NEW BUSINESS STRATEGIES OF FOOTBALL CLUBS

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Abstract: The study investigates new strategies of football clubs in function of last few years’ trends in European football leagues. There were many changes in international professional football during the last 10-15 years that had significant effect on the success of certain clubs. We show empirical evidences about these effects based on data about revenues, transfer balance, financial and sport successes. We focus on Western European leagues and classify clubs based on their business and sport strategies.

Keywords: Business economics of sports, sport management, professional sport, business strategy, transfer market

INTRODUCTION, RESEARCH QUESTION

In professional football successfulness can be interpret both from the viewpoint of professional sport and finance, therefore special strategy types are on this market according to the special aims of the owner. In our article we seek the answer for how the business corporations that runs Western European championships’ clubs choose business strategy, if they have any secondary and primary aims or if there is any business strategy expecting positive functional result.

In professional football clubs spend the most of the realized incomes for buying players and paying their wages, thus approximately in the last decade significant changes could be noticed in the market of professional players. First of all we show the main trends in connection with the players’ market and the business operation of Western European clubs. Secondly we supervise the strategy types described approximately ten years earlier (Szabados, 2003), and finally we introduce the potential effects of using different strategies referring to the players’ market.

LITERATURE REVIEW

In the course of literature review first of all we shortly describe the operation of professional football and the specialities of professional players’ market, which are necessary to understand the functioning of this special field. After this we introduce the earlier identified and described strategy types.

The main business revenues of the football companies are the following: ticket and season-ticket revenues (consumer market), revenues on player transfers (players’ market), revenues generated from broadcasting rights (broadcasting rights market), and revenues from commercial rights: sponsorship revenues (sponsorship market) and merchandising revenues (merchandising market). The markets have an impact on any other market, for example top players enhance the consumer’s identification and strengthen fan loyalty and the stars are the product of the media and play an important role in its businesses (more media attention leads to consumer, more sponsor and related revenues) (András 2004).

During their operation the football companies have to implement the reach of two aims in the same time, since to formulate the profit aim expected from the companies is not enough (as it will be seen later it is often rather the minimization of losses), but the sport results of the team operated by the company are formulated more stressed. This two aim cannot be separated, since where the market coordination mechanism is working, there is important to give the significant part of the companies’ incomes deriving from the consumers, clients. But in many cases the realization of direct profit is necessary for the owners.

The players’ market is a special labour market, where basically a personal right with special value of property is the subject of the agreement: the disposition about the playing licence for a given period (maximum 5 years in EU). There is a labour contract between player and sports organisation in compliance with the regulations of the international football associations. The player market movement of a player with valid contract between two sports organisations is called a transfer. In most of the cases, the signing football company pays a transfer fee as a compensation to the releasing one. (András, 2003)

This right with value of property is very closely linked to the person of the player and includes all his abilities, both physical and mental, related to his sporting activities.
Therefore, it is not transferable or vendible, but like a licence-agreement, the disposition about the playing licence is transferable. After the conclusion of the contract, the right of the disposition falls back to the athlete. During the term of a contract, the football company can transfer the right of disposition to another football company in exchange for compensation. Nowadays, at the time of transferring the disposal of his playing licence to the football company of his club, the player transfers the right of using his image rights as well (typically for extra compensation). Questions concerning insurances form an important part of player contracts, as injuries and accidents can cause severe losses to both parties. (András, 2003)

Summary of the main characteristics of the players market (András, 2003 p. 46) can be seen in Table 1.

Table 1: Main characteristics of the players market

<table>
<thead>
<tr>
<th>Product (subject of trade)</th>
<th>the transfer of the disposal about players playing licence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main characteristic of the subject of trade</td>
<td>double deal: labour recruiting and acquisition of a value of property</td>
</tr>
<tr>
<td>Value drivers</td>
<td>– pre-determined characters of the player (physical, mental, social), – current contract (buy-out clause, length of contract) – added characteristics</td>
</tr>
<tr>
<td>Market-players:</td>
<td>Buyer – Seller</td>
</tr>
<tr>
<td>– Seller</td>
<td>- 1) If contract expired: the professional player as an athlete, a person; 2) If contract is running: releasing football company</td>
</tr>
<tr>
<td>– Buyer</td>
<td>- Signing football company. - Player agents, managers, scouts</td>
</tr>
<tr>
<td>Influencing factors of the behaviour on the market</td>
<td>transfer fee</td>
</tr>
</tbody>
</table>

Source: András (2003)

The transfer of a player is a double transaction from the point of view of the buying club: it means labour force recruitment and also an investment in a value of property (intangible assets). The appearance of the transfer fee - one of the specialities of the market – can be explained by two reasons. First, clubs focusing on player development can be compensated by it. Secondly, even bigger sports companies can consider the trade of players as a lucrative investment due to the transfer fees. That draws the attention to another speciality: signing a player is not only the recruitment of a labour force, but it can be the form of a serious investment decision. (András, 2003 and András-Havran, 2014)

The paper summarises the specialties of business models provided in the literature of financial management of professional football. Our aim is to present different strategies of football clubs in the 2000s. First of all we show the types of ownership and the targets of owners with help of existing literature. A major conflict can be found between sport and financial results in professional sport. The literature of 2000s identify five models: success circle, transfer, synergy, L’art pour l’art, and special models. Our aim is to re-think the utility and relevance of previous business models and to include the intent of owners (relation between economic and sport success).

By the election of strategies the quality of team value is of high priority and vice versa, because to the change of strategy the change of team is needed. According to Szabados (2003 and 2008) these two aims are often not in direct dependence from each other and he differentiated the following main strategy types as the two aim is sub-, super- or coordinative:

Table 2: Strategy types of football clubs

<table>
<thead>
<tr>
<th>Direct profit aim…</th>
<th>exists</th>
<th>not exists</th>
</tr>
</thead>
<tbody>
<tr>
<td>The nature of the target system is…</td>
<td>dual</td>
<td>Success circle; Transfer</td>
</tr>
<tr>
<td>dominant</td>
<td>Commercial</td>
<td>L’art pour l’art</td>
</tr>
</tbody>
</table>

Source: Szabados (2003 and 2008)

Success-circle strategy: in this case the clubs’ sport successes result the financial successes (prize for the triumph, new consumers and sponsors, etc.), due to this the club can take new investments in the interest of strengthening the team value. In this way they can be efficient in sport again, which means further incomes, and so on. The problem appears in the case, when many groups mark out this strategy, but the number of final winners (or the placing which are worth international performance) strongly limited. The incomes cannot cover the huge labour cost of the strong players frame, so one part of the clubs produce losses and have to let their bests go, which may lead for subsequent inefficiency. (Szymanski-Kuypers, 1999)

Transfer-strategy: Both the sport success and the financial successfulness is important for the clubs, but they get their incomes mainly from the sale of players. In this case the quality of youth training system means the basic skills of the company.

Commercial-strategy: in this case the club’s leadership unequivocally decide in favour of the conservation and profit access of economic balance. The price of this can be that the group achieve just weaker results, therefore the club’s image is made by high-level services and marketing.

Synergy-strategy: the owners not directly through the given football company, but with its help, through their other enterprise create consumer and proprietalor value. As an example can be seen the Italian AC Milan (think about Berlusconi’s media company or political career), or the English Chelsea (Abramovics, the owner could get several possibility through his business activity, to which he could not without the club’s proprietal title).

L’art pour l’art strategy: into this category got those clubs with special prestige and tradition, which aim is actually to keep the present prestige at all hazards. Actually the owners are for the club, but in many cases there are no clear owners, because these clubs often works in association.
METHODOLOGY

The research examines the most relevant changes in professional football is last decade. Our hypothesis was that due to the appearance of new owners and other trends in professional football, many clubs needed a change in their business strategy. Certain new trends, such as transfer market changes, effect of economic crisis and new owners were identified, analysed and proved by empirical evidence.

The research used data of the transfermarkt.de and uefa.com and used actual and relevant studies like UEFA Benchmarking Reports (2008, 2009, 2010, 2011, 2012, 2013). To understand and describe the aim of football clubs nowadays we examined previous strategy-types and searched new examples for existing strategies. Finally we described new business strategies.

RESULTS

The new trends of professional football (economic crisis, extreme wages, higher and higher transfer prices new type of ownership) mean huge challenge to football clubs in international championships and in the top leagues. The revenues and sport successes concentrated into some clubs, others don’t have really chance to catch up. The research reveals that some club’s unrealistic budget and the economic crises makes football clubs to change theirs business strategy. We recommend business models to football clubs with different core competence.

Identified trends in European TOP Football:
- I. Globalization and internationalisation of football and transfer market,
- II. Increasing revenues of football clubs,
- III. Increasing costs of HR (transfer fees and wages)
- IV. Increasing losses of football clubs
- V. Concentration of sport success,
- VI. Concentration of financial success.

I. Globalization and internationalisation of football and transfer market:

András (et. al. 2000) categorized countries on the basis of their role on the European players market of football. The transfer balance – which means the difference of transfer revenues and transfer expenditures - and the transfer volume are the dimensions of the categorization. This shows the importance of the clubs of the given country on the international players market. The transfer volume was calculated as the average of the gross transfer revenues and transfer costs. If the transfer has a positive balance, then the given country is a net seller, while in case of a negative transfer balance, the country plays a net buyer role. Figure 1 shows the results of their research.

<table>
<thead>
<tr>
<th>Negative balance</th>
<th>Positive balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High volume</strong></td>
<td>“Purchasers”</td>
</tr>
<tr>
<td>England, Spain</td>
<td>Portugal, Netherland</td>
</tr>
<tr>
<td>Germany</td>
<td>Russia</td>
</tr>
<tr>
<td>Italy</td>
<td>France</td>
</tr>
<tr>
<td><strong>Low volume</strong></td>
<td>“Small customers”</td>
</tr>
<tr>
<td>Turkey, Ukraine</td>
<td>“Suppliers”</td>
</tr>
<tr>
<td>Greece</td>
<td>Scandinavians, post-socialist countries</td>
</tr>
</tbody>
</table>

A higher quality game presumes higher transfer volumes. The top countries in terms of sporting results and economic strength of their clubs can choose from the broadest range of talented players. Their activity on the players’ market confirms that. (András, 2003 p. 53) „The tendencies of the customers market of professional football have a main influence on the sponsorship, broadcasting rights and merchandising market. The economic frame established by these markets not only enable the operation of football companies, but can be the source of the trades on the players market. In case of effective business decisions, the trade on the players market serves as a further revenue source of the football companies.” (András, 2003 p. 70.) The connection can be interpreted in the opposite way, too: a country with high transfer volume has presumably a high quality football game. The investigation of the question of whether there are trends in player movements between countries on the players’ market of football, presents interesting results. András et al. (2000) investigated three countries in detail: Italy, England and Germany. Nowadays we see Spain and Russia as “Purchasers”. (András-Havran, 2014)

According to the condition ten years earlier as a significant change can be seen that Italy, which previously exported many first class players, due to the less evaluation got over to the engrossers. Thanks to a few clubs that spend large amount of money for players, the French and Russian championships became “Purchasers”. On the whole the enlargement of the international transfers’ cardinality and value can be seen, which confirm the internationalization of football and players’ market.

II. Increasing revenues of football clubs:

In the 2004-2006 period the clubs could book approximately 500 million EUR income by the right of participation in the UEFA-tournament. This amount grew to more than 1200 million EUR to the period of 2013-2015. (UEFA, 2013a p 20.)

For the 25 highest revenue clubs (previously listed), revenues increased between 2008 and 2012 by 41.9%. UEFA 2013a 40. p.

Top division club revenues continued to increase across Europe, with 39 leagues reporting revenue growth and only 15 reporting decreased revenues between 2011 and 2012..
In a few smaller, Central-Eastern-European championships was a decrease, but in every larger championships was an increase. (UEFA, 2012 p. 62.) In 2008-2012 the income of the English championship’s clubs grew with 53%, the German clubs’ income grew with 42%, the Spanish clubs’ income with 43%, but for example the Russian clubs’ income grew with 134%, and the Turkish clubs’ income with 118%. (UEFA, 2012 63.p.)

III. Increasing transfer and payroll costs of football clubs:

Some research (for example Rothenbuecher et al., 2010 p.4.) shows a positive relationship between net transfer balance and team performances. In leagues where clubs spent more money for new players, clubs can achieve better on-field performance. The number of players with outstanding abilities (who can influence the outcome of match) is limited and players are limited resources of football clubs.

UEFA studies show a strong correlation between sport success and revenues (UEFA, 2008 p. 49.) furthermore between the sport success and expenditure on personnel (UEFA 2009, p. 74.). There is a huge difference between clubs of top leagues and we can conclude that to reach a better sport result, clubs need to invest much more in wage costs. (András-Havran, 2014)

![Figure 2: Evolution of Europe-wide top division costs between 2006-2010 (data in million EUR)](image)

According to Figure 2 between 2006 and 2010 the expenditures of the UEFA examined first class clubs significantly grew and within this principally the personal featured costs grew.

12% of the UEFA examined clubs spend more for the wages, than its whole revenue and more than half of the clubs spend more than 70% of its incomes for wages. (UEFA, 2013a p. 46.)

IV. Increasing of losses:

By UEFA (2010 p. 57.) the first class clubs’ net losses show a continuously increasing tendency between 2006 and 2010. While in 2006 the football companies booked 216 million EUR losses, in 2010 their losses reached the 1,641 million EUR. The growth rate of losses also became more fast, which is owning to the fact that the clubs’ income increased an average of 9%, while their losses increased an average of 14%. This tendency broke in 2012 for the first time (UEFA, 2013a p. 8.), when the incomes growth rate (6,9%) transcended the labour costs’ growth rate (6,5%).

V. Concentration of sport success:

During the tested period there was a significant decrease in the number of those clubs in the Western-European championships, which were fought for the championship. On one side this is because of the clubs’ different economic possibilities, on the other side only the clubs reaching the best international placing can participate in the international series, which go with large prize revenue and serious sponsor and television interest. By this the circle is narrowing and the championships are “splitting”.

![Figure 3: Percentage of national titles won by the three most successful teams and by one team from 2000-2001 to 2011-2012](image)

![Figure 4: Percentage of won titles by the three main teams](image)

VI. Concentration of revenues:

The distribution of those clubs’ income, which participate in the leagues organised by UEFA shows that while 63 clubs annual income is under 1 million EUR, 24 clubs realize more than 100 million EUR a year.

![Table 3: Revenue dispersion of football clubs](image)
On the whole, it can be said that the majority of clubs assign the financial aim under the sport aim, therefore they book serious losses, the most of which come off due to the players verification and wages. The correlation between the money spent for the players and the sport aim is clear, but the specificity of the connection is that for a little better outcome goes with a huge financial expenditure, therefore the clubs have to spend even more, if they want to finish on the top of the announcement of competitions. Only fewer clubs can afford this for themselves. Henceforth we search the answer for that, along what kind of proprietorial strategy can they remain competitive.

Rethinking of business strategy types on the basis Szabados (2003 and 2008):

- **Success-circle strategy**: previously the Liverpool was a great example, but the club fell prey to a catch because they could not keep up with other English clubs. At the moment the Swiss Basel could be mentioned, who permanently end up on the podium during the Swiss championship, thereby constantly can participate on the international cups. In the past 13 years the club won nine championships, in 2012 get into BL round of 16, in 2013 get into EL semi-final and in 2012 Basel got 16.6 million EUR for its play due to which it could rise again its home competitiveness (UEFA, 2013b p. 31.). Although it has fixed financial results the club cannot reach such international successes, than the Liverpool could in the early 2000s, it is rather typical of dominance in home championships and therefore typical of certain international participation.

- **Transfer-strategy**: Currently the Belgian and Portuguese clubs can mainly be mentioned, therefore not the largest championships’ clubs, but the clubs in the medium-strength leagues can take this strategy. According to transfermarkt.de the Belgian first-class clubs sold players in the period of 2011-2013 at 213.26 million EUR and bought for 121.63 million EUR, so they reached 91.63 million EUR profit on the transfer market by large traffic. In the same period the clubs of the Portuguese championship realized 501.03 million EUR income and 255.17 million EUR payment, so by large-scale traffic they get 245.86 million EUR profit. By using this strategy they actually loose the possibility of progress, because they keep up their functioning by selling their bests to the large championships’ clubs. Thus beside an occurred stable place in the leader board in an own championship and a medium efficient international play they cannot compete in the clubs collecting the best players. From the two countries clubs FC Porto played in best 8 teams in Champions Leagues in 2009.

- **Commercial-strategy**: English clubs declared such aims earlier, while now the realization of continuous profit is noticed by more German first- and second-class clubs in such a way that they do not aim to win the championship at any price. According to the Bundesliga report (Pfenning, 2014, p. 32 and 48) the profit after tax of the sport companies running first- and second-class clubs was also positive in the 2010/2011, 2011/2012 and 2012/2013 season in such a way that those clubs, which did not participate in international cups could also produce profit owning to the costumers’ number and liquidity.

- **Synergy-strategy**: at present the Manchester City or the Middle-East billionaires of French PSG try to popularize their other companies through the European football (KEA-CDES, p. 133.). Also a great example is the case of the energy drink producer Austrian Red Bull company, which raised its earlier sponsored activity to the proprietorial level in several sports, while such the FC Salzburg and FC Leipzig football clubs, as the Salzburg ice hockey club or the ownership of the Formula 1 team serve primarily their products’ expansion of sales. (Chadwick et al., 2009)

- **L’art pour l’art strategy**: the Real Madrid and the Barcelona still can be mentioned as an example, although economic elements can be found in their communication, such as the so called Bernabéu-model, which occurred in Florentio Pérez’, the chairman of Real Madrid phrasing, when he declared the apropos of Gareth Bale’s contract (The Guardian, 2013). According to his phrasing the expensive verifications were a great solution to cure the poor financial situation, which increased the football jerseys’ contracts to a much higher level.

It can be said that in the case of commercial and transfer strategy, where the sport aim’s parent role is a bit given up, there is little chance to get into the bests. In the same way, in our option is that the success-circle strategy cannot be applicable successfully on international level, because the best international results are connected with those payment charges, which lead to the cumulation of losses. The clubs, who reach prominent international results usually in every case have the owner’s generous spending (they enjoy the synergy effect on another field, many times not on economic, but on political or social field) or the almost freestyle function of the club (see Real Madrid, Barcelona and the L’art pour l’art strategy) to thank for it.

<table>
<thead>
<tr>
<th>Strategy type</th>
<th>Transfer (S + F)</th>
<th>Commercial (F &gt; S)</th>
<th>Synergy (S &gt; F)</th>
<th>L’art pour l’art (only S)</th>
<th>Success-circle (S + F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old examples</td>
<td>Grasshoppers</td>
<td>English clubs</td>
<td>Milan, Chelsea</td>
<td>Real Madrid</td>
<td>Liverpool</td>
</tr>
<tr>
<td>New examples</td>
<td>Belgian and Portuguese clubs</td>
<td>Germanian clubs</td>
<td>Manchester City, PSG</td>
<td>Real Madrid</td>
<td>Basel, Rosenborg</td>
</tr>
</tbody>
</table>

Source: Szabados (2003) and own resource
The effect of new trends on transfer market:

The last few year’s international financial and professional sport results surely confirm two trends: first of all there is a significant decrease in the number of those clubs, which are probably able to finish at that place in their own championship, with which they can play on international tournaments. Besides this there is a significant decrease in the circle of those, who have final victorious chance on the top international cups, principally in the case of Champions League attendant on remarkable financial benefits. On the other hand a serious increase is noticed on the transfer market, the players’ procuration fee is constantly increasing and at the same time the labour costs paid for the players, too. Hereinafter we introduce that the use of a strategy type what kind of effect can take on the players’ market.

<table>
<thead>
<tr>
<th>Success-circle</th>
<th>Transfer</th>
<th>Commercial</th>
<th>Synergy</th>
<th>L’art pour l’art</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct profit target</td>
<td>Exists</td>
<td>Exists</td>
<td>Exists</td>
<td>Not Exists</td>
</tr>
<tr>
<td>Superordinated target</td>
<td>Dual but growing sport</td>
<td>Dual</td>
<td>Financial but sport success also needed</td>
<td>Dual but growing sport</td>
</tr>
<tr>
<td>Effect on the transfer market</td>
<td>Increases the demand and the price</td>
<td>Increases the supply - decreases the price</td>
<td>Follow</td>
<td>Increases the demand and the price</td>
</tr>
</tbody>
</table>

Source: Szabados (2003) and own resource

Those strategy types, where the sport aim comes into view, results that the clubs spend for the players’ procuration and holding in over its head in order to be able to stay successful while holding just straitened resources. So the synergy and the L’art pour l’art strategies result squarely puffer on the players’ market. In the same way those, who take the synergy strategy (even successfully, even finally unsuccessfully) can reach their success by the investments in team value, so they also make increasing demand effect on the players’ market. The clubs marking out commercial strategy settle for less sport aim, but they also have to reach a certain level to keep their consumers and incomes realized on the sport market. They will not be able to buy the most expensive players and their influence on the players’ market is minimal, rather we should say that they just follow the others. As external factors they have to accept the increasing labour costs, which can be offset by decreasing the other costs or increasing the incomes. Only the clubs using transfer strategy raise the supply on the players’ market, while they increase the number of best players, which can induce sagging. After all the number of the best and most expensive players still very low, so the functioning of clubs using transfer strategy can make only moderated effect on the players’ market, they rather have impact on the transfers’ cardinality, than its values (the traffic can increase, because they will be interested in more sale). It should be mentioned that several clubs try to adopt the mixture of different strategy types, for example it concentrates on the raise of players’ values by a tight budget, therefore alloys the commercial and transfer strategies, but the effects can be well modelled by thinking over the use of main types. On the whole in can be said that the characteristics of international professional football (the successes reached on the court became conspicuous in contrast to financial successfulness, and the owner circles trust to the appeared additional, special synergies) have caused the increasing of supply and by this the increase of prices on the players’ market since a long time. It is not a coincidence that in the American leagues which have quite different characteristics even on the players’ market happened and happen the most intervention to keep the competitive balance on the other markets and courts in the long run, too. And that is also not a coincidence that the UEFA created the Financial Fair Play (FFP) regulation, which tries to control the excessive spending on the players, but extensive inferences cannot be drawn about its efficiency.

The observance and enforcement of FFP seems an interesting question in the following years. Patai (2014) writes about that kind of new model starting from the example of Manchester City, according to which the aim of the club’s internalization is not only to reach new consumers, but through company coemptions to create one common brand, which is attachable to the parent club, thereby in the longer term efficiency enhancing synergies can appear. Due to FFP the continuous coemption of best players will be limited, so the resource-based strategy built on the talents of international joint companies might be the base of holding competitiveness.

CONCLUSIONS

The new trends of professional football mean huge challenge to football clubs in international championships and in the Western-European leagues. The revenues and sport successes concentrated into some clubs, others doesn’t have really chance to catch up. The research reveals that some top club’s unrealistic budget and the economic crises makes football clubs to change theirs business strategy. We recommend business models to football clubs with different core competence. Best clubs of international football can survive with the extra contribution of the owners and all clubs...
which have not got “Sugar Daddy” owner, need to sell the best players to top clubs. Key of new strategy types would be the development of youth training systems and building of international business for consumers and human resources.

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