

## **Segmentation: why is the professional sports job market so highly segmented?**

### **Definition**

Generally speaking, contemporary labour markets are far removed from the theoretical presentation of them in economics textbooks, with in particular the classic hypotheses on the atomicity of supply, its homogeneity, the perfection of information, the rationality of agents, etc. Observation of the real functioning of the labour market differs considerably from this situation of pure and perfect competition, which constitutes an ideal that does not exist in reality but which has a normative virtue. If the conditions of pure and perfect competition were respected, the free functioning of the market, which consists in letting agents pursue their self-interests, would lead to the achievement of the general interest, i.e., the optimum of the market.

The real labour market is far from obeying these conditions of pure and perfect competition and is often characterised by information asymmetry; homogeneity of the product exchanged (labour) does not exist and there is not necessarily substitutability between workers. The atomicity of labour supply or demand is rarely effective in modern markets. These imperfections in the labour market are particularly pronounced in the sports labour market: many actors are in a position of market power (clubs, players, media); information asymmetry exists for major elements of the economic model (transfers, salaries, commissions); some categories of players are not interchangeable (superstars); irrationality characterises the behaviour of many sports actors who are more driven by passion than by reason. This is why, beyond the theories of pure and perfect competition, it is better to turn to the theories of segmentation to better understand the real functioning of the sports labour market.

Market segmentation means that we are a long way from a single market with supply and demand following the traditional hypotheses. In reality, there are several market segments, revealing a great deal of heterogeneity in supply. For the first theory of segmentation, the labour market is divided into two segments:

- the primary sector concentrates the most privileged jobs: high salaries, stability, career prospects, good social protection, etc.
- the secondary sector has some very obvious characteristics: low wages, job insecurity, poor social security coverage, few career prospects, etc. Moreover, in this

secondary sector, employees are condemned to remain there with very little mobility compared to the primary sector.

The important thing to remember is that these two segments of the labour market obey radically different strategies on the part of firms. The primary segment would be the work of leaders who need a reliable, high-level workforce and who are therefore prepared to set up a kind of internal market to appropriate and retain such employees. The secondary segment would obey more the rules of the flexibility of a pure and perfect competition on an external market. In addition to this explanation in terms of corporate strategy, there is also the insider/outsider model on the employee side, which analyses the power that certain workers acquire through their position in the market. These two types of analysis will be useful for understanding the segmenting of the sports labour market, of which we present two illustrations with professional players and their agents.

## **The labour market for professional footballers**

- ***Primary superstar market***

This market has an almost monopolistic structure. Indeed, as superstars are not substitutable, and by definition are rare, the adjustment between supply and demand is made through prices. This makes it possible to understand the levels of salaries and transfers, which only reflect a single supply in the face of multiple clubs eager to acquire exceptional sporting talent. The only limit to the supply of superstars is the financial capacity of the interested clubs. Very often these clubs go into debt to acquire this sporting talent and will experience financial problems if the sporting results are not there. It is this primary market that is largely responsible for the critical financial situation of many European football clubs. The consequences of a lack of regulation of the labour market or mechanisms for the financial control of clubs are therefore understandable. It is in this perspective that the introduction of financial fair play at the European level is indispensable if we want to avoid the risk of a financial collapse of European football.

- ***Lower primary market***

This market has an oligopolistic structure. It is made up of good players with experience but who do not have the status of superstars. Nevertheless, they are essential elements of a team's spine. In this segment, there is a relative scarcity of supply in the face of demand from many clubs, i.e., an oligopolistic structure. As in the case of the upper primary market, the adjustment between supply and demand is made through prices. This market is therefore subject to the risk of financial abuses and speculative bubbles, hence the increase in salaries and transfers.

- **A secondary market for standard players**

This market is an oligopsony: a very large number of suppliers (the players) facing a more limited number of demanders (the clubs). In this market, players are substitutable, unlike superstars. The adjustment between supply and demand is therefore no longer made by the price but by quantity. In contrast to the scarcity constraint of superstars, which increased prices, the adjustment by quantities reduces wages and increases the precariousness of these substitutable and abundant players: unemployment, unqualification, and career end. This is closer to an ordinary labour market with a confrontation of supply and demand rather than to the advantage of the clubs' demand.

### **Intermediation market**

The strong segmentation of the sports employment market (superstars and others) thus leads to a strong segmentation of the sports representation market. It can be seen that the more the agent works on the star market, the greater 'his' market share and the more he will work internationally. On this basis, three types of agents can be identified:

- **First-class**

The agent in this category works almost exclusively for stars. He appears to be the essential agent for a player wishing to reach a certain level of notoriety. The role of reputable agents must therefore be better understood and determine whether or not they are the cause of an increase in the dualisation of the labour market and thus of a deterioration in competitive balance. Smaller leagues can no longer retain their stars and the big leagues compete for them, thus contributing to the inflation of speculative bubbles in the salaries and transfers of these stars.

- **Intermediate class**

The players this agent represents are mostly positioned on the secondary market, but he has contacts in the international markets. In this lower primary segment, as in the case of the upper primary market, the role of the agents is decisive in these transactions.

- **The lower class**

This agent only represents a few players, works alone and representation is not his main job, his legal skills are limited and his networks are restricted to national markets. In this secondary segment, unlike the previous segments, the action of agents is certainly less powerful insofar as these agents who manage this type of player are not reputable. It is therefore not at this level that the risks of imbalance are played out. On the contrary, there should be regulation in favour of

defending the rights of players who are not in a favourable situation to negotiate.

To sum up, there is a strong segmentation of the European football labour market and the main risks of abuses are concerning the primary segment. Since the Bosman ruling and the liberalisation of the labour market, there has been a profound segmentation of the market for players, agents and the sporting spectacle in general. Given the centrality of the labour market in the overall governance of the sporting system, the regulation of such a market is at the heart of the preoccupation of sports economists.

### **Further information:**

Jean-François BOURG, « Les très hauts revenus des superstars du sport », *Revue d'Economie Politique*, Vol. 118, n°3, 2008.

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Jean-Jacques GOUGUET (Dir.), *Le sport après l'Arrêt Bosman. Une analyse internationale*, PULIM, Limoges, 2005.

Anne PERROT, *les nouvelles théories du marché du travail*, Repères, La Découverte, Paris, 1992.

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