of Wanda's important development directions.

On Feb. 10 of this year, the Wanda Group announced that it had led three well-known organizations and Infront management in successfully purchasing Switzerland-based Infront Sports and Media for approximately $1.2 billion, with Wanda holding a 68.2% controlling stake.

This billion-dollar purchase set a new record for wealthy Chinese entrepreneurs getting involved in the sports industry. And quite a purchase it was: Infront is the second largest sports marketing company in the world, and one of the world's largest companies for sports services and related broadcasting. Covering 25 different sports, the company broadcasts more than 10 events every day. Its greatest value, however, probably lies with the marketing rights for the 2018 and 2022 World Cup matches.

While yachts and private planes and

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other luxury items many not be that popular after President Xi Jinping's anti-corruption movement, the wealthy's investment in football and sports has earned them overwhelmingly positive feedback from the public. In the end, these men's efforts in this industry have many in China feeling that the once impossible dream of winning the World Cup is one step closer than before.

A Hope for China

Xu Jiayin, Wang Jianlin and Jack Ma are all in the running to becoming the wealthiest person in China. The success they have achieved in their lives is a testament to their forward vision and ambition. If these three take an interest in something, there must be something about it that is worth their attention. So just why have they been willing to spend billions in in this area? Perhaps it has to do with predictions that the Chinese sports industry is about to undergo explosive growth.

Over the past 15 to 20 years, the global sports market has seen continued strong growth. In China, besides continued investment, government policy has also been helping this industry grow in the country. On Dec. 19, 2014, the central government released "Several Opinions of the State Council of the People's Republic of China on Accelerating the Development of the Sports Industry and Promoting Sports Consumption" in which it called the sports industry an important part of continued economic growth for the country and stated that its goal was to see the industry grow into an $800 billion industry by 2025. Even President Xi Jingping has high hopes for Chinese football. He once publicly stated he had three wishes, that "China would qualify for a World Cup, host a World Cup and win a World Cup." These same hopes are most likely the greatest wishes for most football fans in China.

Currently, the sports industry only accounts for 0.6% of China's GNP, whereas in Western developed countries this number is more than 3%. As Zhang Yidong, head strategic analyst for Industrial Securities, sees things, the current state of the sports industry is similar to that of the broadcasting industry in 2010. Over the short-term, policy and sports events will act as a catalyst, while over the long-term there is plenty of room for development. This "newness" is one of the main reasons he recommends the industry.

Looking at the general public, when GDP per capita in China passes the $6,000 mark, people's interest in sporting events is expected to explode. At the same time, the younger generation will have a more rational understanding when it comes to balancing work and life, and as more and more people begin to brag about the latest marathon they ran, running, tennis, badminton and cycling will become an everyday part of white-collar workers' daily lives.

Investors are already itching in their seats, just waiting to get in. Since the beginning of this year, a number of enterprises in traditional sectors have begun setting up sports investment funds or making moves into the industry. On Jan. 19, Guirenniao (603555:Shanghai) announced that it was cooperating with hupu.com to establish a $320 million sports industry fund that would focus on sports operations, training, media and other related sectors; China United Travel has announced that it will be registering $800,000 in capital to establish a subsidiary sports company; Toread Outdoor Products has announced that its subsidiary company in Tianjin would be working with an asset management company in Jiangxi to establish a sports investment fund worth $48 million.

This increase in industry capital has also spread into second-tier markets. In China's A-share market, sports industry funds like Guorenniao, club concept stocks of football clubs like Jiangsu Guoxin-Sainty and Beijing Guoan, sponsors like Ledman Optoelectronic and sports broadcast companies like Guangzhou Guangdong Daily Media have all seen increases in their stock prices since last year.

The rapid development of the industry is also expected to promote the growth of related indexes. On Feb. 9 of this year, the China Securities Index Company announced the establishment of its Chinese Securities Sports Industry Index, which will include more than 50 companies in sectors such as sports services, sports product manufacturing and sales, sports media, sports medicine and other related services.

Money or Fame?

It's worth being aware that the sports industry does have unique conditions that set it apart from other industries. This means that while success can come in the form of monetary reimbursement or fame, it is difficult to have both. A number of big names have tried and failed to successfully make their way into the industry.

"The football waters are too murky. I couldn't make it across…," famed comedian Zhao Benshan remarked about his experiences in the industry. In 2005, He took over as chairman of the Liaoning Football Club. Like Xu Jiayin, he had huge plans for the team, proposing that it establish a school at

Ben Shan Film Studios, work with domestic broadcasters and buy an online video site so it could establish its own sports channel. However, in just half a year's time Zhao's hopes fell flat.

"Football is a hard dish to eat." I used to hold my comrades in football circles in high esteem, but now I can see how dark football really is. Many things end up changing after they get involved in this sector." This is how Geely Automobile's Li Shufu described his time in the industry.

One of the reasons they weren't a good fit for the sports industry was because they were not prepared for the ever increasing expenses that came along with it. Just look at the Lifan Group's Yin Mingshan. He spent nearly $9 million in 2000 to acquire the Chongqing Qianwei Huandao Football Club, which he reorganized as Chongqing Lifan. Over the past 15 years, the Lifan team has suffered from long-term financial loss. Adding to this is the fact that since the team's listing, its expenses have come directly from Yin Mingshan's own pocket. In 2014, the team spent more than $11 million to get into the Chinese Super League, and it's estimated that they'll need to spend at least $32 million to stay there. At 77 years of age this may have been too much for Yin Mingshan. At the end of 2014, the team's legal representative and shareholders underwent some big changes, changing the team's name to the Chongqing Changsheng Football Club.

As it stands now, Chinese football seems to be a game reserved for real estate companies, as only these enterprises seem to have resources to keep their hobby going. And in many ways investing in football is a good hobby, as a team's success on the field can increase an investor's reputation. However, a successful team does not always equate to a successful business venture.

The night Evergrande won the AFC Champions League, the Evergrande Group introduced its Evergrande Spring brand of bottled water, making the bottled water brand nearly famous overnight. However, this boost was short-lived and was unable to help maintain long-term sales. At the beginning of 2014 Xu Jiayin announced that the group's sales goals for Evergrande Spring were $1.6 billion the first year, $3.2 billion the second year and $4.8 billion for the third year. However, looking at Evergrande's recently released annual report, sales of Evergrande Spring for 2014 only reached $174.44 million, while reported losses reached $368 million.

On the official webpage for the Evergrande Football Club, you can see that sales of Evergrande branded sports products are less than ideal. While low-priced products like T-shirts and calendars are fairly hot, the Nike brand jerseys that cost more than $50 are being left out in the cold. Also on the site are links to the group's cooking oil and rice products, but in reality the strategy to use the team's fame to promote the group's other business sectors isn't turning out to be very effective as these non-football related products on the site are barely selling.

Wang Jianlin's Dalian Wanda Group acquired a 20% stake in Spanish club Atletico Madrid for $56.27 million.

Before Wanda bought Infront, Wang Jianlin pointed out that sports should be an industry that does business, not a cause that needs supporting; only by making money could the sports industry truly achieve scaled development.

Looking at the current money-burning state of the sports industry, it seems that the money-making phase is still a ways off. Both Wanda and Evergrande's plans for the future include setting up schools and sending young players overseas for training, investment strategies that are sure to take quite a while to pay off.

Although the wealthy can afford such expenses, if sports is to be a business and not just a hobby, then the goal is still to make money.

Currently the global sports industry is a $113 billion industry shared among four main markets: Media and broadcasting accounts for 30% of that value, sponsorship revenue, 23%; ticket revenue, 32% and commercial development,14%. However, when it comes to China, the only ones who are striking it rich are the sports clothing sellers such as Li-Ning, Anata and Toread.

For Love of Money

Even in the Europe and US sports industries where sporting events, sponsorships and derived products are mature, most wealthy people invest mainly for the love of sports as they know it's only the lucky few that end up making money.

It seems that Internet and investment moguls are especially interested in sports teams. Before his retirement after working at Microsoft for 34 years, former Microsoft CEO Steve Ballmer gave himself a little retirement present buy buying the Los Angeles Clippers for $2 billion. His reasoning? "I love basketball," he said during an interview with CBS This Morning. "There's just no sport as great as basketball. There's poetry, the speed, the decision-making. I just love it. I love it. And for me to be involved is a heck of a lot of fun."

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If you attend an NBA game you also may have a chance to see Joshua Harris, co-founder and senior managing director of Apollo Global Management, and the Blackstone Group's David Blitzer. The two once came together to acquire the Philadelphia 76ers for $287 million; Platinum Equity's Tom Gores spent $325 million to own the Detroit Pistons; Paul Allen, co-founder of Microsoft alongside Bill Gates, owns the NFL's Seattle Seahawks and the Portland Trailblazers. The love of sports isn't just limited to buying teams. Oracle's Larry Elison is an enthusiastic promoter of the America's Cup.

However, there are those that invest in teams to achieve other goals. After Russian oligarch Roman Abramovich took over the companies that controlled England's Chelsea Football Club in 2003, he used an enormous amount of money to quickly raise the team's performance. Although he has claimed his investment in the team was purely as a hobby, he probably cared more about mingling with the high class in English society and the political benefits. Some in the media have even said that he was using the team to launder money. Eventually other members of Russia's wealthy class followed suit. In 2007, an iron mogul acquired a partial stake in English team Arsenal, while potash king Dmitry Rybolovlev became owner of AS Monaco.

Of all these wealthy entrepreneurs to dive into the sports industry only a few have actually been able to make their teams profitable. One of the most successful examples is probably the Glazer family and Manchester United.

In 2005, with the backing of JP Morgan Chase Bank and the advisers the Rothschilds, the Glazer family managed to privatize the Manchester United in a highly leveraged deal for $1.47 billion. Holding the record for the most Premier League titles, the team's performance has turned the club into a world-class brand whose broadcast, ticket, sponsorship and derivative product revenue to continually climb over the years. However, despite this, due to the huge amount of interest on the acquisition loans and the high salaries of players, it took the Glazers five to six years before the team could begin turning a profit.

In order to bring in needed funds, Manchester United did all it could to commercialize operations, leading to it becoming the world's highest earning football club. It also went a long way toward controlling expenditures, lowering labor costs to 50% of all expenditures. In August of 2012, the Glazer family listed 10% of the club on the New York stock exchange (MANU.NYSE). Based on the stock's recent price of $17.67 (June 19, 2015), the total market value of Manchester United should be Is more than $2.6 billion, with the Glazers 90% share being worth more than $2.3 billion, roughly a 60% increase on their investment of10 years ago. Putting the love fans have for this world renowned team aside for a moment and looking at it from a business perspective; does this really qualify as a successful business deal?