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The New Football Business: a challenge for elite followers.

-A CASE STUDY FOR IFK GÖTEBORG-

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ABSTRACT

A decade ago, as the 1990's opened, many small tentative steps were ventured into the new (at that time) business age. Which of football's leaders could then have foreseen the sheer scale and speed of football's economic revolution? Associated industries such as media, sportswear, advertising, and so forth have seen football as an attractive business and thus many off-the-field developments have speeded up its expansion.

On the other hand, some sensible and regulative issues are threatening the traditional structure of European football. The change in the international transfer system, the continuous threat of a Super League, the discussion about regional leagues and the supremacy of UEFA as the single governing body are important matters that have to be handled carefully.

The situation has become almost dramatic at the European level. Most of the participants are now swept along, whereas very few can claim to be in control. To have a chance within an era of stock market flotation, corporate takeovers and digital television, it is needed a defined strategy, a clear focus, top class people, financial resources and some luck!

In this thesis we analyse how football is changing nowadays and which forces are pushing the industry to another direction at the clubs' level. The question here is to see to what extent the "golden era" for football – with colossal sums of money entering the game through TV deals, sponsorship contracts, etc. - is turned into a situation where the football authorities put things back on an even keel. The particularities of football as a sport of masses and passions make it a very special business, where pure business strategies have to be combined together with social, cultural and educational issues totally intrinsic into the game.

Those competitors taking part in UEFA competitions must look for profitable opportunities, where they can perform and increase their appeal among fans. Thus, the UEFA Champions League, as the most lucrative and prestigious

European competition must be the target market for those “small” clubs outside the football elite.

This study regards business strategy as mandatory for the survival of non-elite clubs in European competitions. We dearly hope to see investment in youth development, stadia & facilities, skilled business managers, the marketing and commercial infrastructure and brand development that will secure revenues for many years to come, community and fan base programmes, etc. But we worry that the lack of both support from the EU to the UEFA and powerful recognition of the specific nature of sport might drive the industry to a paradise just for the elite, where individual interests overwhelm the traditional football economics (competitive balance, solidarity mechanism, input allocation, etc.).

Key Words: *Football industry, transfer system, commercialisation, UEFA Champions League, elite followers, business strategy, and sport specificity.*

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MONICA MARQUEZ & HELIODORO MARTIN

“A mi familia que siempre me apoyo dándome ánimos desde México. A Oscar por haber hecho de mis estudios en Suecia una excepcional experiencia”.

Mónica

“To my parents, Heli and Mari. To Football, my real passion, and for Spain, simply my home-country”. H.M.

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INTRODUCTION







1 INTRODUCTION

The first chapter of this dissertation will be dedicated to the introduction of the case study. We intend to present the background information in order to provide the reasons that pushed us to opt for the football business as the topic for our thesis. Furthermore, we will introduce some concepts and definitions that will help the reader to be comfortable while examining this case. We will also specify the delimitations and the outline of our research.

1.1 Personal Interest in the Football Industry

We decided to write this thesis mainly because we aimed to have a further understanding of the changes that have occurred in football for the last decade. The growing impact of TV and the increasing interest in the commercialisation of the game has implied a vast entry of resources inside the industry and modified the way in which supporters visualize the final product (game). Also, the novel interests of outsiders in the game (i.e., the EU, media groups), mainly due to the more powerful economical implications, has led this sport/business towards new processes and developments.

The arrival of business strategies to football and an increasing profit-oriented mentality have surely surprised the old managers of the game, which was traditionally controlled by directors elected democratically by the clubs' members. This new "football business"¹ has sparked the attention of the business literature in Europe, especially in UK, and therefore, we initially expect this project to offer an outstanding opening for future research on the topic at the School of Economics and Commercial Law (University of Göteborg).

1.2 A Brief Story About Football

Professional football has existed for over a century. Before football became more than a sport competition and turned into a business activity, the interest of other industries in football was negligible and the governments' involvement in the game was also minimum.

¹ See Appendix 1



But some years later football moved from the romantic spirit on the streets to the offices of businessmen. It probably happened less than ten years ago, when Rupert Murdoch found the only way of saving his declining BSkyB (a British private TV Station). Murdoch decided to bid harder than anybody to obtain the exclusive rights for the broadcasting of English football². Until then, football had lived in a closed world that shared fans, players and semi-professional directors who took care of football resources in a sentimental way. Since that stroke of genius, football has shown unsuspected possibilities to become a real commercial instrument.

Football has been the main vehicle of passions for almost a century. But where there are passions and crowds there is an opportunity for business. Therefore, it is a little weird that a enormous mercantile vein was unnoticed for so much time, when there were very clear precedents in the biggest North American professional sports, whose growth was bound since the 60's on the sale of exclusive television rights and the control exercised by powerful entrepreneurs.³ It was a mystery that the sport of greatest worldwide diffusion remained outside that dynamism.

1.3 Background: A Developing Industry

Football in Europe is immersed in a process of searching for new financial sources as a result of the growing commercial interests that are associated to football (TV and other companies that operate the rights of image and merchandising). This phenomenon is facilitated by the new technologies and the potential development of international competitions such as the European Super League - a threat to the traditional dominance of UEFA, which is supported by private companies and a group of the biggest clubs in the continent. At this moment, as the clubs' budgets account for millions of pounds, the managing directors in charge of clubs have to become more business-oriented and look for the optimisation of the clubs' resources. The merchandising operations, the flotation of shares in the Stock markets, the bargaining of the TV rights or the use of the Internet have become a source of

² www.elpais.es/deportes, 2000 08 25

³ www.futvol.com, 2000 08 20



income that has caused an important controversy in the press forums with regard to the football consideration as a sport or a business activity. Important investing groups (mainly media holdings) have positioned themselves in the football sector, looking for both commercial interests and decision power in subjects such as the TV rights.

But that is not all. A greater future for clubs is represented by the increasing competition between Internet and the traditional broadcasting rights. These vehicles are fundamental to manage a club's image and electronic commerce, with great possibilities of access to all the potential customers, even at international level.

Another aspect that will affect the clubs' development is the new competitions of international character. The economic impact of the participation in the Champions League in the season 1999/2000 represented for the winning club, Real Madrid, almost £18 m, while the AIK Solna (Sweden) – the worst team in the group competition – obtained a prize of nearly £2.5 m.⁴ In addition, the repercussion of this competition in other commercial activities for clubs is huge.

But the new sources of income have caused a spiralling in the operative costs as a result of the increase in the players' wages and salaries, and the substantial transfer fees paid to obtain the services from footballers. The clubs get into debt to be able to be competitive. With such a situation, the differences between the top and small clubs in the future may be more and more differentiated. The capacity to negotiate the income derived from TV, together with the strength that pay-per-view will acquire, might produce a system with much higher income distribution for those clubs with superior audiences. According to some experts, the impact of the higher commercialisation of the national leagues will reduce their participants in about 20 or 30 % of the existing clubs⁵. Therefore, if football wants to preserve its traditional sportive structures, as well as the social and cultural symbols that it represents, some actions are required in order

⁴ UEFA Champions League, Season Review 1999/2000.

⁵ Soccerex 2000.



to protect those clubs and leagues that have left behind the top actors in the big five leagues (Spain, England, Italy, France and Germany). However, the new commercial vein must be enhanced as much as possible to the benefit of fans, but taking care of both the competitive balance in the tournaments and the opportunities to the weakest clubs. Nobody must forget that football is much more than sheer business and its sport character should also be given some respect.

The most significant conclusion is that football must be organized like a sport activity managed by professionals, supported by an efficient internal organization and a rational financial structure that finds a balance between the playing performance and the optimisation of the income. Therefore, the management of any club in the future must be one that is demanded to any company that competes in business.

1.4 Problem Analysis

In this section we discuss how we have constructed our main research problem.

1.4.1 Football Business Research

A higher wave of business studies about football was initiated in the 90's. Some publications on the economics of team sports have been frequent in America, where the further professionalism of sports for the last decades had pushed ahead some academic research. But in Europe, the published material had focused on general aspects of the game. It has been in the last years when some books and articles have been launched referring to the new business of football. However, there is still a lack of analysis examining how the business strategies and the new commercial developments in football can explain a club's success on the pitch. The key relationship between winning matches and revenue seems to be the main aspect that explains why some clubs, those that are in the highly populated countries in Europe, will succeed and others, those in the smallest nations, will not. Thus, it is not only necessary to write about the new football business itself but, most importantly, do it from the point of view of those that are likely to undergo important damages. Among them, there are many different categories and thus, the effects will be also different. The



overall studies conducted about the industry did not make any explicit classification among the different categories of clubs in Europe and the conclusions derived from those studies may be erroneous as they might not apply to a homogeneous group of clubs.

1.4.2 The UEFA Champions League and the Small Clubs

The existing UEFA Champions League seems to be the most attractive competition in Europe due to the prestige and the growing rewards that clubs may obtain from it. Clubs openly state how much it means for them to be part of the Champions League experience and how important it is to qualify for the group phase in terms of income. Also, the UEFA Cup gives substantial rewards for those clubs that make a good performance. Thus, all actors in the European football -players, coaches, fans and so on- clamour for places in these two competitions.

The Champions League seems to have started a new period of dominance from the top clubs, the elite of football. There have always been some clubs that have attracted the attention of massive numbers of supporters and they have become, through the years, high-status actors. In the past, clubs' differences were exclusively centred on the support from fans; that is, on the different attendance at the stadiums. The potential capacity to generate income was limited by the absence of both commercial practises and technological improvements around the game. Also, there were some restraints on the hiring of foreign players. These factors led competitions to be more balanced in the past and made it feasible that some clubs from small countries, with less support, won European competitions.

Now, football has profoundly changed and the new commercial factors mentioned previously seem to have conditioned the winning capacity of small and medium clubs. The historical achievements of some clubs; such as, the Swedish IFK Göteborg in the 80's (two championships of the UEFA Cup and semi-finalist in the former European Cup), the Hungarian Steaua Bucharest in 1986 (European Cup's champions), or the English Nottingham Forest FC (two championships of the European Cup in the 1979 and 1980), seem to have come to an end.



For those clubs with a limited mass of supporters and lower attraction, the future might be dark in terms of both playing success and financial performance at the European level. To them, the new concept of success has been modified due to the industry changes. Their most optimistic strategy of success has now been re-defined to the following: *“Being profitable enough to survive, while being sufficiently competitive to participate in the group phase of the UEFA Champions League.”* The past is past. Forming a powerful squad that in the long run can give a European championship, and subsisting with the fees from the club’s members - even though the club is in-debt – are tactics no longer valid in Europe. Now they must be profitable but, most difficult, they have to be it at the same time that they field competitive squads to bypass the competitors. In order to accomplish that a substantial investment in players is required, which in turn might erode the clubs’ profitability and thus, be rejected from the European competitions due to negative financial accounts.

With the further importance of European competitions and the higher dependency on the commercial factors, small-medium clubs at the level of European competitions face a relevant problem: what should they do in order to be successful in the European competitions? In the world of football, a club’s success is not only synonymous with dominating the domestic league, but the international competitions can increase both prestige and income. Therefore, those clubs with clear symptoms of limited domestic markets or small masses of supporters, but with a clear historical European orientation, must drive their business strategies to the top European competitions, that is, the Champions League. Accepting being successful only at the national level is the same that avoiding the adoption of business strategies, while being stuck to the romantic view of this game and also limiting the social and cultural impact that football may have on the society. Commercialisation of football does not necessarily mean the abandonment of the social values attributed to the sportive part of this activity, if the governing bodies apply some measures to protect that social function. All the contrary, an appropriate exploitation of the commercialisation of the game can improve that role.



Financial performance for these clubs in the UEFA Champions League to the extent of obtaining important economic gains is more and more associated to the success in some qualifying rounds. If a small club is able to enter the phase competition, financial and playing success might be ensured. However, a small club faces big problems in getting that position within the industry. First, the resources required in order to assemble a squad that facilitates the way may not be sufficient with those awarded by the domestic market. The maximization of clubs' commercial potential might guarantee that task. Second, a small club's success in Europe is openly observed by competitors that will surely persuade some of its best players with higher salaries. Thus, clubs may see how their squads are weakened by the football elite and, if their business structures are not powerful enough to rebuild another good squad for the following year, their presence in Europe might clearly be threatened.

To sum up, we think that the reasons written above are sufficient to develop a research project particularly tailored to those clubs that are outside the football elite, but whose participation in European competitions is feasible. Whether it is possible for small clubs in UEFA competitions to succeed in the future football industry is a common question that manager executives, players, supporters, game rulers and so forth, are wondering about today. Further academic research must be done to find a response to that question. This dissertation intends to initiate the way.

1.4.3 Main Problem

The above makes it interesting to study the dynamic forces in the football business and to understand the processes that will challenge the future of a particular group of clubs. Therefore, we have written down the following main problem:

MAIN PROBLEM

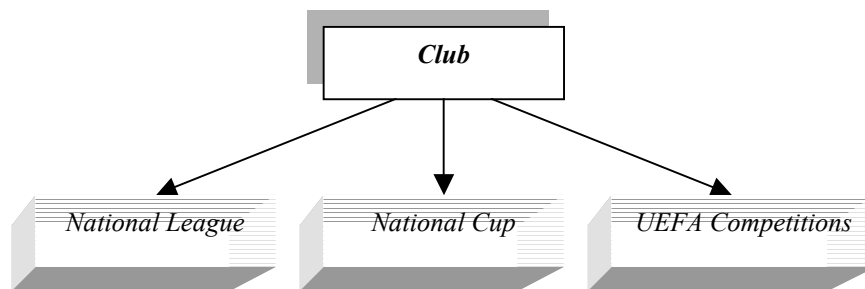
“Considering the higher commercialisation and Europeanisation of football, how can a football club outside the elite successfully face the UEFA Champions League, while coping with the new structure of the industry that will stem from current changes?”



According to the classification of the European clubs exposed in section 1.5.1 (European clubs) we will look for an answer to this question between the group of clubs that we have defined as *elite followers*. Thus, our objective here is to analyse whether it is possible for the elite followers in Europe to succeed (survive?) in the new football structure.

Our target clubs in this case are likely to take part in three competitions each season (see figure 1.1). Two are national and the other one is at the European level (UEFA Champions League or UEFA Cup). However, we aim to conduct this thesis only at the level of the UEFA Champions League since, first, it is considered as the most relevant in terms of international prestige and lucrative compensations, and, second, it is the tournament that is principally challenging the existing position of the small clubs.

Figure 1.1 Potential season competitions for a top division club



Source: own

Through this question, we aim to discover the potential possibilities for European elite followers to participate in the group's phase of the UEFA Champions League in order to obtain playing success and increase their rate of profits. The interpretation of how to be successful within the football industry will depend on the clubs' capacity to generate revenue (see 1.6 Delimitations).

1.4.4 Research Problems

The main problem will be supported by two research problems:

Research Problem 1

How is the actual development of the football industry affecting the club hierarchy in Europe?



With regard to the first research problem, our point of departure with this question is to know how the industry is formed and how the main actors in the football business behave. By analysing the main trends and forces driving the development of the industry, we will be able to identify the main factors that are shaping the industry structure. For instance, TV rights are affecting the entire industry a great deal, transforming its structure and redistributing the share of power that each participant had before the explosion of the commercialisation phenomenon in football. Then, we will analyse the situation of the different categories of clubs in Europe, that is, the football *club hierarchy*. The power has been redistributed among all the actors and an interesting aspect is to know which position each category will occupy within the new structure. We will thus try to analyse the potential gap that could be between the football elite and the rest of actors.

The second research problem is posed as follows:

Research Problem 2

How is the internal micro-environment of a non-elite football club influencing its particular way of competing in the European football industry?

According to the purpose of our study, we will define the “internal micro-environment” of a football club as a set of two factors. First, the internal features of a club (regarded as an organization) in terms of its values, resources, capabilities and objectives expressed in its business strategy, and second, the characteristics of the domestic market where the national competitions are played

Due to the nature of the question we will have to take the most general aspects observed (using particular examples where possible) since it is impossible to regard all the clubs and domestic markets in Europe as homogeneous. By identifying such an internal micro-environment we aim to create a framework where those clubs targeted by our analysis can be represented. We believe that these clubs might be harmed by the new commercial direction of football if



they do not react properly to that situation. It is very important to know, not only the club's abilities to compete in a short period of time, but also its competitive advantages that will enable the club to compete in the long term.

With the advent of the new commercial era the traditional approach that some clubs had taken for decades might not be useful any more. Therefore, we think that in order to be profitable and have playing success in Europe, clubs should be aware of their possible situation in the future and, consequently, change their perspective in order to have any chance of success in the UEFA competitions. There is a huge difference between succeeding occasionally and no longer succeeding.

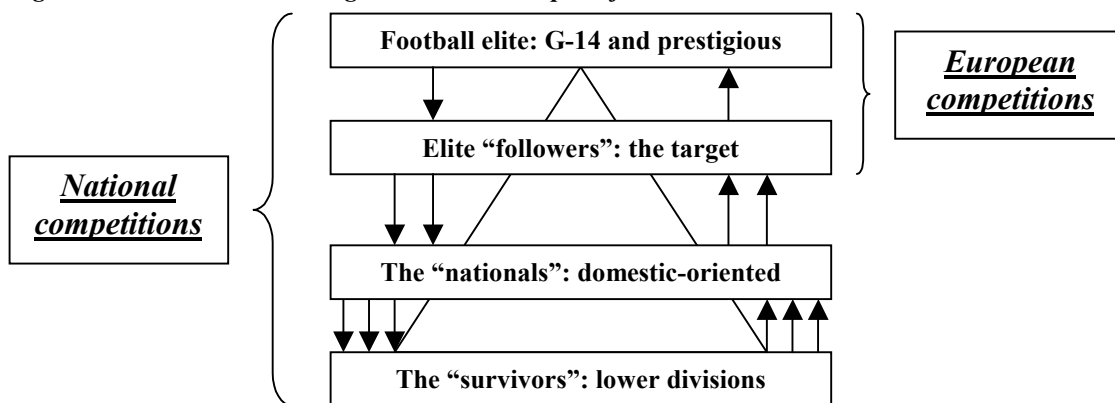
1.5 Definitions

In this section we intend to present some of the most important definitions that will demarcate the scope of our study.

1.5.1 European Clubs

In order to clarify our analysis of European football and bypass possible mistakes, we have split up the whole of the European clubs in four important groups:

Figure 1.2 The hierarchical organization in European football



Source: own

First, European football is dominated (measured in terms of historical sportive success and income-generating capacity) by the so-called “football elite,”



which is made up by the G-14 - a formal group that takes in a set of 14 out of the most European successful clubs -, as well as other prestigious teams that have enough financial power to sign talent players and win any UEFA competition. The G-14 contains the following clubs: Real Madrid and Barcelona (Spain), Bayern Munich, Bayer Leverkusen and Borussia Dortmund (Germany), Inter Milan, AC Milan and Juventus (Italy), Liverpool, Arsenal and Manchester United (UK), Paris St Germain (France), Porto (Portugal), Ajax (Netherlands). Other current prestigious clubs may be, among others, Valencia (Spain), Rangers and Celtic (Scotland), Lazio (Italy), Olympique de Marseille (France).

Second, there is another distinctive group in Europe constituted by those teams that are the target of our analysis. They are outside the “football elite,” in that they do not generate the same volume of income that these top-clubs and also seem to have lost many of the former chances to win an European tournament, especially the UEFA Champions League, due to the gap opened between the elite and the rest of competitors. However, these clubs must have the sufficient potential to gain a place each year to the UEFA Champions League by competing in their domestic championships. We will name them the “*elite followers*.” Although we do not exclude from this category some clubs from the big 5 nations, our analysis and conclusions might probably be more suitable to those clubs from small European countries such as the Scandinavian ones (Brondy, Rosenborg, or IFK Göteborg), Austria, Belgium, the Czech Republic, Greece, or Holland, and a variety of clubs from the broad group of UEFA national associations. The elite followers are likely to be relatively powerful in their national leagues but less important as compared to the top teams in Europe.

Third, we have identified all those teams playing in the domestic top divisions, outside the two groups mentioned above that have limited financial or playing capacity to struggle for a position into the European competitions. For this reason we call them the “*nationals*.” These teams are sufficiently pleased to compete in the national championships and their business strategies are based on ways to keep their position within the domestic top division, but they do not



have European perspectives. These clubs may be the real losers if a closed Super-league is finally created because its financial well-being mainly depends on matches against those teams in the other two groups.

Fourth, we include in a final group the rest of professional clubs that compete in the lower national divisions. Their targets are, in general, outside the huge process of commercialisation experienced by the other groups in this classification, especially the first two ones. Many of them centre their strategies in something very simple: survival. We will denominate these clubs the “*survivors*.”

We want to emphasize the idea that this representation is not static, but a continuous movement of clubs should be identified at both sides: inside the groups themselves and between groups. However, this “in” and “out” flow of clubs is more easily noticed in the lower layers of the football pyramid. Thus, the current structure of the football industry is making more difficult to go up from the second group to the elite than leap from the third to the fourth one.

1.5.2 European Leagues

We will call top leagues to those in the big 5 countries in Europe: Spain, UK, Germany, France and Italy. The rest will be denominated weak leagues.

1.5.3 Commercialisation

From now on, football commercialisation will refer to the whole group of economical and financial activities that are associated with the main football product (the game) and contribute to increasing the value provided to the final football consumer. We will basically regard the following activities: TV rights selling, merchandising selling, sponsorship and advertising, Internet, catering, stadia exploitation, match day attractions, and more.

1.5.4 Exchange Rate

Although we have mostly used the British pound (£ or GBP) as the official currency in this thesis, we also have some figures in euros (€), Swedish krona (SEK), Spanish peseta (ESP), Swiss franc (CHF), US dollar (\$US) and German



mark (DEM). The table below shows the exchange rates used:

Table 1.1 Exchange rates used in the thesis

	Euro (€)	SEK	ESP	CHF	\$US	DEM
GBP (£)	1.64	14.2	273	2.46	1.44	3.2

Source: <http://www.yahoo.com> and <http://www.xe.net/cgi-bin/ucc/convert>

1.6 Delimitations

- The focus of this thesis will be exclusively the *industry of football*. Although there are other individual industries altering the football structure (TV, advertising, media, etc.), we will only make use of them in order to understand the football business. We do not intend to adopt a two-direction analysis, but just one that takes into consideration the influence of those industries on the structure and evolution of the football business.

- The football industry can be divided in the domestic and international competitions. At the international level, UEFA is the superior body in the European football that organizes two competitions (UEFA Champions League and the UEFA Cup), bringing together the best of the European leagues. We have chosen to limit our study to only deal with the European tournaments, and specifically with the UEFA Champions League. The reason why we have chosen the Champions League as the main unit of analysis is because it enjoys great recognition due to the fact that the level of competition is very high and, also, the prizes are extremely lucrative for the participating clubs.

- As outlined above, the second group of clubs identified in our classification of the European football are the target of this case study. Therefore, from now on each time we mention “small” clubs we will refer to the clubs that belong to the second group, that is, the *elite followers*. We will inevitably base our analyses on the first two groups identified in the pyramid of figure 1.2, as they are the participants in the target market, the Champions League.



- We have limited our industry analysis to only comprise a set of trends and forces that influence the operations in the European football competitions. The most important ones will be: the internationalisation process, the changes in the transfer system, the commercialisation of football (mainly by TV), the future UEFA licensing procedure, the characteristics of the American sport models and the influence of domestic markets on the club's competitive level.
- The focus of our research will be on the potential business strategies that the elite followers may define to cope successfully with the powerful high-status clubs. However, one important goal of the thesis is to discuss the importance of the maintenance of the current UEFA structure, as well as the necessity for solidarity mechanisms to make it feasible for elite followers to be successful in the Champions League.
- In certain parts of the thesis, we have found it necessary to look into legal matters (mainly represented by the EU involvement in some football issues, such as the transfer system of players and the issue of TV rights). Nevertheless, we have tried to keep a discussion of these aspects to a minimum.
- Within the frame of our case study we have identified the *concept of "success"* as a consequence of some strong relationships. Consequently, clubs involved in league competitions effectively operate accordingly to two fundamental relationships: 1) For each club, increased wage expenditure leads to better performance on the pitch; 2) For each team, improved performance on the pitch leads to increased revenues. Thus, it could be argued that the key factor to be successful in football is the club's capacity to generate revenues. This is assumed to depend on three factors: its success on the field, its drawing power (club's location, history, reputation, etc.), and the attractiveness of the leagues where it competes. In Chapter 9, we develop this concept and analyse the capacity of the football elite to enhance each of these three issues to become successful.

One of the things we would like to make clear is that we do not intend to find magical solutions to allow small teams to succeed regularly in the UEFA



tournaments. We are perfectly aware of the differences in potential between the football elite and the rest. Our objective is, basically, focused on the main points of a possible business strategy for elite followers, together with some reflections on the football industry to the benefit of these clubs. One function of this business strategy is to analyse the performance of individual companies and understanding how a given business manages to extract the greatest possible effect from its resources.⁶ Thus, what makes a business unit profitable in football is simply its “strategic” strategy, subject to its own resources, and the industry structure where it operates.

1.7 Purposes

- As stated above, the main purpose of this thesis is *to present the effects of the new European football structure on a particular group of “small” clubs (elite followers) and, consequently, propose potential business alternatives (business strategy) for such clubs in order to compete successfully in the UEFA Champions League.*

- We also aim to *demonstrate that the new competitive structure could benefit only some participants (football elite), and others could be harmed in terms of success (as defined in this study).* Regardless, the higher commercial commitment of small clubs, the gap between prestigious clubs and the rest could increase unless the football governing bodies put in practise some restrictive measures that guarantee two important concepts in football: competitive balance and outcome uncertainty. These restrictive measures have to do with the enhancement of the income redistribution to ensure the outcome uncertainty in the competitions, and the recognition of the sport as a specific activity within the EU in order to avoid pure economic legislation.

- We intend *to draw a final theory from our findings.* In fact we have already elaborated a theoretical proposition (hypothesis) in order to test whether we can convert it in our own theory: ***“Elite followers’ success in the UEFA Champions League does not (only) depend on the creation of a competitive advantage. It essentially relies upon the consideration of football as an***

⁶ Hax, C. & Majluf, N. (1996)



exceptional industry by restraining competition with some redistributive practices, as it happens in American sports.” Football business may be a special industry, which would need be treated in a certain way. For instance, not only do the particular economics of football (competitive balance, high fan loyalty, etc.) break up any traditional business theory, but also the cultural and social issues associated with football characterize the game as an important element for national identity, which is highly respected in the different EU Treaties. Football has always been characterized by a need for co-operation, where competitive balance is essential in order to attract more satisfaction to the consumer, and thus more profits for individual clubs. These particularities make the football industry different when compared to other traditional industries. Therefore, we aim *to argue positively why the football industry has to receive special treatment.*

- Following the specifications of our commitment with IFK Göteborg, we will put special emphasis on the *analysis of the Football Transfer System*, since the club was very concerned with the future consequences of its potential abolition (see Chapter five).
- We have sought to analyse the football game with a business perspective and, also, to provide a platform for discussion of a wide range of topics. If this case study is solely of interest to academics and students interested in the game, then we will have failed. A central preoccupation of this task is to represent those small professional clubs like IFK Göteborg that try to find their place at the top level.

To conclude, our task in this thesis is, therefore, to take advantage of the current football affairs in order to: describe the new industry design, understand its processes, analyse its effects on football clubs, explore if the traditional internal structures of the elite followers are valid for the new commercial era, and identify if there are potential alternatives for the success of our target clubs, while increasing the overall “health” of the football family.



1.8 The Company Pushing this Study

We decided to study the issues outlined above as a result of a mutual commitment with Bosse Gentzel, chairman of the Swedish club, IFK Göteborg. This is a suitable company that complies with the requisites associated to the elite followers. IFK Göteborg has been out of the UEFA competitions for the last few years but it is one of the top Swedish football clubs, as shown by its splendid international competitive record. We want to make it clear that this is not a specific study of this club, but a project based on clubs that show similar characteristics than the main motive of this research paper: IFK Göteborg.

1.8.1 IFK Göteborg

The IFK Göteborg Club was founded in 1904, when the main goal of the Swedish football was to achieve success with highly skilled players and strict amateur principles. This task was not the exception for the IFK club, which had to offer jobs and opportunities to work in the city for people that wanted to play for the club part time.⁷

The route to Swedish professionalism has gone through several stages: summer professionals, youth professionals, the creation of Football Universities, and the fully professional teams.⁸ IFK has been present in all these periods, enjoying popularity among supporters and, consequently, obtaining national recognition. Nowadays, the club is one of the most famous football clubs in Sweden. In fact, it is the most well known Swedish football club in Europe, due to its golden era during the 80's, when the club won the UEFA Cup in two occasions in 1982 and, subsequently, in 1987. Moreover, the club has participated several times in the UEFA Champions League (former Europe Cup), obtaining good achievements in different occasions.

Since the origin of the IFK club, the Swedish league "Allsvenskan" has been won by the club 17 times (the last time was in 1996), and the Swedish Cup 4 times. All this success has brought the club a large number of supporters not only in Göteborg city, but also around it. For instance, the IFK club has still got

⁷ Armstrong, G. & Giulianotti, R., 1999

⁸ Ibid



the Swedish attendance record in the first division, when 52.194 people saw the match between IFK Gothenburg and Örgryte IS in 1959.⁹

The IFK club has also worked as an incubator of many successful players that now enjoy international recognition. Due to its great support among the Swedish population, youth players look for an opportunity to begin their professional training in the club, where they can be trained and formed to play in professional leagues. Most of the youth players have the dream of playing in the IFK club and then using it as springboard to more renowned clubs in Europe.

With the changing European football structure characterized by powerful commercialisation, the IFK Göteborg club is concerned about the difficulties that similar clubs are expected to face in the future. IFK is aware that managing a football club with a traditional sport orientation might not be useful anymore, and they should find new ways to struggle in the industry. Since the season 1979/80, IFK has participated in the European competitions almost continuously but its success has been diminished along the years. Therefore, the IFK club is looking for better opportunities to compete against the most prestigious clubs in Europe by increasing its competitive level. The club is also afraid of the potential damages that the forces analysed in this study might have on the club.

1.9 The Outline of the Thesis

This thesis is an academic and exploratory case study about the business of football and the influence that its current evolution will have on some small professional clubs. It is based on the following chapters:

The point of departure in this dissertation has been to present the **background** to the business area that is studied. The main problem, as well as research problems, have been presented. Furthermore, we have delimited the scope of our research and purpose. Chapter two presents the **theoretical framework** of the thesis, which gathers those theories and models that haven been the

⁹ <http://user.tninet.se>



backbone in explaining the different concepts and processes in the football business. A discussion of both competitive advantage and strategy for success in football is also presented to explain how to be profitable in the industry. In chapter three, we present the case **methodology** that we have employed. We introduce a way to collect and analyse data, as well as the reasons for conducting a case study. We also discuss the quality and the limitations of the research we have conducted.

In chapter four we initiate the **industry analysis** of football where we aim to set out how the football economy work and its main participants. We will concentrate on the *structure* of the industry in Europe by defining the different groups of clubs in the football hierarchy. We also will delineate the essential concepts of football that constitute the framework of the industry. As football is a dynamic industry, in chapter five we continue with the industry analysis but regarding the **development** that football has been taken in recent years, which is driven by a process of internationalisation of the football business activities, some important driving forces (i.e., the higher commercialisation of football) and the competition models adopted in other similar industries.

Chapter six presents the **specific market**, this case study will focus on – the UEFA Champions League - and also the three main actors (consumers, suppliers and competitors) of such a market. The industry analysis will be finished in chapter seven, where we will present the two most likely **scenarios** that might characterise the football industry in the up-coming future, finalising with the conclusions of the industry analysis that will help us to answer Research Problem 1.

Chapter eight is entirely dedicated to the **internal micro-environment** analysis, as defined previously in section 1.4.4. Two important issues are discussed in this chapter: the internal structure of football clubs and the attainment of a competitive advantage in the current football industry. In chapter nine, we emphasize on the **key factors to succeed** within the new football business by arguing how these factors are restraining the internal environment of clubs and, thus, limit their competitive position. In addition, we



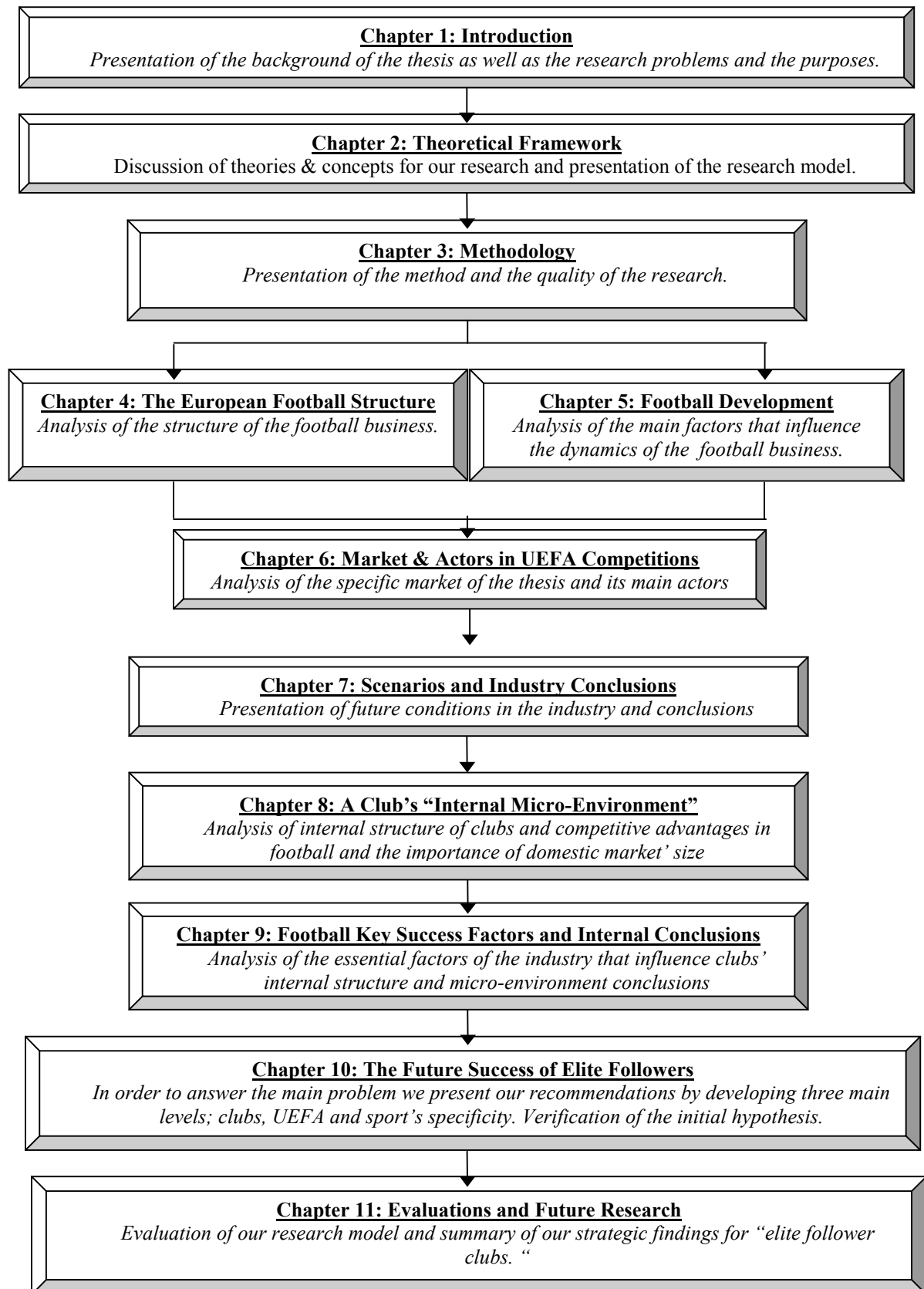
will also present our conclusions for the internal micro-environment, which will help us to answer Research Problem 2.

Chapter ten aims to answer our **Main Problem** by presenting some recommendations for our target group of clubs, “elite followers”, and also some final reflections with regard to three main aspects: **followers’ business strategy**, the role of **football authorities** concerning the structure of competitions, and, finally, the specificity of sport within the EU. The last part of this chapter will be dedicated to the verification of our initial hypothesis (see section 1.7).

Finally, chapter eleven **evaluates the research model** that we use in this project in order to base the analysis presented in all previous chapters. We also aim to present a **summary** of our findings regarding the strategy to follow for “elite follower clubs.” The figure below displays the outline of the thesis



Figure 1.3 Outline of the master thesis



Source: own





THEORETICAL FRAMEWORK







2 THEORETICAL FRAMEWORK

In this chapter, we discuss the different theories and models that constitute the conceptual framework of our thesis and upon which we have built the research model. We start by the presentation of a model for analysing the football industry. Furthermore, a section will be dedicated to the analysis of how to attain a competitive advantage in the football business. Finally, that will lead to a research model on which we will build our study.

2.1 The Research Model for Industry Analysis

Our objective in this thesis has been to present the different alternatives that the followers of the football elite have to increase the likelihood of being successful in the European football industry (see chapter 9). The burden of them is a business strategy proposal. A well-designed strategy is one that enables a firm to achieve its objectives given its resources by adapting optimally to its environment. One of the trademarks of the modern strategy approach is its external orientation. Firms have to carefully appreciate the environmental trends leading to an understanding of the attractiveness of the industry in which business resides. Only a deep knowledge of the structural characteristics of the industry can generate the high-quality strategic thinking required for the healthy long-term development of a firm.¹⁰

The fact of gaining better awareness of the suppliers, market and the structure of competition, and customers is extremely relevant for the posterior discovery of key success factors and sources of competitive advantage in any industry.

2.1.1 Beyond Porter's Five Forces Model

Perhaps the only statement that one could make with certainty about the structure of an industry is that it will change, most likely in unpredictable ways. This is an important fact, especially in today's fast-changing environment (mainly pushed by the technological innovations).

¹⁰ Hax, A. & Majluf, N. 1996.



The traditional approach that has been used for years to assess the attractiveness of an industry is Porter's "Fiver Forces Model," based on the analysis on 5 factors: *rivalry among existing firms, threat from potential entrants, threat from substitute products, bargaining power of buyers and bargaining power of suppliers*.¹¹ Taking into account the purpose of our study, we do not just aim at assessing the established structure of the football industry, but we especially want to centre on the dynamic forces around it, and, therefore, need a type of model that better supports the importance of the dynamism in the industries. For that reason, we believe that Porter's model, even though it provides a good understanding of the industry's variables influencing competition and profitability, fails to recognise the fact that there are certain dynamic processes through which industry structure itself changes through evolution and transformation.¹² Thus, a model that does not take these features into account does not succeed to appreciate the today's environment. Since football could be considered as a new evolving industry upon which some dynamic trends are conditioning its development, we think that Porter's traditional framework is unsuitable for fulfilling our industry analysis' purpose. Nevertheless, the relevance of some of its concepts will make us take them up.

2.1.2 The Industry Model

From the beginning, our intention has been focused on the study of a set of determinants of the new face of the football business. New non-stop factors are modifying the way of doing business and the key reasons to succeed seem to be not only on the pitch, but off the pitch. Therefore, in our task of investigating the new dynamic machinery of football, as well as the characteristics of the market where the football clubs wish to participate, we need to look for updated business models.

The football literature has, so far, lacked business models that incorporate the dynamics of the industry when analysing its functioning. Football is now moving hand to hand with other related industries (i.e., television, sportswear, the internet, etc.). At the same time, the commercial aspects, totally ignored 15

¹¹ Porter, M. 1980.

¹² Grant, R. 1998.



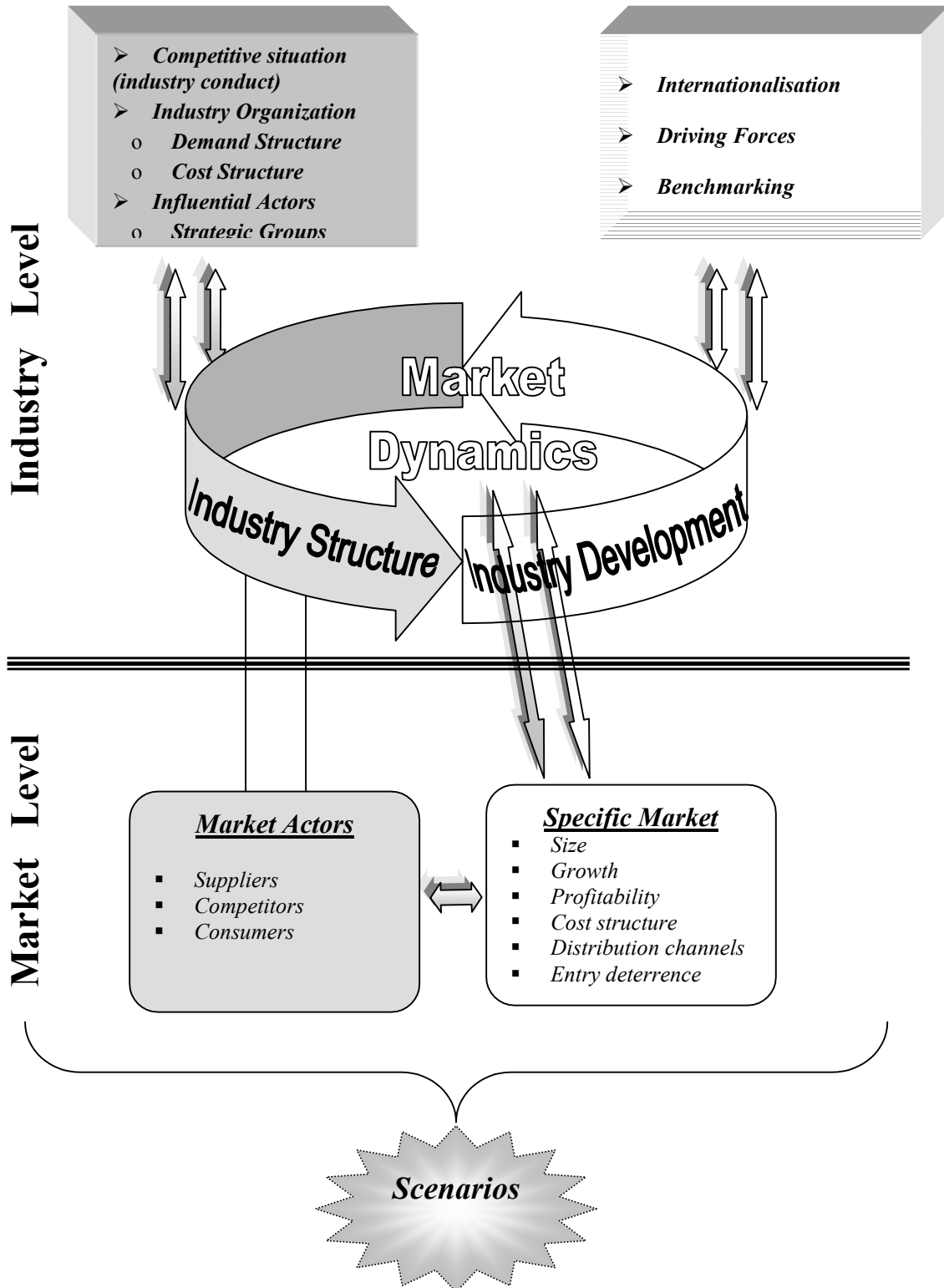
years ago, are key determinants of its evolution. Given the changing character of the football business, we think that it should be regarded as a dynamic industry and our task is to present a model that incorporates the determinants of its dynamics. Thus, the most convenient way to analyse the business intra-industry of football is to distinguish between the industry itself and the market.

The scope of the football industry might be regarded as the worldwide FIFA frame but, for practical reasons, we will assume that industry of our target clubs is solely the UEFA frame; that is, national and European competitions. On the other hand, the market will be delimited to just one competition, the UEFA Champions League. Our model for the industry analysis is displayed in figure 2.1. Our view is that a particular industry structure together with the trends and forces that explain its development justify the business dynamics. At the same time, the evolution and progress of any specific market is highly affected by that dynamics. As far as business football is concerned, a clear example is the UEFA Champions League. For the 90's, this market (competition/tournament) has undergone several modifications. All of them were subject to the pressure of clubs to take advantage of the opportunities that the commercialisation of the game gives through TV rights. This model is very valid to our target clubs due to their incapacity to influence, by themselves, the industry development. The model enables them to understand the determinants of the market dynamics.

The logic of our model is based on the idea of forecasting the future of an industry in order to react to it. Aaker (1998) argues that after describing the external forces affecting the business and the market, the last task in industry analysis is to find the way of dealing with the strategic uncertainty (specific uncertainties that will affect the outcomes of strategic decisions). He also adds that a scenario analysis is a tool that helps to evolve that uncertainty into strategy. Thus, scenario analysis is a way of creating and using future situations to help generate and evaluate business strategies. In fact, by understanding the processes of the industry and the behaviour of its actors it is possible to predict future happenings.



Figure 2.1 The industry analysis model



Source: Own



2.1.3 Market Dynamics

Firms competing in a certain business have to be aware of the industry's evolution. In practice, industry structures continually evolve, driven both by the forces of competition and by fundamental changes of the closest environment (technology, regulations, economic growth, etc.). Firms that possess the resources and develop the capabilities and strategies suited to emerging industry circumstances prosper and grow; those that do not are eliminated. The issue is to anticipate the industry evolution.

Our main goal in the industry analysis is mainly focused on showing how the impact of a group of key variables may affect the process of competition and thus, the profitability of each company within the business. Thus, companies have an incentive to understand the *market dynamics*, that is, the pattern and speed of change. In our case, market dynamics is an abstract concept that intends not only to reflect the vigorous effect of competition on the industry progression. It mainly has to do with the way of influencing the way of doing business in the industry in terms of innovation and advance. We believe that the current state of football is under the effect of these market dynamics and thus, we decided to proceed with our industry analysis by taking into account the dynamics of the football change nowadays. There are a couple of factors that may be regarded as the main motor of such a dynamics; they are the impact of technology and commercialisation on the final product (the game).

As displayed in figure 2.1, the dynamics of a particular industry depends on the current industry structure, as well as its development in the future. Furthermore, there is a third factor that influences that dynamics: the specific market where a company competes. This is because each market requires an on-going development in order to make feasible the maximization of some factors such as the applicability/value of the final product (service), the will/satisfaction of the consumers to purchase the product (service) or the positive externalities of that market. The influence of the market on the dynamics of football is extremely relevant. If we pick up again the example of the UEFA Champions League, the own requirements of the most attractive league in Europe may imply some modifications of other aspects in the industry (i.e., the future



licences to participate in the Champions League would force all the clubs aspiring to this competition to upgrade all their structures: organization, facilities, business practises, etc.).

A final consideration is that the own market dynamics obviously affects reciprocally the triangle: industry structure, industry development and specific market. Thus, market dynamics implies a complex flow of mutual influences (as pointed out in figure 2.1).

2.1.4 Industry Structure

The basic premise that underlies industry analysis is that the level of industry profitability is neither random nor the result of entirely industry-specific influences, but is determined, in part at least, by the systematic influence of industry structure.¹³ By examining the principal structural features and their interaction for any particular industry, it is possible to predict the type of competitive behaviour likely to emerge and the resulting level of profitability.

The first step in studying an industry structure might be its *competitive situation*. The main reference is to look at the type of association between the industry's actors (monopoly, perfect competition, oligopoly, etc.). It has to do with the industry conduct, which concerns the way in which the firms in an industry choose to compete with each other and how intensive competition is. In the table below, we match four structural variables influencing competition and profitability with the four traditional forms of industrial organization. Some other variables may also make possible to identify the spectrum of industry structures.

¹³ Grant, R. 1998



Table 2.1 The spectrum of industry structures

		INDUSTRY TYPES			
STRUCTURAL FEATURES		Perfect Competition	Oligopoly	Duopoly	Monopoly
	Concentration	Many firms	A few firms	Two firms	One firm
	Entry Barriers	No barriers	Significant barriers		High barriers
	Product Differentiation	Homogeneous product	Potential for product differentiation		
	Information	Perfect information flow	Imperfect availability of information		

Source: Grant, R. (1998), pp. 56

Industry structure also consists of those features, which characterise its internal *organization*. We will call industry organization to those features of an industry, which dictate the ways in which products can be produced and the way in which they can be sold.¹⁴ The fundamentals of an industry depend on the nature of demand for the product or service being sold and the costs associated with bringing the product or service to the market. First, firms need to understand the *demand* for their product in order to establish how revenues can be generated. Some aspects, such as the demand elasticity for the product or the bargaining power of the buyers, are essential to explain the success of individual firms. On the other hand, the second side of the industry organization says that it is vital to be aware of industry's *cost structure*. In normal businesses, two important factors to evaluate with regard to costs are technology and the bargaining power of suppliers.

Industry competitive situation and industry organization provide the basic framework that dictates the potential for generating profits in a particular industry.

The third factor the model has taken into account is the industry *influential actors*: identification, organization and influence of the main actors. If we are interested in understanding more deeply the structural qualities of an industry,

¹⁴ Szymanski, S. & Kuypers, T. 1999



we need to recognize that firms are not homogeneous.¹⁵ To gain a more profound knowledge of the forms of competition, we must perform an identification of strategic groups, which are aggregations of firms that include, in a unique set, those competitors that follow a common or similar strategy along well-defined dimensions. Porter (1980) suggests different dimensions to identify differences in firm strategies within an industry: brand identification, a push-versus-pull marketing approach, channel selection, product quality, technological leadership, vertical integration, cost opposition, service, price policy, financial and operating leverage, relationship with parent company, and relationship to home and host government. However, each industry varies requiring different dimensions. For instance, in the case of football it does not make sense to consider technological leadership as a variable, or relationship with parent company.

Strategic groups are characterised by different degrees of profitability. The basic argument is that mobility barriers between strategic groups permit some groups of firms to be persistently more profitable than other groups.¹⁶ For our purposes, strategic group analysis is a valuable tool for a descriptive and a predictive analysis.

2.1.5 Industry Development

Over time most industries evolve. By understanding how this development occurs, firms can react with a suitable strategy that enables them to survive. The pace and the process of industry transformation are of great importance to companies as they allow them to realign their resources, products and services, channels, and other elements of strategy to anticipate and benefit from the evolving industry structure.¹⁷ Industries are now being affected almost in general by a couple of powerful factors. One is the globalisation process and the other is the New Economy reflected by the Internet phenomenon. Now, let us study the industry development in a more structured manner.

¹⁵ Hax, A. & Majluf, N. 1996

¹⁶ Grant, R. 1998

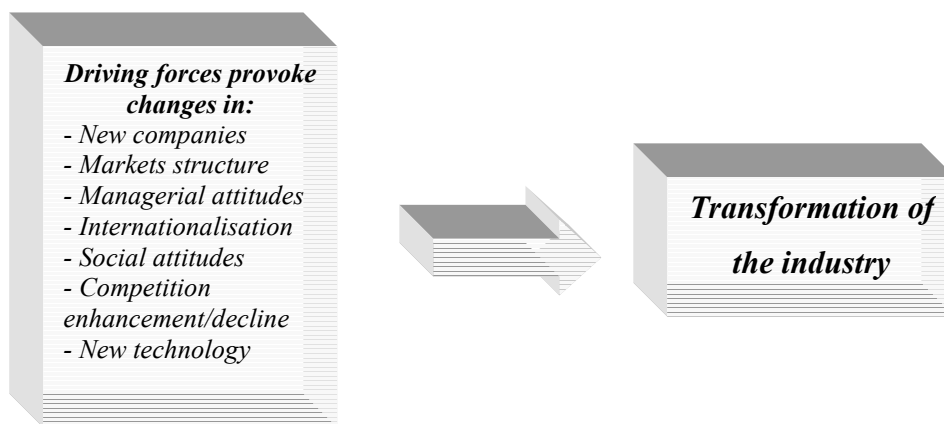
¹⁷ Prahalad, C.K. & Hamel, G. 1994



One way to identify and analyse developments in an industry is to look at the *trends* affecting it. Trends change the environment in which business is done and, thus, change industry structures and competition. The most important trend over time has been for industries to move from the category of sheltered industries outwards. Thus, trends indicate the prerequisites for success, in terms of the competences needed to do business within a certain industry. In football, as in many other industries the most important trend is the attempt to widen a firm's geographical scope, that is, the process of internationalisation.

Driving forces in an industry are those elements that determine the development of the industry and can be defined as the reasons for change. The main external forces that influence strategies and profit potential of an industry include: technological changes, resource availability, improved inputs, socio-economic trends, working methods, government actions, customer needs and actions, etc.

Figure 2.2 Industry driving forces: some examples



Source: Wilson (1992), modified.

A final factor that has to be taken in consideration is *Benchmarking*, which consist of comparing the performance of a business component with others. During the past decade, benchmarking has emerged as an important tool for appraising and developing organizational capability through detailed comparisons with other firms and organizations.¹⁸

¹⁸ Grant, R. 1998



Many companies follow different methods of benchmarking according to different aspects; such as, the industry they are performing in, the opportunities they have, the resources they can use, and the goals they have established. In our case we follow the method that Grant (1998) suggests for a benchmarking approach, which involves five stages:

- 1) Identify an activity within the firm where there seems to be potential for business development.*
- 2) Identify a firm, not necessarily a competitor that is a world leader in this activity.*
- 3) Undertake performance comparisons with the benchmarked company through exchange of performance data.*
- 4) Analyse the reason for the performance differentials.*
- 5) Use the new learning from the benchmarked firm to redefine goals, redesign processes, and change expectations regarding one's own functions and activities.*

2.1.6 The Specific Market

One of the most difficult problems in industry analysis is defining the relevant market in which firms should compete. For this reason, markets within the investigated industry are important to examine more closely and, in particular, the relevant market that the company wants to enter. In general, this task is not easy at all as it requires the definition of the industry boundaries and many industries are not clearly delimited. By focusing on the relevant market, we do not lose sight of the critical relationship among firms within and industry: competition.

The market is a group of customers classified according to geographical location or the needs that create demand. In other words, the market can be defined as the set of consumers, which a firm might potentially supply. In this study we have defined the market as the UEFA Champions League (its geographical scope).



Aaker (1998) argues that the analysis of the relevant market's attractiveness should include an examination of the market size, growth, profitability, cost structure, entry deterrence and channels trends. These variables are aimed to evaluate the company's possibilities to succeed on a specific market.

A basic characteristic of a market (or a sub-market) is its *size*. In addition to current sales, the analysis should consider the market's potential, that is, the additional sales that could be obtained if new users were attracted, new uses were found, or existing buyers were enticed to use the product or service more frequently. The analysis needs to assess the *growth* trend, the market width, and product life-cycle stage. The *profitability* of the market depends on a number of factors such as the profit impact of powerful suppliers, the power of customers to force price concessions or the number and vigour of existing competitors. The stakeholder view of the traditional firm suggests that the pursuit of profit is the primary goal for firms. However, in the case of football, this principle does not seem true.

Another important issue is to consider what value-added stage represents the most important *cost component*. It is interesting to know whether the industry is appropriate for a low-cost strategy. Furthermore, an understanding of the *distribution channels* can be of strategic value, by appraising the role of technology.

Finally, the last factor to consider is *entry deterrence*. Entry barriers and the reactions that can be expected from existing competitors is an important factor when entering a market.¹⁹ Some of the barriers to compete in equal terms are: product differentiation, capital requirements, access to distribution channels, authorities policy, and so forth. Apart from the set of variables outlined, the understanding of the social impact of the market is always very useful.

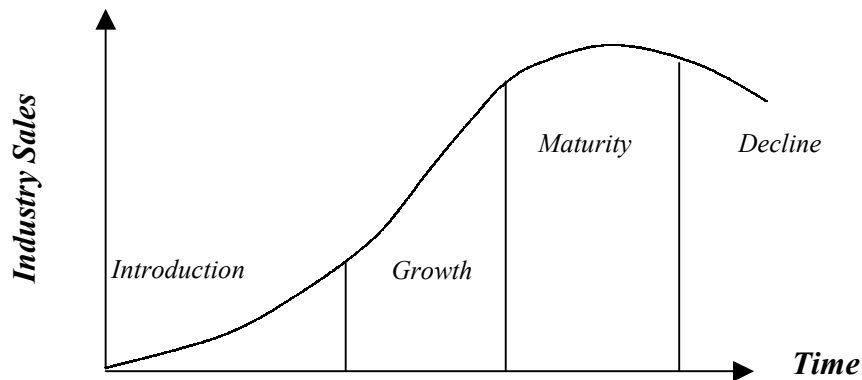
Given the considerable boom of football for the last years, it would be interesting to focus on the *Industry Life Cycle Theory*. According to Grant

¹⁹ Hunger, D. & Wheelen, T. 1995



(1998), the life cycle is conventionally divided into four phases: introduction, growth, maturity, and decline (see figure below).

Figure 2.3 The industry life cycle



Source: Grant 1998, p. 243

There are two factors that can be identified as fundamental to driving industry evolution. First, the *demand growth*, which has to do with the changes in an industry's growth rate over time. In the *introduction stage* sales are small, the rate of market penetration is low and customers are few. The novelty of the technology and lack of experience mean that costs and prices are high, while quality is often low. The *growth stage* is characterised by accelerating market penetration as product technology becomes more standardised and prices fall. In the *maturity stage* the market goes into saturation and growth is slowing down as new demands give way to replacement demand and the production and diffusion of knowledge. Finally, as the industry is challenged by superior substitute technologies, which are replacing the old ones, the industry enters the decline stage.²⁰

The second key force driving the industry life cycle is the *creation and diffusion of knowledge in the form of product innovation*. Thus, product innovation is responsible for an industry coming into being, and the dual process of knowledge creation and knowledge diffusion continue to drive industry evolution. In the introduction stage, product technology advances rapidly. There is no dominant product technology. Competition is primarily between alternative technologies but, eventually, a dominant technology

²⁰ Grant, R. 1998.



emerges, which inaugurates the industry's growth phase. This phase is associated with technology shifting from product innovation to process innovation. Once product technology and design stabilize, the challenge is to produce the product at acceptable cost and higher quality. Knowledge diffusion is also important on the customer side. Over course of the life cycle, customers become increasingly informed.

2.1.7 Market Actors

In order to finally complete an industry/market analysis, firms have to be aware of the main “players” in the market. For our purpose, three type of actors seem to be very relevant: competitors, customers, and suppliers.

The purpose of *competitor analysis* is to predict the behaviour of one's closest rivals. The importance of competitor analysis to a company depends on the structure of its industry. Some competitors compete more intensely than others, and, thus, each firm in the market should consider its own size and industry position compared to those of its competitors. Within the specific market, it is helpful to regard those with similar characteristics, strengths and strategies. An important aspect within the business of football is that large firms with dominant positions use certain strategies that smaller companies cannot afford (i.e., spending on players).

Another relevant factor to consider is the *customers*, those the company should aim at. According to Kotler (1994), private customers consist of individuals and households that buy the goods for personal consumption. Industrial customers consist of companies and organisations buying the goods or services for further processing.

The importance of *suppliers* for most industries is high. A profound knowledge of the type of supplier present in the specific market and the determinants of relative power between the producers in an industry and their suppliers is necessary. Therefore, the concept of supplier power has to be taken into account. When the supplier industry is concentrated and sells to a variety of customers, it will have relative power that can be used to influence prices.



Power will also be enhanced when the costs to customers of switching suppliers are high.²¹ Our aim is to appraise the power that suppliers (players) have in the industry. Within football there are other type of suppliers. They are *suppliers* of related products, which contribute to the consumption of football by spectators, from the sellers of soft drinks at the grounds to the TV companies broadcasting football matches.

2.1.8 Scenario Analysis

To complete our model of industry analysis we have added a final aspect: *scenarios analysis*. Scenarios provide a way to deal with complex environments in which many relevant trends and events interact with and affect one another. When a set of trends and factors are aggregated into one, two or three total scenarios of the future environment, the analysis is more manageable. Scenarios also help deal with uncertainty.²² There are several ways to implement scenarios, but we will try to identify just two future situations in the football business.

The industry model presented here might be useful for those industries that are suffering important changes. Firms within these industries need to appraise their vulnerability to changes. We think this could be the foundation for a suitable analysis. Since our belief is that the football industry is now experiencing some changes, we thought this model could be useful to implement.

2.2 Internal Micro-Environment Analysis

It is important to analyse, not only the significant variables in the external environment of the corporation that are likely to affect the future of the firm, but also, those special characteristics of the firm that contribute to its competitiveness. In section 1.4.4, we have defined the scope of the “internal micro-environment” analysis.

²¹ Aaker, D. 1998

²² Ibid



An internal analysis is needed to identify internal strategic factors that constitute the strengths and weaknesses of the firm and help to determine whether the firm will be able to take advantage of the opportunities emerged within the industry and at the same time, avoid possible threats (already identified in the industry analysis).²³ As Grant (1998) mentions: “*differences in performance among companies may be explained best, not through differences in industry structure identified by the industry analysis, but through differences in corporate assets and resources and their implications*”.

2.2.1 Internal Micro-Environment Model

In order to appraise our target strategic group in this case study, “elite followers clubs”, we will conduct an internal analysis taking some specific examples of these clubs with the intention of clarifying our point of study. As a framework for our internal analysis we will use five main tools suggested by Grant (1998): *values, goals and objectives of the firm, resources that are part of the company, the capabilities that the firm has reached and finally the competitive advantages of the firm*. In this last part we will combine the Szymanski & Kuypers (1999) ideas of competitive advantage for clubs in order to have a clear perspective regarding the football industry.

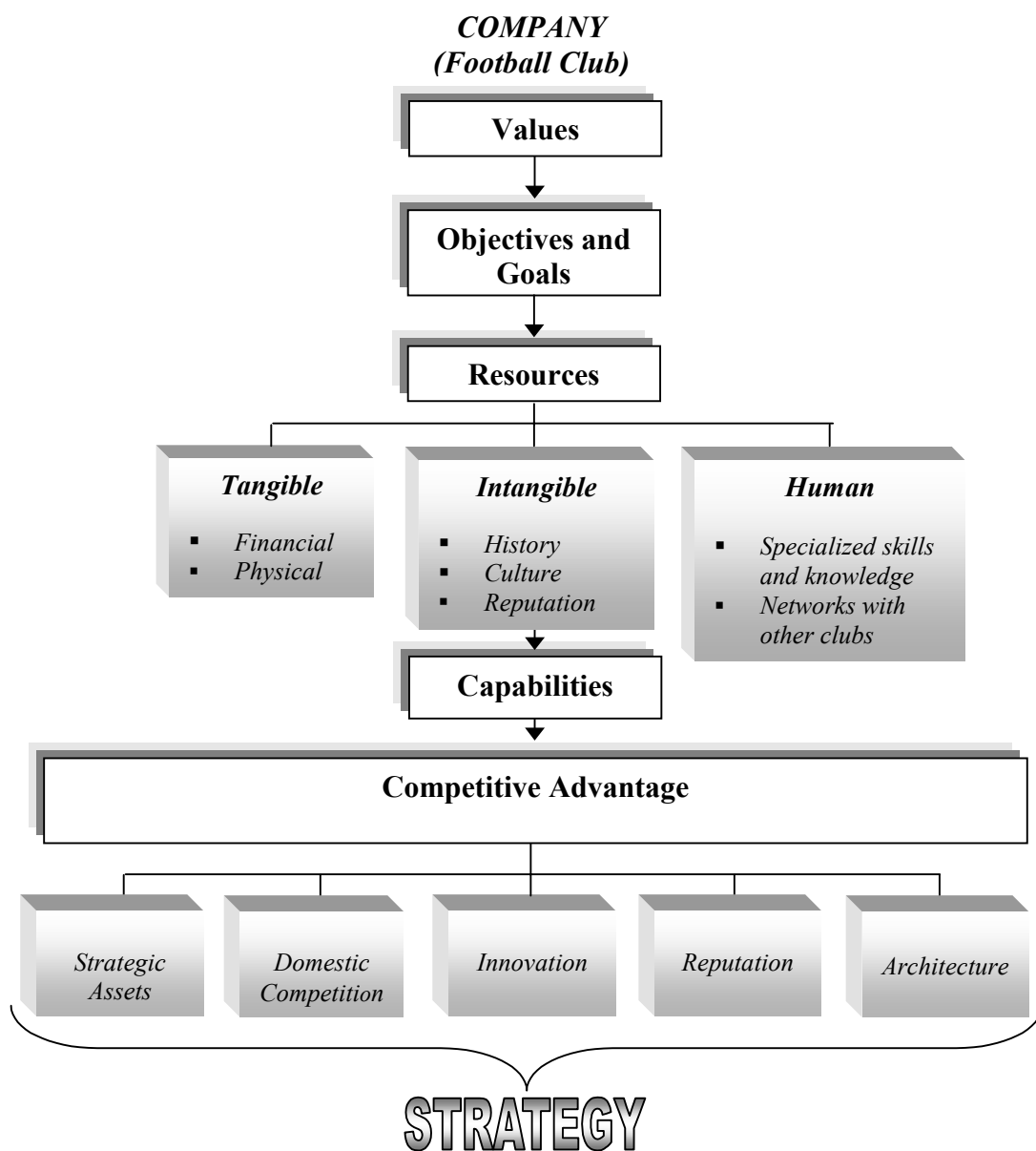
We start with the *values* of the organisation, which give guidelines on how to operate within the industry and, at the same time, influence the goals and objectives that the firm establishes, as well as the way of how to reach them. This *objectives and goals* are also the base for the acquirement of the *resources* needed to compete in the industry. The differences within organisations, in terms of their human and other resources, play a vital role in determining their probability or the degree of success. The organisation’s resources can offer great chances for companies to compete if they are well combined in the most effective way, which in turn are transformed to the *capabilities* of the firm. Consequently, as the capabilities are properly established a further step is to create or enhance a *competitive advantage*, which will be the base for the selection of the most suitable strategy to compete within the specific market.

²³ Hunger, D. & Wheelen, T. 1995



The firm’s strategy is developed according to the competitive advantage that the firm possesses (if any) and the structure of the market (industry) where the firm is competing. To sum up, there is a well-linked chain with all the aspects interrelated each other, from the identification and establishment of values until the creation and sustainability of a competitive advantage and, finally, the establishment of the company’s strategy. This theoretical model is frequently used to assess the internal performance of any company no matter what industry is implicated. The following figure shows how this process is built up:

Figure 2.4 Research model of micro-environment analysis



Source: Own from Grant and Szymanski models



2.2.2 Values

The values of an organisation underlie the principles by which the firm has chosen to operate. All companies possess a group of values that are an integral part of their identity, which in turn are also related to broader pursuit of social and moral purpose.²⁴ Thus, regarding our case study, we consider the social responsibility of clubs as an essential element of the clubs' values. In addition, in having clear organisational values, all the members know how to behave and react within the industry.

2.2.3 Objectives and Goals

People most of the time treat objectives and goals in the same way; however, some authors make a clear differentiation between them. According to Collis and Montgomery (1997), *objectives* refer to specific short and medium term quantitative targets, while *goals* refer to qualitative intentions in the same time frame.

Objectives and goals lie at the heart of the organisations and vary according to the type of the organisation in question. Most of the time, top directors are in charge of establishing the firm's objectives and goals, as well as ensuring that these guidelines do not break or even disappear in the long-term. Usually the principal objective is profit, but there are many other objectives that companies establish as priorities for their successful functioning. On the other hand, the most common goals are growth rate and market share. Whatever the agreed objectives and goals, it is necessary that managers determine the extent to which they should be reached. In addition, the objectives and goals of the organisation should embrace all parties of it so that staff feels engaged with the organisation, including its quantitative and qualitative ambitions.²⁵

A football club also needs to establish its objectives and goals in order to perform successfully within the industry. It is a key part of the club that all the internal staff, players, coaches, directors, etc, pull in the same direction, which

²⁴ Grant, R. 1998

²⁵ Fergurson, P. & Ferguson, G. 2000



can be, not only winning the title of the season, but, for instance, also achieving a great image among their fans, or increasing the revenues of the club.

2.2.4 Resources

Resources come in very different forms within an organisation, ranging from common factors that are widely available and easily purchased in the market, to highly differentiated resources that are difficult to develop and take years to build them,²⁶ which are highly durable. On the other hand, there are other resources that may only be held by the organisation for short period of time. Also, some of the resources would be easily to adapt to certain tasks or purposes, while others may be highly specific in their use.

It is a task of the top directors to apply the firm's resources in a certain way to the benefits for the firm. Thus, there will also be differences in the degree to which the various resources may be combined effectively. According to Grant (1998) resources can be classified into three categories:

1) *Tangibles*, are the easiest to identify and evaluate. They include financial and physical resources in terms of the capacity to invest and spend capital in different periods of time, or the installations and equipment that the firm counts.

2) *Intangibles*, even though these resources are not easy to measure, they are crucial in the development and success of the firm. Among these, the most important intangible resources we can cite are: technology, prestige and culture of the company.

3) *Human resources*, can consist of skills, knowledge, reasoning, and decision-making abilities. These resources are appraised at the time when the recruitment process is taking place. Experience and qualifications are some indicators for the performance potential of the stock of human capital. Human resources might be the abilities that members of the organisation have to

²⁶ Collis, D. & Montgomery, C. 1997



communicate and interact within and outside the firm. The motivation that exists within the company is essential for the good development of the firm.

The different resources that any firm might have can vary in different grades. According to our target clubs “elite followers,” we consider other resources that might be appropriated for football clubs. Considering the tangible resources, we believe that any club regards the financial and physical assets as the most important for sustain successfully the functioning of the club. On the other hand, among the intangible resources, we will not take into consideration the technology as an asset or resource due to the fact that we considered it as more related to the way of transmitting the final product “match” and thus, it is out of our scope. However, we included the history element as an essential aspect for the success of the club: *“Hundreds of clubs create the value of football. Football is about tradition and heritage, identity and regionalism.”*²⁷

Regarding the remaining two intangible resources, reputation and culture, we think they are very important in the football industry because many clubs base their actual support on previous successes that they enjoyed years ago, and on the side, the level of identification that fans feel regarding their favourite team. For human resources, we analyse the communication and interactive skills as the abilities to establish and maintaining good relationships with other clubs in the industry. Also, we take into consideration the fact that having good players and coaches are specialized skills and knowledge, which are essential for the success of the club.

2.2.5 Capabilities

Organisational capabilities are those capacities of the company to undertake a certain productive activity. Many authors consider capabilities as the core competence of a particular company, which is described as those things that an organisation does particularly well compared to competitors.²⁸ Other authors, like Ferguson (2000), imply that capabilities result from a combination of the core competences of the firm. Moreover, organisational capabilities are not

²⁷ Robert Elstone & Jake Wilson, Deloitte & Touche Manchester

²⁸ Grant, R. 1998.



input factors like some other assets; they are complex combination of assets, people, and processes that the organisation uses to transform inputs into outputs.²⁹

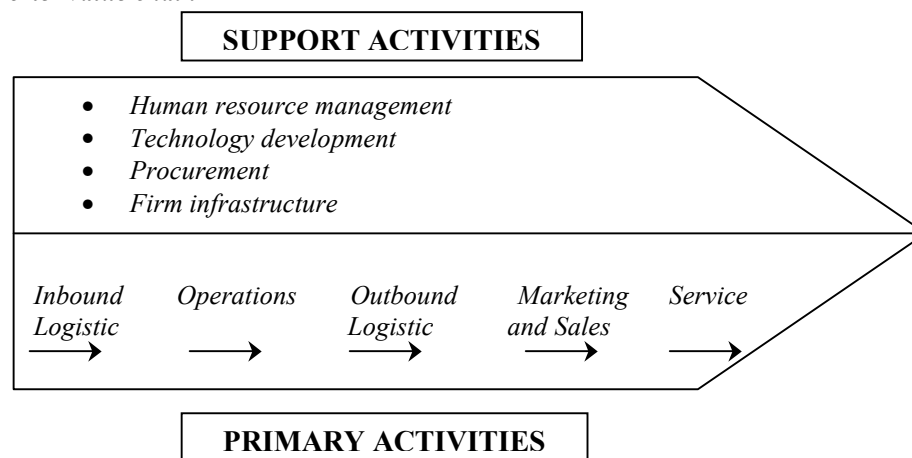
“Capabilities are to the organisation what skills are to the individuals” (Grant 1998)

Porter (1985) suggests a classification of organisational capabilities into two main groups:

- *Primary activities* are directly involved in the transformation of inputs into the final product and interface with the customer. The main activities within this classification are inbound logistics, operations, outbound logistics, marketing and sales, and service. These activities play an essential role in the process to deliver the final product to the consumer.

- *Support activities* complement the operation of the company in the development of the final product. Even these activities are not directly involved in the delivery of the final product, they represent an essential part of it. Some of the main activities are the human resource management, technology development, procurement, and firm infrastructure.

Figure 2.5 The Porter value chain



Source: Porter, M. (1985)

²⁹ Collis, D. & Montgomery, C. 1997



We use Porter's model to identify the clubs' capabilities in the football business. As some of the activities mentioned by Porter do not fit the role of a football club, we inserted or modified some activities that we think are of considerable importance for the functioning of the club. Regarding the primary activities, as the final product is the "match," we believe that the most important activities related directly with the final spectacle are: performance on the pitch, presence of fans at the stadium (creating the atmosphere in the game), and marketing activities. On the other hand, there are other activities that are also relevant for the accomplishment of the "match," such as recruitment, training programs, and management.

2.2.6 Competitive Advantage

When two or more companies are competing in the same market and one of the companies earns a persistently higher rate of profits, it can be said that the company possesses a competitive advantage over its competitors.³⁰ A competitive advantage might arise from the resources of the company (previously identified) as a result from a combination of several factors rather than arising from only one source.³¹ It is usually said that such a particular combination of resources lies in a distinctive capability.

One of the most important aspects with regard to the theories of competitive advantage is *sustainability*, or, how long that advantage can be sustained. This depends on the *durability* of the resources and capabilities upon which the competitive advantage is based. It is also affected by rivals' ability to *imitate* the strategy of the company through acquiring the resources and capabilities needed to build the competitive advantage. This requires either that the firm purchases the resources or capabilities required, in which case they must be *transferable*, or that the firm *replicates* them.³²

Porter (1985) identifies two types of competitive advantage: firms competing either on the basis of *lower costs* than their competitors, or on the basis of *differentiation*, where companies provide some unique characteristics and

³⁰ Grant, R. 1998

³¹ Luffman, G. 1996

³² Grant, R. 1998



superior value to customers, who are willing to pay higher prices. The competitive advantage that the firm has and the special characteristics that the market offers to compete, will determine the choice of the company's strategy in order to compete successfully.

Due to the fact that the football industry is quite different compared to other industries, we believe that some of the Porter's ideas might be included in the Szymanski & Kuypers' (1999) suggestions as important advantages for any football club. There are a number of ways in which a firm may possess a distinctive capability: *strategic assets, domestic competition, innovation, reputation and architecture*.³³

The *strategic assets* include those resources that are scarce in the market and if one club obtains them, the rest of the clubs cannot have them at the same time. It may have to do with the possession of some kind of monopoly over a necessary input in the production process. Thus, some examples of this competitive advantage are the exclusive possession of: raw materials, some specialized equipment or machinery, or a workforce, which is less costly to employ than that of the rivals.

Innovation means the capacity to develop both new markets and improvements to existing products. However, it requires important investments in R&D and does not even ensure success. Innovation is truly a distinctive capability only if a firm is capable of producing innovations at a lower cost than its rivals. Furthermore, sustaining innovation as a competitive advantage is particularly difficult because it is not easy to protect valuable innovations from imitation. Innovation in football is a rather unlikely source of competitive advantage because it can be considered a competitive advantage for only a short period of time.

Another competitive advantage is *reputation*, which comes from the established position of a product in the market. A good reputation makes a product more attractive to buyers because they are confident of what they are getting. Buyers

³³ Szymanski, S. & Kuypers, T. 1999



are willing to pay a premium for what is perceived to be a guarantee reliant on the experience of consumption. Thus, reputation is like insurance because it enables a firm to sell similar products at a higher price and it is also hard to imitate.

The next competitive advantage to analyse is *architecture*, which is based on personal relationships that cannot easily be imitated. There are two types of architecture, one is internal (i.e., when the nature of the relationships within the firm creates the ability to supply at lower cost or higher quality than rivals), and the other is external (when even if competitors supply exactly the same services, the customer prefer working with a firm, with whom it has an established relationship). Architecture cannot be attributable to particular individuals, or else those individuals would demand higher wages for supplying those specific skills.

Finally, we analyse the *domestic competition* as a potential factor to acquire a competitive advantage. Even though this variable is not part of the internal structure of a club, the competitive environment in which clubs compete might provide a potential and real advantage over their rivals in other leagues. Thus, we will include this variable as a part of the main advantages that clubs can achieve within this industry.

Thus, the differentiation aspect that Porter mentions in his interpretation of competitive advantage could be explained with the elements of reputation and architecture, which give a special characteristic to those firms that enjoy them. On the other hand, the cost leadership may fit well with those innovations and strategic assets that help a firm to produce at lower costs. We will try to show how these sources of competitive advantage are present in football.

As the environment in which the majority of companies operate is dynamic and changes constantly, the competitive advantage that a firm might have now is the same competitive advantage that might be copied from rivals companies or obsolete in the future.³⁴ The more competitive the market, the more

³⁴ Luffman, G. (1996)

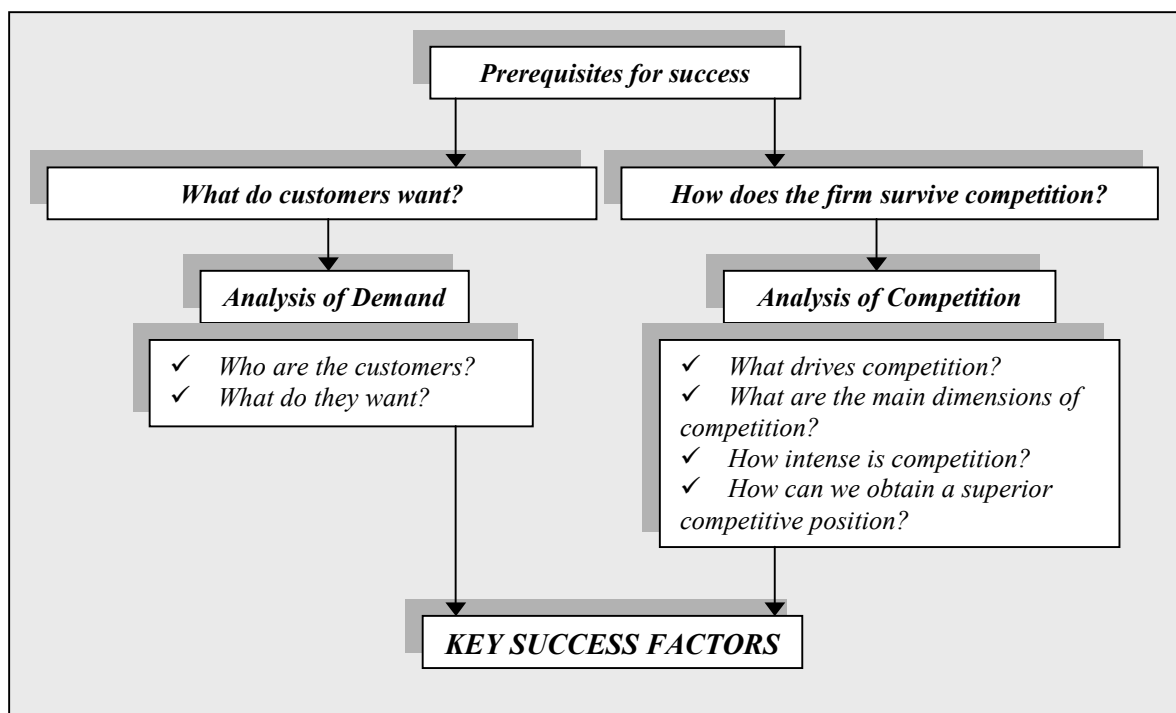


probabilities to duplicate the competitive advantages that any company might enjoy. Therefore it is necessary that companies continually reinforce their competitive advantages and protect them from competitors in order to ensure long-term success. Football is a highly competitive industry, where clubs are alert to any club's movements; thus, the opportunities for clubs to differentiate themselves are rather limited.

2.2.7 Industry Key Success Factors

The purpose of this section is to go a step beyond the analysis of competitive advantage and look explicitly at the prerequisites for success within an industry. Concretely, *key success factors* have to do with the potential for competitive advantage within an industry, in terms of the factors that determine a firm's ability to survive and prosper. According to Grant (1998), a firm within an industry must meet two criteria: first, it must supply what customers want to buy; second, it must survive competition. In order to find the key success factors in a particular business, we may start by asking two questions: *what do customers want?* and *how does the firm survive competition?*. The following displays the logic behind the prerequisites for success.

Figure 2.6 Identifying key success factors



Source: Grant, R. 1998



The first question implies a close look at the customers of the industry, as the basic foundation for the existence of the industry and as the underlying source of profit. Once we have identified the basis of customer preference, this is just the starting point for a chain of analysis. The second question has to do with the examination of the competition in the industry. Understanding these aspects of the industry environment is a prerequisite for an effective business strategy. This does not imply that firms within an industry adopt common strategies. Since every firm comprises a unique set of resources and capabilities, every firm must pursue unique key success factors.³⁵

We aim to describe the set of key factors that characterise the success in the football industry. The answers to the two questions posed in the model are expected to be found in the different parts of the industry analysis. In chapter 9, we will focus in analysing the variables that may be regarded as the football key success factors.

2.3 The Structure of the Thesis

Throughout this chapter we have developed the three models that are basic to this thesis. First, we have presented a model for the industry analysis, which was based on six main concepts: the dynamics of the industry, the current industry structure, its development, the specific market where a firm decides to compete, the main actors in that market, and the scenarios analysis, which deals with the industry uncertainties. As pointed out above, we believe this model may be very helpful for those industries that are undergoing some kind of turmoil. The model helps them to cope with the changes in the industry by enabling the companies to be aware of the trends and driving factors that shake the markets.

Our second model has tried to mirror our own definition of the internal micro-environment of a particular firm. Every firm comprises a unique set of resources and capabilities that will restrain their capacity to attain a competitive advantage. The model contains five main steps in which a company can develop and establish the most suitable strategy to compete successfully in an

³⁵ Grant, R. 1998



intense industry like football. The five steps are: values, objectives and goals, resources, capabilities and competitive advantages, which, all together, help to select the most appropriate strategy for the company.

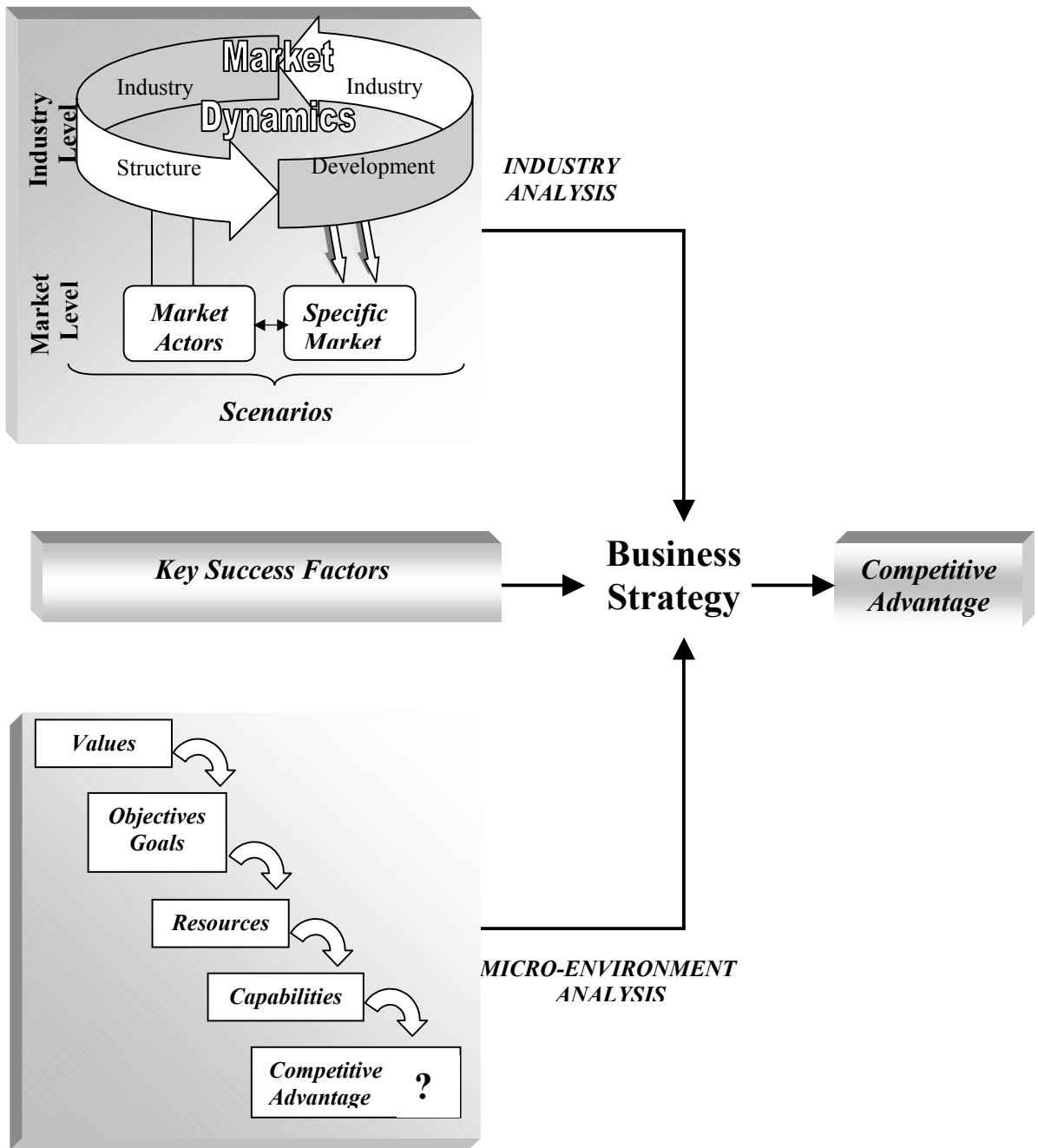
Finally, we defined the way to find out the prerequisites of success within a business. By understanding a firm's customers, as well as the industry (market) competition, a firm may pursue unique key success factors in order to survive and prosper within the industry framework.

Bearing in mind the three models above, we can now illustrate the research model that we will use in this thesis, which is the result of the different theoretical parts discussed in this chapter. The idea of the model is to provide a structure for strategic market analysis. As it was outlined in the beginning of this chapter, the final objective of this case study is to conclude our main problem by defining, among other solutions for the future success of our case clubs, a general business strategy.

Our vision here is that the realization of an optimal strategy for a firm may involve the consideration of the three types of analysis presented (industry, internal micro-environment and key success factors). This model is a system designed to help management make strategic decisions, as well as create strategic visions. A strategic decision has a time frame greater than one year. The model will provide the input to strategy development, which might consist in creating a competitive advantage or reinforcing the competitive advantage that the company has already built. In conclusion, the model defines the relationship between the industry and the internal environment of a firm, but also highlights the areas where to look for the key success factors.



Figure 2.7 The thesis research model



Source: Own





METHODOLOGY







3 METHODOLOGY

The purpose of this chapter is to inform the reader how we have classified and analysed our research during this thesis. It includes the choice of research strategy, the research approach and method, the way of collecting data and, finally, the strategy for analysing the information gathered. We also evaluate the quality of this research and concluding by presenting the methodological structure of the entire thesis.

3.1 Research Strategy

In order to choose the research strategy that best fits our study, we have first analysed what we as researchers wanted to investigate and second, what problems we face up to find solutions. We aim to evaluate the *potential of clubs like IFK Göteborg to enter the UEFA Champions League*. This is the starting point of our choice of research method. Therefore, with the intention of finding a suitable strategy that matches what we aim, we have followed the criteria suggested by Yin (1994) to choose a research strategy. According to Yin, there are five alternatives for a research strategy: experiment, survey, archival analysis, history and case study. The different conditions to choose the research strategy are the type of research question posed, the extend of control that the research has over the events, and, finally, the degree of focus on contemporary or historical events.

3.1.1 Choice of Research Strategy

We have decided to conduct our work through a case study. Case studies are suitable to use when “how” or “why” questions are posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life contexts³⁶. Thus, we have also elaborated our main problem and subsequent research problems into “how” form questions for a contemporary set of events, such as today’s changes that the football industry is going through. Essentially these facts represent current phenomena in the football industry, and we, as investigators, have limited control over them.

³⁶ Yin, R. (1994)



In our study we have looked at both historical and contemporary events in order to show a clear picture of the contrast of the traditional football industry with the advent of the new football industry. We will focus our attention to contemporary events in order to assess the future of a strategic group of football clubs in the industry (elite followers).

3.1.2 Case Study Selection

Our interest in football comes from our personal attraction to the game. The great interest that the industry creates, the necessity of emerging professional management skills to succeed within the football industry, and the enormous repercussions that football has on society, pushed us to start an in-depth research of the football business. Due to the fact that much of our previous studies concerned companies operating in industrial markets, we wanted to focus on a different industry.

Through the Graduate Business School, we got in contact with the IFK Göteborg club, which is one of the most prestigious clubs in the Scandinavian countries. At our first meeting with Bosse Gentzel, club's manager director, and Jan-Olle Folkesson, club's director, our intention was to know what had made IFK Göteborg to accept an invitation of the university to talk about a possible collaboration project. From the beginning, we perceived a serious concern about the new structure of the football industry in Europe and the potential effects of such a restructure on clubs like IFK Göteborg. We specially noticed a worry with the effects that the new international transfer system might have on clubs. Therefore, after that initial contact, there was a mutual interest in making a research study about the current changes that the football industry in Europe is going through. Subsequently, we prepared a research model where we showed IFK what would be the main areas to study and also our purpose, which were approved by the club at a second meeting with the manager director of the club. Thus, the main problem was structured and we started the research phase according to the guidelines specified at the meetings and the procedure stipulated by the Graduate Business School.



Hence, as the club was very interested in the new form that the industry is adopting nowadays, we proposed to start the research by an industry analysis. We decided to undertake an in-depth study about the main trends and forces that are shaping the football industry and how the participants within the business might change their roles in order to survive and prosper by matching their strategies with the new football structures. Then, the purpose would be to evaluate the specific internal characteristics (i.e., resources and capacities) of football clubs, emphasizing the specific case of elite follower clubs such as IFK Göteborg. Finally, the objective was set in matching both parts of the research in order to obtain the final conclusions and results showed in this thesis.

3.1.3 Design of the Case Study

A case study design is the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions. It is a plan that guides the researcher how to follow the investigation, including the process of collecting and analysing data, as well as interpreting different situations³⁷. We have structured our research following a logical sequence that matches the empirical data collected with the main question identified and the final conclusions. Thus, we have defined a coherent plan of four steps, or tasks that not only helps to answer our main question, but also to conduct properly our case. Our "Research Model" illustrated in Fig.3.2 shows the complete structure.

For our case study we have taken into consideration the five components of research design that Yin (1994) suggests:

a) The study questions, the "how" enquiries that we have used in the main problem and the two sub-problems. This aspect provided us with an important clue to decide which strategy we should follow.

b) The study propositions: A proposition in a case study must direct attention to something that should be examined within the scope of the study.³⁸ Since the questions do not directly point out to what we have to study, we elaborated four

³⁷ Yin, R. (1994)

³⁸ Ibid



propositions that helped us move in the right direction. These study propositions are intrinsically set in the four tasks of the Research Model:

- Proposition 1 deals with task 1: “The football industry is considerably changing its structure”.
- Proposition 2 deals with task 2: “The new football structure is widening the gap between the football elite and the followers in European competitions”.
- Proposition 3 deals with task 3: “In general, elite followers present an internal (domestic) micro-environment that hardly let them compete with the high-status clubs, given the new competitive prerequisites of the European competitions”
- Proposition 4 deals with task 4: “The new key success factors to enter UEFA competitions will force elite followers to change their business strategies in order to survive/prosper. Also, they need the protection of governing bodies in order to maintain their importance in Europe”

Apart from these four study propositions, our intention is to check a final theoretical proposition that would comprise itself a final theory (see below).

c) The unit of analysis: In our thesis, the unit of analysis is represented by the *elite followers*, which are a strategic group of football clubs, previously described in the “thesis delimitations”. Our choice is based on the support of IFK Göteborg to implement this research project. As we mentioned in Chapter one, this thesis is not a case study exclusively dedicated to the particular case of IFK Göteborg, but to all clubs alike IFK.

d) The logic linking the data to the propositions: Since this phase could be considered as a critical part in the thesis, we intended to employ the idea that Campbell called “pattern-matching”, whereby the different pieces of collected information might be related to some theoretical propositions, which in our case consist of four different tasks, even though the entire study consists of only a single case.



e) *The criteria for interpreting the findings*: As Yin (1994) mentions, there is not a precise way of setting the criteria for interpreting the findings in a case study. However we think that the different patterns observed in the case, mainly the structure of the new football industry and how the typical domestic situation of our target clubs affect their competitiveness in European tournaments, are sufficiently contrasting that we could interpret the findings in terms of comparing two rival propositions. These two rival propositions correspond to the tasks two and four already mentioned above.

By covering the preceding five components of a research design we will be able to confirm our preliminary *theoretical proposition* related to the football industry and its effects on elite followers. For case studies, theory development as part of the design phase is essential, whether the ensuring case study's purpose is to develop or to test theory³⁹. In this case, the purpose is to develop our own theory: ***“Elite followers’ success in the UEFA Champions League does not (only) depend upon the creation of a competitive advantage over the football elite. It essentially relies on the consideration of football as an exceptional industry by restraining competition with some redistributive systems, as it happens in American sports.”***

The case study will show why the complex effort to obtain a competitive advantage among elite followers clubs may not be sufficient for ensuring a successful performance in European competitions. This is simply because the nature of a competitive advantage (exclusive capability) only lets a club (or a strategic group of clubs) possess such an advantage. Since the football elite clubs have better conditions than the rest to attain the most important advantages that comply with the industry key success factors, other clubs competing in UEFA competitions will not be able to hold any of those important advantages (reputation, income-generating capacity, etc.) in order to succeed in the UEFA Champions League. Thus, our belief is that the followers also need a protection as a way to guarantee the social and cultural roles that football plays in the integration and identification among people and nations. Absolutely, we do not intend to create a football model where the elite clubs in

³⁹ Yin, R. (1994)



Europe are inhibited of their whole potentiality in order to let the elite followers clubs compete under the same conditions. However, we support the idea of eliminating any risk of losing the social and cultural values associated to the game.

As we might run a big risk writing this case study for a special industry such as football, we considered it essential to develop a theory prior to the collection of any data because, this theory could provide us strong guidance in determining what data to collect and the strategies for analysing the facts. Furthermore, our theoretical framework also represents the level at which we intend to generalize, called “*analytic generalization*”, which following the Yin’s criteria is a method in which a previously developed theory is used as a template with which to compare the empirical results of the case study.

3.1.3.1 Basic types of research design

According to Yin there are four main different types of research designs: single-holistic case design, single-embedded case design, multiple-holistic case design and multiple-embedded case design. The single case design as it is named involves only one project. This design is helpful when the case represents the critical aspect in testing a well-formulated theory. The multiple case design is used when there is more than one case study. On the other hand, the case also could be holistic or embedded. The first one includes only one unit of analysis, e.g. when no subunits can be identified and when the relevant theory underlying the case study is itself of a holistic nature. The embedded design is suitable when there are more units of analysis and the structure of the case becomes more complex. The matrix below represents these aspects.

Figure 3.1. Basic types of designs for case studies

	Single Case Design	Multiple Case Design
Holistic-Single Unit of Analysis	TYPE 1	TYPE 3
Embedded-Multiple Units of Analysis	TYPE 2	TYPE 4

Source: Yin, 1994, p.39



We have considered our case study as a single-embedded design case because, even though we do not intend to focus in a single company, we base our study in a specific archetype of clubs: the European elite follower clubs. The study also involves more than one unit of analysis, such as the structure and development of the industry and the specific market.

3.1.4 Scientific Approach

There are three different approaches to conduct a case study: *exploratory*, *descriptive and explanatory*. *Exploratory research* is applicable when there is little or not any at all research done; thus, it is used in the beginning of the case study in order to identify, define and structure the problem and consequently develop a hypothesis and propositions for the future⁴⁰. The second approach is a *descriptive research*, which documents a particular action or series of actions; in other words, when the case study has the purpose to describe a particular phenomenon⁴¹. Finally, the *explanatory research* examines some initial proposition expressed in the form of hypothesis, tests the proposition and makes some conclusions about the cause of some behaviour patterns relating different factors. One key characteristic of the explanatory research is the cause and effect relationship that it is employed⁴².

In our case study we followed the three research approaches but in different stages. At the first phase of our research we used the *explorative* strategy. Although for the last years much information has been written in the field of football, there are not many analyses with the context of football business as a strategy, especially for those clubs that might face some damages within the new industry. Moreover, as the restructure of the football industry is a current issue, we based most of our analysis on actual information that is published every day in newspapers. Secondly, we used the *descriptive* approach to illustrate the different phases of the driving forces analysed in the football industry, together with the main internal resources and capabilities of football clubs. Thirdly, we employed the *explanatory* approach, where we used the causal-effect relationship, mainly to explain how the current forces are driving

⁴⁰ Yin, R. (1994) or Kinnear, T & Taylor, J. (1996)

⁴¹ Merriam, S. (1998)

⁴² Yin, R. (1994) and Merriam, S. (1998)



the industry in different direction as well as to show how our target clubs should react to those changes. We, therefore, have used the explorative and explanatory approaches throughout the thesis.

3.2 Research Method

There are two methods to handle a case study: qualitative and quantitative. Qualitative methods could be defined as techniques of personal understanding, common sense and introspection, while quantitative methods could be considered as the techniques used for counting, scaling and abstract reasoning. Each method-type complements the other but does not replace each other⁴³. In addition, a case study is not limited to either of these two methods. Instead, case studies can be based on a combination of both qualitative and quantitative evidence in order to give a better understanding of a certain problem.

We have used the qualitative method, which allowed us to conduct a number of interviews about the current changes that might transform the football industry. We undertook those interviews among the different participants in the industry in order to obtain diverse perspectives of the current transformation and understand the whole picture of the present situation of the industry as well as visualize a future statement for small clubs. Besides that, we used some quantitative results from studies previously done, as well as our own quantitative models and analysis, with the aim of complementing and reinforcing the results obtained from the qualitative analysis, and making them clearer for the reader.

3.2.1 Empirical Evidence and Analysis

In contrast to the traditional procedure followed by the theses written at this School, we have not separated the empirical evidence and the analyses in differentiated chapters. The thesis is mainly split up into two parts, industry and micro-internal analyses. Owing to the nature of the topic, we have implemented both empirical evidence and analysis within each part of the thesis because we regarded this way as the most appropriate one to write about a totally new

⁴³ Cook, T. and Reichardt, C. (1979)



research area. Thus, the reader will find that we have combined empirical data and our own analyses along the entire thesis.

3.3 Data Collection

Data can be classified into two principal sources: primary and secondary data. By using as many different sources as possible during the data collection stage, it is possible to obtain higher certainty over the final results of the case study. The more sources employed the higher is the data validity because it is confirmed several times in every source obtained.⁴⁴ Therefore, we focused in the following aspects during the data collection phase:

- Using several sources of evidence for all those facts and changes that we want to measure in the football industry, but converging on the same findings.
- Maintaining a chain of evidence. We believe that the data collected is completely linked with the research questions and the final conclusions. The principle is to allow the reader to follow the derivation of any evidence from the initial research questions to ultimate conclusions.

3.3.1 Primary Data

Primary data is the information collected for the first time with the purpose to address a specific case. It can consist of several techniques, such as observations, interviews or surveys. Generally, the gathering of this type of information is more costly and consumes more time for the researcher, but on the other hand, most of the time, this data is necessary in order to find the exact information required to answer specific questions, which cannot be found in existing sources.⁴⁵

3.3.1.1 Personal interviews

As an interview gives the possibility to interact with the respondents directly, it is a useful research method to renew, broaden and enrich the knowledge of the certain subject in question.⁴⁶ Communicating with each other, the interviewer

⁴⁴ Merriam, S. (1998)

⁴⁵ Kinnear, T & Taylor, J. (1996)

⁴⁶ Kvale, S (1996)



and the respondent negotiate an understanding of the subject matter in question, each one performing preliminary interpretations of the responses and offering comments as well as additional questions.⁴⁷

In our case study we have used some in-depth interviews with very relevant personalities of the world of football at all levels. On average, our interviews lasted around one hour each, which gave us the opportunity to get detailed information about the issues analysed. For our first research question about the football industry in general, we interviewed the following personalities:

- *Mr. Bosse Gentzel, IFK Göteborg's chairman (2 times); Göteborg 23/08/2000 and 19/09/2000*
- *Mr. Jan-Olle Folkesson, IFK Göteborg's director; Göteborg 23/08/2000*
- *Mr. Lennart Johansson, President of UEFA; Göteborg 07/10/2000*
- *Mr. Rogan Taylor, Director of the Football Research Unit at the University of Liverpool; Soccerex 2000, Manchester (England) 09/10/2000*
- *Mr. Maurice Watkins, Manchester United director & investor; Soccerex 2000, Manchester 10/10/2000*
- *Mr. Robert Elstone & Jake Wilson, Senior Sports Business Consultants; Deloitte & Touche Manchester (Football Unit); Manchester 11/10/2000*

Due to the importance of England in the world of football, much information was gathered in this country, which is regarded as valuable enough to make many of our analyses in order to accomplish our first research question.

Furthermore, we also sent some questionnaires to the Sport Ministries of most of the different EU member states to evaluate their opinion with regard to the transfer system and the formation of a Super League. We received an answer from the English, German and French Sport Departments with comments on the issue.

In addition, during our study research in Manchester, London, we attended a series of conferences and debates related to the most important issues of the

⁴⁷ Kvale, S. (1989)



football business nowadays. The Expo “Soccerex 2000” not only took into account interesting topics, but also gathered important and key people within the football business. Therefore, we penetrated into the topics related to our thesis objectives and we had some other interviews previously booked. Soccerex is the annual event, where conferences and exhibitions are presented for the football industry. It has the official support of FIFA and attracts a worldwide audience.

For the second part of the thesis (clubs internal analysis) we conducted two personal interviews:

- *Mr. Bosse Gentzel, IFK Göteborg’s chairman; Göteborg 20/11/2000*
- *Mr Lars-Ake Lagrell, President of the Swedish Football Association, Stockholm 13/11/2000*

We also prepared several questionnaires, which were sent to football federations and clubs regarded as “elite followers” in countries like Sweden, Norway, Belgium, Austria, Switzerland, Denmark and Portugal in order to know the different situations of the football leagues in these countries. We obtained answers from Belgium, Sweden, Portugal and Denmark.

The interviewed persons were chosen based in our previous knowledge of the personalities in the industry and their important role within the football business. Our interviews were located in two countries, Sweden and England.

3.3.1.2 Structure of the interviews

An interview can follow different structures according to the research skills and the case study purpose. Interviews can be structured, non-structured or semi-structured. A *structured interview* contains the same questions for all the respondents and quantitative processing of answers can be done. A *non-structured interview* is more flexible due to the fact that there are not specific questions to follow and can be formulated during the interview. Lastly a *semi-structured interview* consists of a number of questions that focus in certain themes and may include suggested questions, which are not formulated yet but



give the researcher the opportunity to adapt the questions according to each interview.⁴⁸

We have used semi-structured interviews, where we formed several blocks of questions according to the different forces that are transforming the industry. For our first research problem we mainly split up the questions into 5 groups: *the international transfer system of players, the increasing commercialisation of football through TV, the UEFA licensing system, the creation of private leagues in Europe, and the future of European football business.*

For our second research problem the two interviews were structured by the following groups of questions: *the social role of football, commercialisation aspects, the transfer system, the Champions League, resources and capabilities, competitive advantage, and the future of elite followers.* The same structure was used for the e-mail questionnaires.

All our interviews were formulated under open questions, which allow the respondent to give his personal opinion and the possibility to suggest further lines of questioning. The posed questions were adapted to the respondents according to their role in the football industry. Another aspect that helped us implement the interviews effectively was that all the interviews were supported by a tape-recorder with the permission of our respondents. Thus, after the interviews we could analyse and discuss the ideas talked about during the meetings. A list of the areas discussed in our interviews can be found in Appendix 2.

Interviews can be made either in person, by phone or by mail using different techniques to question the respondents.⁴⁹ We conducted most of our interviews personally by using a deductive process from general to specific aspects. Some days before the meetings arranged, almost all our interviewees received a letter of presentation with a sample of the questions. We started our interviews with a brief introduction of our research project in order to present the purpose, topics

⁴⁸ Kvale, S. (1996)

⁴⁹ Merriam, S (1998)



and goals of the study. Then, we proceeded with the different blocks of questions. We used general questions, but also in the end of each block of questions we focused on the elite follower clubs. Finally, we also asked their opinions about future situations and possible effects in the industry.

We also used follow up questions when the respondents wanted to extend their opinions, penetrate the subject further or if their answers were unclear. In addition, we used structuring questions when we considered that the topic was exhausted and should be changed in order to cover all the areas during the interview.⁵⁰ By these questions we could guide the interviewee and ask further questions that were of interests with the purpose of getting the information that we were looking for and taking full advantage of the time that we had for every interview.

3.3.2 Secondary Data

Secondary data is the information that currently exists, which was previously collected for other purposes without any particular connection to the case study in question. Such information could be found in articles, books, journals, Internet, statistics, etc.⁵¹. We collected data from the following sources:

- Swedish libraries, databases, and Internet.
- During our stay in Manchester we visited the “Sport England Centre”, where we collected valuable information about the football industry in Europe.
- During our interview with the sport consultants from Deloitte & Touche, at its office in Manchester, the respondents provided us additional magazines and different reports to complement the interview. This consultancy company has been developing every year some annual reviews of the football industry in many of the most important leagues in Europe (England, Spain, Germany, Italy, France, etc.). Due to the high reputation that this firm has in Europe, their reports give our case study a high validity.
- Apart from Deloitte & Touche in Manchester, we contacted their company offices in Spain, Italy, Denmark, Germany and France. Through these contacts

⁵⁰ Kvale, S. (1996)

⁵¹ Kinnear, T. & Taylor, J. (1996)



we obtained some annual reports from the Spanish, Italian, Danish and English leagues.

- After our interview with Mr. Rogan Taylor, we were invited to visit the Football Research Unit at the University of Liverpool, where we consulted many studies and dissertations written for the “MBA in the Football Industry” imparted at that university.
- We also got in contact with some of the members at the Sir Norman Chester Centre for Football Research in Leicester, as well as some researchers from the University of Leicester.
- We contacted with UEFA in Nyon and the Department of Communications provided with valuable information about the UEFA Champions League for the last 6 years.

3.4 Evaluation

Any research design can represent a logical set of statements to judge its quality. Thus, a certain formal procedure should be followed to ensure quality control during the case study research. Yin (1994) suggests four tests to establish the quality of the case study in question: *construct validity, internal validity, external validity and reliability*. Therefore, two main tools would be used to evaluate the quality of this research, *validity and reliability*.⁵²

3.4.1 Validity

Validity is an instrument’s ability to measure what is supposed to measure. For instance if a data collecting instrument is free of both systematic and random error, it considered valid.⁵³ Therefore, validity refers to accuracy of measure. There are three common ways to measure validity: *construct validity, internal validity and external validity*.

⁵² Yin, R. (1994)

⁵³ Kinnear, T. & Taylor, J. (1996)



Construct validity

This method consists of establishing correct operational measures for the concepts being studied.⁵⁴ Following the Yin's steps to construct validity, we wanted to bypass three important problems:

- *The election of inappropriate issues to explain the transformation of the football industry, as well key aspects of small clubs to measure its possibilities of success.* After a deep analysis of the current changes that the football industry is passing through, we decided to study three main issues, *the player's transfer system, the commercialisation of football through TV, and the UEFA licensing procedure for football clubs*, and, on the other hand, *the objectives and values of the club, the internal resources and capabilities, and the competitive advantages that makes unique the club.*
- *Failing in the development of operational measures to evaluate the changes observed in the industry.* To avoid this problem, we demonstrated that the selected measures reflect the specific types of changes that have been selected. In other words, we selected certain figures and data from recent years to show how these forces might modify the role of many of the participants in the football industry. For instance, within the transfer system analysis, we used some tables from the last annual reviews of the football industry from Deloitte & Touche. For the analysis of the Champions league as our specific market, we utilised tables and figures from the most recent brochures and magazines provided by UEFA.
- *The use of "subjective" judgments to collect data.* Since our starting point was represented by a theoretical proposition, *"Small clubs success in UEFA competitions does not only depend on the building of competitive advantage but, essentially, on the consideration of football as an exceptional industry, by protecting it from some free-trade practices,"* we attempted to be as objective as possible in the collection of relevant information by using multiple sources of evidence and establishing a chain of evidence.

⁵⁴ Yin, R. (1994).



Internal validity

It establishes a causal relationship, whereby certain conditions are shown to lead to other conditions. Internal validity reflects how a particular effect has resulted from some earlier situations, thus this validity is only applicable when a causal or exploratory case study is concern. One of the strategies to achieve internal validity is the pattern-matching, which consists in comparing an empirically based pattern with a predicted one. If the patterns coincide, then the internal validity of the case study is strengthened.⁵⁵

As explained before, in section 3.1.3, our research work follows a logic sequence/order based on four propositions. They are divided in two groups of two propositions that cover the main two parts of this thesis: industry analysis and micro-internal analysis, which also follow a logic order to determine if small clubs will be able to compete successfully in the UEFA Champions League. Section 3.1.3 describes the pattern-matching strategy used in our thesis. This strategy allowed us to formulate a preliminary hypothesis, which was tested with the findings of our analysis, which at the same time were guided by the four propositions posed from the beginning.

External validity

It sets the areas to which a study's results can be generalized. Although generalization is not automatic, it can happen through testing the theory several times.⁵⁶ We believe that our research model for this study could be applied outside of the research setting to other sport industries, such as basketball, handball, etc. provided that they accomplish the same characteristics that we had during our research process. In principle, it seems reasonable to consider a potential theory about changes in the football industry as the target to which the results could later be generalized to other similar sport industries in Europe.

Reliability

This concept has to do with demonstrating that the operations of a study – such as the data collection procedures – can be repeated, with the same results. It is

⁵⁵ Yin, R. (1994)

⁵⁶ Ibid



important to note that high reliability may suggest a minimum number of biases and error at case study.⁵⁷ We intended to accomplish all the four tasks as more operational as possible with the intention to achieve the enough reliability for our case study. If further investigation follows the same procedure under the same circumstances it can come up with the same final results that we found.

In order to achieve reliability during the case study, we have been very careful in interpreting the data collected and the findings obtained from previous analyses. As football is the interest of many people, there is vast information about the different areas of football as a business as well as a sport. We have elected reliable sources for our thesis, such as Deloitte & Touche, perhaps the most reliable company analysing the football in Europe, or the LNFP (the Spanish Professional League), articles and books from prestigious authors in the industry like Stefan Szymanski, several universities specialised in sports and soccer, such as John Amis, Senior Lecturer in Sport & Leisure Management at the Montfort University; Dominic Malcolm, from the University of Leicester, or Rogan Taylor from the Football Research Unit at the University of Liverpool. Also the information gathered from each source was compared with other sources in order to confirm and include it into the thesis analysis. With the aim of obtaining high level of reliability regarding the primary data, we selected our respondents according to their role and importance within the football industry; such was the case with Mr. Lennart Johansson, the president of UEFA.

We consider that the first part of our research, industry analysis, is quite reliable due to the fact that many authors and publishers not only in Europe, but also in America, have made public their opinions about different areas of football. In addition, our interviewees were very accessible to express their thoughts about relevant issues. Nevertheless, we should take into consideration that the football industry is currently characterised by a dynamic environment, where not only various threats have appeared constantly, but also many changes might come in the future.

⁵⁷ Yin, R. (1994)



Concerning the second part of the thesis, the internal analysis of small clubs, we admit that due to the limitation of time and resources we followed our common sense regarding some aspects in order to be able to build up a common pattern for internal structure of elite follower clubs in Europe. However, we supported our internal analysis with secondary data and with the exceptional and valuable contributions of the President of the Swedish Football Federation and the manager director of the IFK Göteborg club, as well as the vice president of Helsingborg IF club, the Executive Secretary of the same club, and the press officer of the Belgian Football Association, whose assistance was very helpful to achieve a common pattern for small clubs in Europe.

3.5 Summary of the Chapter

We have guided our project through a case study, where many different primary and secondary sources were used. We attended a series of conferences, debates, and exhibitions. We had some interviews both in Sweden and England. We were able to consult a vast number of books, magazines and newspapers, Internet, etc., related to different matters of European football market. Through this information, we could evaluate if elite follower clubs, as defined in chapter one, are able to compete successfully in the UEFA Champion League. To develop such a goal we based our thesis in two parts: an industry analysis and an internal analysis of our target clubs. Each of these two parts have been supported by different theories and academic tools.

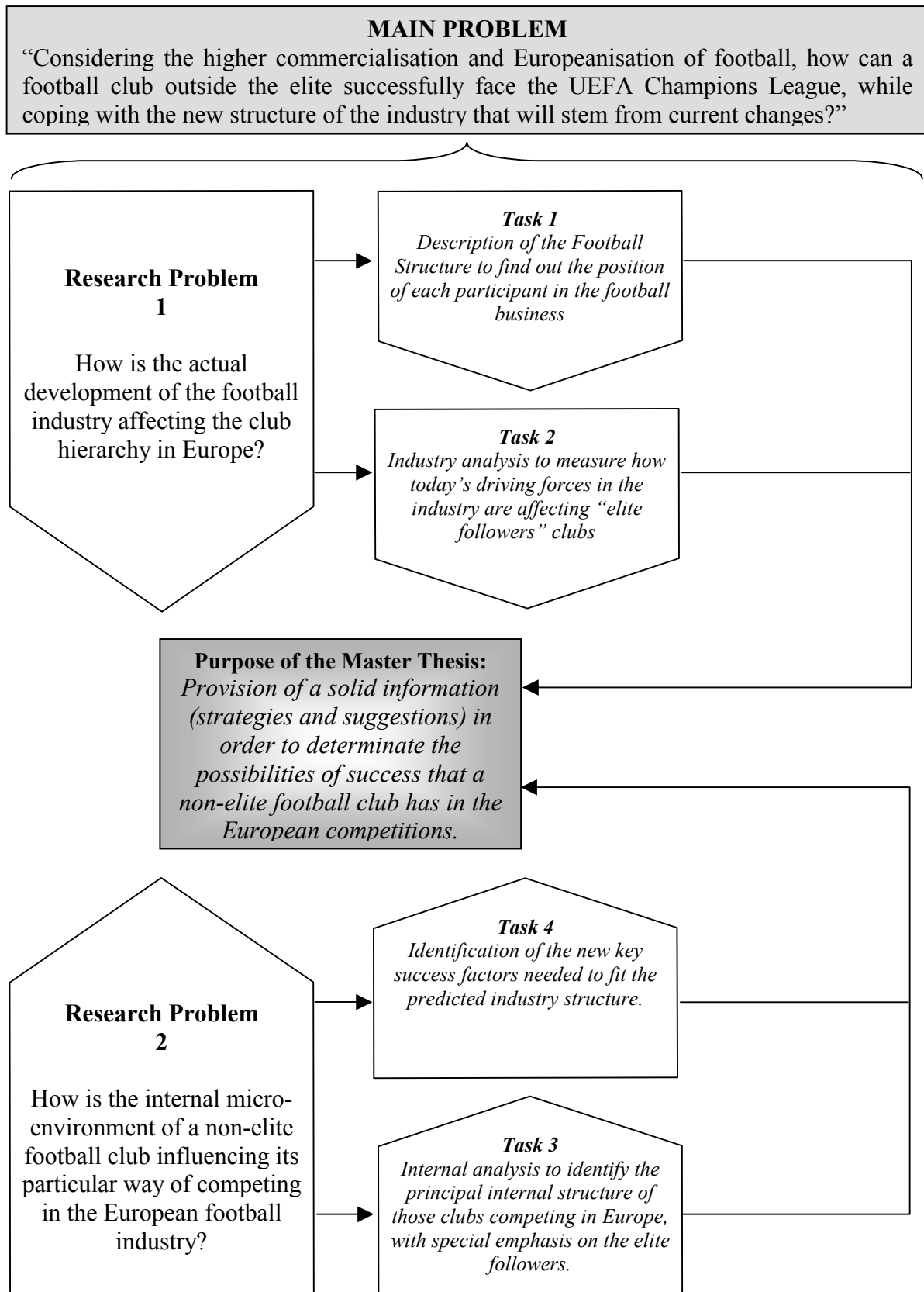
Within the scope of the analysis, we included several theoretical tools, most of which are well known and have been tested several times. These tools helped us answer our two research questions and, subsequently, answer the main research problem. For the first research question and our two first “tasks” we employed the industry analysis, going deeper into the main changes that are forcing the transformation of the industry. In the second part of our thesis, we utilized the internal analysis in order to appraise the main characteristics that define our target clubs “elite followers”, together with the analysis of the key success factors of the industry, which are related to the potential of a competitive advantage; by this internal analysis we covered our second



research problem and the second group of tasks. Finally, we described our strategy proposal for those target clubs that have been the centre of our case study. Figure 3.2 depicts the different steps in our project.



Figure 3.2 The sequence of our case study



Source: own



THE EUROPEAN FOOTBALL STRUCTURE







4 THE EUROPEAN FOOTBALL STRUCTURE

The purpose of this chapter is to set out the main framework of the football industry. Following the industry analysis model presented in Chapter two, we start by mapping the hierarchical situation of European football, as well as the different vested interests that shape it, in order to characterise the competitive structure. We also define the main concepts that help to understand the football business organization (demand and cost structure), as well as the main actors in the industry.

4.1 The Football Framework in Europe

In this section, we will present the business framework of football. Special emphasis will be put on the different levels at the European football and their organization in the industry.

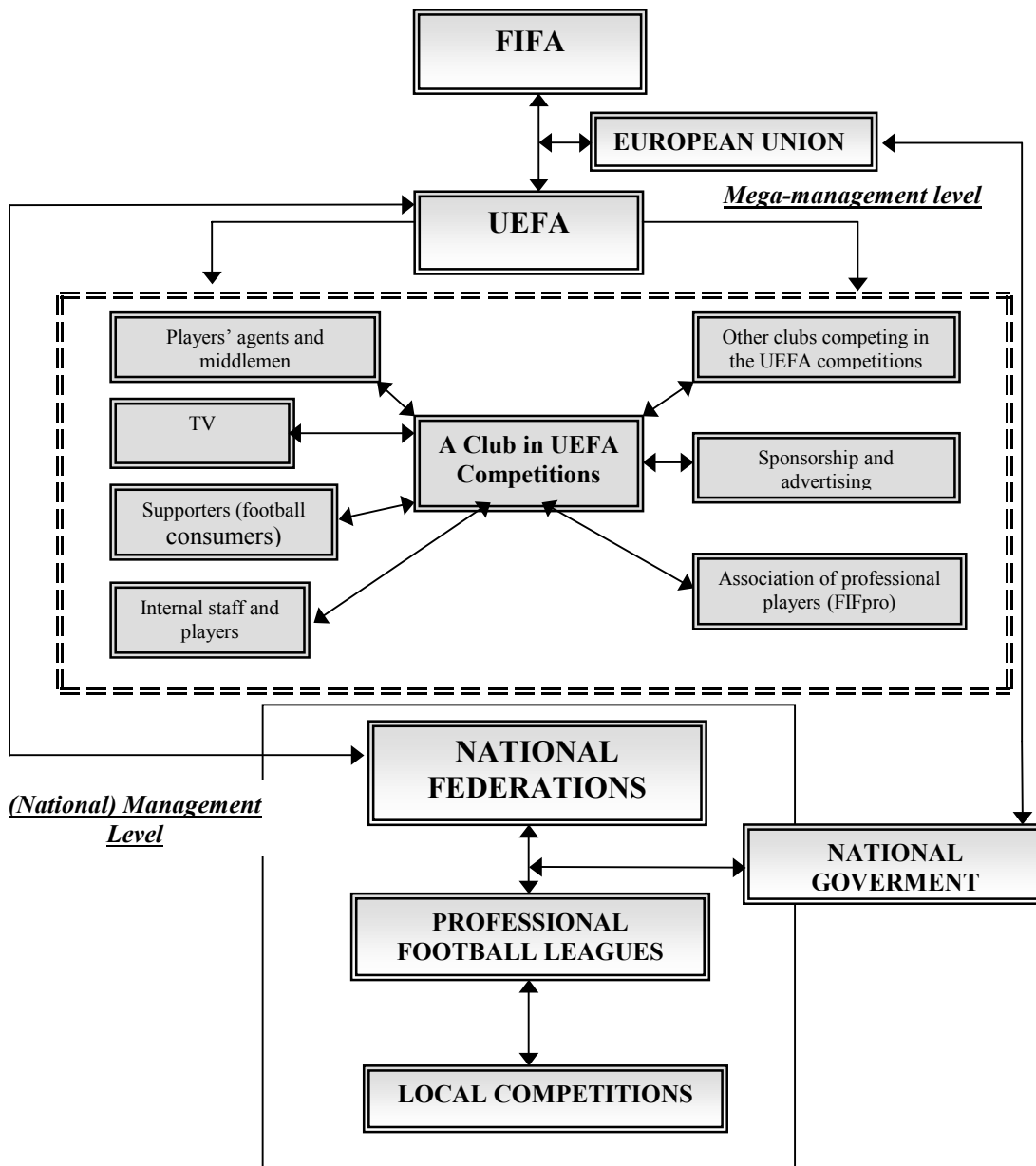
4.1.1 The Hierarchy in European Football

Professional football is organized with a pyramidal structure. *The Federation Internationale de Football Association* (FIFA) is the international governing body of football. FIFA has six regional divisions, known as Confederations, which govern their respective continents. *The Union des Associations Européennes de Football* (UEFA) is the confederation for Europe and its responsibility is to establish the rules for its national associations. Each country has a *National Football Association* that are members of UEFA. Thus, football is organised principally by nation. Local professional clubs in a particular country belong to that country's national association. Every player must be registered with the national association of the club for which he plays in order to be eligible to play.⁵⁸ In addition to the national federations, many countries have a *Professional League*. National federations, together with professional football leagues, supervise the domestic competition. However, football has also European tournaments that are overseen by UEFA. These now include the Champions League and the UEFA Cup. Figure 4.1 shows the different hierarchical levels in the European football with emphasis on the mega-level that brings together the UEFA competitions.

⁵⁸ Blanpain, R. & Inston R. 1996.



Figure 4.1 The different levels of the European football industry



Source: Own

4.1.2 Football as a Congestion of Interests

Football, as any other business, is a gathering of very powerful vested interests that might be divided in two categories:

- The first conflict of interests has to do with competition markets. Football, as a sport contest, has traditionally had its roots at the national level, where the first proofs of tough rivalry are observed. But football early found the attractiveness of competing at an international (supra-national) level when the



big clubs played against overseas teams for both the sport supremacy and the proud and honour of a nation. Nevertheless, international fixtures were scarce in the past and the bulk of the competition was still based on domestic fixtures. Now, however, a powerful process towards the internationalisation of football jeopardises the historical supremacy of the national markets as the foundations of competition. This process is strongly bound to economic reasons and make the “national” and “survivors” clubs (the lowest levels) afraid of the impact that European competitions might have in their well-being. We will discuss the internationalisation process of football in Chapter five.

▪ The second conflict of interests has to do with bargaining power and has not exclusively two parts but many. These interests may be listed as follows:

1. There are the *legal owners* of the football clubs who have the right to implement the business strategies. The clubs’ ownership may adopt many forms. There are real private companies like Manchester United in England but, also, mere sport clubs (not private undertakings) that, although professionally managed, are legally owned by the whole group of club’s members. The goals of each type of ownership vary between playing success and financial performance.

2. We also have *employees*, mainly represented by the players. They can obviously be regarded as the real *football suppliers*. Players have their own player’s unions to defend their rights. The international union that gathers the interest of players is FIFpro. One of the most critical aspects associated to players in modern football, besides the high salaries that some of them earn, is the agents. These middlemen are associated with the players when negotiating their contracts, but are also regarded as a real “cancer” within football due to the dirty tricks that many of them use in the movement of players between clubs. Indeed, players are not only interested in the prestige of playing for the top clubs, but also the obtainment of good salaries.

3. There are the *fans*, who watch the games and buy any kind of product related with football. Although marketing theories put substantial emphasis on



the right customer management, football consumers sometimes seem to be completely ignored. A further analysis of supporters will be presented in Chapter six.

4. There are also suppliers of related products, which contribute to the consumption of football by spectators, from the sellers of soft drinks at the grounds to the TV companies broadcasting football matches. Sponsors and advertisers are also included here. Taking into account that these private companies pay football clubs for certain rights, they might be also regarded as football consumers. The interest of these groups are purely commercial, but some of them may also enter the clubs' management (i.e., media groups). Special interest in this thesis is put on TV companies, which distribute the final football product (service) and have contributed to the boom of the game for the last decade.

5. The *governing authorities* of the game (FIFA, UEFA, and national associations and leagues) that represent the interests of all its affiliated members (clubs) and assume the responsibility for the development of football as a whole. The football authorities are supported by the national governments, since politicians see football as a legitimate area of political involvement.

4.1.3 Football Competitive Structure

The main characteristic of the economics of football are the *competition restrictions*. In most industries, firms try to avoid competition because it leads to lower prices for consumers, reducing a firm's potential revenue. Thus, firms seek to find ways to limit competition by agreements among themselves that prevent other companies to succeed in the market, but football is different. Each team co-operates in a variety of ways with the competitors. To maximize this co-operation to the benefit of all clubs, the leagues (governing bodies) intend to restrict competition. As C. Gratton⁵⁹ points out, "*one major function of a league (football association) is to ensure that no team achieves too much market power.*" Examples of these restrictions are the labour market (giving

⁵⁹ Garland, J.; Malcolm, D; and Rowe, M. 2000.



clubs property rights in players) and the redistribution approaches used in football.

Thus, it could be said that, the football competitive structure is simply a *cartel* with activities that resemble a monopolistic market. Football cartels restrict open competition between clubs in both the product and labour markets so that any club becomes dominant. According to Downward (2000), “*cartels are a collective of firms who by an agreement act as single supplier to a market.*” Football needs cooperation among clubs in order to obtain benefits for the members involved. For instance, a match without a previous agreement of both teams could not be possible. Economist S. Rottenberg wrote the following about American baseball over 40 years ago:⁶⁰ “*two teams opposed to each other in play are like two firms producing a single product. The product is the game, weighted by the revenues derived from its play. With game admission prices given, the product is the game weighted by the number of paying customers who attend. In one sense the teams compete; in another, they combine in a single firm in which the success of each branch requires that it be not too much more efficient than the other. If it is , output falls.*”

The point that marks the difference between a monopolistic industry and a cartel in football is the way in which the revenues are achieved and distributed among all members even though some of the clubs have not participated directly in the competition. On the other hand, a monopolistic strategy could be seen as way to eliminate all competitors in a specific industry, which is not possible within football because clubs need the participations of other clubs in order to obtain either success or the revenues to subsist.

The need for competition in football means that there is no monopoly stage in the strict sense of the term. However, the first football clubs established dominant position in their local markets for supporters. This factor leads us to talk about an increasing concentration of earning potential among football clubs, which might mirror a situation typical of many mature industries, in terms of income and expenditure a small proportion of clubs dominate. This

⁶⁰ Rottenberg, S. 1956.



can be illustrated by the fact that in France, Germany, Italy and Spain, more than 25 percent of soccer fans support the country's most popular club, according to a recent report by London media consultant Oliver and Ohlbaum, while more than 40 percent support one of the two biggest clubs.

Another type of restriction to consider in football is the characteristics of the *local market*, especially in terms of the size of the population, income per capita, pay TV penetration and other economical indicators. This is a static force that determines the attendance and the TV audience for a particular club. Furthermore, the number of clubs competing in the local area will influence a club's capacity to obtain new supporters. For instance, although Manchester United could be considered as the most successful team among the English fans, as showed by the club's revenues, some people argue that part of the limitations for further revenues expansion has a name: its local rival Manchester City. These two characteristics will be further studied in later chapters. It is also frequently argued that competition in the football industry is particularly sensitive to the structure of the rules laid down by the governing bodies.

4.2 Football Organisation: Supply and Demand

In Chapter two, we stated that the industry organizational structure depends on the nature of demand for the product or service being sold and the costs associated with bringing the product or service to the market. In football, the key factors explaining the demand are competitive balance, outcome uncertainty, income redistribution and the insensitivity to price changes.

- *Competitive Balance* means that every game, competition and season should have an equilibrium among their competitors, avoiding the great dominance of a group of clubs with both enough financial capacity and footballing talent to overwhelm the rest of participants in a league. In order to have a successful competition in terms of a higher number of consumers, there must be a competitive balance. Therefore, every club has an economic motive for not becoming excessively superior in playing talent compared to other teams in a league. It is not necessary, however, to achieve an ideal league balance but



ensure that the elite group of teams does not become too much better than the rest. Empirical research has found that relatively imbalanced leagues may also manage to attract both a higher number of supporters and better financial profitability for the participants. Actually, most football leagues tend to be dominated by a few leading clubs that compete for the league title.

- One of the special features that make the economics of football different from other industries is that demand for the main product (the game) is positively related to the *outcome uncertainty*. The concept of *uncertainty* might have three different angles to look upon:⁶¹

1. *Uncertainty of outcome in a particular match*, which leaves supporters to speculate without any certain idea of the final result or performance in the pitch.
2. *Uncertainty during the season*, which leaves the opportunity to less talent clubs to improve their performance level and be competitive enough to maintain the same level of competence among clubs within a competition.
3. *Uncertainty in a league over a number of seasons*, which avoid the dominant position of a specific club or small number of clubs that control the competition season by season.

Uncertainty of outcome brings up a conflict with the goals of particular clubs. While each club can make the most of revenues by maximizing its number of wins in a league, the league as a whole may suffer by a reduced uncertainty of outcome.

- The *redistribution function* in football is a responsibility of the governing bodies to bridge the potential gap between rich and less prestigious clubs. This purpose has traditionally been implemented by the transfer system that governs the movement of players within the industry. Another recent example is the UEFA Champions' League where those small clubs that do not participate receive some contributions from the total income of the competition with the aim of improving the development of football and increase the competition level.

⁶¹ Szymanski & Kuypers, 1999



- In football, demand for the product is relatively *inelastic*, both at the level of the industry taken as a whole and at the level of the individual club. This is because, traditionally, many fans have been very loyal supporters who, having acquired a team, become committed, even obsessive, supporters. This is a factor that works considerably to the advantage of football clubs.

On the **supply** side, two key factors in football are the *hiring of players* and *youth development*. Footballers represent the most important determinant of success, but their salaries also limit the capacity for the clubs' profit. For instance, the bargaining power of the top players is extremely high, which has produced substantial inflation in their wages. Nevertheless, youth development is especially important because it is the base of the professional football. Youth football can be seen from two perspectives: social and sporting. For the social aspect, superior entities (governments and football authorities) should guarantee that there are funds for the development of infrastructure, which can be interpreted as building and maintaining physical facilities for the youth training. For the sporting cause there must be capable people to train young players in order to ensure that youth receive the right following-up to develop their talents and then, receive the opportunity to show their abilities in a more competitive environment within the professional football.

4.2.1 The Structure of Revenues and Costs

Like in any other economic industry, the distributions of expenses and income of a football club are very defined and, it has been observed, similar accounting ratios for the majority of football companies. Football *income* has tripled and quadrupled over the last few years, fuelled largely by TV's appetite for rights to games and developments in other industries such as sportswear and sponsorship. Thus, the main sources of income come from the selling of TV rights, merchandising, sponsorship and advertising, gate receipts, transfer fees, conferences and catering, lotteries and stadia exploitation. In fact, the TV rights are becoming the most significant revenue stream for clubs nowadays. Table 4.1 shows this fact.



Table 4.1 The “average top division club” income split by category (1997/98)

	Spain	Italy	England	Germany
TV rights	51.3%	34.0%	33.7%	33%
Gate receipts	25.1%	38.7%	33.7%	25%
Sponsorships	9.2%	13.4%	8.9%	17%
Merchandising	10.3%	9.1%	17.2%	18%
Others	4.1%	4.8%	6.5%	7%
TOTAL	100%	100%	100%	100%
Average income per club (£m)	14.55	26.15	21.64	-

Source: Deloitte & Touche Spain (2000); Germany: FC Euro AG, WGZ BANK 1999, pp 11.

On the other side, football clubs spend their budgets mainly in paying salaries and buying players - both nationals and internationals. In addition, there are some other expenditures, such as the investment in building and maintaining stadiums and pitches, the expenses associated to the competitions, and others. Table 4.2 depicts some costs figures.

Table 4.2 The “average top division club” in each of the “Big Five” leagues.

£m	England	Italy	Germany	Spain	France
Total Wages & Salaries	14.8	15.1	8.3	7.9	8.0
Other operating costs	8.7	8.4	9.1	5.2	3.3
Net transfer spending/(income)	3.9	(0.6)	0.3	2.3	n/a
Operating profit/(loss)	5.0	(1.4)	1.8	4.0	(1.0)
Total Wages/Turnover ratio	52%	64%	43%	46%	69%

Source: Deloitte & Touche Sport (August 2000)

If we think of football clubs as selling the rights to view matches, either at the ground or on television, then most of the costs are fixed, being incurred regardless of the number of paying spectators. Furthermore, some important factors that contribute to push costs down in other industries, such as economies of scale and technology, are not possible in football. The exploitation of scale economies is essential to reduce unitary costs and thus, helps to increase profitability; yet this is not true of football. On the other hand, if we think of the input in football as twenty-two players, a ball and a referee,



this technology has not changed significantly over the last one hundred years. The most important change has been the way it is commercially exploited. The technologies, which enable supporters to watch football, have developed considerably and developments in commercial exploitation have moved in step with changes in the technology of communication.

Also, it is important to take into account the bargaining power of suppliers in order to appraise the cost structure in a particular industry. In the case of football, players (suppliers) are becoming extremely powerful. Football players' issues will be analysed in section 5.3.

4.3 The Major Actors in European Professional Football

The European football market for professional clubs is clearly dominated by the big five countries: Italy, Spain, UK, Germany and France. Each of these national leagues holds at least a couple of clubs with an extraordinary historical record in European football. Its dominance in the industry may be partly explained through the large domestic market of supporters. However, there are other clubs outside this countries that have important distinctive capabilities in terms of reputation that has led them to succeed sometimes in the last decades. Some examples can be found in the Netherlands (Ajax), Belgium (Anderlecht), or Sweden (IFK Göteborg). However, the competitive environment in European football has changed in the last years and it could be argued that there are now different categories or groups of clubs that are relatively homogeneous in terms of the way they compete. Each category represents a *strategic group* within the football industry. These categories have been already presented in chapter 1 (section 1.5.1): football elite, elite followers, nationals and survivors. Each group's characteristics are outlined in table 4.3.



Table 4.3 Strategic groups in European football

<p style="text-align: center;">FOOTBALL ELITE</p> <ul style="list-style-type: none"> ▪ <i>Internationally focused</i> ▪ <i>High brand identification in Europe (prestige)</i> ▪ <i>Every year compete in UEFA tournaments</i> ▪ <i>Possess the top players</i> ▪ <i>Important wages bills (in absolute terms)</i> ▪ <i>High financial power (high income)</i> ▪ <i>Significant contracts with sponsors</i> 	<p style="text-align: center;">ELITE FOLLOWERS</p> <ul style="list-style-type: none"> ▪ <i>Internationally focused</i> ▪ <i>Some brand awareness in Europe</i> ▪ <i>Less frequent participation in UEFA tournaments</i> ▪ <i>Just some good players</i> ▪ <i>Medium wages bills</i> ▪ <i>Medium financial power</i> ▪ <i>Standard sponsorships</i>
<p style="text-align: center;">THE NATIONALS</p> <ul style="list-style-type: none"> ▪ <i>Nationally focused</i> ▪ <i>Brand recognition only in the domestic market</i> ▪ <i>No participation in UEFA competitions</i> ▪ <i>No top players</i> ▪ <i>Modest total wages bills (in absolute terms)</i> ▪ <i>Low financial power</i> ▪ <i>Just some sponsorships</i> 	<p style="text-align: center;">THE SURVIVORS</p> <ul style="list-style-type: none"> ▪ <i>Nationally focused (even regionally focused)</i> ▪ <i>Low brand recognition, even in the domestic market</i> ▪ <i>Compete in the lower domestic divisions</i> ▪ <i>Semi-professional players</i> ▪ <i>Low total wages bills</i> ▪ <i>Very low income: some risk bankruptcy</i> ▪ <i>No important sponsorships</i>

Source: Own

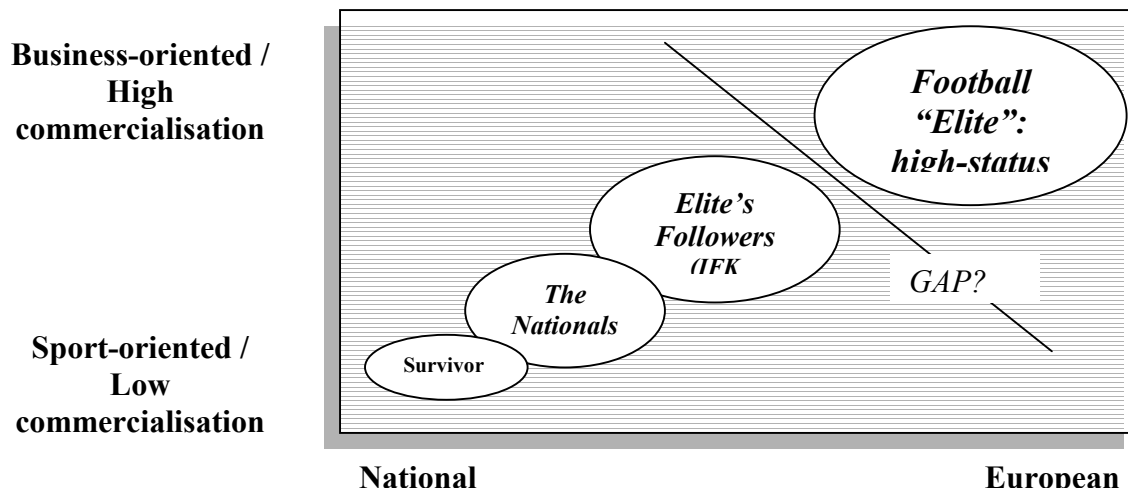
It is important to point out that those clubs located in the upper cells of this strategic groups' classification (football elite and followers) obviously have higher income-generating capacity and hold the best combination of high mobility barriers. The lower clubs will have more and more problems to reach them due to the new characteristics of the football structure, which makes the top clubs richer and richer. Thus, the most important barrier to progress in the future will be the capacity of generating revenues from TV rights and commercial activities.

4.3.1 Analysis of Influential Actors

In the following figure, we have depicted the groups identified in the European football market and, also, their position in the industry in terms of geographical scope and business orientation. The sizes of the boxes illustrate their relative market influence.



Figure 4.2 The structure of the European professional football



Source: Own

Since the boom of TV rights in football in the early 1990's, a more recognizable picture of the football industry has appeared. There are a couple of groups that compete for places in the most prestigious competition in Europe, the UEFA Champions League. These two groups form the "elite" and its surroundings. There are also two other groups of clubs that cannot afford such a fight and have to accept only the domestic leagues due to financial restrictions. As we will see in Chapter six, empirical analyses have shown that there is a strong relationship between the sums of money invested in players and the league position obtained. G-14 clubs hold a tremendous influence in the market as they are the main cause of the huge input of money into the industry for the last decade. They have powerful squads, totally formed by top players who are able to perform high quality entertainment, and, thus, TV companies want to have them on their programmes because they attract higher audiences. They can also pressure UEFA to obtain more power and influence in the definition process of the future football industry. Therefore, the rest of the clubs in Europe have to be aware of the positive and negative effects of having a cluster of companies as powerful as G-14. The positive effects for the small clubs are namely higher revenues when playing against the football elite. The negative effects are the intentions of the G-14 to form independent leagues (i.e., Super League).



On the other hand, there seems to be a gap between the football elite and the rest. This is essentially explained by the extraordinary attractiveness of these high-status clubs to TV broadcasting. Elite clubs have more appeal among viewers (fans) and are able to generate and demand more income from TV rights. The need of financial resources to pay a talent squad leads the elite clubs to have a higher business orientation in order to increase their income. Throughout Chapters five and six we will look for evidence that proves not just the existence but the depth of such a gap.





FOOTBALL DEVELOPMENT







5 FOOTBALL DEVELOPMENT

In this chapter, we describe the main trends and dynamic forces that are modelling the development of the business environment for clubs and also contribute to explaining the profitability of the business. We also benchmark the American sport models as a reference on which European football could be mirrored in the future.

5.1 Introduction

Once we have presented the framework where the football business is developed, we will proceed by analysing all those external influences that might impact the football structure and, at the same time, the club's decisions and performance for the future. We have summed them up into three categories of threats and opportunities a club will face in the future: trends, driving forces and developments in similar industries (benchmarking). It is important to bear these factors in mind because the relationships between football clubs depend critically on the structure of the business environment, and the performance of each individual club depends on its position within that structure.

5.2 A Major Trend in Football: Internationalisation

It is a common opinion of football experts that the future competitive structure is difficult to predict since its development depends on many uncertain factors (i.e. Super League, sport specificity, etc.). However, there is a particular trend that can indicate how the industry will develop, that is, *internationalisation*.

One of the most important and persistent forces that has changed and challenged the football business environment over the past decade has been the higher importance of European competitions. The restructuring of the former European Cup towards the current UEFA Champions League and the threat of the biggest clubs to break away from the national leagues in order to start a European Super League are clear examples of this process. As a response to the huge increase in the value of broadcasting rights, clubs have widened their perspective towards overseas markets. The strength of this internationalisation



process is such that it is likely to be a defining feature of professional football in the twenty-first century. This process is perceived at all levels of the football structure:

- **Supply:** by the 1980's an *international market for footballers*, particularly at the top end of the scale, began to emerge. Before the Bosman ruling (see section 5.3.1.2), the national clubs taking part in official competitions were restricted to field only a limited number of foreign players. This practise was known as the “nationality clause”. Now, there is no restriction to sign EU players and thus, the football labour market is not longer based solely on local supply, but global supply. The best proof of this is to have a look at the squads of some teams, such as Chelsea or FC Barcelona.⁶²

Table 5.1 Number of overseas full international players in the English game

Season	Overseas players in the UK Premier League	Overseas players in the UK Football League	Total
1995/96	62	39	101
1996/97	86	46	132
1997/98	118	48	166
1998/99	122	63	185

Source: Deloitte & Touche (August 2000)

- **Competition:** clubs can receive substantial revenues from TV contracts in the national competitions. Since the last restructure of the UEFA tournaments in 1999, top professional clubs may only cover their growing budgets through the participation in these European tournaments. New international competitions for clubs are even being developed outside the UEFA framework (i.e., FIFA Club World Championship or the Toyota Cup).

⁶² Lennart Johansson, President of UEFA.



Table 5.2 Annual TV rights income in the main top European leagues (1997/98)

(£ m)	Spain	Italy	France	England	England (2001-02)	Champions League's income (1999/00)
TV rights	144	134	89	154	549	337 (it also includes sponsorship)

Source: Own from: Spain (<http://www.elpais.es>, Sept 4, 2000), England and France (Deloitte & Touche Sport, 1999), Italy (Deloitte & Touche Italy, 1999), England in 2001-02 (<http://www.sportbusiness.com>, June 14, 2000), and Champions League (<http://www.uefa.com>).

Football has evolved into a structure in which the clubs' success steadily depends on the sums of money that they can afford to spend on players. This money now comes principally from TV audiences and merchandising selling. Since domestic leagues obviously have a limit to those two objectives, clubs must look for alternative sources of income. Therefore, they have to conquer new markets through the impact of international competitions. The best example of this has a name: Manchester United. The business orientation of this club has discovered Asia as a potential market. As part of its commercial plans in the region, the club international orientation takes the first team to an Asian tour. The club has already paying visits in 1995, 1997 and 1999, and another one in July 2001 will take the team in Singapore, Malaysia and Thailand, which is aimed at enlarging the very large supporter base of Manchester United.⁶³

Although the industry is becoming more and more European as a consequence of the business development, the local roots cannot be forgotten. Thus, from 1994 to 1998, 95% of the clubs' total income came from the participation in the domestic competitions (Leagues and Cups), and European competitions (which holds less than 20% of all professional clubs) accounted for just 5%.⁶⁴ If the Superleague was not initiated in 1998, it was mainly due to the fact that clubs would have had to leave aside the national competitions, their local roots, which would represent a huge amount of money (see Appendix 3).

- **International corporate ownership:** football has such potential to generate worldwide revenues that big media groups are not able to waste this opportunity. Conglomerates and executives with media and merchandising

⁶³ Soccerex 2000

⁶⁴ LNFP, 2000



targets try to maximize this prospect through the sale of merchandising everywhere, the emphasis on higher audiences fed by TV, and the new sponsorships. Dempsey & Reilly (1998) regard this fact as “corporate ownership” and they are not in the wrong way because football clubs have increasingly become part of the international corporate portfolios of gigantic media groups. Corporate ownership will bring the clubs under actual business plans covering as many geographical markets as possible. Therefore, patterns of clubs ownership, stock market flotation and various other financial developments are reshaping the football landscape.

▪ ***Demand:*** Football is specifically an entertainment activity, but also moves passions. Fans usually express their loyalty to domestic clubs, but they also like watching any international football match on TV (international consumers). In a poll conducted by the UFA Spots European Football Report 2000, 78% of Europeans are interested in football watching it on TV at least twice a week. This tendency is much more observed among youth (66% of 14 to 29-year-olds are interested in football). But older football fans also have cable or satellite TV and they watch international leagues every weekend. Furthermore, in the midweek, the UEFA competitions reach most of the European supporters. Thus, it could be argued that there is a new type of international customer. The technological advances enable him/her to be more and more aware of international competitions. At least half of European football fans are interested in foreign league clubs and even more so (59%) among younger target groups. In the younger target groups of 15-29-year-olds, the European club competitions, such as the UEFA Champions League or UEFA Cup, arouse considerably greater interest than the national leagues, which tend to be favoured by older target groups.⁶⁵

About 52% of the total supporters in European football belong to the big five nations. Within the main domestic markets in European football, between 45 and 65% of the total fans support only to a range of two to four clubs, being the highest concentration of fans in France and Spain, and the highest mixture in

⁶⁵ Sportel 2000, Sportbusiness Limited.



England.⁶⁶ In the major leagues, England, Spain, Italy, Germany and France, the domestic league is still more attractive for the viewers and is likely to remain so due to the highly competitive top divisions. But outside those leagues, the interest in domestic competition wanes and the Champions League is more interesting.

Internationalisation has two *basic objectives* within football. First, the *limited size of domestic markets and the prospects for higher income* make clubs exploit market opportunities outside the domestic boundaries, especially within Europe. The population size is a key factor that leads the development of a club in Europe in terms of revenue-generating capacity. Secondly, they aim to create *networks of international contacts* (players' agents, collaborative clubs, governing bodies, and so forth) that could help a club develop a first-mover advantage with the supply of players, the signing of substantial sponsorship contracts, or even privileged consideration from the UEFA authorities.

Proof of the growing internationalisation process is the trend for some football clubs to seek collaborations with other foreign competitors in order to maximize the individual clubs potentiality to obtain income. We have identified four of them:

- The **G-14**, already mentioned, whose objective might be the creation of a hermetic Super League.
- The **Atlantic League**, which is a potential project to include big-name clubs (basically elite followers) who play in leagues without the financial power to compete with the richest clubs of the big five nations. It would basically be an assembly of clubs from Scotland, Belgium, Holland, Portugal and Scandinavia⁶⁷. By joining forces, the hope is that the clubs from the Atlantic League would become a sixth European footballing superpower. This league does not want to break away from the UEFA framework, but the intent is that the top three in the Atlantic League would have the right to play in the lucrative

⁶⁶ LNFP, 2000

⁶⁷ www.telegraph.co.uk, 2000 08 14



Champions League. The Atlantic League remembers the Scandinavian Championship, played by national teams, celebrated between 1924 and 1971.

- The **Iberian League**, which is an idea to bring in the same league to a wide group of Spanish teams (14-16), together with the top 3 Portuguese clubs, Benfica, Sporting Lisbon and Porto.
- The **Central-European League**, which is a similar project to the Atlantic League but now gathering to the most important clubs from the centre and east of Europe. It has been promoted by Croatia and endorsed by other five countries: Slovenia, Hungary, Czech Republic, Slovakia and Austria. This league has its precursor in the Mitropa Cup, which began in 1927 and proclaimed champions such as Sparta of Prague, Ferencvaros, Vasas, Partizan, Fiorentina, and Milan.

The common pattern in these four potential “alliances” is the idea of taking a higher piece of the profitable TV market. Therefore, due to the growing value of TV audiences for clubs, the industry might undergo a process of “alliances”. Many clubs may not be able to be profitable and compete with the big five leagues unless they manage to conquer other markets.

5.3 Three Main Driving Forces in Football

As outlined above, we have identified three main driving forces that are changing or will change the football business in Europe. These forces have to do with: *the modification of the transfer system of players, the higher commercialisation of football through TV broadcasting, and the UEFA licensing procedure that will go in force for the season 2002/03.*

5.4 The International Transfer System

By this first force, we will describe the essence of the transfer system and the potential implications of the establishment of a less restrictive labour market in football.



5.4.1 Introduction

The football transfer system has symbolized for decades the most important instrument to redistribute resources in the football business. It is also the corner-stone of football's regulating structure. Although it has historically undergone some changes, its most important characteristic (transfer fees) has been in force for decades. However, now the EU has questioned its validity, which has created some uncertainty among the participants in the football industry. It seems to many people that the forthcoming modification might represent the most challenging "threat" the football industry has experienced for the last decades.⁶⁸

To understand the matter of the validity of the current transfer system that is now being appraised, it is necessary to start from the fact that this system, understood as a general concept, is a mechanism that regulates the movement of players among clubs. FIFA is the entity that has drawn up the basic framework for international transfers and obliges each national association to provide a domestic system.⁶⁹ Each national system is based on the notion of a player's registration: only a player registered with a club within a national federation can play professional football. If a player wants to move to another club provided that his contract has not expired, he may do so only with his current club's prior permission. In other words, if any club wishes to obtain the services of a player from other club, it would have to offer a fee, which satisfies the selling club unless the player's contract has expired. Many times, the existence of such a fee prevents a player from abandoning his existing club to play for another one, which according to the EU legislation represents a restriction to the free movement of players. Therefore, the European Commission (EC) has recently questioned the validity of this system and forced FIFA and UEFA to formulate a new one that complies with EU legislation.

In football, what makes the final product attractive is a good performance of the real actors, that is, the players. The better the performance of particular player the more valuable the player is within the transfer market. According to the

⁶⁸ Maurice Watkins, Soccerex 2000.

⁶⁹ www.fifa.com, Preamble of FIFA regulation on international transfers.



traditional labour theory,⁷⁰ the value of a footballer would be expected to reflect the scarcity of the skills he provides. This value is not only reflected on the wage paid by his current club but also on the transfer fee that the club may ask to the competitors that aim to have that player. It is this aspect what makes football (and other sports) different from other business activities where no transfer fees are identified. The main goal of this system is to remunerate the clubs for the investment they make in training and also compensate the loss of those key players who leave a club in order to play somewhere else. Many people argue that some clubs would probably go bankrupt if they had to manage without income from transfers since this income is usually used to compensate losses originated from other activities in which clubs are also involved.⁷¹

5.4.2 History of the Transfer System

The historical roots of the transfer system can be traced to a clause inserted in the regulations of the English Football Association in 1885, which required all players to be registered annually with the Association.⁷² In the beginning, a player could not change clubs unless a transfer fee was paid, even when the contractual tie between a footballer and his club had come to an end. The result was that players were little better than a slave to football. From the clubs point of view, this system was an important instrument in helping them to build teams that could achieve sporting and financial success.

Although the old system was modified several times,⁷³ the main adjustment came in the 90's. In 1990 Mr Jean-Marc Bosman, a Belgian professional football player, claimed that the Belgian Football Federation and UEFA-FIFA transfer rules had prevented his transfer to a French club, US Dunkerque. He brought an action to the Cour d'Appel of Liege (Belgium) against RC Liege and later against the Belgian Football Federation and the UEFA. In 1995, the European Court of Justice (ECJ) in answer to the questions referred to it, declared the transfer system and the nationality clause (see section 5.2) to be

⁷⁰ Szymanski, S. & Kuypers, T. 1999.

⁷¹ Soccerex 2000.

⁷² Morrow, S. 1999.

⁷³ Ibid



null and void because they were contrary to the fundamental legal principle that people are not merchandise, and thus incompatible with Articles 48 (free movement of workers) and 85 and 86 (free competition) of the Treaty of Rome.⁷⁴ This sentence is now known as the *Bosman Case* (CJEC, 1995), and meant a considerable blow to the original transfer system. According to this ruling:

*“The Article 48 of the EEC Treaty implies the following aspects: First, if a professional football player's contract with his club expires and if that player is a citizen of one of the Member States of the EU or EEA (European Economic Area: Iceland, Liechtenstein and Norway), this club cannot prevent the player from signing a new contract with another club in another Member State or making it more difficult, by asking this new club to pay a transfer, training or development fee. Second, Limitations concerning the nationality of professional players who are citizens of a Member State of the European Union (within competitions between football clubs organised by sporting associations), are not allowed”.*⁷⁵

No football club can now demand and receive payments when one of its players whose contract has expired is engaged by another club.⁷⁶ However, the Bosman case does not seem to be the last word that the EU has pronounced within the transfer system framework. The EC threat to outlaw the current system might make the multimillionaire market of players vanish into the air.

5.4.3 The EU and the Football Transfer System

The controversy on FIFA transfer system started in 1997 when the Italian Perugia brought an action to the EU because it refused to pay a transfer fee to obtain the services of the player Alessandro Lombardo from the Grasshopper club.⁷⁷ Since then, the EU maintained different talks with FIFA and UEFA to force a change in the system. However, why does the EU get involved with the regulation of football?

⁷⁴ European Commission. Sport and free movement of people and workers: Information on the Bosman Case.

⁷⁵ http://europa.eu.int/comm/sport/key_files/circ/a_circ_en.html

⁷⁶ Blanpain, R & Inston, R. 1996

⁷⁷ www.elmundodeportivo.es, 2000 10 31



In 1974 the ECJ ruled that, as an economic activity, sport was subject to Community legislation. EU regulation especially concerns three aspects of sport: the relationship between sport and television, questions related to competition policy and matters relating to people's freedom of movement. However, the EC does not have general authority as regards sport, but it is primarily for sporting associations and for member states to take their responsibilities for sporting matters. The international dimension of football implies that the EC has recognised the existence of 3 general principles that affect it:

1) *“ The field of sport comes under Community law in so far as it constitutes an economic activity, and thus the activities of professional footballers are gainful employment, so that Community law is applicable to those commercial activities related to football”*.⁷⁸

2) *“Regulations drawn up by sporting organizations, such as FIFA-UEFA (those rules without which a sport could not exist) should not, in principle, be subject to the application of EU legislation”*.⁷⁹

3) *The third general principle is to preserve the social and cultural functions of sport. The Declaration on sport annexed to the Amsterdam Treaty emphasises the social significance of sport and in particular its role in “forging identity and bringing people together”. The Commission's Helsinki Report on Sport on 1 December 1999 reaffirmed this view. The EC therefore considers it appropriate to apply the EU rules in a way that preserves sport's essential social and cultural benefits. Therefore, exemptions from the EU rules of arrangements that aim to provide a redistribution of financial resources to (for example) amateur levels of football may be justified if necessary to retain those benefits.*⁸⁰

As pointed out above, the football employment system is virtually unknown in any other kind of business activity. If it had been found to be operating in any

⁷⁸ European Court of Justice's judgment in the Walrave case 1974.

⁷⁹ Mario Monti (Commissioner for Competition Policy). Speech given at a Commission-organised conference on sports. Brussels, April 17, 2000.

⁸⁰ Mrs Viviane Reding. Member of the European Commission responsible for Education and Culture. Commission's investigation into FIFA's transfer rules (Strasbourg, September 7, 2000)



other industry it would almost certainly be found to be illegal from the beginning.⁸¹ However now, the EC considers that the rules that govern the operations between clubs infringe the principles of free movement of workers gathered in the article 48 of the Treaty of Rome (now art. 39 in the Treaty establishing the European Community). The EC thinks that a player should be able to change clubs regardless of an “arbitrary” agreement between two clubs. The EC does not admit that a player under contract is declared “non-transferable” by his club against their will and thus, it does not agree with the fact that a transfer must be subject to an economic agreement between buyer and seller. What the EC has requested to the FIFA-UEFA is the reform of the current system with the aim of respecting the fundamental principles of the EU. Furthermore, a restriction of competition can be found in the fact that a player must wait until the transfer fee is paid before changing clubs, so that there is a tendency to preserve the existing competition situation. Therefore, the transfer rules are not in line with Article 85 of the Treaty of Rome (now art. 81 in the Treaty establishing the European Community).

5.4.4 The Transfer Fees

Some people involved in the football business, such as Gerry Boon from Deloitte & Touche, believe that the EC has shown tolerance with the system since the Bosman ruling, even being aware that it was going against the law. However, the UE is now concerned with both the financial situation of many clubs and the multimillion market of football transfers.⁸² His thoughts are not groundless. As shown in Appendix 4, transfer fees have been exploited for the last two decades, and specially in the last years. By the early 1980's more freedom was effected in European football, which allowed more transfers of players between clubs. In the 1990's the advent of high revenues in the industry made possible a higher spending on transfers. Thus, most national leagues in Europe have seen a rapid inflation in the transfer fees. Just in the summer of 2000, 11 players signed for more than \$20m (£13,7m) each, including Real Madrid's record-breaking \$53m (£36,4m) fee for Luis Figo.⁸³

⁸¹ Szymanski, S. & Kuypers, T. 1999

⁸² Soccerex 2000.

⁸³ <http://news.ft.com>, 1 Sept 2000



5.4.5 The New Transfer System

In order to comply with the EU requirements, football authorities have recently accepted the idea of amending the football transfer system, whose basic pillars have been in existence for 96 years. Its main elements were supported by all members of the football family with the exception of FIFpro. The main points of this proposal are as follows⁸⁴:

- 1) *Freedom to movement when expiring the contract.*
- 2) *Prohibition on the international transfer of minors/players under 18, except in specific defined circumstances (i.e., when the family of the player moves to a new country).*
- 3) *Training compensation for young players up to the age of 23.* That training compensation would also be paid when a player under the age of 23 moves at the end of his contract. Training compensation would be paid by the new club, but would also be partly financed by certain “solidarity” mechanisms, including a levy on transfer fees and a solidarity fund financed, by income derived from the central marketing of television rights.
- 4) *Respect for contracts.* In order to maintain contractual stability, as a matter of sporting regulation, any contract lasting for a period of up to 3 years must be respected (by the player and the club). The football bodies also propose the introduction of player contracts with a maximum duration of 5 years.
- 5) *Transfer periods.* What is proposed is two unified transfer periods and a limit of one transfer per player per season.
- 6) *Arbitration system in case of breach of contract.*
- 7) *Transitional arrangements* that, at a minimum, protect existing contractual arrangements between clubs and players.

This proposal may not be the final one since the EC is, at the time of writing, studying if it fits the EU legislation. However, it is easy to predict that, according to the EC legislation, some points of this proposal could be rejected since they may not solve the basic concerns that pushed the EC to intervene. We find points two and four as very controversial to the EC.

⁸⁴ www.fifa.com, 31 October 2000



5.4.6 Transfer System and Income Redistribution

According to football authorities, one of the most important goals of the transfer fees is the *redistribution of income* from high-status clubs to those minor clubs in the competitions. The UEFA has maintained that if this source of income is cut, many clubs may go to either bankruptcy or lower levels in the market. Unless the football authorities in Europe seek for alternative ways to compensate this loss, the final result would be both an important boost to the current process of decreasing competitive balance (the competition gap) and less result uncertainty. However, the EC rejects the adequacy of the current transfer system as a means of achieving competitive balance. Thus, we have two totally different opinions. According to the tables presented in Appendixes five, six, and seven exclusively referred to the case of the UK football, we can make the following conclusions with regard to the extent to which the transfer system has played a relevant role in the redistribution of income in the case of England:

- The redistribution process has to be measured by the net transfer results at an aggregate level. Regarding only transfer revenues could bring some misunderstandings.
- The value of transfer activity between English clubs has risen every year since 1995/96. The core of the transfer expenditure is focused on the top division's clubs (mainly Premier League), in an attempt either to preserve their status at the top league or to secure lucrative European competition.
- Thus, the top English clubs (Premier League) have been in a net deficit transfer position since 1992/93, while the middle and small clubs (those in the UK Football Division) have usually been in a position of net surplus. At first glance, this is a sign of a positive process of income redistribution. However, in absolute terms, the amounts received by the lower divisions are very small (see Appendix five) compared with the total expenditure by the biggest clubs. In 1997/98, the net amount received by the three lower divisions from the top clubs was only £1,5 m, which represents the 1,6% of the total paid by the Premier League on transfers.



▪ From Appendix seven we can conclude that the net benefit to the smallest clubs (those in Div 2 and 3) from transfer trading with middle and big clubs (those in Div 1 and Premier League) was only £6,9 m, £11,4 m, £2,2 m, and £2,2 m for the period 1995-99. If we compare these numbers with the total transfer spending of the Premier League and Division 1 for the same period of time within UK (see Appendix six: £130,6m in 1995/96; £131,6 m in 1996/97; £141,8 m in 1997/98; and £160,5 m in 1998/99), there is apparently very little evidence of the transfer market acting as an effective means of redistributing wealth to lower divisions.

However, *are those net transfer profits enough for the small clubs?* In 1998/99, for instance, there was a net transfer benefit of only £2,2 m coming from the two higher divisions in UK to the smallest clubs in Divisions 2 and 3. That means that on average each club within these two lower divisions (48 professional clubs in total) would account for less than £46.000 on net transfer revenues. Taking into account that the average turnover for 1998/99 in the Divisions 2 and 3 is about £3,6 m and £1,38 m respectively, this average transfer benefit does not represent a great deal (1.3% and 3.3%, respectively).⁸⁵

As pointed out by Morrow (1999), some authors have investigated the financial effects of the transfer system within other domestic leagues. The conclusions are that the transfer system played very little part in the redistribution of income, which confirms that, in general terms, the assertions from UEFA enhancing the redistributive role that the transfer system has played in domestic football are unfounded, at least, for the last years. Thus, non-elite clubs will not necessarily suffer financially from the removal of the transfer system. Empirical evidence suggests that the gains from the transfer system have not spread among all small clubs but are, in fact, highly concentrated around a few larger clubs inside and outside domestic leagues.

5.4.7 Redistribution Across Leagues?

However, following the purpose of our thesis, it would be interesting to see if the results at the domestic level are similar in the case of cross-countries

⁸⁵ This average figures have been drawn up from Deloitte & Touche Sport (2000).



transfers due to the influence that it would have in the UEFA tournaments, where the best teams participate. As shown in Appendix eight for the particular case of UK, top football clubs within the big five European leagues can now pay the wages and transfer fees to attract the top European players. Their net overseas spending increased dramatically over the last years, both in relative and absolute terms. Therefore, the smaller domestic clubs have relatively missed out over the years because the transfer market is becoming more international. For instance, in 1998/99, the net overseas transfer spending of English clubs accounted for £140 m.⁸⁶ As shown in Appendix eight, the total paid to overseas clubs was in the same year £142,2 m, which means that English clubs only received £2.2 m from overseas clubs. This is a common trend in the big 5 leagues and, according to Deloitte & Touche, it is due to two aspects: 1) the European football market has turned into a big shop window where each club is aware of other leagues and Championships through media, and 2) most importantly, the elite clubs have the cash to spend.

When trying to evaluate the redistribution function from a top European league to the smaller ones, we have noticed an important lack of analyses of cross-country transfers. However, we have developed a table (see Appendix nine) that includes the international transfers over £100,000 in which English clubs have been involved between 1997/98 and 2000/01 (until November) to examine if the higher internationalisation of the transfer system contribute to the redistribution of income from elite to the rest of the teams. From that table, we can conclude:

a) As hinted by the figures from the UK clubs, one might deduce that *the big five leagues are much higher net spenders in the international transfer market than in the domestic market*. Also, it is very surprising to see how clubs that do not often struggle for European places (nationals and survivors) have been the higher spenders in England for the period analysed. The same pattern seems to happen in Italy or Spain where most of the “nationals” and some of the “survivors” go more frequently to the international market. Nevertheless, the big contracts are logically signed between elite clubs themselves.

⁸⁶ Deloitte & Touche Sport (August 2000)



b) Those European clubs, which are target of our study (*elite followers*) appear to be the greatest beneficiaries in the cross-country market as, in the case analysed, they received from the English clubs over 32% of their net overseas expenditure (£149.9 m). The main part of this money comes, surprisingly, from those teams that are not potential competitors in the UEFA competitions. The net transfer revenue that came from England to the European elite followers, national and survivors was £107.5 m (£56.4 m for the elite followers), which represents over 38% of the total expenditure of English clubs in the overseas market.

If those £107.5 m were distributed equally among the years analysed (approx. 3.3 years), then the net transfer revenue for European non-elite clubs (categories B and C) between 1997/98 and 1998/99 would have been about £65 m (out of a total expenditure in those two years of about £170 m). Considering the above analyses from Appendix five, where we saw that for 1997/98 and 1998/99 the net transfer revenue of the Football League from the Premier League was just £29 m (out of total fees paid by the Premier League of £231.5 m), it seems the income redistribution from English clubs towards international clubs has been considerably higher in both relative and absolute terms. Thus, the redistribution process might no longer be regarded as a domestic phenomenon, but has to be evaluated at an international level. However, the amounts redistributed are still very low.

c) As could be expected, the biggest movement of money distributed within the same category in the cross-country market was more important within the football elite (clubs A). The high-status clubs of our analysis transferred among themselves 21.1% of the total money that was put on the market analysed. A single transfer in this period accounted for £22.9 m (Anelka from Arsenal to Real Madrid), which shows the big operations within the football labour market always involve the football elite. However, our analysis proves that, against that believed by a the huge majority of the football family, the amounts of money moved within the selective group of clubs that have international goals (the elite and the followers) might not be much higher than the money that flows in the operations in which the national and the survivors are also



involved. In our analysis, the transfers that involve the nationals and the survivors are not just much more higher in number but overcome the monetary sum of the transfers that involve only the football elite and the followers. According to Appendix nine, whereas £195.8 m (48% of the total) has only been moved among clubs A and B exclusively, £196 m was explained by the participation of “national and survivors” clubs (the rest amount up to £408.5 m [£16.7 m] - is explained by the transfers between non-UEFA clubs and clubs A&B).

d) If we analyse the money that flows between England and individual leagues, represented in table 5.3, we can see that the majority of it moves between clubs from the big five leagues. Thus, only five countries moved nearly 54% of the total transfer fees within our analysis. However, it is important to note three factors: first the three Scandinavian leagues (Denmark, Norway and Sweden) have net transfer revenue of £22.3 m (on average, nearly £6.8 m a year for the period analysed), which is not a very important figure taking into account that England is a traditional host-country for many Scandinavian players. Furthermore, assuming that transfers between Scandinavian countries and the other top leagues have followed similar patterns (at least Spain, Italy or Germany), we do not think that the aggregate net transfer revenues would account for much compared to total aggregate budgets of these three leagues. Another small league, such as Scotland, presented for the period analysed a considerable transfer activity with English clubs, which totalised £42.3 m, but with a net transfer loss mainly due to the expenditure of the two elite clubs from this league (Celtic and Rangers). Scotland is a special instance within this analysis because of the neighbourhood effect and the historical links between both England and Scotland. Thirdly, for 1996/97 and 1997/98, the Italian top division had a net gain on players transfers of £60 m and £120 m, respectively,⁸⁷ which first explains that a great majority of the transfer expenditure of English and Spanish clubs went to the Serie A, and, secondly, corroborates that the transfer system does not ensure the redistribution from powerful leagues to weaker leagues.

⁸⁷ Deloitte & Touche Italy (Sept 1999)



Table 5.3 Total transfer fees between England and some other leagues from 1997 to 2000 (Nov)

£m	SPAIN		FRANCE		GERM.		ITALY		SCOTL.		SWEDEN		NORWAY		DENM.	
	In-flow	Out-flow	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
	19.5	42.5	51.3	18.4	8.9	1.6	52.5	24.3	19.7	22.6	7.1	2.4	14.7	0.3	4.4	1.2
Net Bal.	(23)		32.9		7.3		28.2		(2.9)		4.7		14.4		3.2	

Source: own from <http://www.telegraph.co.uk> (see Appendix 9)

e) Each of the big five leagues seem to have differences in regard to the point of departure from the players that they sign. It is very important to take each particular case carefully. For instance, the English clubs have proved to have a certain bias to Nordic players. We have noticed that UK leagues find many of their foreign players in Scandinavia (Norway, Denmark and Sweden). On the other hand, the Spanish and Italian leagues have shown to have more predilections for Latin American and Eastern European players for the last years.

To sum up, at the international level it seems that the redistribution function, measured in net transfer revenues, is more important than within the domestic leagues. Over a half of the total money moved in international transfers seems to flow between only five countries. Also, although the elite followers in Europe seem to be the highest receivers of the money that comes from the top leagues, the majority of these followers are likely to belong to the biggest leagues. According to our interpretation, a potential reform of the transfer system, which might reduce the current transfer fees value, is unlikely to have important financial repercussions within the domestic frameworks of the big five leagues. That impact would be higher in some clubs from the smaller leagues that have specialised in selling talent (i.e. Ajax). However, considering the European small leagues as a whole, we do not think that the financial consequences of the change in the football labour market will be dramatic for the survival of the small leagues.



5.4.8 The Transfer System, Competitive Balance and Youth Development

Football governing bodies maintain that the purpose of the current transfer system is to ensure a sporting balance in competitions in which the participating clubs are of unequal financial strength in accordance with the uncertainty of outcome hypothesis. They also state that its abolition would reduce the club's efforts to promote young players because fewer clubs would possess the financial resources to cover the costs of training, which would mean that fewer players would have the opportunity of receiving professional training.⁸⁸ However, competition balance can only be achieved if small teams are given the means to field competitive squads to compete against the big clubs. This is only possible if small teams obtain resources to train young talents or spend them on hiring players.

5.4.8.1 The hiring of players

The first way to get competitive balance is to ensure that the system provides good players to the small clubs (mainly elite followers and nationals). We have previously seen that the financial strength of the overall group of small clubs does not seem to improve considerably due to the transfer system. This is mainly due to the fact that transfer revenues are reinvested in the purchase of players, that is, the transfer system help clubs to hire non-home-players. Thus, the transfer system might contribute to achieving competitive balance if the elite clubs' followers, or even the nationals, hired better players than those sold in the transfer market. But these is not likely at all, because the football elite is expected to sign the best talented players from lower groups' clubs and sell them less talent players or those who have become older. Thus, the current transfer system might, in general, increase the potential of squads from followers or nationals trough the hiring of players but it is unlikely to shorten the latent gap between the football elite and the rest of clubs. Little research has been done on these aspects, thus, our interviews and our intuition has led us to make such a conclusion.

⁸⁸ Lennart Johansson, President of UEFA.



5.4.8.2 The training of youngsters

However, as outlined above, there is another way to obtain competitive balance. This is through the training of talent youngsters. But, are net transfer revenues forwarded to the youth training?. The precedent analysis on the income redistribution in the case of UK professional clubs showed that in 1997/98, the Premier League relocated £23,6 million to the Football League through transfers, but only £1,5 out of the total was kept by the clubs to promote the training of talent (£22.1m was again to the Premier League). Over the last few years, a worrying trend for the small clubs in Europe has been the reduction in transfer revenue from the football elite, despite the higher TV income that has entered the game.⁸⁹

It is questionable that the net income from transfer trading goes to youth training. We observe above, for instance, the UK Football League had a net transfer revenue of £1.5, which is hypothetically supposed to assist youth development. However, the hiring of new players usually requires higher salaries and, thus, it is reasonable to think part of that net revenue from transfer trading goes to pay higher salaries and not only to youth training. This is also exemplified in the case of IFK Göteborg, whose net transfer revenue in the last years has been driven to reduce the club's losses instead of reinvesting it in its training schemes.⁹⁰ In other words, the current income distribution may be not powerful enough to guarantee that the weakest professional clubs are able to invest in good training. Thus, we do not think that the abolition of the transfer system would bring fatal problems to maintain the current youth training schemes of the small clubs since they only employ a relatively small part (if any) of the total transfer income on the improvement of training. Thus, if the income from the transfer trading is not re-invested in training, it is more complicated to ensure the goal of competitive balance.

The above conclusion does not mean that any club may spend most of the transfer revenues in training schemes. However, the transfer system as an effective redistributive mechanism must be regarded at the level of the league

⁸⁹ Rogan Taylor, Football Research Unit, University of Liverpool.

⁹⁰ Bosse Gentzel, IFK Göteborg's Chairman.



instead of individual clubs. There is evidence all over Europe of some clubs specialising in developing and then selling off talent (Ajax in The Netherlands, Crewe Alexandra in UK, Greenock Morton in Scotland, or Real Sociedad in Spain). Nevertheless, this has not been the general pattern, and indeed there may be several clubs for which removal of the transfer market would increase their financial security. Whether a club focuses on the development of talent or the hiring of players (thus, spending the transfers revenues) basically depends on the business strategy chosen by the management of the club.

To conclude, the transfer rules have not prevented the top clubs from securing the services of the top players nor has it prevented the availability of financial resources from being a decisive factor within the football industry. The current transfer system usually resulted in smaller clubs being forced to sell their best players, thereby further weakening those clubs from a sporting point of view. Although they may be compensated financially they may not be in position to acquire the top players. In fact, they usually buy average players with the money that comes from the transfer trading and do not forward it to their training schemes. Thus, the transfer system as an instrument to obtain competition balance might have failed.

5.4.9 How Will Compensations Be Established?

As presented here, the transfer system seems to have failed in the achievement of its original targets (competitive balance and enhancement of youth training). However, it does not mean that the entire system should be dismantled. A transfer system must specially protect the training of young players, those who are “home-trained”.

In fact, youth training seem to be very important for the right functioning of both the industry and the society. The special characteristics of sports make the national governments fund part of the youth physical training through their education budgets. However, the clubs also engage in training because the formation of talent may enhance the playing success. However, the prospect of obtaining a transfer fee is also a financial incentive that some clubs have strongly exploited. In purely financial terms, the absence of a transfer market



among clubs may act as a discouragement to incubator clubs if no return is available to them for personal discovery and development. Training youngsters is an important cost for clubs. Also, in non-financial terms, the absence of compensations would reduce the role that clubs fulfil within the community as “youth educators”. In that respect, even the EC has recognised that compensations for youth training must be maintained.

The fact is that football needs an on-going supply of labour at all levels. In order to reward those efforts of training, compensations must be kept in the transfer system. It could be questioned why any organisation should be compensated for training its workforce. The fact of compensations has to do with both historical and social reasons. In other industries, such as accounting or information technology (IT), firms spend substantial amounts of money in training programs for their young employees and take the risk of losing their talents later on. The only compensations that these companies obtain are certain corporate tax deductions depending on the national legislation of the country where they are settled. However, many of these industries could be considered as modern industries, while football has a long history and a very deep-rooted system of compensations. On the other hand, the EC recognizes – although it is not officially supported in its Treaties - the importance of sport as an element of social integration and thus it is in favour of the maintenance of compensations for young players. *“Youth is the base of the sport pyramid”*, Viviane Reding, Commissioner of Education, Culture and Sports, has said. Also, Advocate General Lenz sentenced in the Bosman case that a transfer fee can only be possible when it represents a compensation equivalent to the actual training costs on a player’s first change of club. This has been corroborated by the current EC. For the rest of the cases, the EC considers that the transfer fee is oriented to the player’s salary, not the costs of training him. According to legal experts quoted in the Bosman Case, a system providing a compensation fee for the training of young players is something quite different from a transfer fee system. The former involves objective compensation for the costs generated by a young player during training.



Thus, we may identify two types of transfers: the transfer of home-made players and the transfer for experienced players for whom there can no longer be any question of training. The EC only justifies a compensation in the first case in order to recover the costs incurred in training. The trading with the second type of players may only contribute to soar the salaries. In fact, those transfer fees in the second case are calculated on the basis of a professional footballer's earnings and bear no relation to the cost of training. The higher transfer fees for experienced footballers are naturally paid for the good ones. However, these players are likely to play for the elite or the top followers and, of course, within any of the big five leagues. Thus, each time that there is a transfer, money just changes from Italy to Spain, from England to Germany, but in each transfer the players see their salaries go up. At the professional level of the big five leagues, transfer income seems to be forwarded much more to salaries and new transfers, than training.

However, is it fair that Michael Owen (one of the most talented Liverpool's young players) is worth the same as any other young player educated by Liverpool within the same training conditions?. Those involved in the football industry think that compensations that are totally related to training costs are not fair within the world of football. If a certain club stole Michael Owen from Liverpool and the compensation system was only based on training costs, the club would be compensated equally than in the case of any other middle young player drawn out from the Liverpool youth training program. Supplementary compensations have to be included in the new transfer system in order to regard other aspects such as the quality of young players. The French minister of Sport, Marie-George Buffet, advocates the creation of certain bases in the estimate of the compensations for young players,⁹¹ which should include real, economic, social and sport bases. In this respect, the final compensation might assimilate the bases of the English system which sets that a compensation to under 24 years will be dependent on: the expense of training and development, a player's first team appearances, his international appearances, efforts made by

⁹¹ www.elmundodeportivo.es, 2000 08 31



his club to retain his services, efforts made by other clubs to acquire his services and others.⁹²

5.4.10 The Transfer System and Accountability Problems

Obvious concerns within clubs are that millions of pounds will be wiped off clubs' balance sheets if transfer fees for players over 23 are partially limited. Lennart Johansson's concerns are very clear: *"it is very worrying to think that a player who was worth millions yesterday could be worth nothing tomorrow"*. Clubs include players on their balance sheets as intangible assets, but they would be forced to write them off if the players' value is no longer realised.

In the traditional football economy, clubs outside the elite group may have survived by selling players to bigger teams in periods of financial crisis. The Bosman ruling meant that players could be free to move for no fee at the end of their contracts. This fact made clubs behave under financial principles.⁹³ Being aware that the value of a particular player will converge towards zero in the end of his contract because he would be able to leave for somewhere else for free, clubs implemented the next practises: 1) they signed players for long contracts. 2) where a club believes that a player will not wish to remain with the club after the end of his contract or where the club does not wish him to remain, clubs attempt to move that player on some time in advance of the expiry of his contract in order to obtain a compensation. 3) where a club observes that at the end of a season the total costs go over the total income, the club will attempt to compensate such a position through the transfer market (selling players).

Our belief is the new transfer system will make these practises disappear in the case of players aged over 23. The EC will probably reject the point of "respect of contract" from the initial proposal submitted and make the football family apply less restrictive measures to increase the freedom of players. If that happens, it may have harsh consequences for the those individual clubs that based their financial structure so much on the transfer market. These clubs would be unlikely to meet the costs which longer-term contracts demand, but

⁹² Morrow, S. 1999.

⁹³ Rogan Taylor, Football Research Unit, University of Liverpool.



risk losing their players to clubs better equipped to pay higher wages. In this regard, the forthcoming system will make clubs lose security in their plans with players. This does not mean that the former system was out of any risk. The system that came from the Bosman ruling encouraged the signing of longer contracts, which also became an important liability in that the possibility of a player's serious injury or relegation converted these contracts in something dangerous.

5.4.11 A Wave of “Alliances” Between Clubs

The partial abolition of the transfer system might cut off part of the transfer income, putting a risk on those clubs that have been highly dependent of this type of financing. Thus, although UEFA does not permit that two teams participating in the same competition are owned by the same shareholder, a trend towards agreements between local clubs (collaborative agreements) is likely to develop in order to save certain teams from bankruptcy and also to look for survival. For instance, the Norwegian club Rosenborg has developed an original business strategy to compete in Europe, which may become the general pattern in the Nordic countries in order to be able to ensure the participation of some clubs in the profitable UEFA Champions League. Rosenborg recruits young talents from the local surrounding teams with the permission of these clubs. Thus, if Rosenborg is successful in the European competitions and collects good money from them, then these teams will be compensated for the supply of players. Also, these minor teams are willing to sell their players to Rosenborg because they know that if they do not often play in the first team of Rosenborg, they will be sent back for free.⁹⁴

If similar policies are not practised, or the teams do not take their right place in the market by spending according to their income, the future of many small companies will become dark. Gerry Boon from Deloitte & Touche said at Soccerex 2000 that, nearly half of the UK professional clubs would disappear if the abolition of the transfer system is not coupled with this type of policies.

⁹⁴ Lennart Johansson, President of UEFA



5.4.12 Conclusions

The original intention with the establishment of the transfer market one hundred years ago was to keep the salaries of the better players under control and prevent them from being concentrated in a few large clubs. Otherwise, the excitement of competition would have been lost. Now, it can be argued that these initial purposes have not been achieved. Economists have already demonstrated convincingly that top players will still end up in the large clubs whether or not there is a transfer market.⁹⁵ However, football authorities claim to keep it because of both the benefits to small clubs and the specificity of sport (the sporting sector should be governed by different rules from those applicable to other economic sectors). UEFA defends the transfer market in that it provides income redistribution to the smaller clubs as feeders of talent to the bigger ones. UEFA argues that many small clubs in the European top leagues are net sellers of player talent on the transfer market. This enables them to survive financially and hold their own against the wealthier clubs.

However, our analysis of the market mechanism shows that the abolition of the transfer market may have no harmful effects on the financial position of the smaller clubs. We are not saying that the closedown of the transfer system would not alter the industry, but we believe that the loss of transfer income, which small clubs are supposed to experience if there is a partial abolition of the transfer system, might be compensated by a lowering of the salaries that they pay their players at present. This might ensure financial survival, but it would create a serious problem: an important damage to the competitive balance unless a system of compensation and revenue sharing is implemented.

The situation is therefore difficult: shall UEFA maintain a system that has not fulfilled its initial purposes while it has restrained the movement of players? Or shall the EU allow a new version of the transfer system as long as it gives more freedom to players and improves its efficiency as a mechanism of redistribution and booster of competitive balance? We believe that the system has to be reformed, but in no case should be abolished. The EC does not seem willing to approve any restrictions on the movement of EU's players. However, the new

⁹⁵ Blanpain R. & Inston R. 1996



system has to be coupled with both a carefully worked out system of compensation for training and measures on revenue-sharing. FIFA/UEFA must ensure the financial survival of the smaller clubs as happens in most American Leagues. A more evenly balanced sporting competition is ultimately to the benefit of every club.

However, if the objective of any football competition is to maximize the attraction of consumers by boosting the competitive balance to a maximum rather than individual income maximization, is it enough to increase compensations and the revenue-sharing mechanisms to achieve that goal, or it is also needed the return to the old system based on nationality clauses (restrictions on the number of foreign players)?. Whatever the answer is, everything seems to rely upon the EU priorities; that is, the EU has to clarify its attitude towards football: does the EU prefer the implementation of the Competition Law at any price for football or it recognizes the particularities of the game and thus will accept all those measures that ensure the ultimate objective “competitive balance”? We will try to find an answer to this question in Chapter ten.

5.5 The Commercialisation of Football Through TV

Another driving force that is altering the industry structure is the higher commercialisation of football. Although the future exploitation of the internet (through image rights) will become one of the main sources of income for clubs, we have chosen the TV as the principal element that help us explain the industry structure that will prevail from now on. The massive advent of Internet in, say, 3-5 years might just uphold the situation that TV is shaping nowadays. Therefore, our purpose here is first to present the gradual development of the TV in football, understand the involvement of big media groups in the industry and explain the basic economics of the TV rights selling. Second, we will assess the involvement of the EU in football commercialisation issues and competition development.



5.5.1 Commercialisation and Football

Football has remained untouched by pure commercial interests for about a century. Even in England, where the first cases of private ownership were found in the early 1900's, the national association rules tried to prevent the "deformation" of the game from the influence of private interests through limitation in the dividend payment's policies of the clubs.⁹⁶ However, for the last decades a more commercial vein has appeared in football, understood as any business activity off pitch that aims to increase the clubs' income. Some of the reasons for this are as follows:

- A higher straightforward relationship between income and performance on the pitch
- An increasing trend of the players' salaries
- Higher freedom for the players
- Higher competition for top players between the clubs
- The discovery of football for other industries (TV, radio, sportswear, etc.)
- The high prizes in international competitions

These just represent some possible causes of the appearance of football as a commercial activity. Above all of them, we believe that the presence of TV and its bidding for broadcasting rights has been the main determinant for the roar of the industry. For this reason, we will study it in depth.

5.5.2 TV and Football

Football is the most important sport in Europe. It takes up 80% of all sports programming monies.⁹⁷ The audiovisual sector has taken off in Europe in the last two decades, with the arrival of private television and the tremendous technological progress that has been added. The relationship between TV and football has been very important since long time ago, but in recent years TV has become essential to strengthen the financial structure of European football. Traditionally, professional football clubs got revenues mainly from the sale of tickets for games. However in the recent times some new sources of income

⁹⁶ Szymanski, S & Kuypers, T. 1999

⁹⁷ Sportel 2000, Sportbusiness Limited.



have taken more importance than before (merchandising, Internet, stock market, and so on). Although, the most impressive change in the football industry is the dramatic increase of the economic value of TV broadcasting rights, making at the same time more important the sources of income from sponsorships. In fact, football is turning more and more dependent on the sale and exploitation of the TV rights.

Football matches are the television programmes, which attract the biggest audiences throughout Europe. Popularity is a key success factor of TV as the economic value of football is based on its range of viewers. Without doubt, football is simply the most popular sport in Europe, and the top television programmes are occupied by football events. It is amazing how this sport attracts masses of people in certain countries where the population is also large, whether the match is televised through free broadcasting or pay TV. The result is that advertising rates are at the top during the televising of important football matches. Thus, only large companies can afford this economic ranges for a few seconds broadcasted during the event. The money injected by these companies increases the value of the TV rights creating value for sponsorship companies, but also for TV companies and football clubs.

Now the boom has been enhanced by pay TV and pay-per-view. It is predicted that in 2008 there will be over 80 million football pay-per-view subscribers in Europe, which might generate nearly £5,5 billion.⁹⁸

5.5.3 Overview of the History of TV Rights in Football

The football industry has been transformed from a sport with fan appeal into a recognisable industry, which is reflected on table 5.2. Moreover, the high level of negotiations between football representatives and TV broadcast companies has brought a different perspective to football as a business. The transmission of football matches through TV began many decades ago but in the recent decades several important TV companies have been attracted to the football business. A complete review of the history of TV right is found in Appendix ten.

⁹⁸ LNFP, Spain 2000



5.5.4 TV Transmissions

TV has been one of the most essential elements in the internationalisation of football. For instance, the transmission of the Champions League in different nations makes the range of fans broader. Moreover, the opportunities to get more revenues and increase marketing potential have forced the rapid development of TV broadcast companies. Nowadays, TV is able to offer several options to football fans to enjoy broadcasted matches including cable, satellite, pay per view technologies, leading to interactive TV distribution channels, which can be used for communication with fans and merchandising.

Each of the three main means of delivery - cable, satellite and terrestrial – can be expected to make a different contribution to the overall expansion of the domestic football leagues. For the present purpose we will focus in how supporters are receiving the final product “match” through the different ways. Nowadays, every European country is situated in different phases of the technology transition process but, in general, three main transmissions have been exploited in the European football industry:

- *Free television channels*, where football matches used to be broadcasted before the TV companies’ war started. Every supporter had access to football games for free; meaning that there were not many revenues for football clubs from TV companies. Some European governments have banned certain restrictions in broadcasting special events that the authorities consider as a popular interest and ensure that these events are shown on national-free TV. For instance, the case of the Spanish and Danish governments, which force the public transmission of particular football events.

- *Pay television channels*, where the supporter has to pay a monthly fee for the specific channel required. By this means the use of a coded signal ensures the broadcast companies that only the subscribers will receive the sign and get the service previously paid. However, in this terrestrial technology there is a limited capacity where only few channels can be broadcasted and thus, limit the number of matches screened for the viewer enjoyment. When a supporter gets the subscription of a private channel, he/she does not have any option to choose



the football match that he wants to watch. The supporter is subject to the TV company's decision of which TV rights for a specific match it purchases and then, the supporter has the right to watch the game that the TV company has purchased previously. In the current English Premier league, this transmission is the most popular, even though they are in a transition process where the next step is the pay-per-view. Also in Sweden, Canal Plus uses this system to screen the top division matches.

- *Pay per view (PPV)* is the medium where fans have the free option to choose which and how many matches they want to watch and pay specific rates for each event. With digital technology it makes it possible to broadcast up to hundreds of channels at the same time. As broadcasters need to fill this potential air time and football matches are excellent programmes to fulfil not only their financial expectations, but also the supporters' needs, this medium is having increasing acceptance in certain countries in Europe.

The appliance of PPV in some European countries had brought many implications for the value of live TV rights for football and for the process in which TV rights are negotiated. This digital technology increases the value of such rights because it enables broadcasters to extract more revenue from a specific match. In addition, as top clubs are aware of this revolution, they are encouraged by the technology to become broadcasters themselves and eliminate, in the long run, the intermediaries (media companies). This fact could be exemplified by the case of Manchester United, which has already established its own TV channel. Other clubs, like Real Madrid and FC Barcelona also have exclusive channels but they are constituted as some kind of "joint ventures" with media companies. Without doubt, these facts are altering the industry structure and its process of expansion.

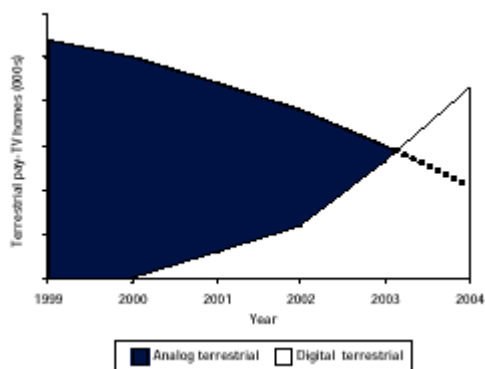


5.5.5 The Future Evolution of the TV Market

The main aspects that will characterise the future of TV in the upcoming years are as follows:

- Our hypothesis is that analog TV cannot compete with the interactive services (games, e-mail, banking, shopping, etc.) that the digital TV - cable and satellite - will offer in the future, as proved in the figures 5.1 and 5.2. Datamonitor, one of the most prestigious consultancy companies in TV and internet, predicts that in 2004 the 50% of the European digital market will be dominated by the satellite pay TV; there will be 39 million of households in Europe with digital TV. The digital cable will account for 35% and the digital terrestrial will control 15%. Thus, digital TV will transform the market. The forecast is that digital TV will completely replace the analog TV between 2010 and 215 in many European countries.⁹⁹ UK and France are expected to be the European countries with the most advanced digital TV market due to the early entrance in these two markets of Canal + and BskyB. New digital services and the expansion of the pay-TV sector will be the main drivers for growth of digital TV in Europe.

Figure 5.1. European market size forecast to 2004: Analog and digital terrestrial

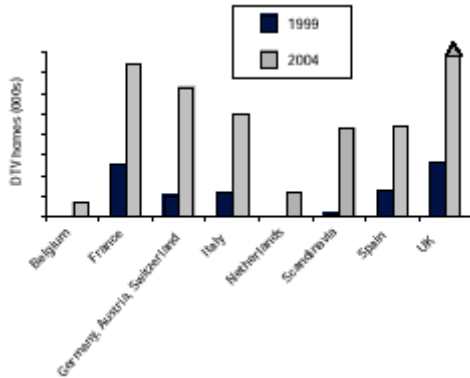


Source: <http://www.datamonitor.com>; Digital TV markets in Europe, to 2004

⁹⁹ www.datamonitor.com



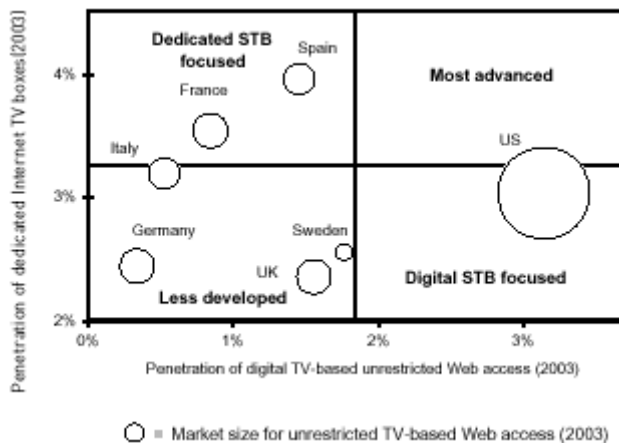
Figure 5.2 European digital TV markets, 1999-2004



Source: <http://www.datamonitor.com>; Digital TV markets in Europe, to 2004

- Also, the interactive TV (iTV) will be present in 80 million households in 2005, and with a potential basis of 200 million TV sets in Europe, the iTV is likely to overwhelm the internet as a main platform of e-commerce. As the results of the fact that Teletext and Web-on-TV have not been successful and also the iTV is included in the European digital sets, may lead iTV as a promising technology. Datamonitor believes that in 2003 one out of five European households will have iTV. Interactive digital TV service providers will increasingly offer Web access and, thus, will compete with Dedicated Internet TV service providers for increasing consumer demand in interactive service provision (see figure below).

Figure 5.3 Unrestricted TV-based Web access in Europe and the US.



Source: Datamonitor



- In the future new competitors will appear in the industry of TV. In most of the countries, the governments allocate licences to operate in the industry. Since governments are very concerned with the decrease of consumer prices, they are likely to concede more licences in the future to promote more competition.

In short, the growing development of the TV sector reflected in the three points above make us think that the TV scope for the following years is splendid for the sale of TV rights in football. Thus, it is expected that this new revenue stream will grow and develop even more, generating attractive income opportunities for all football clubs.

5.5.6 The Differences Between Leagues

Football federations have realised how important it is to appear on television. In addition to a huge audience, televised broadcasts attract sponsors. The prospects, as shown above, are even better due to the higher competition among TV companies. Thus, television has replaced ticket sales as the principal source of finance for professional football. However, football organisations have pocketed this easy money from television without further thought: they see the short-term gain but have failed to analyse the medium-term situation.

On the other hand, the differences among leagues are notable. The impact of TV rights development on individual leagues and clubs will rely upon the characteristics of each country: *penetration of pay TV and all its variants, the total number of cable or satellite TV subscribers to the PPV system, the total size of the population, income per capita, competition among TV companies and platforms bidding for the rights (satellite, cable, iTV, internet), or the own attractiveness of the football league.* Most of these variables reach their maximum worth in the big five countries, which are highly populated and the markets turn out to be very attractive for the international cable and digital TV platforms. Thus, those elite followers from the top 5 leagues will be benefit a great deal as long as PPV and iTV increase their penetration. Higher sums of money will flow in the new millennium to the hands of those lucky clubs taking part on the top domestic leagues. However, a different situation may turn



up in the smaller leagues in Europe. The small size of the population will not enable the clubs to receive as much money as in Italy or England, for instance. For example, in Scotland the two biggest clubs, Glasgow Rangers and Celtic, are openly concerned with their situation. While they can attract over 60,000 spectators to the stadium, they cannot sign substantial TV deals because of the small size of the Scottish population. On the other hand, their English neighbour Leicester City attracts on average 20,000 spectators, which represents 3 times less attendance than in the case of Glasgow Rangers, for instance, but its TV income is much higher.¹⁰⁰ The situation for the Scandinavian top leagues is much more depressing, even though TV money is much higher now. The lack of both TV competition and a big population, as well as a lower degree of the league commercialisation, restrain considerably the clubs' income potentiality. In Belgium and Netherlands, for instance, pay TV penetration is very high, income per-capita is also substantial and the leagues attractiveness is not bad, therefore its future seems a little better than in Scandinavia.

The situation becomes even worse if we regard the outcome of football televising on other commercial activities. Sponsorship and merchandising activities increase their value with TV and thus, the contracts that the elite followers sign in the big five leagues are much more worth compared with those in other small leagues. This is mainly because sponsors go where the big talent is and thus, the biggest football sponsors are also in the big leagues.

5.5.7 TV Income Redistribution

We have already stated that balanced leagues are more attractive to spectators, and thus some kind of equalization of resources is preferable. In the USA, this has tended to happen through human resource equalization via the rookie “draft system” (see section 5.5). In Europe, the trend has been through a form of financial redistribution of the TV income. The initial practise when the first TV rights were sold was the collective selling. The national federation or the professional association negotiated the whole package of TV rights with the permission of the clubs. However, the principle of solidarity in European

¹⁰⁰ Deloitte & Touche Sport (August 2000)



football has recently weakened. Two factors pushed the collective selling down. First, the EU and national governments intromission in this type of selling finished declaring the collective selling in some of the leagues as an illegal practise. Second, the football elite and some elite followers, seeing the rewards on offer in European competition, are determined to ensure their own resource maximisation domestically and thus heighten the chance of qualifying for European competition. Consequently, one of the ironies of recent changes in the structure and operation of the leagues is that the time of football's greatest wealth (explained by the TV rights) is also the time of least redistribution within the industry. The initial income sharing arrangements in football has been altered in favour of the largest clubs as soon as the TV rights have exploited.

Clubs can be regarded as maximisers, seeking to maximise playing success while remaining solvent. This idea is in contrast to the idea of conventional companies as profit maximisers. Thus, when playing success is the dominant objective because it provides access to an additional market as the European competitions, then the question of outcome uncertainty within a domestic league structure becomes less important. The desire to be competitive in Europe lessens any commitment to income sharing domestically because clubs will wish to maximise the likelihood of both reaching European competitions and being genuine competitors in those competitions.

5.5.8 Corporate Ownership

Another aspect to take into consideration with regard to the higher impact of TV rights in football is the growing infiltration of sports clubs by large audiovisual (media) groups. The concept of “corporate ownership” already introduced in Chapter four reaches a wider dimension with the TV rights' issue. The entry of media groups into the clubs has not only represented higher money in the game but also a threat to the romantic idea of football. Companies like Time Warner, Canal Plus, Telefónica Group or BSkyB have been the beginning of the end for what remains of the traditional game. These powerful groups see ownerships of European sporting sides almost entirely in terms of the rights they hold for TV and elsewhere.



Football federations condemn this growing interpenetration as a threat to the integrity of football in the future.¹⁰¹ Aware of the importance of football, TV companies saw straightaway how important it is to involve football in their activities. The phenomenon is not exclusively European, it is the same in the United States. Audiovisual groups would like to have exclusive rights to some clubs in order to ensure their broadcasting rights should collective selling is substituted for individual selling. Some TV groups have acquired the rights to clubs for the entire continental competitions, not just domestic ones. The question is whether the principles of football ethics are compatible with this interpenetration.

In Europe, there are some cases where television companies have bought important stakes on leading football clubs. The most important examples are found in UK. Everything started with the attempt from BSkyB to buy the richest club in the world, Manchester United. But BSkyB is present in five English football teams with a participation of 10% in each club: Manchester United, Leeds United, Manchester City, Sunderland, and Chelsea. With all these clubs, except with the Manchester United, BSkyB has subscribed agreements to operate the clubs' image and internet rights.¹⁰² Granada Media, another UK TV company, bought a 5% participation of Arsenal FC in order to manage the TV rights and to cover the opportunities that arise on the Internet. The UK cable and telecom operator NTL also owns 10% of the shares of the Aston Villa and the Newcastle United¹⁰³. Even telecommunications groups have established business relationships with UK clubs. The most important so far is the one signed between Vodafone (mobiles) and the Manchester United, which is worth £30 m just for sponsorship rights.

In France, Canal + controls some clubs, and the Girondins de Bordeaux have just been bought by CLT-UFA and M6. Other particular case is the Italian AC Milan, which is owned by Silvio Berlusconi. This media tycoon has a very important media group (Media Partners) and, even though it does not seem a monopoly, it is clear that he has dominance in the Italian football. In Spain,

¹⁰¹ Directorate-General X. Brussels, 26 April 1999

¹⁰² www.expansiondirecto.es, 2000 03 04

¹⁰³ www.expansiondirecto.es, 2000 09 08



media groups have not important participations but the future floatation of clubs expected in 2002 might change the situation.

As proved by these examples, corporate ownership has turned football into a millionaire business. For those clubs quoted in the stock market, the arrival of these groups usually means a considerable increase of their market value and a more professional commercial direction.

5.5.9 The Impact of the Technological Development in Football

There are two direct ways in which fans consume the product “game”: attendance in stadiums and audience through TV watching a football game. In the first case, there are many variants that influence the attendance of a football match. Some of them are: the level of performance of the clubs involved, the importance of the game, the facilities of stadiums, the outcome of the game (level of uncertainty), the players’ status and quality of performance, the style of performance of the clubs participating within the match, historical records and so on. In financial terms, it has long been recognised that attendance figures no longer guarantee the financial success of any club, but, absolutely, it still remains an important source of income for clubs that enjoy large audiences every time that they play at home. However, the question is whether football clubs will be more concerned with the maintenance of stadium spectators or the maximization of the number of TV viewers.

In the second case, when fans prefer to stay at home and pay for watching a game through TV, there are similar factors than those that affect the attendance within the stadium, but adding the facts of distance between the local club and foreign supporters, the technological facilities and their quality, the cost for a broadcasted match, etc. This type attendance benefits the clubs more because they can ask for substantial deals with TV broadcast companies that are now higher than the ticket selling revenues. It seems that clubs may be much more interested in enhancing the efforts in favour the maximization of the number of TV spectators. However, let us to assess the impact of this technological development:



1. *Falling attendances on live TV coverage.* The relationship between live match transmissions and less stadium attendances is not straightforward as certain types of matches are more interesting than others, because of the attractiveness of the clubs participating in the match or the importance of the game. In fact, there are some top clubs whose live broadcast transmission does not affect at all the revenues from ticket selling for a match, which means that both sources of income may be exploited at their maximum to get the highest income ranges. Even though technological advances are reaching elevated levels, where the consumers can have multiples choices, the attendance at stadiums does not seem to be affected by the TV, although it does not ensure that in the future supporters will rather assist to the stadium instead of staying at home and watch the game. Most of the clubs, however, do not operate in the same great conditions than the football elite. Even if TV broadcast matches affected the revenues from the ticket selling of a particular club, the revenues from the sale of TV rights are higher and thus, clubs would prefer to obtain the income coming from the TV broadcasters and compensate the lost obtained from the low attendance during a particular season.

2. *Flow of cash.* Most of the TV cash is likely to go towards wage bills for top players, which makes a more concentrated and inflated market for those players that have already prestige and status. With the growing in-flows of money into the game, a higher number of clubs may be able to afford top players. Therefore, we believe that clubs that are completely dependent on an ever-growing pot of TV money could be unhealthy for football in general. This idea will be further developed in our discussion of the impact of the UEFA licensing procedure (section 5.4).

3. *Gap between the football elite and the rest.* The escalation in the fees of broadcasting rights for football has only served to widen the gap between the richest and poorest clubs. This phenomenon is mostly explained by the uneven distribution schemes of the money from TV. Elite clubs will have more possibilities to acquire top players than those clubs with less position and less financial sources. Furthermore, the amount of money paid for the TV rights of the top leagues only emphasizes the gap between the big five leagues and those



in small countries, in terms of media coverage, profits, wages and skills. Even in the same league, the differences between the so lucrative top divisions and the lower divisions are generating a considerable gap. It makes it more difficult for a club situated at the top in a lower division to be promoted to a higher level.

5.5.10 EU Involvement in the Sale of TV Rights

As outlined in the transfer system, football's governing bodies are increasingly losing many of their powers to EU directives. The rapid growth of football in the last years has attracted the interest of the European Union, trying to regulate the football in the same way as any other industry and, simultaneously, the industries associated directly or indirectly with the European Football such as sportswear or TV. The EC is particularly concerned about the *impact of the collective sale of football rights on the structure of the TV market*. As the market for broadcasting is highly concentrated, there is a potential risk to constitute an oligopolistic market.

Most European football clubs have negotiated their TV rights collectively in their national leagues. Also, the most important European competition, the Champions League, uses this system. This is achieved by making it a rule of memberships of the league that clubs assign their broadcasting rights to the league.¹⁰⁴ The purpose of this type of negotiation is to gain balance among the weaker and stronger clubs, and achieve some form of equality and redistribution of the broadcasting revenues. Collective negotiation should assure the financial revenue for the elite followers, but also the reasonable TV coverage for all clubs in the national league. However, the collective negotiation of football broadcasting rights was initially considered, according to European Union's principles, as questionably due to four main aspects:

- First of all, the EU regards that individual clubs are restrained to sell their rights to an opened market, where they might obtain better deals for their teams' performances. The fact that football clubs sell their TV rights together through a association might be regarded as a cartel. However, the interesting thing for

¹⁰⁴ Garland, J. & others, 2000



football itself is the maximization of the league's revenues and not the individual maximization of revenue. The top clubs, as the protagonists of a certain league, must contribute to maintain a balance in the tournament. Without competition balance, all the participants in a league will finally lose. Therefore, the collective deals make leading clubs subsidize, in a certain way, the lagging clubs in order to maintain the stability needed to perform successfully.

- Second, this collective practice is likely to affect the operation of the TV market by allowing rights to become available only periodically and by linking the products in global offers, which are made only by huge companies that can afford extremely high rates for the TV rights and subsequently close such important deals. By this negotiation the market position of the most important broadcast companies is strengthened because they are the only ones that can bid for all the rights in one package.
- Thirdly, since many leagues do not operate PPV yet, most of the TV deals restrict the total number of matches on television, eliminating the games that count with less attendance. Thus, the EU regards that the consumer is also suffering the consequences of such collective agreements, because he has to accept that TV companies have already decided which matches broadcast during the season. Therefore, this negotiation limits the consumer choice. Hence, our view is that the PPV introduction in most of the leagues will allow the viewers to make their own decisions.
- The fourth aspect to point out is the length of TV contracts for broadcasting football matches for several years, which has provoked the intervention of the European Commission in several EU members.¹⁰⁵ The European Union claims that long-term contracts restrict, in some way, the free market operation. On the other hand, football counterparts argue that with these long-term contracts they can have financial security to run in the following seasons. Therefore, the last contracts signed in the main leagues are not longer than five years.

Despite these points, the ECJ has ruled that exclusive licenses of performing rights are not automatically an infringement to the Article 85 of the Treaty of Rome,

¹⁰⁵ Garland, J. & others, 2000



which prohibits agreements that restrict or distort competition, thus covering collusive agreements.¹⁰⁶ Similar principles could be applied to sport rights. However, the exclusivity of a wide range of TV rights with a long duration is unacceptable for the EC. For instance, in Spain the first PPV contract was signed for a long period of time when there was only one digital platform in the Spanish TV market. With the entrance of a couple of competitors (one in cable and the other in digital), the EU sentenced that the initial contract had to be opened for the other two competitors as well, because the long-term contract might restraint competition. However, most of the PPV contracts are now conceded on exclusivity for a length of 3-4 years. One of the reasons for exclusivity is sport TV companies can only charge for the matches broadcasted if they have a unique product. It means that TV companies should offer programmes not available on other channels in order to sell them to fans. For TV companies it is necessary to have the exclusive broadcasting rights in order to build up audience, increase revenues substantially, and differentiate themselves from competition.

5.5.11 Conclusions

As has been emphasized here, the impact of football on TV companies is very important because football matches always have very high audiences in the European market. The result is that the total income that has entered the football business has soared. However, this issue has also meant an important change in the industry.

The future of TV income seems even better due to the probable higher competition among TV companies and the development of new transmission channels (digital TV, internet, iTV, etc.). However, the commercial activities are much favourable for some clubs and, thus, the impact of football commercialisation will be different in each European football market. The set of variables presented in the section 5.3.2.5 will push the top leagues in Europe even more far ahead the weaker leagues, unless football authorities put in practice some redistribution mechanisms in European competitions to balance this situation. However, solidarity has proved to be the exception rather than the general rule for the last years. The EU involvement in the collective selling of TV rights, the higher role of corporate ownership within the game, and the

¹⁰⁶ www.europa.eu.int



own ambition of the football elite are the main threats for the future competitive balance in football.

Therefore, the most wealthy period in the football history has produced further differences between the football elite and the rest. First, it is undeniable that the great benefactors of this new trend are the high-status clubs, the football elite. Second, within the strategic group of elite followers there are also important differences with regard to the utilization of commercial activities to ensure playing success. This fact is explained by the driving factors of these commercial activities: market size, number of PPV subscribers, attractiveness of the domestic league, etc. Thus, in economic terms, those followers in the small leagues cannot compete in the same financial level than the followers in the big five leagues, which can receive higher income.

For clubs like IFK Göteborg, Brøndby, or those in the eastern countries, the only way to progress and ascend in the European football pyramid is through qualifying for the European competitions, mainly the Champions League. Since the small size of their domestic markets do not provide high revenues, its TV income potential is minimal and merchandising is also limited. However, the participation in UEFA competitions might have an extraordinary effect on revenues. Also, since clubs have to provide continuously better conditions to their fans, facilities seldom are extended because the cost becomes prohibitive unless extra-income comes from the UEFA competitions. Even though the potential commercialisation of small leagues is lower, the commercial activities are the only way to opt for the Champions League.

Another aspect to analyse is income redistribution in today's football as an element to perpetuate the attractiveness of football as an entertainment service and as an element of social and cultural integration. Collective selling has to be the main mechanism to redistribute wealth among clubs. It has not been proved that individual selling of TV rights guarantees higher total income for the overall leagues. Thus, income redistribution should be the general practice to obtain competitive balance.



5.6 *The UEFA Licensing Procedure*

The third driving force that we have identified is the introduction of a domestic licensing procedure for clubs, based on minimum criteria laid down by UEFA, as a condition for participation in the UEFA club competitions from the 2002/2003 season. Our aim here is to present this program, analyse the business competition strategies of professional European clubs nowadays, and, finally, forecast the future implications of this new procedure.

5.6.1 Introduction

The expectations placed in a football club by all its stakeholders (supporters, members, players coaches, sponsors, the media and the general public) are no longer of a purely sporting nature. The activities of the clubs involved in top-class football are moving increasingly in the direction of service enterprises. In some cases, attempts are made to assure a club's financial needs by floating the club on the stock market (i.e., Manchester United, Lazio, Borussia Dortmund, Sporting de Lisboa, etc.).

However, the infrastructure, organisation and quality of leadership in the clubs has not kept pace with the rapid growth of the football industry – which has been speeded up by rapidly increasing TV revenues – and the clubs often do not have the requisite professionalism. This in turn leads to increased (financial) risks for all those companies involved in business with the club, further reinforced by the fact that the clubs are involved in sporting, rather than financial competition. All clubs rely on each other within the competition. If a league does not have evenly-matched teams, there are no attractive competitions and matches, either for spectators in the stadium or for TV viewers. Sport's particularity lies in the fact that, ultimately, only one of the clubs can win the championship at the end of a season. This leads, at a time when a club is experiencing sporting success or failure (threat of relegation), to very short-term-oriented decisions (increases in salaries and bonuses at a time of euphoria, or the dismissal of the coach and panic-buying of players at a time of depression). However, this can have negative consequences as far as the club and its financial situation are concerned, and can even lead to the club going bankrupt. If this happened to a professional club during a championship in progress, there would not only be negative headlines for the club, but the entire



football family would also suffer considerable loss. The credibility and image of football as a whole would suffer considerable damage, with the effect that sponsors, investors, TV stations, the media and, not least, the spectators would stay away. TV enthusiasts, who are so important as far as viewing figures are concerned, might turn off their TV sets and turn away from the club, thereby transferring the damage to the other clubs and domestic and international associations. Therefore, in order to prevent such a situation arising in the future, the UEFA has drawn up a club licensing procedure, whose three most important principles, as far as business is concerned, are as follows:¹⁰⁷

- *Improving the economic and financial capacity of the clubs, increasing their transparency and credibility, and giving the necessary significance to the protection of creditors. The club will have to prove that it can exist through the coming season in financial terms. In order to receive the licence, the club must fulfil the following cumulative conditions: 1) It must have sufficient financial resources at its disposal to be able to fulfil any obligation; 2) It must be able to prove that it forecasts positive net assets at the end of the season; 3) The club must be able to prove that it has a good financial structure (including organisation and management).*

- *The administration and organisation of a club should be adapted, both quantitatively and qualitatively, to modern-day circumstances. This should involve the recruitment of full-time officials with the appropriate training and qualifications.*

- *Further promotion and absolute priority as regards the training and care of young players.*

The licence will be issued by the national association and would entitle a club, which has also qualified on the field, to enter the coming season's appropriate UEFA club competition. It would not be possible to enter a UEFA club competition without a national licence (see Appendix twelve).

¹⁰⁷www.uefa.com



5.6.2 The Effects of UEFA Licences on Competition

It is not our intention to discuss here how UEFA can make clubs comply with the different requisites of its programme. Instead, we intend to present the potential alterations that this licensing procedure might have on the business strategies of the European clubs, basically considering the financial requisites of this plan.

UEFA intends to reject from the European competitions those clubs that do not have a balance in their financial situation - a positive future net value. The EU seems to support this proceeding since the crazy struggle to contract the football stars - who enable the league and clubs to sign enormous TV contracts - has spiralled upwards so much that may finish in disaster. Brussels fears that the high income that the clubs obtain from the sale of their televising rights vanish into the air due to transfer spending and not debt payments. With few exceptions, like the Manchester United, Ajax or Lazio (on the stock market), the governing authorities do not trust the balance sheets presented by the clubs (most of them companies already deprived), on which the national sport organisms exert little economic control. Brussels also considers that *"it is not good that clubs with deficit of millions of pounds go to speculate in the transfer market, buying players with astronomical amounts"* and regards the Figo case as *"an extreme example of commercialisation of football."*¹⁰⁸

For this reason, we will analyse an eternal dilemma within football: *Shall football look for profit or the pursuit of playing performance on the field?*

5.6.2.1 Playing success and financial success: is it possible to buy success?

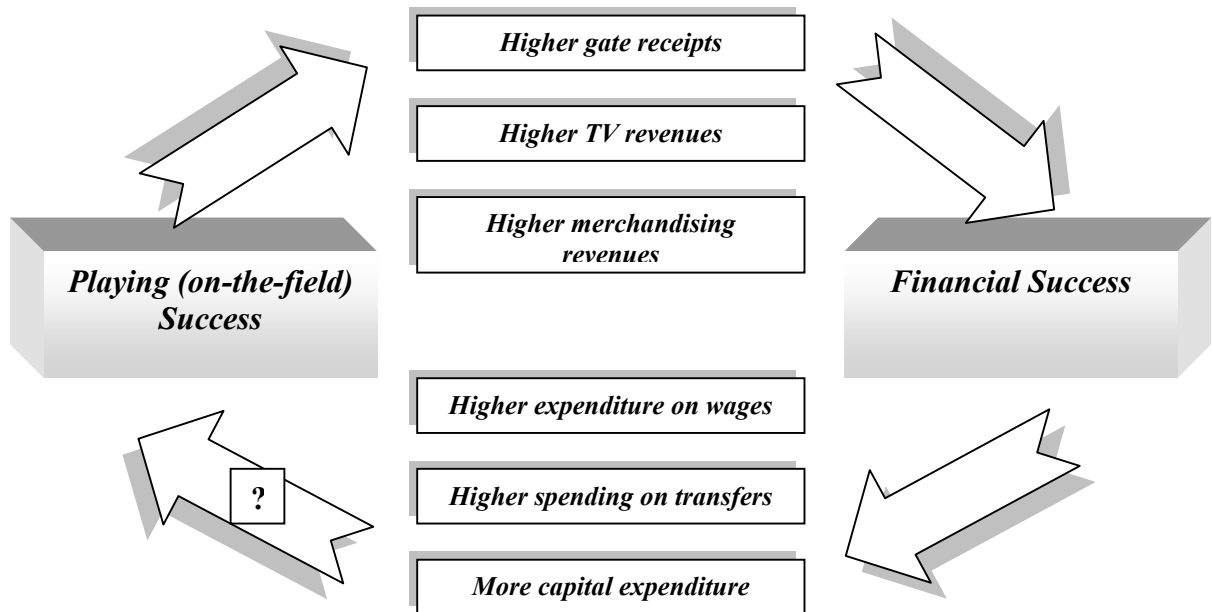
Football competition is guided by the motivation to win. The relationship between playing success (measured by performance in a league or championship) and financial performance is a key factor to understand the functioning of the football clubs as business entities. A commonly expressed view is that success breeds success (a club which enjoys playing success also enjoys financial success), which is based on the theory of clubs as virtuous cycles. Thus, there would be no conflict between satisfying the fan's desire for championships and the shareholders' desire

¹⁰⁸ www.elpais.es, 2000 09 02



for profit. This theory affirms that successful clubs attract more spectators, more appearances on TV, and greater merchandising sales. By using this financial muscle, they attract and retain the best managers and players, and further playing success follows. Figure 5.4 shows this concept.

Figure 5.4 The virtuous cycle's theory



Source: Ashurst Morris Crisp., 1997

The virtuous cycle theory says that over time the disparity, on and off the field, between clubs widens, so that only a handful of clubs dominate the game. Alternatively, there are opinions saying that much of the investment in clubs is based on the proposition that success can be bought. Clubs, which are underperforming can, with an injection of external money, secure better managers, players and develop a team that will eventually perform better on the field attracting increased income. That means that a club can break out of a vicious circle. There are examples of clubs that have bought their way to the top. For example, the recent experience of Deportivo de La Coruña in Spain and Lazio in Italy. Both sides enjoyed substantial financial injections for the last years, especially Lazio. They bought top players and won the domestic leagues in 1999-2000. They managed to break the overall dominance that two or three clubs in both countries had for the last decades. However, this relationship is not 100% true. There are a number of examples that money alone is not sufficient for footballing success. Middlesbrough in England and Atletico de Madrid in Spain provide particularly apt examples. Despite



substantial amounts of money on transfer fees and wages needed to attract several foreign players, both teams were relegated to the second division.

Szymanski & Kuypers (1999) point out that many times *playing success might lead to negative profitability* (i.e., Real Madrid). He analyses the historical relationship between profits and league positions for a group of 40 professional clubs in England between 1978 and 1997. That study showed that regardless of the league position, the whole group of clubs has presented a range of profits very close to zero. However, that range of profit tends to grow for higher league positions (a small number of clubs at the top end of a league made large profits, but a significant number of clubs at the top positions also made financial losses). This and other statistical analyses have repeatedly proved that in the business of football *there does not seem to be a positive relationship between profits and league position*. Even winning the big championships like the Champions League does not appear to affect profits significantly (i.e. Real Madrid). However, it is true that *playing success enhances the income-generating capacity of clubs*, even though the revenues produced do not transform in profit later on.

On the other hand, there appears to be a strong correlation between the wages paid by a club relative to the average, and the performance of the team relative to the average. This positive relationship has been used to argue that *wages determine playing success*. But at the same time, high wages limit clubs' financial profitability.

5.6.2.2 Two different ways to compete in football

Professional clubs appear to be caught in a classic dilemma. Given their aim to win, if they pay high wages, the financial business will suffer because the whole income goes to wages. But if they do not, the business will still suffer because they will not win any trophies. Football is showing all the classic signs of a bubble economy with a clear inability to control costs, which basically means players' wages. That is followed by the lack of a serious, coherent long-term vision and a dependency on volatile or unproven sources of income. As soon as money comes into football, it seems to leave just as quickly. Therefore, club directors have to choose between two different strategies.



The first alternative is a “**sound (crazy) management,**” one that supports the concept of playing success. In the past, football directors did not put much emphasis on financial aspects. They were guided by a precarious cycle of: borrow money to buy players, to win games, to attract fans, to generate cash, to buy players, to win games,... Even now, this cycle remains the preoccupation of most clubs, which seem to be more concerned with a good playing performance than with finances. Clubs like Real Madrid usually overwhelm those small competitors that care about profits and most importantly, they are likely to create damages to the industry. The ability of this type of football club to assume a position beyond that which its income capacity would seem to deserve proves that professional business management has been unable to defeat those management practises that are aimed to success on the pitch at any price. One of the main reasons why many football clubs are still governed by crazy management is the current growing trend in salary levels. Knowing how the transfer market works, it is simple to understand that championships are relatively easier to win if a club has the best players. However, the costs of this policy are devastating. Given the above correlation between club performance and wage bill, some managing directors in clubs like Real Madrid have so far had little option other than pay a big part of their turnover in salaries. For instance, the broadcasting rights contract in the UK Premier League covering from 1992-3 to 1996-7 was worth £245m, but the net transfer spending of Premier League clubs combined was approximately £240m over the five seasons.¹⁰⁹ This was even without regarding the huge increase in wages that went with that expenditure.

However, there is a second growing alternative based on **financial success**. In the past decade most of the clubs that were floated on the stock market started taking care of their clubs’ financial results. New professional investors and powerful media groups have taken important stakes within some clubs and, therefore, there is more interest in making profits. However, those clubs that also set financial targets see how competitors eliminate any kind of hope to obtain profits. Any money brought into the industry (mainly by TV rights) will

¹⁰⁹ Garland & others, 2000



not be forwarded to pay dividends or implement youth training investments provided that clubs compete for the top honours. Ultimately, it is used to the purchase of players. If a particular club chooses not to compete with clubs like Real Madrid but to earn profits by not spending on players, it will find itself abandoned by their supporters and therefore will sink into the lower leagues. However, how to be much more attractive to fans if you do not bring football stars? It is hard to see clubs like the English Tottenham, which has adopted a clear strategy for profits instead of playing success (Szymanski, 1990), getting higher support, when other clubs sustain enormous losses but still have top players.

Still, the dilemma of playing success or financial performance is unbalanced in European football. Apart from the recent success of Manchester United in the 1990's, winning the UEFA Champions' League in 1999, many of the clubs that succeeded in European competitions for the last years did not seem to care so much about end-year profits. The most clear example is Real Madrid that has twice won the Champions League in the last three years despite a total debt of £156m.¹¹⁰ However, who cares among Madrid's supporters about such a vast debt if the club is not a private company (it belongs to the own supporters)? Is it not true that supporters want the club to win championships?. The result is that the boom of football clubs as potential investments and the initial valuations of many floated clubs have gone down as investors started to be a little more cautious about football clubs as investments. The 1998 Deloitte & Touche Survey of Club Accounts showed that the twenty football clubs quoted in the UK had a combined market capitalization of £1.054m on 30 June 1998, compared to a combined peak valuation of £1.899m. A club becomes a potential product of marketing if it manages to succeed but success has a high cost that eliminates all your revenues. In fact, the only reason why investors go on putting money into the clubs is the belief in the future. Investors are expecting big changes in the way football clubs operate. The stock market interest in football has one reason: the huge injection of TV rights money into the game.

¹¹⁰ The new president of Real Madrid, Florentino Pérez, stated that the club was at the edge of the bankruptcy when he entered the club in July 2000 (<http://www.elpais.es>).



5.6.2.3 The effect of the UEFA licences

Given the present structure of competition within Europe, profit-oriented strategies do not seem to have a good future. Thus, if outside investors intend to make money with football, the industry will have to restructure its competitive process. UEFA seems to perceive this fact, but with a different interpretation. UEFA has realized that the current exorbitant salary levels are not only perceived as an exploitation to supporters, who are the actual base for future revenues, but represent the most evident threat to the goal of competitive balance. In fact, it is right. Since the season 1996/97, there have been at least three members of the G-14 in the Champions League's semi-finals each year.

5.6.2.3.1 Licences as a kind of salary cap

Nobody doubts that salaries cause the big part of the financial crisis of many clubs. Salary caps would obviously be a good manner to impose an upper limit on wage expenditure with the final aim of ensuring competitive balance and uncertainty of outcome. But, since the regulation of the market by salary caps is unlikely to happen due to EU legislation, other instruments have to be applied and the best solution at this moment seems to be the licensing procedure for 2002/03. This system does not restrict payment to individual players, but instead could put a limit on the total sums of money that a club can spend on player salaries: the clubs' total expenses will have to be as high as their income capacity. The potential effects on competition balance from these licences are not as powerful as the own salary caps, which set a percentage of the club's gross revenues as the limit to spend on players' salaries, but they could work as a initial solution.

5.6.2.3.2 Licences as a restraint to "sound management"

The financial restrictions that the licensing procedure will bring may prevent clubs that are heavily indebted from spending more than they can afford. Thus, those clubs that based their strategies on sound management, as described above, could see how their business strategies are restrained.



5.6.2.3 Licenses and competitive balance

Nobody questions that UEFA tries to look for new ways of increasing the competitive balance through the licensing procedure. As seen in the two points above, there might be good prospects. However, the opposite effect could also happen.

Given the restraints that the licences will put on players' spending, clubs will surely seek for ways of generating new sources of revenue. The most likely one may be the flotation on the Stock Market. This may stand for a new development in the financing of European football (so far it is not a very general practise), increasing the emphasis on stronger commercial management. Clubs, therefore, will take care of profits as a new objective. The higher financial care of clubs may lead to an increasing interest for individual profitability, that is, clubs will forget about the economics of football and concentrate on their own well-being. Szymanski & Kuypers (1999) argue that behaviour is based on the prisoner's dilemma: *"Because of interdependence, rational individuals cannot base their plans on what they alone would like and must take into account the likely responses of others. In the prisoner's dilemma, by taking a view of rival's responses individuals are led to make choices which appear sensible from a personal perspective, but lead to collective disaster."*

This phenomenon may lead to a growing competitive unbalance, which means a wider gap between the European football elite and the rest, unless football authorities stop any individual action that damages the general benefit of football (i.e., Superleague). In fact, that would be a move towards the American sport business models, which are based on dominance of revenues from sponsorship, merchandising and the sale of broadcasting rights. The big difference between America and Europe is that American leagues have strong restrictions of output in terms of the number of clubs and the number of games (output restrictions is another way of profit maximization): *"The NFL in the USA has 30 clubs for a population of 260 million. England and Wales have 92 clubs with a further 40 clubs in Scotland for a total population of 56 million. Whereas clubs in American professional sports leagues play once a week for*



*three months of the year, clubs in British football begin in August and finish in May.*¹¹¹

5.6.2.3.4 Licences and squads size

Another immediate effect of the licences could be a reduction in squad sizes in order to protect club's profitability. The fact is that if the ratio wage bill/total turnover keeps growing, given the spending limits implied by the new licences, clubs will have to adjust their wages bills though shorter squads. Given that salaries of players will still increase over the growth of turnover, as expected from the change of the transfer system, the restraints put ahead by the licences will bring clubs in a dilemma: 1) buying less top players and complete the squads with medium footballers in order to have large squads (cheaper labour) or 2) still spending all their income-generating capacity on top players, which would reduce the number of the players in the first squads. Many clubs that try to qualify for the UEFA competitions might opt for the second alternative.

One of the big doubts under this movement towards massive commercialisation and profitability awareness within football is the response from the less professional leagues. These championships are still governed by both a romantic sportive spirit and semi-professional management. The only chance to play a relevant role in Europe is to change their mentality and adopt that prompted by the changes. The survival of weak leagues and their clubs is not questioned – national championships might last forever regardless the level of professionalism but its attractiveness will surely go down. It is undeniable that the higher progress in European football will put minor leagues' clubs as a business back years unless their managing directors adapt to the changes. In order to maximize their potentiality of income both domestically and internationally, clubs like IFK Göteborg have to perform in Europe and that requires building internal structures that favour a higher exploitation of their commercialisation capacity.

¹¹¹ Chris Gratton in Garland, J. & others, 2000.



5.6.3 Conclusions

Two important relationships govern the business of football: 1) a good playing performance drives a club to increase its income, and 2) higher wages bill drive a club to improve its league position. Under these maxims, many directors managed their clubs through what we have called “sound management”, spending on players over their capacity to generate income. This is not a good practise for the health of football and UEFA wants to put an end to these methods.

The UEFA licences seem smart but, in contrast to their intentions, they might finish in more unbalanced competitions, given the likely wave of stock market flotation that they will create in order to increase the sources of finance for football clubs. If UEFA succeeds with its plans, the future of football might be characterised by more flotation of football clubs, which can impose a new discipline on them (balancing the interests of the playing success with the need to provide a return for the financial backers). Higher professionalism at all levels within the clubs will be required. Investors will demand a certain return on the clubs’ investments and diversification of commercial activities is becoming a reality in order to enhance the sources of income to ensure the best players. The current unbalanced situation between those clubs taking care of profits and those guided by “crazy management” will disappear. Indebted clubs will no longer dominate the game, but those clubs with a higher capacity to generate income and profits will do. However, it does not imply that the elite clubs still sign the talent players.

5.7 Benchmarking: The American National Football League (NFL)

The industry development in football will surely be affected by the mechanisms that are being implemented in other sport industries. Our purpose here is to analyse the American sport model by focusing on another league that we have identified as a potential pattern for European Football competitions, the NFL.

5.7.1 Introduction

The European football leagues can learn from successful leagues around the world. We would like to cite the structure of one specific case, the American



National Football League (NFL), which has achieved excellent results and great acceptance from its supporters. We chose this league due to the fact that it is run in a closed league structure and at the same time maintains and encourages competitive balance season by season.

We have applied the benchmarking model presented in Chapter two, taking into consideration the industry level instead of the individual firm perspective. We intend to argue the applicability of the American sport model in European football. The process is as follows:

1) *Identify an activity within the football industry where there seems to be potential for business development.* One of the most important threats for the European football is the possible creation of the Super League, which follows a similar structure of the leagues that we have chosen to benchmark. The *structure of closed league* does not guarantee success as it has in the NFL competition, but one key aspect that we should recognize is the competitive balance that this league maintains.

2) *Identify a sport industry that is a world leader in this activity.* There are many successful leagues within the sport industry but we selected the *NFL* as an excellent example to study. This league fits the possible structure that we have identified as a potential element for business development within football. In addition looking to previous records, the NFL competition has showed constant success. In fact, it is the most popular competition in USA due to the particular characteristics of competition.

3) *Undertake performance comparisons with the benchmarked industry through exchange of performance data.* We intend to follow closely the *structure* of the NFL league and the way of how it was implemented. In addition we will study the purposes of the competition and objectives of its teams members.

4) *Analyse the reason for the performance differentials.* Once we have analysed the structure of NFL we intend to find out what are the main *differences* between both European football tournaments and the NFL



competition with the intention to identify the characteristics required to apply such structure in European football competitions.

5) *Use the new learning from the benchmarked industry to forecast possible definitions or processes in the European football industry.* In Chapter seven we present the *scenario analysis*, where the benchmarking conclusions are used in order to predict future developments of European football.

5.7.2 National Football League (NFL)

A detailed analysis of the NFL and its structure of competition has been attached in Appendix thirteen.

5.7.2.1 Differences with European football leagues

The most important differences in the structure and organization between the NFL and European football are the bases over which the structure is built up (see Appendix fourteen).

- First of all the structure in NFL is hermetic, which means that new teams are seldom admitted in such competition, while in European competitions the system consists in promotion and relegations, which allow other clubs to improve their performance and reach higher levels of competence, or in contrast the clubs that have weaker performance are relegated to lower divisions. Moreover, in Europe there are several tournaments that demand the participation of different clubs. Most of the time, top clubs have to play various games during one week, thus the concentration of games is excessive in some cases for players, fans, etc. In the NFL, output is restrained to one match per week, which contributes to maximize the revenue per match.
- Secondly, the American market often offers the chance to introduce new independent leagues under different organisms that can compete against the NFL. It means that is common that parallel leagues perform in the same level than the NFL does. In Europe, all the competitions are under the UEFA's regulation, thus, clubs are not used to break out their relationships with UEFA and form a new professional league.



- The third aspect to consider is the way the feed clubs are constituted. In the case of the NFL, universities act as incubators of players by training and introduce them to the professional league through the draft system. However, in Europe, the own clubs take this role and establish their strategy as formers of professional players and are paid back when they sell these players for large amounts of money.

- Regarding the methods used for maintaining a competitive balance within the league, the NFL follows a draft system, which allows the flow of players from universities to professional teams in order to inject youth talents into the professional league. The particular procedure of the draft allows them to bridge the performance gap between top teams and the weaker ones. In addition to this method there is the salary cap, which also restricts teams from spending more than the previously limit stipulated.¹¹² In contrast, in the European competitions players are traded among clubs through clubs' offers. The more attractive the offers are, the better chance to obtain talent players. Then, the top clubs are the ones that get the most talent players, because they generally are the only ones that afford such substantial amounts of money paid for players. Thus, powerful clubs in the performance level reinforce its squads and the gap is even bigger between them and the weaker clubs. Indeed, the distribution of money among players is becoming more unequal because top players demand higher payments and better contracts as a consequence of the competition among clubs for their services.

¹¹² Morrow, S. 1999



Another method used to improve competition balance is the sharing of revenues among clubs. Concerning the NFL, the income generated from TV rights and gate receipts is shared among teams. Although in European competitions the TV selling is also made in a collective way, the revenues are unequally shared. Playing performance and TV audiences are the two factors that explain the uneven distribution in Europe. Also, as far as ticket selling is concerned, the income obtained from them goes only to the local club. Thus, the only practice used for maintaining a balance is the source of TV income that is split up among clubs. However, the big money is in the Champions League and only 32 teams each year can participate. The question is: how shall UEFA share that money with those teams that are out of the competition?

- As mentioned before, the NFL is running under the franchising system, which allows teams to move to other cities. In respect to American fans, it is usual that they change their preferences and support different teams for a short period of time and then change again according to their city's team. In the case of Europe, fans adopt a club, which is most of the time their city's club, and it is not easy to change their support to another club. Even if their city's club is not performing very well, the support from its fans will not change easily.

With all these structural differences we can identify that the main goal for NFL teams' managers is to maximize profits, trying to exploit the financial sources and increase at the maximum level their own profits. In contrast, European clubs' managers not only look for the same financial prospects but also for success in the pitch and popularity among fans.¹¹³ Therefore, European clubs direct most of their financial share to acquire players and achieve this performance success that they aim for.

5.7.2.2 Limitations

There would be some drawbacks in the creation of an extra European league with the features of the NFL's structure. The most important aspects in opposing such structure are following explained:

¹¹³ Hoehn, T. and Szymanski, S. 1999



- First of all, the number of games played by European clubs fill the schedule of clubs' capacity to perform; currently players have to participate twice a week as they compete in the national league, domestic Cup, UEFA tournaments, league's Cup, Super-Cups, and so on. Thus, a potential European Superleague with the main characteristics of the NFL, for instance, would be difficult to implement because of the limited capacity of players (they are human beings). The solution would be to reduce the domestic performance by some fewer matches or the breakaway from the national tournaments. However, we do not think that the latter alternative will become a reality due to the powerful links of clubs with domestic championships, in terms of economic, social and cultural terms.

- As a second aspect we would like to mention the role of the superior bodies that regulate sports. In the case of USA, the salary cap and draft system are approved by the regulators as necessary elements to maintain competitive balance and, consequently, for the successful operation of the league. Moreover, these measures are not consider illegal under USA's regulations because they constitute a freely negotiated collective bargaining agreement between the players' and the leagues, represented by their governing bodies.¹¹⁴ On the other hand, the EC would ban any measure that goes against competition, which to a certain degree, is the case of the American measures. Therefore, European clubs should find other tactics to contribute to the equilibrium within competitions or reinforce the measures that currently exist such as the revenues sharing.

- The franchisee system in Europe for football clubs can create disappointment among fans, for instance, if clubs move to other cities because clubs have received attractive offers to sell the club and move its location, then football will lose their supporters, which would be a devastated fact.

As a conclusion, we can say that the NFL's structure is very attractive mainly because of its elements to maintain competitive balance, but it is clear that within the European competitions it would be really difficult to implement, due to the fact that there are many interests involved and many differences in both markets.

¹¹⁴ Szymanski, S. & Kuypers T., 1999



It might be that a combination of both structures could be successful, but again, many participants in the European football would react in negative way.



MARKET AND ACTORS IN UEFA COMPETITIONS







6 MARKET AND ACTORS IN UEFA COMPETITIONS

This chapter is a continuation of the previous chapter. It is entirely dedicated to the analysis of the selected market, the UEFA Champions League, as well as the main actors of such a market (competition). We will present the UEFA competitions as the most attractive market for our target clubs, the “elite followers”. Then, we will try to characterise the main actors identified: customers, competitors and suppliers.

6.1 Introduction

The main problem in this case study implicitly supports the fact that European competitions, specifically the UEFA Champions League, constitute the most attractive market for European clubs in the short and long run. We aim at demonstrating this fact along with some figures and analyses of the market and its main participants. Since the European competitions’ appeal is so high, one cannot rule out the possibility that further modifications of these competitions or even breakaways may appear as a consequence of the pressure from the football elite. That is the reason why we will also analyse the possible creation of alternative European competitions, such as the so-called Super League. These substitute competitions, outside the UEFA control, are a threat to the traditional football structure.

Much has been written by the media about the high attractiveness of UEFA competitions (Champions League and UEFA Cup) for European clubs due to the giant economic gains that they award. The higher commercialisation of football, which has been described in the previous chapter, is to a large extent responsible for the growing importance of this particular market. This tournament is becoming especially important for those clubs that belong to small leagues such as the Swedish, Danish or Norwegian ones, where the limited size of their consumer markets restricts their financial strength.¹¹⁵ Therefore, successful performance in these tournaments can help the elite

¹¹⁵ Bosse Gentzel, IFK Chairman.



followers from small markets to increase their competitiveness within the European framework.

Thus, we consider that the participation in the group phase of the Champions League should become the main goal to pursue for both the elite followers that are outside the big five leagues and those that are inside them but find enormous competition from the top-clubs in these big leagues. The UEFA Cup is doubtless very attractive too, but awards in general less benefits than the Champions League. Also, the fact that TV rights in the UEFA Cup are sold individually by each club reduces the potential for TV income for those elite followers that belong to small domestic markets, as the audiences in these countries are not so high as in Spain, Italy or UK, for instance.

TV has not only played a fundamental role in the commercialisation of football within the national leagues, but nowadays the TV and sponsorship income generated by the UEFA competitions has turned the UEFA Champions League into the golden mine for all clubs. For this reason, we will analyse this competition in detail due to its influence for the future development of elite followers, the clubs subject to our study. Our belief is that without an appropriate business strategy that contributes to the participation in the Champions League, the followers might miss out the rapid pace that accompanies the development of European football. Furthermore, success at an international level will fully ensure higher support in the domestic market.

6.2 Union of European Football Associations (UEFA)

UEFA was founded in Basle, Switzerland on 15 June 1954. Since that time UEFA has been the only official organism controlling the entire European football. By the approval of the European national football associations, UEFA has the sportive authority to represent them and act according to their wishes. One of the most important responsibilities of UEFA is to organise a series of different competitions across Europe within national teams and clubs. Nowadays, there are four clubs competitions organised by UEFA.¹¹⁶ As already pointed out, the most important and prestigious tournament is the UEFA

¹¹⁶ www.uefa.com



Champions League, which is played once a year reaching its climax with the final match celebrated every May at a neutral location. For small leagues' clubs, such as Rosenborg BK or IFK Göteborg, this competition may ensure a substantial flow of Swiss francs (the official currency of the competition), which can feed the clubs for several years. However, the competitive structure, designed to the benefit of the biggest leagues and clubs, make them difficult to qualify.

6.2.1 The UEFA Cup

The UEFA Cup is the second European competition nowadays and it could be regarded as the consolation prize for those clubs that have not been successful to take part into the Champions League. It also carries good financial benefits, but contrarily to the Champions League, clubs are free to strike individual TV deals. These benefits are only major for those teams from the five big countries, which may achieve high audiences and thus sign succulent deals with their local TV companies. For those teams in countries with small population the benefits are not negligible but either important. Since the money is in the Champions League, the former prestige and recognition from the UEFA Cup has been reduced. It is now seen as a minor European tournament. The creation of the proposed Superleague can only exacerbate the situation.

6.3 *The UEFA Champions League (UCL)*

The UEFA's competitions have become very attractive and lucrative for any club in Europe. In the specific case of the Champions League, its attractiveness consists in a set of different aspects: the structure of competition, the high average of return on investment made by the clubs participating, the fierce competition to get a place in the tournament, the final unique product (the match), and the extremely great support received. All these characteristics increase the value of the entire competition and promote the interest to participate and enhance the attractiveness of the industry.

6.3.1 Market Size

The market size of football has traditionally been measured by match attendances and ticket receipts. However, over the past years, other figures



have emerged as significant in showing the growth in market size. Merchandising revenues of the clubs involved in a competition may be used as an indication of market size. However, the increased coverage on TV means that a measure of the popularity of the game (and the revenues it earns) must now also take into account viewing figures. Appendix fifteen contains the most important figures for the Champions League for the season 1999/2000, which show that this competition is the largest window for football clubs in Europe.

6.3.2 Market Growth: The European Audiovisual Market

The development of pay TV and PPV in Europe (see section 5.3.2.3 and 5.3.2.4) is a factor that may have a critical repercussion on the Champions League's growth, in terms of income. That is not only because it may increase the total money awarded on prizes in the own Champions League, but it might also explain the possibility of the elite followers to enter this competition. As we saw in the previous chapter, there is a strong relationship between income and league performance, which may restrain the competitive power of those clubs that are unable to find good money from the new TV deals. Since the future football income seems to be associated with PPV, analysing the situation of pay TV and PPV in Europe we will be able to predict the future development of the Champions League and its participants.

6.3.2.1 European TV markets

The overall European TV markets in 1997 were worth €50,900 million (£30,400 m). Although this figure seems very impressive, the European TV is still less developed, from the economical point of view, than the biggest worldwide market: North America. The TV turnover per-capita in the European TV is €120.6, while in USA it is almost €280. The difference could be due to the fact that European countries have not yet exploited pay TV. Although 30% of the total TV households (230 million) have cable and satellite TV, only 17 million of European households have subscribed to PPV services, which represents only the 7% of the total households with TV, compared with nearly 65% in the USA. The Pay TV income only represents 25% of the total income of the European TV, while in USA it is 35%.¹¹⁷

¹¹⁷ LNFP Spain, 2000



We already know that the dramatic increase of TV rights has been due to the expansion of pay TV. Appendix sixteen shows the income and penetration of pay TV in 1998. By that year, only Spain, Italy, France and England in Europe operated the premium package (Basic Pay TV + Movies + Sport), which includes the PPV service. However, English football has not yet been televised by PPV. Thus, the PPV penetration is still very low in Europe, which makes us believe that the inflation in TV rights will still continue in the future. Some countries, such as the UK, Germany or Sweden are expected to initiate the PPV service in football next year.¹¹⁸ Most of the countries operate the basic pay TV, with no PPV service.

6.3.2.2 TV and the UEFA Champions League

Thus, pay TV and especially the PPV service will have *two effects on the Champions League*. First, is the **direct impact**. Although UEFA was aware of the opportunity that pay TV offers in terms of income, they have sold the Champions League's rights to free TV so far. Thus, 90% of the matches were televised by free TV. This fact is ensured by the existence of an agreement between UEFA and the European televisions by which each match in the competition must cover at least 70% of the national viewers. UEFA thinks football is a game for people and it has to be open for everybody.¹¹⁹ However, it is presumed that both the higher pressure of the football elite to earn more income from the competition and the own UEFA's desire to use the Champions League as an element for the income redistribution will finally drive the Champions League towards pay TV.

Second, we have an **indirect impact**. Those leagues that succeed to initiate the PPV services in the domestic football as soon as possible will indirectly concede a first moving advantage to their elite followers as they will obtain higher income (which will come directly from the TV and also from the related commercial activities), which will surely increase their competitive power at the European level. For instance, Spain initiated the PPV in 1997, which has allowed the Spanish clubs sign many top players. This fact produced a

¹¹⁸Lars-Ake Lagrell, President of the Swedish FA, 2000 11 13; and LNFP Spain, 2000

¹¹⁹ Lennart Johansson, President of UEFA.



tremendous result in the last edition of the Champions League: three semi-finalists. As we saw in section 5.2, national leagues are the main sources of income in absolute terms for clubs. Thus, domestic income is crucial to be competitive in Europe.

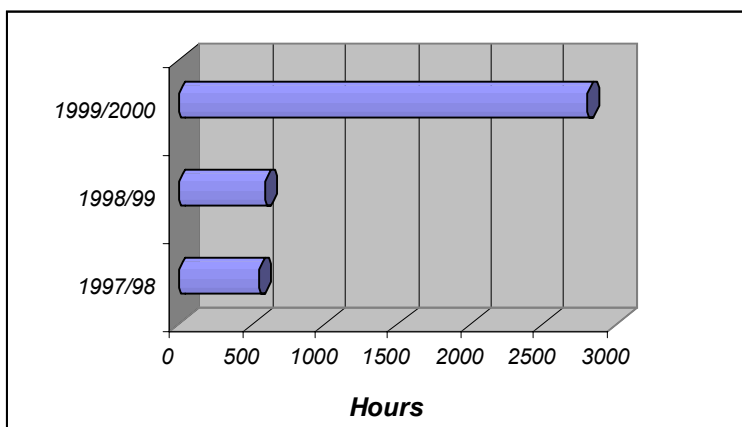
As shown in Appendix sixteen, Germany seems to have a brilliant future. The German Bundesliga has not started the PPV service so far, but it will do it next season. In a country with over 80 million of inhabitants, and a pay TV penetration of nearly 90%, the prospects for future PPV deals are extremely good, much more than in the case of the other big nations, which penetration rate is lower. Among the small leagues, the three Scandinavian countries (Denmark, Norway and Sweden) have good figures in pay TV penetration, but the problem is the lower rates of population and a lack of competition within the TV market.¹²⁰

Therefore, the prospects for growth in the Champions League framework are considerable. Whether UEFA will open their TV rights to pay TV competitors is the crucial fact. However, there are other aspects that may also increase the total income generated by the competition. One of the most controversial ones is the modification of the structure of the competition in order to increase the number of matches played, and thus rising the TV coverage. As figure 6.1 shows, the new model of the Champions League adopted in 1999 made feasible to increase the number of hours of coverage, which also meant more income. Further expansions of the competition are difficult because the football calendar would not let it unless the domestic leagues reduced the number of participants in the top divisions. Furthermore, it is not a matter of accepting more and more number of participants, but also a question of finding the most attractive format of competition that attracts the highest number of spectators and viewers.

¹²⁰Bosse Gentzel, Chairman of IFK.



Figure 6.1 Hours of TV coverage. Major Western European markets



Source: UEFA Champions League, Season Review 1999/2000.

6.3.3 Champions League’s Profitability

It is generally suggested that in the long run it is unlikely that profitability is merely a consequence of the industry in which firm competes. However, in the case of football the current structure of competition usually determines the profitability of the clubs. The end of Chapter five it was argued that football clubs face a dilemma reconciling the pursuit of profit with the pursuit of playing performance on the field. It was also argued that football conforms to almost an economic ideal of a highly competitive market where economic profits are driven down to zero and all the rewards from the activity go to the suppliers of the scarce factors which are in high demand: the players.

If we define profits as the surplus of revenues over costs available for distribution to the owners of the firm, it is logical to think that clubs are trying to participate in those competitions that might maximize the revenues. However, the current competitive atmosphere in football also stands for important costs that may reduce profitability considerably.

In order to assess the **individual profitability** of the clubs taking part in the Champions League, we have looked at the *awards of the competition*. As outlined in table 6.1, in 1999/2000, the distribution of the prizes ranged between CHF 5,326,000 (Maribor) and CHF 45,527,000 (Bayern München), but even for clubs like AIK Solna (Sweden) or Molde FK (Norway) the competition is very profitable as the prizes are over half of their total turnover.



For the football elite, the Champions League also represents notable revenues, not just only measured by the direct awards, but tickets selling. For instance, Bayern's turnover in 1999/2000 was about £76 m while the revenue from the Champions League was £18.5, which represents 25% of the total turnover.¹²¹

Table 6.1 UEFA Champions League: distribution 1999/00 (a sample of clubs in Swiss francs CHF)

Teams	Start-Fee	Match Fee 1	Perform. Bonus 1	Match Fee 2	Perform. Bonus 2	Market Pool	Quart-Finals
Maribor	1500000	3000000	750000			76000	
S.S. Lazio	1500000	3000000	2500000	3000000	2000000	20156000	4000000
AIK Solna	1500000	3000000	250000			1422000	
Barcelona	1500000	3000000	2500000	3000000	2750000	16059000	
Fiorentina	1500000	3000000	1750000	3000000	1500000	14717000	4000000
M. United	1500000	3000000	2250000	3000000	2250000	19420000	4000000
Olympique	1500000	3000000	1750000	3000000	750000	21974000	
FC Bayern	1500000	3000000	1750000	3000000	2250000	25027000	4000000
R. Madrid	1500000	3000000	2250000	3000000	1750000	14390000	4000000
Molde FK	1500000	3000000	500000			557000	
PSV Eind.	1500000	3000000	750000			2005000	
Milan AC	1500000	3000000	1250000			16317000	
FC Porto	1500000	3000000	2000000	3000000	1750000	2844000	4000000
Galatasaray	1500000	3000000	1250000			3413000	
Valencia	1500000	3000000	2250000	3000000	1750000	11262000	4000000

Source: UEFA Champions League, Season Review 1999/2000.

¹²¹ www.sportbusiness.com, 2000 11 22.



Teams	Semi-Finals	Final	Total
Maribor			5326000
S.S. Lazio			36156000
AIK Solna			6172000
Barcelona	5000000		37809000
Fiorentina			25467000
M. United			35410000
Olympique			31974000
FC Bayern	5000000		45527000
R. Madrid	5000000	10000000	44890000
Molde FK			5557000
PSV Eind.			7255000
Milan AC			22067000
FC Porto			18094000
Galatasaray			9163000
Valencia	5000000	6000000	37762000

Source: UEFA Champions League, Season Review 1999/2000.

There is an important aspect of the income distribution among the participating clubs. This is the market pool. 90% of the total TV income collected by UEFA (sponsors and TV rights) is coming from the big five countries. Understanding this fact, UEFA has created a system that gives clubs from these countries a good advantage. Those clubs from the big five countries that manage to enter the Champions League ensure a “gold mine” even if their performance is bad. For instance, AC Milan was eliminated in the first group phase and due to its poor performance on the field it only got CHF 1.25 million as “a performance bonus.” However, the club obtained over CHF 16 million from the market pool. By contrary, NK Maribor from Slovenia only obtained CHF 76,000 from the market pool. The TV audiences in Italy and Slovenia explain such difference.

However, one has also to assess the *investments* that clubs made previously to qualify in this competition in order to make some conclusions. Being aware of the substantial awards, clubs try to participate in the Champions League almost at any price and they often take no heed of the costs: salaries and transfers of



players and the conditioning of the facilities to fulfil with the competition's requirements. This put us on track of the next section, where we analyse the cost structure of the clubs that are likely to take part in the Champions League.

6.3.4 The Price of Being Competitive

Money will continue pouring into the game all over Europe. The Champions League is not the single lucrative competition but the domestic competitions are also giving important economic gains to clubs in the top divisions. According to the annual reviews of the football finance that Deloitte & Touche publishes each year, it seems the top divisions of the big five countries have started to be profitable at the operating level (revenues – costs of the competitions), but those profits are being absorbed in the pursuit to strengthen squads. Transfer spending and wage costs are a real burden for the long-run profitability of the clubs at all levels. The entrance in the Champions League is not easy for the followers, especially those from weak leagues. The minimum level of players' expenditure (salaries and transfers) to participate in the competition seems to go up more and more. Also, given the limitations of many elite followers to increase their revenues due to the small size of their domestic markets, their possibilities to follow the elite are steadily decreasing.

While a club like IFK Göteborg spends about SEK 25 m (£1,7 m)¹²² on personnel (specially players), clubs like Liverpool or M. United spend over £36 m.¹²³ Three UK elite followers such as Leeds United, Aston Villa and Leicester spent over £16 m each in 1998/99. Only Leeds has played the Champions League in 2000/01, which proves how costly is to enter the competition. However, both the own qualification structure and chance make possible that the relationship between wage bills and performance is not 100% true, but most of the time it is.

We also would like to mention one other type of cost: *the conditioning of facilities*. Although compared to the personnel costs they are much lower, this type of costs are also important for many elite followers. The participation in

¹²² Bosse Gentze, Chairman of IFK Göteborg.

¹²³ Deloitte & Touche Sport (August 2000): Figures from 1998/99.



the Champions League makes clubs acclimatize their facilities according to UEFA requirements. This problem is especially important for the smaller leagues where the money is not abundant and the stadia have poor conditions (i.e., Eastern European leagues). Stadia improvements are expensive but help the club to bring more fans during the match days due to the better conditions that supporters find at the stadium. However, are these types of investments profitable for only match days? We believe that clubs should find new formulas to reduce the maintenance costs of their facilities. It is not only costly the investment itself to improve the stadia, for instance. Also, the facilities have to be maintained after the initial improvements, which only provide some returns on match days. The rest of the time no activities are generally developed to recover the initial investment.

6.3.5 Entry Deterrence in the Champions League

The participation in European competitions needs to be won each year through the domestic championships. The Champions League's holder is the single club that ensures directly its participation for the next season. Therefore, this fact makes the *qualification structure* to the tournament an important factor to consider. In fact, it is an *entry barrier for most of the clubs*. In general, elite followers are not directly qualified to the group phase but they have to play some qualifying rounds. The issue is especially complicated for those followers from the weaker leagues.

The second obstacle that elite followers may find to enter the tournament is the *cost requirements* to qualify for the group phase tournament (mainly in terms of the players' salaries), which is in fact a potential way of driving new entrants out of the market by establishing some kind of barrier.

Our main task in this section of the thesis is to present the competitive structure of the Champions League to show the difficulties that some elite followers may have to enter the main competition, that is, the group phase. Before that, we will discuss the other entry barrier identified in the case of the Champions League: the costs of having a competitive squad.



6.3.5.1 Costs as an entry barrier

As mentioned in section 5.4.2.2, some clubs have been competitive through what we have called “sound (crazy) management”. They have competed through very costly squads that have brought their profits down to zero. In fact, this manner of management is not sustainable for most of the clubs. Only those with high income-generating capacity can construct talent squads to ensure playing success. In reality, this strategies are a way of driving competitors out of the market or, at least out of any possibility of playing success, by scarifying one’s own profit for some hypothetical market dominance in the future. This predatory behaviour is usually too costly because setting salaries of players high enough to guarantee that many clubs fails to succeed in the field is not a good way to strengthen the structures of a club. Some profit has to remain for some different investments, not only for player’s wages.

6.3.5.2 Competition structure as an entry barrier

The structure of any sport competition is fundamental for the creation and preservation of the entire league’s value. In the case of the Champions League, its former spirit of a club per country has been abandoned in favour of commercial interests. The way in which clubs obtain their place to compete in this tournament enhances the quality of the competition (in terms of higher outcome uncertainty) and ensures the benefits for all the participants. However, at the same time, the possibilities for clubs with a low UEFA ranking coefficient have been drastically reduced. The business challenge for elite followers is to find the way to take part in this competition.

Been aware of their supremacy, the football elite put some pressure on UEFA in 1998, which forced the Champions League to undergo several changes in order to become more attractive for elite clubs, TV and sponsorship companies, and supporters. In fact, it was modified in 1999 by allowing in total 32 clubs to participate in the final group competition. This expansion from 24 to 32 clubs implies all the UEFA’s national associations have the opportunity to be represented with at least one club. The UEFA annually elaborates a ranking for the national associations according to the performance of their clubs for the last five years (see Appendix seventeen). Based on UEFA’s coefficient ranking, the



title-holders together with the champions and runners-up from the six best-placed national associations, as well as the champions from the seventh to the ninth association, qualify directly for the UEFA Champions League's first group stage. The rest have to start competing at any of the three qualifying rounds that are previous to the group phase. Appendix seventeen shows the qualifying process.

The major aspects of the Champions League's structure as compared to the old system are:¹²⁴

- The new structure allows more top competitors and more interesting matches, which generate more income making the competition extremely lucrative. In particular, the financial modification of the Champions League's structure was basic to European football because it retained a significant change, the creation of the Super League, which was threatening the European football.
- This competitive structure may now admit up to four teams from the three top national associations in the ranking (Italy, Spain and Germany), and it clearly favours the top leagues. UEFA is aware that these elite clubs are the ones to who TV companies want in live and thus it accepted the changes in 1999.
- From the ninth place in the coefficient ranking, the domestic champions have to play in some of the three qualifying rounds based on the knock-out system. Thus, if the Swedish champion, for instance, is unlucky and is tied to any of the top leagues' participants they are likely to miss out the group phase, that is, the splendid prizes that it awards. We do not say that it is a unfair system, but it is undeniable that the qualification structure has become more difficult now for the elite followers from the weaker leagues. In fact, the system makes more attractive the group's competition for the fans since only the strongest clubs will go through. However, if a certain league fails to have one of its followers in the group phase for a period of four or five years, the gap

¹²⁴www.telegraph.cmo.uk 1998 08 22



between the elite together with some followers and the clubs from such a league could become almost insurmountable. The difference between being in the Champions League's group phase and not being in, is huge in terms of the loss of both competitive and financial strength.

6.3.6 Other Aspects of the Competition

Some other considerations that we have regarded as relevant within the analysis of the UCL are analysed below.

6.3.6.1 Competitive balance and outcome uncertainty

In the UCL it is evident that most of the individual matches are full of uncertainty, even more so when the competition reaches its last phase and the remaining clubs compete fiercely for the title and all the benefits that it means, such as remuneration, prestige, and so on. As the UCL has only certain number of places, elite followers make their maximum effort to obtain one of these places, which elevates the uncertainty of who is going to take the places left by the elite clubs. However, one important aspect to highlight is that the title has been disputed by almost the same top clubs in the last seasons. Despite this fact, the Champions League keeps its attractiveness due to the quality of the participants and the existing competitive balance.

6.3.6.2 Collective selling of TV rights

The way the revenues are obtained from sponsorships and TV companies determinates to a great extent how the competitive balance will be during the tournament. UEFA employs the "centralized marketing" to distribute among all its national associations a part of the total revenues. This method has been working since seven years ago when UEFA allowed considerable amount of money to be reinvested in football.¹²⁵ The centralized marketing enables UEFA to negotiate the whole TV rights instead of individual clubs. Thus, UEFA sells the whole package of TV rights for the tournament in just one deal.

In the old system, clubs were allowed to negotiate their TV contracts by themselves when playing at home. The visitor club did not obtain anything

¹²⁵ www.uefa.com



from the games played away. In certain grade this measure was quite unfair because every time that a game was played both clubs were protagonists. It was also less effective for TV companies since they had to make a separate deal for every club and every match that they want to broadcast. Now the situation is different, clubs grant their rights to a superior body, which negotiates the whole TV package compounded of all matches. Therefore, UEFA makes use of the centralized marketing through a collective selling of the entire Champions League's TV rights.¹²⁶

The central marketing system is a great tool for UEFA to maintain not only the competitive level of the tournament but also the loyalty of all its members, because part of the Champions League revenues is also used to encourage the development of further projects in small leagues such as youth programmes. On the other hand, UEFA recognizes that top clubs and leagues are the ones that make attractive the Champions League and produce most of the income; for this reason UEFA offers them the main benefits.¹²⁷

Some clubs have claimed against the UEFA central marketing as they think that UEFA is abusing of its power and negotiate the TV rights for them. But UEFA refers back to the final resolution of the General Advocate Lenz in the Bosman case to look for some ways of redistributing the football revenues. In general, the central marketing is a great tool to compensate weak clubs for both their weaker financial position and the potential loss of talent players.¹²⁸ In fact, many elite followers from the weaker leagues that participate in the Champions League base a big percent of their total income on the awards obtained in this competition.

¹²⁶ Lennart Johansson, President of UEFA.

¹²⁷ Ibid

¹²⁸ Ibid



6.3.6.3 The revenues sharing of the UCL¹²⁹

Every year the UCL brings more and more revenues from TV broadcast companies and sponsorship. UEFA, in turn, distributes the income generated to its members in the following manner: 75% of the total revenue goes to the participating clubs, while 25% goes to European football (see Appendix eighteen). The regulations also specify that for any revenue in excess of CHF800 m (£314,5m), 82% will go to the participating clubs and 18% to UEFA for European football. This later fact has happened for the last two seasons (£336m in 1999/2000). Prior to the existing distribution, the percentage destined to clubs was 55%.

The **money collected by the clubs** is split up in two ways. First, the fixed amounts: starting bonus, bonus per match in the first and second stage, and the performance bonus if a club wins or draws. The second part of the direct revenues for clubs is distributed according to the proportional value of each TV market represented by the clubs taking part in the UEFA Champions League, and is also split among the number of teams (4, 3, 2 or 1) participating from a given association. Half of the amount representing the value of each market will be split among clubs, based on their performance in the previous domestic league championship (see table below). The other half of the amount representing the value of each market will be paid in proportion to the number of matches played by each team in the UEFA Champions League.

Table 6.2 Income split among the teams from a given association

	4 teams	3 teams	2 teams	1 team
Champions	40%	45%	55%	100%
Runners-up	30%	35%	45%	
No. 3	15%	20%		
No. 4	15%			

Source: www.uefa.com

¹²⁹ www.uefa.com



The amount of **money that UEFA retains** is reserved first for member associations, European football leagues either represented in the Champions League or not, clubs participating that did not qualify for the group match stage or were eliminated in the second round or earlier. Second, UEFA also keeps certain amount of money to cover operational costs of the Champions League. Also, UEFA covers administrative costs, refereeing, youth competitions, development programmes, etc. (see appendix eighteen)

This system of revenues sharing varies in its proportion every year and each member receives different percentage according to UEFA's regulations.

6.3.6.4 Income redistribution in the UCL?

Cross-subsidization is the basic method used at the European level to maintain the competitive balance. As outlined above, in the UCL, clubs cooperate by selling their TV rights in a collective way and then it is redistributed. UEFA intends that the appeal of top clubs contribute to subsidize the small clubs in less prestigious leagues by offering some benefits. The intention is they can compete at the level that would maximize league revenues for every one. In other words, it means that leading clubs cede part of their total benefits to lagging clubs and/ or minor leagues in order to keep a competitive balance and in the long run maximize their financial revenues.

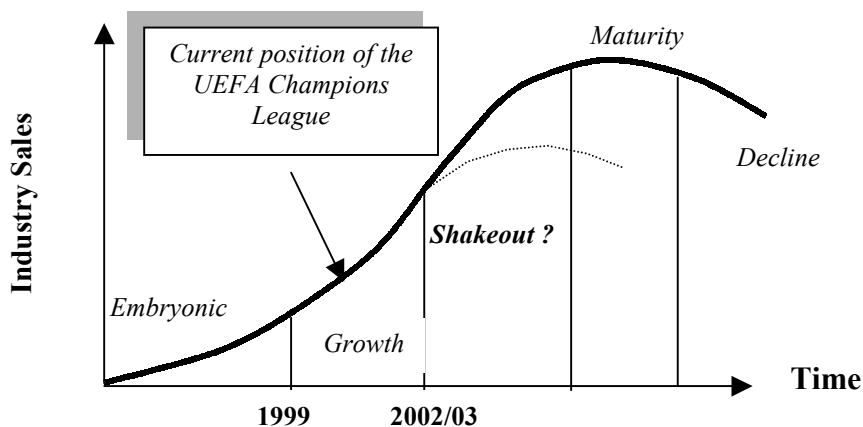
The distribution arrangements have been subject to certain disapproval. The top clubs have ensured higher sums of money to the detriment of those that stay out of this tournament. Even though the UCL redistributes part of its revenues to weak national associations, which do not get any club in the group competition, those sums are very small compared with the participants' revenue. Thus, the first question to be analysed is the scope of the solidarity concept: should solidarity exist exclusively between the participants of the competition or should it encompass all the other clubs and associations with the aim of promoting other layers on the football pyramid? This question is also valid within the domestic competitions where the redistribution of income is disappearing (i.e., Spanish clubs negotiate their TV rights individually), which favours the top clubs and risk the competitive power of the less prestigious clubs.



6.3.7 Industry Life Cycle and the UCL

Figure 6.2 intends to show our vision of the industry life cycle for the UCL. The explosion of the UCL started in 1999 with its restructuring. A growing phase started and the TV rights potential will surely let it develop even more. The main force driving this growth stage is not characterised by an improvement of the product technology as it happens in many other industries but the higher penetration of new ways of distributing the product (the TV especially), which has been reinforced by a change in the target customer, from the traditional supporter in the stadium to a more wealthy fan at home.

Figure 6.2 Industry life cycle for the UCL.



Source: own

We do not think that the demand for football has augmented in terms of the number of fans, but now the final customer has increased his or her “knowledge” about both the industry and the product due to the immense diffusion of football through media. Also, the higher services that supporters find at the stadium and especially the higher technical quality that TV offers to them has contributed to present a product that gives them more value as an entertainment (big spectacle). Consequently, customers are paying more money for the service and thus football is experiencing the wealthiest era of its history. Also, further developments could drive the progress of the UCL.

However, some experts think that this specific market will be damaged in the short-run. They think a shakeout period might start in 2002 due to the higher pressure of the football elite and the creation of substitute leagues such as the



Super League. In case of the breakaway of the G-14 clubs, the tournament could experience a declining phase, as most of football fans are associated with the G-14 clubs.

6.4 The European Super League

Now, the European Super League is basically a threat to UEFA but was close to being a reality some years ago when a project elaborated by the most prestigious top clubs in Europe under the promotion of an important TV broadcaster, Media Partners, seemed to break the European football framework as it has recently happened in European basketball. The project has a format of a closed league, where promotions or relegations will not exist. The number of clubs participating would be, in total, 16 clubs composed by the 14 pioneers clubs in the formation of the league (the so-called G-14) plus 2 more places for special guests that fit the performance level and have high audience among supporters. The matches will follow an structure of a double round, one game at home and one away, while the final round will have a format of play-off like in the NBA's competition. However, the most controversial issue behind this idea was that all the participating clubs would have to abandon their domestic competitions to focus exclusively in the Super League, which would represent the abnegation of the own football origins and also important financial opportunities offered by the domestic leagues. This aspect was determinant for the rejection of the project.¹³⁰

The clubs involved in the Super League would mainly be from the countries that already generate the highest TV revenues while the companies that are bringing forward attractive proposals have come from first Media Partners with the control of Silvio Berlusconi, who is also owner of the AC Milan and lately the offers came from Telefónica, a Spanish communications and media company.

6.4.1 Background

The formation of a European Super-League goes back to 1988 when top clubs started talks about their plans. Since then, many rumours have been running

¹³⁰ Taylor, Rogan,, Football Research Unit, University of Liverpool.



every year about the formation of a European Super League. In 1998, the company Media Partners started talks with some of the most prestigious clubs in Europe to create a league, where they can obtain bigger share of the financial returns under the Media Partners management. The offer was extremely attractive (£20 m for each participating club) compared with the £4m that UEFA was offering in average for the UCL's participants.¹³¹ Rather naturally then, G-14 stated negotiations with UEFA in order to obtain the total control not only of the income generated from the UCL but also of the TV rights. By this reason the UCL was restructure for the championship of 1999-2000. UEFA accepted and granted higher revenues for the top clubs in order to prevent the creation of a breakaway European Super League.

Nowadays with the collaboration of Telefonica in Spain, the threat may be even stronger and top clubs seem to be totally convinced that they can earn more money if they gather together in a closed league. Some articles argue that everything seems to be prepared for the year 2003, when clubs finish their contracts with UEFA and can leave it in order to play independently. However, the G-14 have announced at its latest meetings that they do not intend to be outside the traditional UEFA frame, but to be involved with the UEFA Executive Committee, the one that decides about economical issues of the UCL. At the moment of writing, UEFA had rejected such a formally request.

6.4.2 Purposes of the Super League

The most powerful clubs in Europe are trying to take advantage of their appeal among fans and want to maximize their revenues. Every time that top clubs face each other in a game the income generated is higher than the income coming when an elite club and a lower category's club take part in a game. Therefore, top clubs look to increase the number of matches where only clubs with high attendance play each other and rise the total income.

As explained above, the uncertainty is needed to obtain a successful league. Even though bottom clubs can show up with extraordinary performance and win the match rarely, the existence of unbalance makes the less prestigious

¹³¹ Kuypers, T & Szymanski, S.1999



clubs unattractive for the wish of top clubs. Also, fans do not feel attracted to watch this kind of uneven games where the quality could be low and thus, fans do not want to spend their money in buying tickets for the stadium or pay a TV channel. The members of the G-14 know that if they play each other frequently the TV rights for these matches will increase much more. This income would let them invest in buying or keeping better players, increase the capacity of their stadiums in order to receive more supporters, and so on.

6.4.3 Possible effects of the Super League

- If big clubs would be able to maximize their revenues through a European Super-League, the entire European football will be affected by this shift, breaking up the traditional structure of European leagues. Those clubs staying under the UEFA frame – most of the elite followers - might see an important declining of the football audience on TV, which would reduce their revenues.

- It is also important to highlight the legal aspects of the Super League. In favour of the Super League is the legal issue as there is not any regulation that obliges top clubs to stick together to UEFA's statutes. Therefore, clubs might freely operate a private league. In fact, the European Union has made public its opinion that there is no opposition from the Commission to create a Super League because anyone can start football competition in Europe. Nevertheless, the EU has also stated that it is in favour of maintaining the existing structures of European sports and it would regret a situation like that in European basketball where a private league has recently been created. On the other hand, the possible Super League could be challenged to the courts for an abuse of dominant position within the football industry.

- G-14 clubs enjoy great amounts of fans nationally and internationally. These fans are the ones who might benefit from the Super League because they will have balanced games with high level of competitiveness frequently. Therefore, the audiences of these games would increase even more and total revenues for clubs, TV companies, sponsorships, and so on will be positively affected as well. As clubs within the G-14 would have to play abroad frequently, supporters might not be able to follow their clubs when playing away. In this



sense, TV companies can take advantage of the situation and increase their revenues by offering to fans different alternatives to watch the game. One of these options is the PPV system, which is a great way to watch a game with high resolution and exceptional quality for fans. Hence, the popularity of PPV will be affected in a positive way.

- Since UEFA has affirmed that the clubs participating in the Super League will be banned to compete in any UEFA's competition including national leagues,¹³² top leagues will be affected in the sense that the most prestigious clubs would not compete in the national championships and the attractiveness of such competitions might diminish considerably. Moreover, regarding the performance level, some national leagues would lose their reputation because of the low quality of their games, considering that the most talented players are under contracts for the G-14 clubs.
- Some people argue that there would also be retaliations against those players of the G-14 clubs who, having played the Super League, would desire for unknown reasons to get back to their national leagues. In this sense, the last word has not been said yet because the EU had to proclaim if this measure would be an infringement of Article 48 of the Treaty of Rome that protects the free movement of players.
- In a Super League, where few clubs may participate, would be repetitive games between the same clubs with certainly more than acceptable performance from both clubs, but the variation among clubs will be low. The clubs playing in the last rounds for the Super League's title might be the same every season and many occasions the same champion. Thus, we believe that fans in the long run may get bored of obtaining similar results from the games and watch similar styles of performance. There is also a risk for fans who would not be able to afford travelling abroad every time that their clubs have to play away. That means fans should reconcile themselves to assist only to live matches at home. This fact can make that fans feel disappointed and decrease their wishes in favour of the Super League.

¹³²Lennart Johansson, President of UEFA.



▪ In every professional league there are typical games that attract the majority of fans even if the clubs participating are not the favourites of the fans. These games are full of history and tradition and mean a lot for fans. For instance the cases of Liverpool and Aston Villa in England, Lazio and Roma in Italy, or Real Madrid and Atletico de Madrid in Spain have built a heritage among fans, and every time that these clubs face each other the TV audience is considerable high and the stadiums load with emotions. In contrast, when clubs within the Super League play each other, there would not be a traditional record or results obtained historically.¹³³ There could be the case of Liverpool against Porto, where nobody can say that they have played 100 times in the last 50 years and as a result, the audience will lack the passion felt by the majority of supporters. Ultimately, with the introduction of the Super League, some of these typical games would disappear and fans would be aware of the lack of traditional clubs playing each other.

▪ It is also important to see how those clubs outside the Super-league are likely to react. It is undeniable that other TV companies might be interested in, for instance, a possible Atlantic League that would guarantee higher income for the top clubs from Scotland, the Netherlands, Belgium, Portugal or the Scandinavian countries.

Finally, given the huge money-making potential of a Super league, giving the participating clubs a greater share of television and pay-per-view opportunities, it is clear that UEFA could implement some changes in the UCL in order to keep Europe's leading clubs in the UEFA family. The questions are how and at what price for the followers. However, we think that a breakaway is very complicated, even if the lucrative offers from media groups still come into the game. The retaliations that G-14 clubs, their players, coaches, the referees, etc. may experience are a real load against the creation of the Super League.

¹³³ Robert Elstone & Jake Wilson, Deloitte & Touche Sport business Consultants



6.4.4 Super League vs. UEFA

6.4.4.1 Superleague and UEFA's dominant position

The concept of dominant position, which is ruled by the EU under the article 86, is of fundamental importance for sporting federations. Currently FIFA and UEFA are the only entities that organize and control the worldwide football and European football respectively. This function could be considered as abuse of dominant position because of their privilege to organize and manage the entire professional football. However, the EC has affirmed that in order to have an effective functionality in the European football, it may require to have only one superior body that organize and control football. Thus, the function of UEFA could take legitimately functions of a single body to regulate its members without be considered as a monopoly.¹³⁴ Obviously, UEFA would take advantage of its position if it uses its power to obstruct the role of football in Europe. This issue can implicate also the impediment of the creation of another federation, which in a certain part is the case of the Super league, even if UEFA goes against this idea.

6.4.4.2 Functionality

Another aspect in favour of UEFA is the character of its functionality; UEFA is a non-profit making organisation, which redistributes revenue among its associations for use at domestic level.¹³⁵ The EU does not accept that sport entities trespass the sportive character to economic interests, which can be totally considered against EU Law. As UEFA generates high revenues from its different competitions, it could be seen as a commercial enterprise, but this money is used to improve the European football and reinforce some areas like youth development.¹³⁶

The Super League, however, is a different case. It would constitute as a private league with a pure economic goal. One legal aspect to take into consideration is that a competition without no relegation and no promotion is not sport as it was stated in the Helsinki conference where the EU sport ministers discussed some relevant issues about football. Therefore, if no income distribution is expected

¹³⁴ Garland, J. & others, 2000

¹³⁵ www.uefa.com

¹³⁶ Lennart Johansson, President of UEFA.



from the Super League to UEFA clubs, the Super League would be measured exclusively by competition law. If so, it could be accused of abusing of a dominant position within football. As the G-14 clubs already holds a considerable market share that could be regarded as “dominant position.” If they join together in a close league to exploit that dominant position, competition authorities might view that move as a restriction to competitors and, thus, they could bring down the Super League.

6.5 The Main Actors in European Football

For a particular club to succeed in football, it must be aware of the three basic principles of business. First, a club must create value for its supporters. Second, the clubs must understand the football labour market (suppliers). Third, the ability to generate success (both financial profitability and playing performance) for a club depends on the intensity of competition among the industry. Therefore, in this section we intend to analyse each of these principles but always looking at our specific market (the UCL). We will describe them according to their relevance for the clubs that are subject to this case study: the elite followers.

6.5.1 Customers

Football customers are those individuals, companies and institutions who pay money directly or indirectly to the clubs. Supporters are especially important because are who finally pay football and footballers.

6.5.1.1 Supporters

“About 24 million Italians are interested in football and 17 million of them follow it regularly on TV. In 1997/98, more than 12.5 million spectators went to the Serie A and B football stadiums. Each day, around 5.8 million people read the three daily sports newspapers and more than 2.7 million people regularly play football. In 1998, 39% of the sport shown on TV was football, but football represented 61% of total TV sports viewing figures. Eighteen of the twenty most watched TV programmes were football matches. The 1997/98



*Italian Serie A league championship was broadcast in more than 140 different countries*¹³⁷

All these figures give an idea of just how important football is as an economic phenomenon, as well as a social phenomenon. Although the quotation above only cites the particular Italian market, football in the rest of Europe follows a similar pattern. Its impact is higher in some countries, but it has emerged as the most famous sport in the continent.

Football does not work like traditional industrial activities with regard to consumers. While in many industrial activities a consumer can easily change brands almost indifferently, in football supporters tend to be, in terms of the normal consumer models irrational, staying loyal to a club throughout a lifetime regardless of the quality of product. As a result their bargaining power is somewhat limited as dissatisfaction with the product on offer may lead to a withdrawal of the match going support, but there is little likelihood that a customer will turn to a rival for his or her football consumption. If a fan does not like the product that offers Milan, he or she cannot leave that and go to Barcelona instead. Football is more like a drug. The football fan ends up with an addiction to a particular team that normally is reflected to a domestic one. For many people, football provides something supporters cannot get anywhere else. The fan pledges loyalty to his or her club for many reasons: for its expression of community, for the adrenalin rush, for the escape from the workaday and so on. Once you sign up for a football club, you sign up for life, regardless of whether what is happening on the pitch is brilliant or awful. A club that delivers or even just tries to satisfy its part of this bargain is in turn rewarded by a loyalty that translates into expenditure and thereby into both profitability and survival.

The club-fans relationship is the start of the football business. The more passionate the fan is, the more likely his or her commitment to buying a season ticket and to paying PPV or spending in the club shop. That passion is something the club has to nurture, it is not something that it can take for

¹³⁷ Deloitte & Touche Italy (September 1999)



granted. The facilities have to be good, the ticket prices have to stretch across the right range and the products clubs sell have to be of a high quality. However, most of all, the team on the pitch has to be something that the fan can believe in. Yet, some clubs do not take care of their fans and this is very dangerous for the industry. Due to high fidelity of fans with clubs, once a fan is lost to one club, he or she is lost to all.

6.5.1.1.1 Football commercial aspects vs. consumers

Football, as an economic activity, represents to supporters a specific service, a kind of public entertainment, and virtually no individual is untouched by it. Millions of people are involved with football activities in one or another way throughout Europe. However, that public entertainment has never been so heavily packaged, promoted, presented, and played as commercial product as it is today.¹³⁸ First, it grows best in market economies. Second, because it requires large concentrations of potential spectators, professional football tends to be dominated by countries largely and densely populated (England, Italy or Germany). Third, the higher commercialisation of football implies that supporters must have money to view the matches (i.e., pay per view).

*“Everything that has happened to football from the point of view of commercialisation has been bad for fans”.*¹³⁹ Although this quotation is not entirely true, there is much reality in it. The pursuit of profit has led to commercial exploitation of fans (higher ticket prices and pay TV), with no improvement in the service provided, and taking advantage of the particular elasticity of demand in football. This, however, has gone too far away and fans seem to be upset. Nevertheless, it is not only higher prices that upsets the fans; it is also a sense of a loss of traditions. On the other hand, looking at the US, it would be extremely difficult to argue convincingly that the popularity of sport has diminished as commercial exploitation increased.¹⁴⁰

The views of the traditional fan seem to be no longer represented as long as football clubs are private commercial entities. Clubs are turning into private

¹³⁸ Horton, E. (1997)

¹³⁹ Ibid

¹⁴⁰ Szymanski S. & Kuypers T. 1999



companies where the phenomenon of corporate ownership is becoming more and more important. Thus, it will be hard to see in the future how fans can force the clubs to act in any particular way.

The potential creation of a Super League with plenty of matches on pay-per-view, or even further developments of the UCL, represents not only a threat for the traditional football competition structure but for fans. Supporters from clubs left out of a closed Super League would undoubtedly suffer from reduced opportunities for competition. It seems that elite football clubs would actually prefer to drive out the traditional football supporters and replace them with a wealthier kind of fan, one that can afford to pay higher amounts.

The former interest of football among some lower groups in society might disappear.¹⁴¹ The game is now being changed to appeal to other groups, leaving traditional supporters dissatisfied. It is being adapted to the needs of the much larger and lucrative TV audience rather than the needs of those who attend live matches. However, commercial exploitation can only be successful if the fans receive something that they want at prices they are willing to pay. It is probable to see that one-day the entry might be free, and clubs rely only on TV money for income.

6.5.1.1.2 Football social aspects vs. consumers

The social structure of fans has been changing for some years now. From a former fan basis of masses, basically dominated by the lower layers in society, football is turning into a more luxurious spectacle. This aspect is defining the football consumers in European competitions. Attending to stadiums or viewing matches on TV is becoming expensive. Low-income fans are being driven away and *wealthier middle-income fans are being attracted to the game.*

On the other hand, as we have already pointed out, there is an important fact in football: a *European consumer of football has emerged.* Fans are loyal to one of their local clubs, but the interest for other leagues abroad has increased,

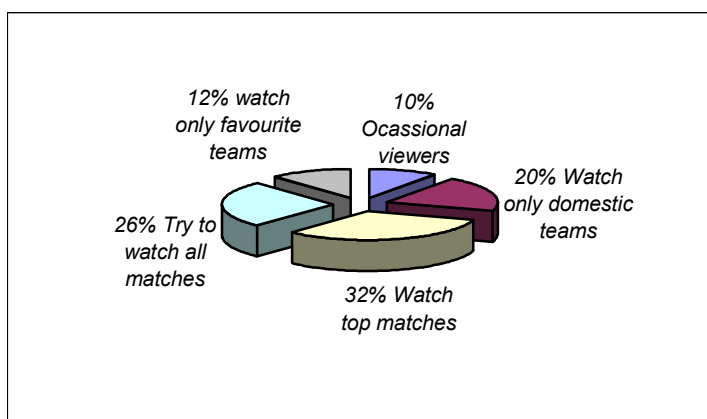
¹⁴¹Lennart Johansson, President of UEFA



mainly due to the influence of media coverage.¹⁴² Every weekend, the football fans have not only the opportunity to watch their favourite team in the national competition, but also pay TV gives fans the opportunity to view overseas leagues. When it comes to the UCL, TV companies do not buy a particular match but an entire package to broadcast the highlights of all matches to the benefit of supporters. However, it is also true that supporters are still different from one country to another. The fact that football is constructed in connection with social relations is one of the reasons for this phenomenon.¹⁴³ Depending on the club's country, fans prefer a type of product or another, an offensive team or a defensive one, the existence of big stars or a compensated team, national or foreign players, and so on.

It is also interesting to look at the fan's behaviour when they watch games in the UCL. Figure 6.3 lets us know what fans view in average. These figures are important to define the future prototype of the most viewed matches on TV. As expected, there is a preference for top matches where the best European teams, those with the best players, are playing each other. However, also fans identify with the national clubs in European competitions, even if they are not the preferable clubs within the country. This is because football is also a patriotic issue and when two clubs from different nations play in a game the usual reaction is to support the national club.

Figure 6.3 TV viewing behaviour in the UEFA UCL



Source: UEFA Champions League, Season Review 1999/2000

¹⁴²Rogan Taylor, Football Research Unit, University of Liverpool.

¹⁴³Coakley, J., 1994.



It is worthwhile to mention the high concentration of supporters around just a small group of clubs. The highest concentration of supporters is in Spain and France where between 45 and 65% support between 2 and 4 clubs only. However, in other cases, the support is more split among clubs.¹⁴⁴

In short, there is a new type of consumer of football that fits best the commercial business strategies of the new business of football, much better than the traditional one. The new football consumers prefer sit down at home and it is wealthier than the traditional supporter. Although, this new fan prototype is a risk for some elite followers that do not become successful enough to attract high audiences on TV. A further development of football commerciality might concentrate the support from fans in the long run on just a few top clubs. The reason is that the top clubs will attract the higher audiences and thus, TV companies might only show those matches that may ensure a maximum profit. This fact is pointed out by Dempsey & Reilley (1998) in the case of UK:

“People with children represent a far higher proportion of cable and satellite home than the national average, and these private channels show the top teams that play the best football. A family might live in Brighton but the teams the children grow up with are Manchester United, Arsenal, Newcastle and Liverpool. That is accentuated by terrestrial TV, as ITV and the BBC, that only get the big clubs live because they only secure live rights for the major European competitions. Indeed, your seven-year-old might see Italy’s Juventus on Channel 4 more often than the local side just half a mile down the road.”

6.5.1.2 Sponsors

*“Clubs like Manchester United are far bigger and far more powerful brand than they (Nike or Reebok) ever will be”.*¹⁴⁵ This is a major reason why companies sponsor football clubs. Television exposure, unsurprisingly, is a major consideration in sponsorship decisions and football is widely available on TV. The last contract signed by Manchester United with US sportswear

¹⁴⁴ LNFP Spain, 2000

¹⁴⁵ Financial Times March 1998



giant, Nike, accounted for £300 million,¹⁴⁶ which is a proof that sponsors are continuously paying higher fees season to season. Today, football is the best publicity window for many multinational corporations. For instance, Nike spends 8% of its turnover on sponsoring professional footballers to take advantage of the impact of them on the society. Nike pays Ronaldo US\$ 1.5 million each year.¹⁴⁷

As in the cases of supporters, the higher commercialisation is likely to concentrate the best brands and contracts around those successful clubs, which are able to attract higher masses of fans. A sport company pursues some objectives when it decides to sponsor a club. These are mainly to boost the sale of replica products and also to enhance the brand awareness among consumers. To achieve those objectives, sponsors look at the following aspects¹⁴⁸:

- a) *Market size*: It is a very important aspect when measuring the attractiveness of a market. The most important clubs in Europe are usually in big cities.
- b) *Size and club structure* (number of members, match attendances, et.): Perhaps this aspect is more important than the size of the market as first, the main buyer of merchandising is the club's members and second, because the spectators at the stadium are the first way of publicity for the sport company (sponsor).
- c) *Club's history and prestige*: This aspect is more difficult to value but it is essential for those sponsors that aim at improving their brand image. These companies want the fans to associate the brand name with the football club.
- d) *Club's international orientation*: It is also a good factor to evaluate because it provides the sponsor with a potential for higher replica sales or extraordinary international reputation. In fact, the majority of sportive companies that are involved with the football world are multinational companies (Nike, Adidas, etc.). The football sponsors regard the prestige of the club's players. Just one famous player may rocket the sales of the company's items.
- e) *Supporter's profile*: It is necessary to assess the characteristics of a club's members in terms of purchasing power, purchasing behaviour, product

¹⁴⁶ www.sportbusiness.com 2000 10 18

¹⁴⁷ www.futvol.com

¹⁴⁸ LNFP, Spain 2000



preferences, etc. In fact, this factor is one of the reasons explaining the difference in income levels between the UK clubs, which are the leaders in the market of merchandising, and the rest of European clubs.

f) *Sport results*: This factor is essential, even though it might be considered as very volatile and difficult to control. The club's results and winnings have a straightforward effect on the sponsor's brand name.

g) *Club management style*: To some companies, it is very important to bypass some problems with the relationship with clubs. Thus, they do not choose polemic clubs.

h) *Sponsorship exclusivity*: Some companies regard the fact of being the single sponsors of a certain club as very important.

6.5.2 The Football Players

Although many people in the industry and a higher percentage of fans are getting upset, the truth is the football suppliers (players) are indeed the real stars of the game. These protagonists have not been historically well treated by the clubs (see Chapter five) but now their bargaining power is increasing, especially at the top level. The limitations to their free movement have been recently challenged with the aid of the EU legislation and they also seem to be the greatest receivers from the economical boom in football. Our objective here is to discuss three important aspects that are essential to the clubs' success, not just in the Champions League, but in any other competition: the salaries of the players, the importance of long-term relationships with players (squad stability) and future measures to obtain that stability.

6.5.2.1 The salaries and wages of professional players

Historically, the salaries of footballers were restrained but as soon as the market for players was liberalized, the club's wage bills have progressively increased. Since the 1980's footballers' salaries have become more and more a source of dissatisfaction among fans and observers of the game. This complaint has emerged as a consequence not just of the level of salaries, but of the share of salaries in the total expenditure of football clubs. The main driving force in the increase in players' salaries for the last years is likely to have been the Bosman decision, although the role of agents in the bargaining process may



also have contributed considerably. Now, with the potential abolition of transfer fees for footballers over 23 years-old, players may go to the highest bidder and thus, wages will go far beyond today's inflated levels, which could only favour the clubs with deepest pockets.¹⁴⁹

However, there are other theories about the future evolution of salaries. Some people think that the total freedom of movement of players, and the following abolition of transfer system, would contribute to slow down the growing wage bills in football. The argument is based on the hypothesis that if clubs lose transfer income they will have to cut costs to survive and thus they will act by signing only those players that they can afford. Eventually, this process would push the salaries down. However, we think that in a world of free agency there would be competition among clubs to obtain the best players. Because talent is scarce, the best players are offered the highest salaries. We have already said that wage expenditure is the single most powerful factor, which accounts for variations in team performance. Thus, the market for players is the mechanism by which the value of the player on the pitch is translated into the wage rate for each player.

The tables in Appendixes nineteen and twenty set out the changes in UK clubs' wages and salaries over the last years, comparing these to turnover. The first thing that seems noticeable is that the growth in player salaries has been extraordinary. The combined wages of a couple of football stars nowadays would have been enough to pay the salaries of any European top club ten years ago. In the top European leagues, although a substantial rise in turnover has followed since the early 90's, wages and salaries as a percentage of turnover have followed a clear increasing trend. Wage expenditure is by far the largest single expense for most football clubs in Europe. Wages consumed about 65% of income in the professional clubs in the UK. In Spain, for instance, total wages and salaries costs for 1998/99 within the whole Spanish top division amounted for 53% of the total league turnover (60% has been predicted for 2000/2001).¹⁵⁰ In the Italian Serie A for 1997/98, personnel costs (mainly

¹⁴⁹ Maurice Watkins, Manchester United's director

¹⁵⁰ Deloitte & Touche Spain (2000)



salary of players) represented around 64% of the total revenues compared to 57% of the previous season)¹⁵¹. Germany is likely to present the same wage growth. Only France has really tackled the issue, but there, most of the star players have now moved abroad to get the best salaries, and attendances have suffered as a result. Dutch clubs have been forced to keep wages under control also, but there has never been that much money in the market.¹⁵² Thus, the increase in revenues - thanks mainly to the sale of TV rights, the exploitation of brands and trademarks and other commercial activities, is almost fully eaten up by the players' salaries and wages.

However, such aggregated divisional figures do not provide the large differences in the wage bills of individual clubs. In the majority of cases in European football, the big wage spenders are also the big earners and, therefore, wages represent a lower percentage of turnover than in the case of non-elite clubs. For instance, Real Madrid consumed over 58% of its income on personnel costs.¹⁵³ Manchester United's wage bill accounted for only 26% of the club's income in 1996/97. In the case of small clubs, they have smaller revenue sources and, therefore, wages represent a larger percentage of turnover. However, are football players overpaid? The annual salaries of the twenty or so top players in Europe are nowadays over £2-3 m per year before tax (it does not include sponsorships contracts). For instance, Rivaldo from FC Barcelona club is said to get paid nearly €6,6m (£3,81m) and Raul from Real Madrid is paid nearly the same.¹⁵⁴ Other cases such as Beckham in UK and Batistuta or Del Piero in Italy, corroborate this. Nevertheless, this does not put them close to the highest paid earners as they are compared with some stars in other sports and entertainment activities (boxers, NBA players or film and popular music). Although most of these salaries come from the US, there are other sports such as Formula One motor racing that are followed internationally and also generate incomes for the top performers which are much greater than those in European football. Szymanski & Kuypers (1999) found that the average Premier League first-team player was paid in 1996/97 just over £200.000.

¹⁵¹ Deloitte & Touche Italy (Sept 1999)

¹⁵² Dempsey, P. & Reilly, K., 1998.

¹⁵³ Calculated from Deloitte & Touche Spain (2000)

¹⁵⁴ www.cincodias.es 2000 08 25



Bellow the top division, however, salaries do not appear nearly extremely high (£73.000, £26.000, and £17.000 in the Divisions 1, 2 and 3 respectively). Comparing these numbers with, for instance, the average salary in US baseball, which exceeds US \$1m (£700,000) the difference observed is really large.

As soon as successful teams began to attract high TV audiences and viewers were willing to pay to watch football on TV, the demand for winning has led clubs to find new ways of obtaining and retaining the services of the best players. The result is a big salary breach between the elite players and the middle ones. Worried by growing wage pressures, with many top stars commanding salaries of £2 million a year or more, UEFA is thinking of setting up a taskforce to consider the possibility of a US-style salary cap. However, collectively imposed wage restrictions could be judged to be illegal under European law. Many people think that the maximum wage would be justified because continuing competition for players might ruin the clubs financially. On the other hand, free traders argue that the competitive mechanism must decide: “players’ wages must be determined by the law of supply and demand”. In fact, if football has to be governed as a business in the future, some kind of wage cap could become a necessity if clubs wish to have profits.

To conclude, the belief that players are paid very good wages and clubs spend a lot of money on fees is not completely true. In fact, “*most players do not earn particularly high wages and net transfer spending is relatively small for most clubs and for the football leagues taken as a whole.*”¹⁵⁵ So far, transfer restrictions have played a part in constraining players’ salaries. A less restrictive transfer system may allow players to negotiate improved contractual terms in the knowledge that another clubs will not require to pay a transfer fee as compensation to their original clubs. As a result, funds, which previously flowed between the top clubs in the form of transfer fees, will be captured by the players. If the transfer system is partly abolished, the winners will be the players. The losers might be shareholders and spectators.

¹⁵⁵ Szymanski S. & Kuypers T. 1999.



6.5.2.2 Squad stability

One of the “secrets” incessantly stated by football managers, as corroborated at Soccerex 2000, is that the success on the pitch is highly tied up with stability and continuity within the football squad. Although the clubs’ wage bills are strongly responsible for the footballing performance, sometimes money on the pitch is not a guarantee of success. Historically, some teams have based their success on the creation of a real squad for years. After some years of maintaining the same team, or at least the frame, good results usually appear. The big FC Barcelona “Dream Team” of Johan Cruyff was the result of a work for several years. Since his arrival to Barcelona, Cruyff was very criticised for the club’s poor results but the directors supported him and after some years, the outcome was the most successful period in the club’s history.

For the team-building process, the corner stone of football, it is essential that team managers can keep their players for a period of three to four years. The new situation with the transfer system might increase the instability of the football squads. With the top European teams bidding for the best players and top footballers willing to accept the best offer, the final effect could be some squad instability. However, clubs should come up with new type of contracts that may tie players with a particular club for more than one or two years. The real problems will remain on the side of small teams. As it happened with the great Ajax of the mid 1990s after the Bosman ruling, less wealthy clubs will still suffer from the disintegration of the teams.

6.5.2.3 New relationships employer (club)-employee (player)

In a framework dominated by a new transfer system that enhances the freedom of players, clubs will have to change the way they construct player deals. Football is likely to see a tendency to labour contracts that encourages the commitment of players with their clubs in order to generate contract stability and retain players for several years (stock options, "golden handcuffs", etc.). Specifically, this new wave will become on the top level, that is, in those clubs that take part in the Champions League. Loyalty bonuses for players who see out the length of their contract would act as an incentive for most players to stay with their



existing clubs. However, the big clubs will still attract the best players and that dynamics will not change.

In other industries, it is difficult to monitor the precise contribution of an employee, but this is not a problem in professional football. Footballers' efforts are easily observed, in terms of both intrinsic ability and application, and, therefore, it is relatively easy to place incentives to retain those players that are very important for a club. It might also enable to start developing payment contracts according to the real performance of players. The new president of Real Madrid, for instance, has begun to use a program that associates club performance with incentives for players.

6.5.3 Competitors

Much has been said about competition in the football industry so far. However, it is important to stress the UCL's structure, which determines the type of competitors that a club may find. Obviously, the fact that the UCL is an open league enables an exchange of participants each year in this competition, but it might be possible to take up some general patterns with regard to they type of competitors.

For our purposes, it could be argued that the high-status clubs are not direct competitors of the elite followers. The football elite has become too much powerful to compete with. Thus, as pointed out before, the new goals of the followers should be based on the qualification towards the group phase of the Champions League, which means that the real competition for a follower club is within its strategic group, that is, with other followers. However, not all followers are at the same level.

6.5.3.1 An economic model

In this section, therefore, we aim to develop an economic model to predict the possibilities that the wide range of followers might have to qualify to the Champions League. According to what we have exposed so far, we will assume that the future competitive power of followers clubs will be straightforward related to their financial potential. Thus, knowing which domestic leagues may

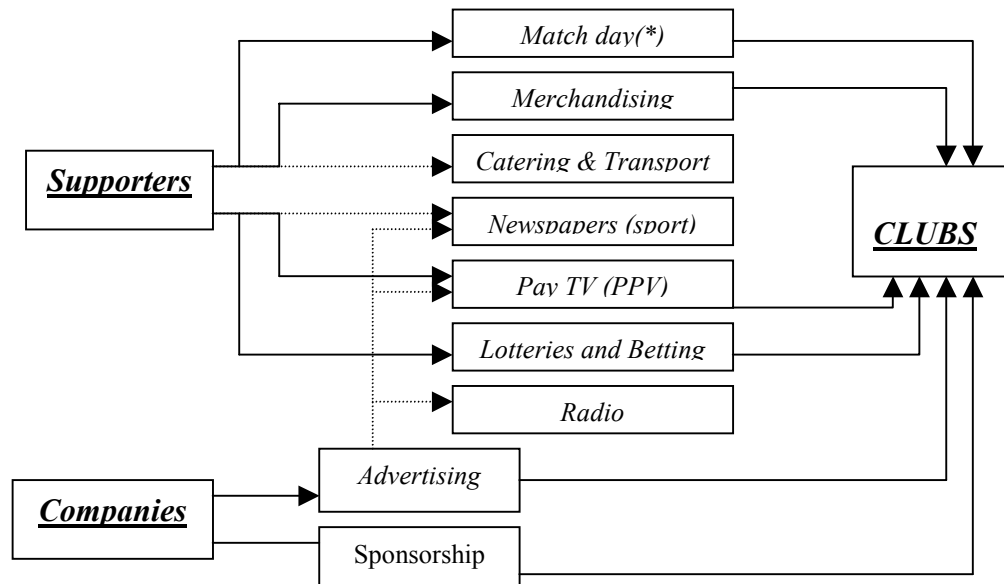


produce higher revenues we will be able to identify the main competitors in the struggle for the Champions league's group phase within the elite followers. Thus, we have developed the model represented below, which finally intends to help us make different categories of elite followers.

6.5.3.1.1 Purpose of the model

The objective of this model is to determine approximately the income generated in a certain domestic league. We have already assumed in this dissertation that the income-generating capacity of a club in its domestic championships directly affects its playing performance in European competitions.

Figure 6.4 Direct effect of supporters and companies on clubs



Source: own. (*) match day expenditure includes gate receipts, season tickets and all other expenditures in the stadium such as drinks and food.

We will start from the analysis of the football demand in order to measure its direct economic impact on the league. Therefore, we intend to measure, from the analysis of all the agents associated with football, how much money a league may generate for the whole clubs of a domestic top division. The model assumes that the supporters and the companies involved with football spend money on the game. The main expenditure of supporters and companies in clubs is depicted in Figure 6.4, which displays all major sources of income for those clubs in a domestic league. We do not intend to calculate the exact sums



of revenues that go to clubs, but the potentiality of a league (country) to generate income. Therefore, our model is only illustrative of the future situation in domestic markets, since some of the variables analysed are very dynamic and they could vary in the following years.

6.5.3.1.2 Assumptions

Following the figures in Appendix twenty-one, the following hypothesis have been used in the model:

a) Match Day income:

The total attendance of English spectators to the Premier League in 1999/2000 was about 12 million (approx. 20% of the total population).¹⁵⁶ In Italy, the total attendance to the Serie A matches in 1997/98 was over 9.5 million (approx. 17% of the total population).¹⁵⁷ In Spain, over 11 million people attended to all matches of the Primera División in 1998/99, which represents about 27% of the population. In Denmark, the football total attendance in 1997 was 1.1 million spectators (approx. 20% of the total population).¹⁵⁸ Therefore, these figures let us assume that the total attendance to a domestic league might be about 20% of the total population of a country.

Our knowledge of Spanish football lets us figure out the match day's expenditure per match of an average spectator in the Spanish top division is about \$US16, which represents the 0.16% of the private consumption per capita (see Appendix twenty-one). Figure 6.5 and table 6.3 below show that the average ticket price within the most important leagues in Europe in 1997/98 was £9.9 (approx. \$US14). Thus, the average ticket prices in Europe on the private consumption per capita was about 0.11%. Since the clubs have risen the ticket prices all over Europe for the last years in order to be able to cope with the inflation of salaries and transfers, we will assume that this coefficient is now 0.15%.

¹⁵⁶ Deloitte & Touche Sport (August 2000)

¹⁵⁷ Deloitte & Touche Italy (1999)

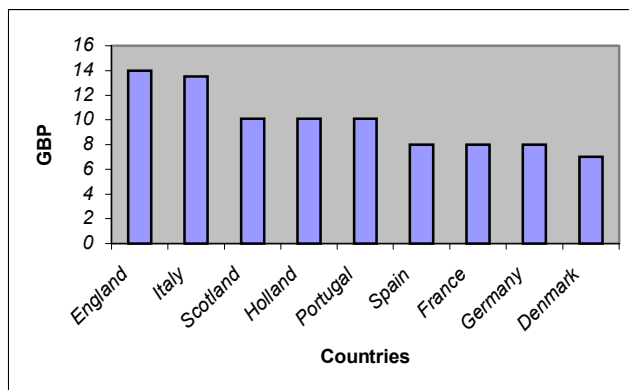
¹⁵⁸ Deloitte & Touche Denmark (1998)



Therefore, the potential match day income for a certain domestic league as a whole might be:

$$\text{(Total population} \times 20\% \text{ of the total population)} \times (\text{consumption per capita} \times 0.15\%).$$

Figure 6.5 Estimated average ticket prices



Source: Own from Le Patourel, December 1998, pp. 47

Table 6.3 Average ticket prices/consumption per capita in the main football markets

Country	Average ticket prices in GBP	Average ticket prices in \$US	Private consumption per capita	Average tickets price/consumption per capita
England	14	20	14,804	0.13%
Italy	13.5	19	13,415	0.14%
Scotland	10.1	14	n.a.	n.a.
Holland	10.1	14	14,105	0.10%
Portugal	10.1	14	10,361	0.14%
Spain	8	11	9,718	0.12%
France	8	11	14,115	0.08%
Germany	8	11	15,577	0.07%
Denmark	7	10	16,385	0.06%
Average	9.9	14	13,560	0.11%

Source: Own from figure 6.5 above, and Appendix 21; 1 \$US = 0.71 GBP



b) Merchandising:

Here, there are two things to be considered. First, taking into account the aspects analysed in section 6.5.1.2 with regard to the factors that a sport company regards when it sponsors a certain club, we will assume that in those countries with most representatives in the Champions League, clubs will sell more merchandising items. The more representatives in the Champions League, the more fans are likely to buy merchandising items because football becomes more attractive for fans. Thus, we will assume that those countries with four representatives in the Champions League might be able to sell merchandising to the 70% of the country's football fans. In other words, we assume that 70% of the total supporters in a country (they are either loyal fans of any of the four clubs that participate in the Champions league or simply supporters who care very much the patriotic aspects of the game and thus, support any of the 4 clubs only for the Champions League) are likely to purchase merchandising. For the rest of cases, the percentage of supporters buying products in a domestic league, as a direct consequence of the national representation in the Champions League, are shown in the table below. We assume that the sale of products is related to the clubs' sportive success.

Table 6.4 Assumed percentage of fans with potential to buy merchandising items

Number of domestic clubs in the Champ. League	Percentage of total national supporters buying merchandising
<i>4 clubs</i>	<i>70%</i>
<i>3 clubs</i>	<i>60%</i>
<i>2 clubs</i>	<i>50%</i>
<i>1 club</i>	<i>40%</i>

Source: own

In order to calculate the average number of football fans in each country, we will make the next assumption. Since the UEFA Champions League's final match might be regarded as the most important event in the football calendar each year, it is expected that all football fans do not miss it. Thus, they are likely to watch it on TV. Table 6.5 shows the market shares in some countries for the last year final.



Table 6.5 TV market shares for the Champions League's final

Country	Market share
Spain	67%
Italy	43%
France	23%
UK	33%
Netherlands	43%
Slovenia	40%
Average	41.50%

Source: own from "UEFA Champions League. Season Review 1999/2000)

TV market shares measure the total number of households viewing a programme at a certain time. We will assume that the average number of football supporters in each country will be the 41.5% of the total TV audience. For practical reasons, we assume that the total audience in a country is the entire population because of two reasons: first, most of the households have a TV set and second, every person is included in some household. Thus, all members of a family watch that TV and are potential audience. Consequently:

$$\text{Total football fans} = \text{total population} \times 41.5\%$$

Finally, we have to calculate how much individual supporters spend on the club's items (scarves, flags, clothes, etc.). Some recent studies have showed that an English fan spent in 1996/97 €160 on average (\$US134, which means 0,10% of our number of consumption per capita), while in 1998/99 an average Spanish fan accounted only for €60 (\$US50,30, that is, 0,05% of our consumption per capita calculations).¹⁵⁹ Although the difference is considerable, it points out a couple of things. First, the UK Premier League is rather well marketed and second, it implies there is potential to develop merchandising activities in other countries. The different expenditure figures in merchandising force us to split our assumptions in two cases. For those countries with a consumption per capita above \$US 10,000, we will assume an average spending on merchandising of 0,10% of the total consumption per

¹⁵⁹ LNFP Spain, 2000



capita, while for those countries like Spain with a consumption per capita lower than \$US10,000, we will assume an expenditure of 0,05%.

Therefore, the potential merchandising market of a certain domestic league might be:

(Percentage of total national supporters buying merchandising [70, 60, 50, or 40%]) x Total football fans) x ([0,10 or 0,05%] x consumption per capita)

c) *Pay TV (also PPV):*

Since we already have the main figures in Appendix twenty-one and the points above, we will just write down the formula to calculate the potential revenues of each domestic league from the selling of pay TV rights. It is important to emphasize that not all the households that have pay TV receivers like to watch football. For this reason we have to weight the total pay TV households by 41.5% (the assumed rate of the population who like football).

(Total TV receivers x rate of pay TV penetration) x pay TV income per household x 41.5%

However, there are three countries that already operate the PPV service for football (France, Spain and Italy), which allows broadcasting all the matches each match day. The PPV service is included within a cable or digital (pay) TV platforms. Thus, we have to include the PPV income potentiality in these three countries. Taking the example of Spain, we have to take into account several things:

First, there are two different prices for PPV matches. If Barcelona or Madrid is one of the opponents in the game, then the price is about \$US13. If they do not participate in the game, the price is about \$US6.5. We will assume the same strategy and prices in Italy with regard to three clubs (Juventus, AC Milan and Internazionale Milan) and in France with PSG and Olympique de Marseille.



Second, we will also assume that 65% of the PPV buyers in each country want to see any of these elite clubs. This assumption is based on the high concentration of supporters on just a few clubs in these three leagues.¹⁶⁰ Third, we will assume that all pay TV receivers have PPV service. Fourth, we also assume that each season the PPV service is run for around 45 match days in each of the three countries (league + national cup). Thus, the new formula for the potential of PPV service within the three leagues mentioned is as follows:

$$\text{(Total TV receivers x rate of pay TV penetration) x 41.5\% x [(\$US 13 * 65\%) + (\$US 6.5 * 35\%)] x 45 match days}$$

d) *Lotteries:*

Due to the lack of information and the different types of lotteries running within each national league, we have been unable to make a prediction of this source of income. Therefore, we will not take it in our model. We do not think that this variable might change our conclusions substantially, so we do not see any problem in leaving lotteries apart from the model.

e) *Sponsorships and advertising:*

Again, it has been impossible to quantify the domestic leagues' income coming from the different advertisers and sponsors. However, it is undeniable that the best contracts of both concepts are in the biggest five European leagues, that is, Italy, Spain, Germany, UK and France. The attractiveness of a domestic league is a basic element in the decisions of sponsors and other companies using football to promote their image. Thus, the UEFA ranking coefficients, which sort out the different leagues according to their performance in European competitions as shown in Appendix seventeen, can help us to interpret the effect of these two variables on the different leagues.

6.5.3.1.3 The model results

As outlined above, the purpose of the model is to see the different income-generating capacities of the European domestic leagues in order to allow us to

¹⁶⁰ LNFP Spain, 2000



sort out the different types of elite followers in some categories or groups. We have quantified three variables (match day income, merchandising, and pay TV income) and we also possess a qualitative variable (sponsorships and advertisers) to complete our model. The results of the model, that is, the relative potentiality of the domestic leagues to generate income, are shown in the following table.

Table 6.6 Domestic leagues' potential to generate income in 1999

Country	Match day income	Merchandising	Pay TV	PPV Services	Total
Austria	34,063,747	23,560,758	157,133,934		214,758,438
Belgium	47,483,950	26,274,452	313,341,927		387,100,328
Croatia	6,614,768	2,287,607	n.a.		n.a.
Czech Rep.	23,375,009	8,083,857	10,638,595		42,097,461
Denmark	25,968,587	17,961,606	99,548,755		143,478,947
Estonia	2,198,908	608,364	n.a.		n.a.
Finland	20,078,421	11,110,060	41,213,160		72,401,640
France	249,352,767	206,962,797	1,319,107,406	1,403,514,576	3,178,937,546
Germany	384,021,339	371,860,663	1,656,764,942		2,412,646,944
Greece	28,285,349	9,782,017	n.a.		n.a.
Hungary	19,921,298	5,511,559	36,666,794		62,099,650
Italy	230,776,904	223,468,968	363,078,187	485,134,579	1,302,458,638
Netherlands	66,582,653	55,263,602	581,464,966		703,311,220
Norway	18,433,856	10,200,067	55,085,670		83,719,593
Poland	64,294,564	17,788,163	92,162,265		174,244,991
Portugal	30,688,246	21,226,037	7,805,839		59,720,121
Romania	30,054,523	8,315,085	n.a.		n.a.
Russia	181,005,692	62,597,802	n.a.		n.a.
Slovenia	5,316,597	1,470,925	n.a.		n.a.
Spain	115,546,048	55,943,545	520,068,626	756,474,142	1,448,032,361
Sweden	35,412,390	19,594,856	193,454,697		248,461,943
Turkey	87,798,867	30,363,775	n.a.		n.a.
Ukraine	36,230,602	12,529,750	n.a.		n.a.
UK	218,507,040	181,360,843	1,072,288,022		1,472,155,906

Source: own; "n.a." shows a low income-generating capacity from TV.

According to the results of our model, we can sort out the whole group of followers in the following categories:



GROUP A: Germany, Spain, UK, Italy and France. Our model has confirmed the leadership of these big five markets in Europe. The low pay TV penetration in all of them, with the exception of Germany, has reduced their capacity to generate more benefits (i.e. Spain and Italy). Also, our assumption of 41,5 % of the total population being football fans, seem to be rather low for the case of these countries. Since their leagues are very competitive and financially powerful, the number of fans is likely to be higher than 41,5%.

The market size also hints that further improvements in match day income and merchandising are possible. Moreover, we did not take into consideration the huge sponsorship and advertising contracts that the clubs in these leagues have signed or are likely to sign very soon. In the case of Germany, the incredible potential for the development of the PPV service may turn this country as the financial power in European football. However, much has to be learned from the English clubs when selling merchandising. According to the last Deloitte & Touche's richest list of clubs, ten British clubs are between the 20 richest clubs in the world (see Appendix twenty-two).

GROUP B: the Netherlands, Belgium, Portugal, Turkey, Scotland, Russia and Greece. This second group needs some comments. First of all, all of these domestic leagues are in the second division in terms of sponsorship income. Some of them are highly populated and the majority have at least one prestigious club in Europe. For instance, the Netherlands represents a clear option (threat) to group A. It has almost 16 million inhabitants and also has the highest pay TV penetration in Europe, which make us think it is a good prospect for this league. The model confirms this idea. Also Russia, and more recently Turkey and Greece, have been very successful in European competitions and have attracted sponsorships. Russia has almost 150 million inhabitants and its expected economic progress might attract much money to the clubs in the future.

A special case here is Portugal. Even though the league has a couple of elite clubs (Benfica and Porto), the league's capacity to generate income through merchandising and TV has been very low. However, we believe that the



upcoming Euro 2004 will bring many resources to the league from private and governmental sources that will push up the commercial activities and the playing performance of Portuguese clubs in Europe.

GROUP C: Norway, Demark, Sweden, Poland, Ukraine, Austria, Czech Republic, and Switzerland. Within this group we should differentiate two categories. First, one (Scandinavia, Austria and Switzerland) is characterised by a very good income per capita, which makes them to present high pay TV penetration, which is a good for generating income. However, they are scarcely populated which will restrain their income potential in the long run. Second, there are some leagues (Poland, Ukraine and Czech Republic) with lower income per capita but with incredible populations. They are future candidates to go up to the second group if they manage to commercialise the game properly and work hard with their youth.

GROUP D: (i.e., Croatia, Finland, Estonia, Hungary, Romania, Slovenia, etc.) They are the rest. It is difficult to expect a good future for these countries where the football market has not been exploited yet according to the new commercial requirements around football. In general, they are not very populated either. We do not expect these countries to shorten the gap with the rest in the long run.

The model presented might not be regarded an exact mechanism to predict the future, neither our predictions based on both the model and our intuition may be right in the long run. The single purpose of this section, however, has been to classify the entire group of followers into four categories in order to evaluate the possibilities for the different domestic leagues to have some representatives in the group phase of the UEFA Champions League. Therefore, our conclusion is that those leagues in the groups A and B are likely to have at least one follower in the group phase 1. Group C's representatives have to trust in the good performance of their respective participating clubs (usually just one) in the qualifying rounds. However, they are likely to play in these rounds with higher group's clubs and thus their possibilities are not very high. Nevertheless, as shown in the recent years with Sweden, Austria and especially Norway, the



possibilities are still out there. They can take advantage of the fact that these qualifying matches are early in summer when most of these leagues have already started the national champions while clubs in the more powerful championships are still in the pre-season preparation.

6.5.3.2 Conclusions

Four clear groups have been distinguished within the elite followers. The development of the football industry is shaping the competition framework according to our classification and the differences between the groups are becoming rather clear (in some cases the differences are bigger and bigger). The fact is that the bigger the domestic market, the bigger your commercial potential is and thus, the bigger the likelihood of increasing your playing performance through the purchase of talent players. Within these dynamics, it is vital to remark the different degree of pay TV penetration and application of pay-per-view in the domestic leagues, which certainly contributes to make differences.



SCENARIOS AND INDUSTRY CONCLUSIONS







7 SCENARIOS AND INDUSTRY CONCLUSIONS

The present chapter concludes the football industry analysis. After seeing the main industry structure, its forces and trends as well as the specific market where the elite followers clubs should aim at, there are still some uncertainties about the future of the industry, which are at this moment difficult to estimate. We will, therefore, facilitate the forecasting task by presenting a couple of future situations that might occur in the up-coming years. They will be our football scenarios, which will help us to find a response to Research problem 1: “How will the actual development of the football industry affect the club hierarchy in Europe?”

7.1 Scenarios

After analysing the most important forces acting on the industry nowadays, we have identified two main scenarios that reflect the most extreme forms that the industry might adopt in the impending prospect of the football business. Any situation in between them is also possible.

7.1.1 Introduction

An accurate answer to Research Question 1, may depend upon the final definition of the issues previously analysed: the modification of the transfer system, the evolution of the commercialisation process in the different leagues, the creation of a Superleague (or further development of the existing UEFA Champions League), the explicit implementation of the UEFA licensing procedure or the future evolution of the players' wages. There are some controversial issues around these factors that may drive the industry to different situations. These “hot” issues are basically concerned with the difficulties that the football authorities are now finding in establishing a definite business framework, principally due to a clash of interests with the EU legal authorities and some private individualistic interests. In other words, UEFA and the national associations have been challenged several times by the EC in the last years (transfer market, selling of TV rights, etc.) and have been unable to stabilize the industry according to its initial objectives of taking care of the



whole football family. This notorious “struggle” with EU authorities has benefited the interests of the G-14 with regard to its ambitious demands, putting individual interests over collective ones.

However, the very near future will bring up a factor that will clarify most, if not all, of these contentious aspects. That is the *recognition of sport as a specific activity, which would let football stay out of the EU economic regulations*. According to UEFA, this is the key factor that will guide football destinies. The European Council’ summit in Nice in December 2000 will throw light on the possibility of having a governmental statement (sport protocol or a declaration) in favour of sport. It is increasingly evident that the special characteristics of sport in general, and football in particular, need to be recognised by the political world so that football authorities can plan properly for the future.

Therefore, we have identified two scenarios to represent each of the two situations that the issue of specificity of sport may suggest. The objective here is to highlight the most important forces that will push the future of the football industry in Europe in each of the two possible directions. Our aim is to make these forces visible so that, if they happen, the participants in the football industry will recognize them and be prepared to act.

7.1.2 Common Characteristics to Both Scenarios

Although there have already been some informal declarations by the EU Sport Ministers in favour of the specific nature of sport, they also have stated that the final transfer system must be “*in line with the specific needs of sport and respecting national and EU law.*”¹⁶¹ Thus, we believe that the current modification process of the transfer system will be not affected in a great deal, regardless of the EU’s declaration of sport as a specific activity. At the same time, the commercialisation process initiated with the TV boom will be maintained regardless the final scenario. Thus, we have identified some characteristics of both the transfer system and the commercialisation of the game, which are common to the couple of scenarios identified. However, some

¹⁶¹ www.sportbusiness.com 8 November 2000



small specifications will be indicated at each scenario with regard to both issues.

7.1.2.1 The transfer system

- **It will not possible to bring back the pre-Bosman system**, which was based on the “nationality clause”. No restrictions on the number of EU players will be possible, although UEFA is interested in implementing a system of “6+5” (a minimum of 6 national players and a maximum of 5 foreigners).¹⁶²

- **The mobility of players will increase** considerably from their home clubs to many other clubs that offer better conditions of contract and attractive salaries. Higher freedom for players will surely produce an increase in their salaries. Definitely, top players will benefit the most in this situation because their salaries will go up more than before due to the fact that, if clubs do not accept the player’s demands, they can leave the club at the end of the season and get better offers from any other top club.

- There will be **less sums of money moved in the transfer system**. We do not think that the EC will approve the proposal of the football authorities to have a minimum period of contract of 3 years. The EC is likely to admit just one year. After that year, the player will be free to go anywhere.

- **The compensations for youth training will be reinforced** in order to reflect the interest of the governments in this issue. As outlined in Chapter five, new formulas and “*solidarity*” mechanisms are likely to appear to encourage this activity within professional clubs (i.e., a levy on transfer fees and a solidarity fund financed by income derived from the central marketing of television rights).

- In order to retain players, clubs will surely introduce **new type of contracts to enhance the explicit commitment of their players**. Clubs should find methods to keep their players in order to stabilize their squads through; for instance, financial bonus for longer stay, loyalty programs, etc.

¹⁶² Johansson, Lennart, President of UEFA



- However, **contracts will surely have less duration**. Therefore the players' stay length in one club will be shorter than before and one single player will be able to move several times to any other club that demands his services.
- In general, the **clubs may not suffer from the following reduction of the transfer income**, as the net transfer revenue has not represented a great deal since the Bosman ruling. However, those clubs that have been very dependent on transfer income might have financial problems if they do not reduce their costs to the same level than their revenues, which many times will imply to reduce the salaries of their players.
- The football labour market will continue with its **internationalisation**. However, the current situation is unlikely to change, with the football elite signing the talent.

7.1.2.2 Football commercialisation

- **The market size, football attractiveness, PPV development and income per capita in the domestic markets** will become the most important factors to explain the playing performance of a club in the European competitions. For this reason we do not think that the dominance of the big five leagues will disappear due to just some solidarity mechanisms at the European level. To cope with the probable competitive restraints represented by the solidarity mechanisms of scenario 1, the football elite and the top followers will surely stress their business orientation by entering other non-European markets through commercial business plans (specially merchandising) as Manchester United has already initiated.
- **Media groups** will play more important roles within all clubs, which will obviously turn into more **commercial undertakings**. The process of corporate ownership will in fact be reinforced because everything that brings money to the game will be welcome.
- All **elite followers clubs will have to do their best in marketing themselves** because they will not be able to maintain their structures from the

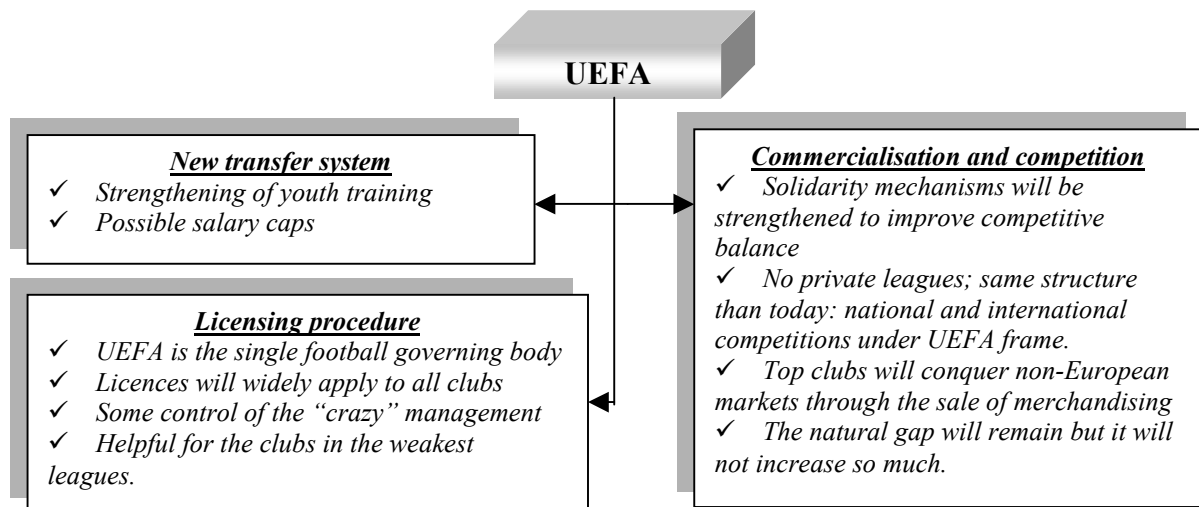


solidarity mechanisms alone, which will provide limited aid. Thus, an array of business activities is expected to be exploited: Internet, sponsors, advertising, Stock Exchange, corporate ownership, etc.

7.1.3 Scenario 1: Sport as a Specific Activity

Our first scenario is based on the idea of sport as a specific activity. If the EU finally recognizes the need for special treatment for sports, it would mean an important boost to the autonomy of UEFA and national federations in order to organise their respective competitions in whatever way they choose. It would also mean the EU must take account of the social, educational and cultural functions of sport. EU will give much importance to the maintenance of the current sport structures around UEFA. Thus, any form altering today's structure, such as the Super League, would be declared as no-sportive activity. Therefore, this scenario might be depicted as follows:

Figure 7.1 Football future uncertainties: Scenario 1



Source: own

a) Transfer System

Apart from the whole list of common consequences associated with the transfer system (see above), we would also like to mention two aspects that are specific to this scenario where UEFA will control the football destinies. First, **salary caps** cannot be rejected as a solution to cope with the inflationary trend in salaries, because the EU is very concerned with the issue and might approve



that measure as a way to enhance the competitive balance among football clubs as it happens in the USA. Second, a definitive boost might be given to the youth training schemes as a consequence of the UEFA licensing procedure.

b) Commercialisation and Competitive structure in European competitions.

Commercial activities will spread throughout the game almost regardless of the sport specificity, as pointed out above. However, there are some commercial aspects that are specific to scenario 1:

- Football commercialisation is not bad at all for the health of the game. On the contrary, it is the most powerful tool to maximize the industry revenues. However, UEFA will use it **to improve the competitive balance of the competitions**. The higher rates of revenues expected in the future will help to enhance the solidarity mechanisms, redistributing income to the less-known clubs. Redistribution of income will go towards the youth training, improvement of facilities in poor leagues, promotion of the professionalism in clubs' football structures and increase of the commitment of professional clubs with social issues such as the community. Still, **the commercialism wave will differentiate some leagues from others**, but the solidarity mechanisms will be forwarded to correct part of the differences in order to support an equalitarian sport competition.

- Therefore, the recognition of the specific nature of football (sport in general) by the EU would grant **UEFA higher control in the struggle with the G-14** or any other breakaway threats. However, since even UEFA seems to admit that the football elite is supported by higher numbers of fans, G-14 clubs might deserve a higher percentage of income from UEFA's central marketing, as happens today. Furthermore, there is no room for regional leagues or even a Superleague in this scenario. All the current clubs will go on under the UEFA framework. One of the maxims in business is not to go against the legal institutions; that is, if the EU supports the supremacy of UEFA as the legal entity to control and organize European football, **top clubs would rather stay together with UEFA**. Also, those media groups and private initiatives supporting the Super League for commercial interests would surely prefer to avoid possible retaliations from the regulative authorities.



- Money will come from a possible **restructuring of the European competitions and/or a higher acceptance of pay-per-view** in these competitions. According to the president of UEFA, European football can reject new competition models if they maximize revenues and then use the money collected to promote higher balance within Europe.

c) The licensing procedure would be successfully implemented.

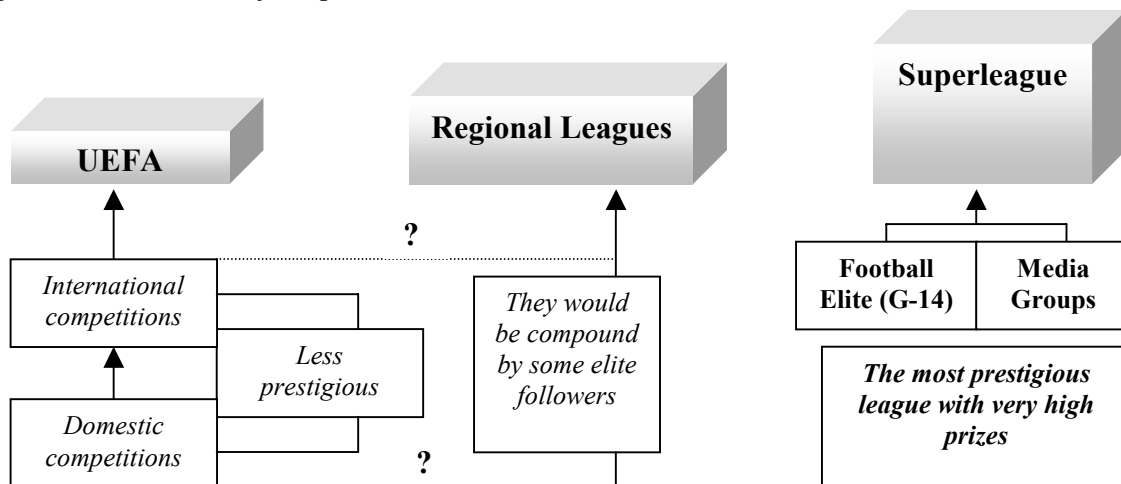
As already mentioned, the EU has supported this measure, which will contribute to a **higher control of clubs in terms of their financial accounts**. This procedure will force clubs to turn into real enterprises with a certain profit orientation and a higher professional profile, while keeping the playing success on top. Clubs that have usually reinvested all their income in players and have not cared about youth schemes, community commitment or improvement of facilities will have to change their competitive strategies towards those that comply with UEFA licences' prerequisites, which might contribute to more balanced competition. The licensing program may be extremely helpful for the new European democracies, such as the former Soviet Republics and other East countries, because they are likely to receive considerable resources from the solidarity mechanisms to improve their football structures. Otherwise, they will not be able to participate in European competitions because they will not manage to fulfil the prerequisites of this program.

7.1.4 Scenario 2: No Recognition of Sport as a Specific Activity

The uncertainty about the recognition of sport as a unique activity within the EU brings up a second scenario. Under a situation where the EU does not support openly the UEFA role within football, many aspects of the game will be treated with sheer economic regulations. Football might suffer a considerable restructuring that could lead UEFA to a secondary level in the industry, in charge of the national teams' competitions and a majority of weak clubs. The Super league will surely show up, and possibly regional leagues will also follow the Superleague. Those clubs staying under the UEFA framework would be the less known clubs, with no commercial potential in terms of generating important TV audiences.



Figure 7.2 The structure of competitions in Scenario 2



Source: own.

a) Transfer System

- The transfer system will go on under the reform explained in this thesis. Therefore, all common characteristics highlighted above are also valid in this scenario. Since scenario two is, without no doubt a synonym of a private and hermetic Super League for the benefit of the football elite, that **private competition might create its own transfer system**, only valid for the participants on that league. However, it should not be very different from the common characteristics of the transfer system because any transfer mechanism is obliged to fulfil with the EU legislation about the free movement of workers.

- We do not think either that the private league's members will try to impose a salary cap to limit the power of the players. **Salary caps are only possible under scenario 1** since it is considered a measure to enhance competitive balance and the Super League does not look for this goal but for the income maximization. Therefore, **the salary of the players may increase much more in this situation** than in scenario 1.

- It is likely that a certain chaos in football will appear with **several potential football regulators** (UEFA, G-14, regional leagues), which is not good for the final consumer of football. Consumers should not get confused with the structure of the industry.



- **UEFA members will surely go on investing in youth training and might turn into incubators of future talent for the private leagues.** One of the problems could be the establishment of compensation fees when a Super League's member tries to hire a footballer playing for a club under UEFA jurisdiction.

b) The commercialisation process.

- Although all football clubs will attempt to maximize their commercial activities, as pointed out above, **there will, however, be different degrees of commercialisation depending on the leagues.** It is important to highlight the potentiality that the Super League will have to generate income from TV deals and sponsorships, whereas those leagues that hold less prestigious clubs, which also receive smaller attendances, will not obtain such substantial revenues. TV broadcasters will not offer such attractive deals for leagues that are not well supported, even if they have competitive balance.

- Perhaps, it is likely to occur a higher number of **market flotation** than in scenario 1, in order to look for new sources of income.

- Top clubs in the Super League might look for the improvement of their squads through **special alliances with incubator clubs for the supply of players** in order to have preference to pick up the most talent players and include them in their squads. Non-elite clubs would become the feeders of top clubs in order to be compensated with high fees. The compensations fees coming from the wealthy Super League's clubs could become one of the most important sources of money for the non-elite clubs.

c) Competitive Structure in European football.

- **The competitive situation that characterises scenario 2 is something that resembles chaos for the football fans.** One of the golden rules in sport is that the competitive structure must be very identifiable for the football fans.¹⁶³ With at least three independent football-governing bodies (UEFA, G-14 and those in the regional leagues), the consumer in football might get confused. That is not

¹⁶³ Elstone R. & Wilson J., Deloitte & Touche Football Consultants.



good for the entire health of the game, given that the final objective is to maximize the attractiveness of the whole industry to fans.

- With this situation, **there will not be any kind of redistribution mechanism from private leagues to the others.** Those clubs within the UEFA frame would surely apply the solidarity principle with other inferior clubs within UEFA. The other two structures are not likely to establish any system for the redistribution of income. Indeed, cross-solidarity among the leagues is unimaginable.

- Thus, **the differences between the private league, the regional leagues and the UEFA competitions will become wider and wider.** The Super League will attract the best TV deals and sponsorship contracts and will have fans all over Europe. The games are likely to be shown in all countries. The regional leagues (Atlantic League, Centre-European League, etc.) will be attractive within the group of countries that the league may embrace. Still, their contracts and deals with TV and sponsors might be substantial as well. One of the questions for these regional leagues is how their relationship with UEFA will develop. It seems that those clubs behind the Atlantic League would be willing to stay within the UEFA frame, but the likely profitability of the Super League might make them independent. Finally, it is clear that the UEFA clubs will be badly damaged, with no big prizes for their competitions.

d) Licensing Procedure.

- At first glance, it is not difficult to see that those clubs within the Super League will keep struggling for the prizes and honours of such a prestigious tournament, might lead them to spend on top players almost all their revenues. In this sense, we do not forecast a change in the strategy of some top clubs' with regard to the pursuit of profit. Thus, there will still be some elite clubs more concerned with playing success than with taking care of their financial accounts. **Super League's clubs will not, therefore, approve any kind of licensing procedure.**



- However, **UEFA's clubs will, in turn, care much more about their financial situation** as a consequence of the application of the UEFA licences. Also, the whole clubs' structures will develop according to the licences guidelines.

7.2 Conclusions: The Gap

Once we have analysed the industry and predicted the two more radical scenarios, we just aim in this section to answer our first Research Question: ***“How is the actual development of the football industry affecting the club hierarchy in Europe?”*** As outlined in Chapter one, the industry's hierarchy has to do with the condition of the football gap, and, thus, we will answer the question by appraising such a gap.

Our main objective in Chapters 4, 5 and 6, together with the first section of the present chapter, has been to show that football has entered a new era since the early 90's. Having experienced many decades where the game was exclusively focused on sportive issues (prestige of winning, honours, national pride, competitive spirit, etc.), football is turning into a real business, at least a big part of it. Perhaps the most striking dynamic of the 90s has been the polarisation within the game - the gap between the elite and the non-elite.

For more than 90 years, a gap between a certain group of highly regarded clubs and the rest was established in Europe. Since football is a game for the social masses, it had higher repercussions and penetration in those western European countries with higher populations, where some clubs stood out among the rest due to the attractiveness of their playing style and, thus, attracted a higher number of supporters. A continuous above-average playing performance gave these clubs a good record of victories and championships over rivals. Thus, it was in the current big five nations where the majority of top clubs appeared. With such a basis, football authorities protected the game to prevent the dominance of the strongest clubs by certain rules, such as, the maximum wages, the nationality clause or the restrictions on movement of the players. This lets some minor clubs obtain good results despite the considerable differences in support. Thus, the difference between the rising football elite and



the other clubs was exclusively based on attendances of supporters at the stadiums. The result of that different appeal among fans may be called the “*natural gap*,” which is a breach based on the historical playing performance. The following quotation sum ups this idea: “*thirty years ago, the differences were on the number of spectators. In Manchester, attendance figures were 60,000 spectators whereas in Göteborg they were 30,000 spectators. That was all. Then, we could have an opportunity to beat top clubs. Now, the situation has changed. It is the different sizes of the markets in terms of viewers what really sets the differences.*”¹⁶⁴

But the 90’s have changed the width and form of the “*natural gap*”. Now the historical playing performance is no longer the unique determinant of the success of clubs. The natural gap has been augmented almost in exponential proportion to the commercial potential of the clubs and leagues. This fact has also been reinforced by the abolition of part of the restrictions (free movement of players, no nationality clause, no limitation on salaries, fewer solidarity principles). The forces studied in this thesis help to understand this fact. Thus, some clubs that had relative success in the 60’s, 70’s or 80’s have, in part, disappeared from the European scene.

The result is a very defined *hierarchy* of clubs in European competitions (see figure 1.2 in Chapter one). First, we have a group of elite clubs on the top of the football pyramid. Most of them belong to the big five countries but also we can find some more outside. Supported by a huge mass of fans, these clubs are the winners in this new era of football where the income-generating capacity is likely to determine the clubs’ position/level at the football hierarchy. Top football has taken advantage of the natural gap to exploit their commercial potentiality and ensure their dominance forever. Second, to a wider and wider distance, we have the rest of clubs, those that have seen how the past opportunities of winning an European trophy, or at least reach the final rounds of the UEFA competitions, have almost vanished into the air. The reason is simply that they cannot compete at the financial level.

¹⁶⁴ Lagrell, Lars-Ake, President of the Swedish FA.



Football seems to have lost all the foundations of any sport when explaining success. Now success is strongly related to the business logic. Applying a business analogy to football, there are some Coca-Colas and Pepsis dominating the market but also a considerable number of less known brands. In this situation, consumer behaviour and the market shares at the end of each year are easy to predict as consumers opt for the marketing power of the Coca-Colas and Pepsis.

But the matter is that the essence of football is still sport, and the economics of team sports say that the entire game does not work properly, by just maximizing individual utilities. In contrast, the key factor is to maximize the value of the entire industry. Only in that case the football family will succeed. Thus, the world of football has to reflect whether they want to go towards scenario 1 or in turn they prefer scenario 2. Scenario 1 might reduce the current “unnatural” and turn it into a more “natural” one. Scenario 2 would contribute to its enlargement. The discussion is still open.





A CLUB'S "INTERNAL MICRO-ENVIRONMENT"







8 A CLUB'S INTERNAL "MICRO-ENVIRONMENT"

In this chapter we intend to present the basic characteristics of the internal structure of football clubs in Europe; we will emphasise on our target clubs, "elite followers," regarding their values, objectives and goals, their resources and capabilities and, finally, their competitive advantage that this group of clubs possesses in order to determine their strategy in the European football industry. We want to achieve two main objectives by the end of this chapter:

- *To understand the performance of the elite follower clubs based on their internal structure.*
 - *To have enough knowledge to formulate and establish a business strategy to compete in the new football industry.*
-

8.1 Internal Structure of Football Clubs

Historically, professional football clubs in Europe have gone through some changes that have slightly modified their way of operating in the industry. However, today's violent changes, presented in the previous chapters, force them to outdate their approach to competition. The internal analysis of the club in question is one of the most useful instruments to react to external changes and adapt its resources and capabilities to the current football industry. An internal analysis primarily involves the identification of critical areas, which are in one side contributing to the success of the club or, on the other side, obstructing the development of the club towards its success.

In the current football environment, it is difficult for elite followers to create and sustain a competitive advantage, which may differentiate them from more powerful rivals. In order to implement an internal micro-environment analysis, a club must first establish its objectives and goals according to the values that have driven the club until the place that now it occupies; and secondly, identify which resources the clubs possesses in order to use its capabilities in a more efficient way that make the clubs take a distinctive place in the football structure.



8.2 Club Values

The values of a club give the guidelines over which style of performance is acceptable and desirable in the football environment, especially in the local market where the club operates. Values are a set of “principles” in which all the internal, as well as external, members of the club should stick together and work in a perfect collaboration.

The most important values football clubs have to take into consideration have to do with the following issues: *community involvement, youth training and social education, professionalism and/or partnership with local authorities*. All these values are likely to be more important within those clubs and societies, where football has not been completely touched by the commercial activities. Thus, these principles may stay more recognisable within the elite followers than in the case of the football elite.

Community involvement: Football clubs are an important element of the local society where they perform. It is said that football clubs must reflect the character of the society where they are settled. Therefore, those social and cultural principles of the local environment where the clubs are located have an extreme importance when it comes to the definition of the different functional strategies of football clubs. These values are normally inserted in the community and also involve issues that connect a club with local authorities through strategic partnerships, which are specially important as highlighted in the UEFA licences prerequisites. Football is deeply-rooted in local societies and a lack of such a relationship or a scarce concern about it, might result in negative results for the clubs in terms of support and revenues. For instance, in Barcelona (Spain), FC Barcelona also said to be “much more than a football club”. From its foundation, the club assumed the main objectives of the Catalan society of which it is a part and always gives support to initiatives invigorating the cultural identity of Catalonia.¹⁶⁵

Consequently, football clubs are required to create a wide variety of innovative projects to provide positive experiences for their local base of fans, and, thus,

¹⁶⁵ Mail, S., Michie, J., and Oughton, C., 1999.



obtain benefits for both parts. Even now with the current commercialisation of football, clubs have to avoid the erosion of their local community ties just to keep their traditions and their community values as an important resource.¹⁶⁶

Youth training and social education: It is important for clubs to keep a community approach because it helps to encourage youth development programs, which as we will analyse later, is a potential competitive advantage for any club, especially those of our study. Clubs should promote the participation of the population in football that, in turn, might increase the number of supporters and recognition within the community, which, in one way or another, the club receives some kind of support and increases its popularity. Therefore, many clubs include their community involvement in their annual reports because they consider it as a responsibility to the community but, at the same time, as a major opportunity to benefit from it.¹⁶⁷ For instance, the Scandinavian clubs are said to assume part of the social education of the youth because their local society gives so much importance to that aspect.

Football clubs have usually followed a strategy to focus on youth training and education not only because they might become talented players in the future for the clubs' squads, but also because they are potential supporters of the club in the future. Some of the tactics that clubs have put in practice to attract young supporters are free entrance or price reduction in the tickets or distribution of free tickets in schools for marches.

Partnership with local authorities: The local investment from governmental bodies or societal sectors remains very important for a big majority of clubs, especially those in our target group. External entities and institutions collaborate with football clubs because of the role that they have in the community and the huge influence that football has on social, cultural and educational issues. Thus, local authorities take care of the well-being of their local football clubs. This could be regarded as the most simply and evident exemplification of the unsuitability of American sport models in Europe as, in

¹⁶⁶ Sir Norman Chester Centre for Football Research, 1988.

¹⁶⁷ Morrow, S., 1999.



American clubs are franchises that may change cities easily without social and cultural considerations. Some of the complementary actions that many clubs take part for the benefit of the society and its institutions/foundations are for instance the charitable activities from players such as campaigns against drugs.

For instance, Swedish clubs receive support from their municipality governments because they are aware of the essential role that clubs play, mainly through educating and influencing in a positive way the youth generations. As Swedish clubs start to educate and form youth players at early age (7-8 years), this means that a great part of the child life might relate to clubs activities, community sees very important to encourage such influence within football clubs.¹⁶⁸

Professionalism: The development of football structures towards professional entities seems to be a reality. Clubs moving on to the stock market is a phenomenon that will effect the game, otherwise many clubs will not be able to compete at the top level.¹⁶⁹ However, the step of this development will surely depends on the preferences of clubs' members, who normally reflect the values of the local society. Clubs are coming from amateur or semi-professional structures and the progress towards professionalism is not homogeneous.

8.3 Club objectives

As explained earlier, the existence of a lucrative market within the football industry and, more specifically, outside the domestic leagues have forced top clubs to change their behaviour and look for new sources to obtain success, not only in the pitch but, more important for them in the financial aspects.

Traditionally, football clubs performed following the goal of playing success while they could remain solvent, which implied that it was more important to win on the field than to maximise their profits. This philosophy is in contrast with the goals of the regular companies that usually focus on maximizing their profits. However, as the current conditions for clubs to become successful

¹⁶⁸ Lars-Ake Lagrell,, President of the Swedish FA

¹⁶⁹ Ibid



within this industry are less favourable, clubs have to move from sport objectives towards a more business orientation.

Sportive objectives: Clubs have to be successful not only in their home leagues, but also obtain at least a small share of the European market, through the participation in UEFA competitions. Thus, clubs must try to have a good enough performance within their domestic leagues in order to obtain a place for the European competitions, more specifically to the UEFA Champions League. This course of direction is due to the highly lucrative character of the Champions League and, consequently, the economic benefits that participating clubs might enjoy. For most of the elite follower clubs that participate in UEFA competitions, the amount received from such tournaments represents the highest income, which helps clubs to balance their costs for the following seasons.¹⁷⁰ In addition, the different changes in the structure of European competitions have contributed to the different approach that clubs have taken.

Financial objectives: As pointed out in Chapter five, just a few clubs have positive profits within the industry. However, clubs have already started to establish financial objectives mainly driven by the necessity to get funds to invest in players. Financial objectives are the main reason for the higher professionalism in the club's structures. However, with few exceptions, football clubs still pursue playing performance (sportive objectives) as the main goal as the best way to achieve the financial objectives. This is a widespread trend observed practically in all clubs that compete at the top level, including the followers.

Financial objectives are often associated to the **ownership framework** of clubs. Historically, clubs in Europe were sport institutions either totally owned by the clubs' members or by small groups of local businessmen, together with hundreds of fans supporting the club, which represented a diversified type of ownership. This type of ownership is still alive, but it is more commonly found within the elite followers. However, as clubs now need some new sources of income, they have opted for becoming private companies with a more

¹⁷⁰ Bosse Gentzel, Chairman of IFK.



concentrated ownership, where only few individuals have the control of the club. This kind of management is more commonly found in top clubs that are financially attractive for private companies. In many cases, the original directors have retained the clubs' control and ensure that the overall management of the club remains in their hands.¹⁷¹

Therefore, the restructuring of clubs' objectives within clubs is an activity that aims at finding other ways to operate and improve their performance. We can say that elite followers, as well as top clubs, are a combination of both approaches, as they were used to play for the sport objective. They also have realized that in order to survive and be able to face top clubs in the big leagues, a business/financial approach has to be taken. However, a more financial approach is not easy for the majority of follower clubs. First, because of they are not used to manage clubs as undertakings and second because of less favourable characteristics of their home markets. Hence, clubs located in countries like the Scandinavian region are in a clear disadvantage compared with the clubs in the big five countries, for instance, with regard to the financial objectives, which is later reflected in the sport objectives. Despite the fact that there may be differences in the degree and intensity of club owners' objectives, the majority of elite follower clubs look first for playing success, and business comes in second place.¹⁷²

While there is no evidence to suggest that clubs have been exclusively run on a profit maximisation basis, the up-coming trend of clubs' flotation will bring external shareholders/investors to the clubs, which means that clubs must endeavour to generate satisfactory returns for these investors. As a great number of the top clubs operate on the stock exchange, they are obligated to show positive results and increase its financial revenues. Therefore, the club's objectives also change if the character of the club involves members as shareholders contributing in the development of the club.

¹⁷¹ Morrow, S (1999)

¹⁷² Ibid



Finally, it could be said that the concrete goals of a club rely upon a wide set of variables, for instance: the past behaviour of the club together with the social responsibility with the society, the legal obligation of the club laid down by its officially constituted rules, the present forces pushing to a more commercialise character, and so on.

8.4 Club resources

Clubs must apply their resources in the most effective way according to their objectives as previously defined. The employment of club resources into daily activities is a task that concerns the top directors. They should analyse which resources are needed to perform successfully within the industry, as well as which resources already acquired can be maximised, in order to take advantage of them. Besides that, there are other resources that might be present within the club but in a passive way and might represent a valuable competitive advantage.

8.4.1 Tangible Resources

Clubs have tangible resources in two main ways: financial resources and facilities, which are easy to identify and measure.

8.4.1.1 Financial resources

As pointed out in Chapter four, football clubs now have more sources of income than in the past, with which they can be financially solvent. Traditionally, the most important income for clubs was the gate receipts from supporters when the club played at home. Nowadays this source has moved to a second or third place, taking more importance are the revenues obtained from the selling of *TV rights* for their matches. Absolutely, the elite clubs in the big leagues possess much higher financial resources, mainly due to the higher value of TV rights, compared to elite follower clubs. For instance, while the UK Premier League receives over a £1.6 billion over the next three years, other leagues, such as the Swedish or the Belgian, receive £35.5 m (over 5 years) and £15.3 m (over 4 years), respectively, which also has to be shared with the federations and lower divisions. Thus, this type of income for these two countries (and in general for many followers) only accounts for less



than 25% of the total clubs' income,¹⁷³ while in the Spanish league this figure is over 50%.

The restructuring of the *European competitions* has turned them into a very lucrative source of income for football clubs. Thus, the income received from the participation in the Champions League is surely the most important source of revenues for those elite followers that take part in this competition. In the case of clubs in countries like Sweden, Austria or the Ukraine, this income helps to make the club solvent in the following few years, which means that a club might run positively in the next years because of its participation in the Champions League.

Although the nature of *sponsorship* deals varies from club to club, it now represents an important source of income, which is received at the beginning of the deal or more commonly annually at the beginning of each season.¹⁷⁴ The attraction for commercial companies to associate themselves with football clubs has been in practice for many decades but it is now when the higher quantities of money have been included in contracts, mainly due to the impact of TV transmissions. For instance, Swedish clubs obtain from sponsors approximately 15 to 20% of the total club's income.¹⁷⁵ Even those follower clubs, which do not hold a totally commercialised character count on important private companies that contribute to club's activities obtaining benefits mutually. For instance, the Swedish IFK Göteborg has not only the sponsorship of multinational companies such as Volvo, but also there are around 18 other companies supporting the club's activities in different levels.¹⁷⁶

Besides the new commercial sources of income, *ticket selling* still represent one of the major sources for the elite followers throughout Europe. Thus, for those clubs that cannot achieve a place in European competitions, this source of income may become the most important in order to finance their expenditures. Additionally, we can mention the revenue obtained from the selling of

¹⁷³ Thomas Stenberg, Vice president of Helsingborg IF club

¹⁷⁴ Morrow, S (1999)

¹⁷⁵ Bosse Gentzel, Chairman of IFK.

¹⁷⁶ Ibid.



merchandise. Obviously, this activity is more important in top clubs, which have more resources to invest in the production, marketing and distribution of the club's products. However, the general practise for follower clubs is to concede licences to other companies that exploit the logo and brand name of the clubs in turn of a percentage of the sales. We believe that merchandising has only been exploited by the top clubs. The clearest example is Manchester United, which has put in practice a marketing strategy not only in its home market, but also abroad, by selling merchandise through catalogues and Internet. For markets where the population is reduced, this practice become more difficult and clubs are not interested to spend efforts in increasing the limited merchandising that already have. Thus, they focus their attention to the merchandising sales that takes place on home match days.

Match day sales can be split into pre- and post-match sales. Even though there is not any empirical evidence that there is a relationship between football match results and the post-sales obtained from the merchandising, it is clear that it is affected by the scored obtained in the game.¹⁷⁷

Lastly, another source that is taking more importance these days is the participation on the *stock market*. As mentioned before, clubs do not have much experience in market flotation, but it could be a profitable way for contributing to a club's development. In this sense, the prospects of this new alternative seems to be higher for the football elite than for small clubs.

In conclusion, we might say that the revenues obtained from participating within the Champions League is by far the most substantial income for elite follower clubs. However, the instable character of this source of income should lead follower clubs to develop commercial strategies in order to exploit their potential for raising revenues and thus increase their financial resources.

¹⁷⁷ Morrow, S (1999)



8.4.1.2 Physical resources

Regarding the physical resources, we can identify that a club's grounds and facilities are the only major assets that clubs have. The nature of football stadiums means that a substantial investment must be made in order to receive considerable amounts of fans that would like to see and support their favourite team. Stadia usually represent a highly ineffective cost for clubs because, on one side, there is huge amount of money invested and the maintenance costs of it, and on the other side the infrequently use that stadia have (only in match days). This is one of the reasons why many football clubs do not possess their own stadium, but local authorities lease them to clubs. However, this only adds a new problem for an efficient management of stadia (see Chapter ten).

In order to increase their revenues for the gate selling, and also improve their public image and brand name, several top clubs have substantially improved their stadia and the facilities that accompany them, such as offices, restaurants, and so on.¹⁷⁸ This is the case with most of the English clubs, which find in the appropriate stadia management one of the reasons for their commercial success. Other clubs have also had the opportunity to move to a new stadium where they can allocate higher audiences at better conditions. However, it is not only a question of higher capacity but find the appropriate number of seats in order to maximize revenues and support.

Even though the use of stadiums could be increased, there are only few cases where stadiums are used in other kind of activities, like music concerts, or for alternative sports. Thus, stadiums remain a limited use asset at high costs. The ideal situation might be one where several clubs in the same city may share the same stadium and also obtain very long leasing contracts with the owners (authorities). In this case, the own clubs have an incentive themselves to improve the own facilities in order to exploit to a maximum the opportunities that such huge coliseums can offer. An example of this situation is in Milan, where the two elite clubs in the city share the stadium.

¹⁷⁸ Morrow, S (1999)



On the other hand, well-equipped facilities, such training camps, allow not only the good performance of the first team but, also, the development of future talent players. This is an important aspect where the UEFA licensing procedure has put special emphasis on. Moreover, clubs use their training centres as football schools or academies to discover and form youth talents that might later reinforce the first squad. The lack of appropriate training facilities does not seem to be a problem within the top leagues but it is in other countries such as Sweden. Many of the Swedish clubs do not have the required facilities to train and increase their performance capacity. The IFK Göteborg was one of the pioneers clubs to establish great facilities for training in 1961. In contrast, many professional clubs in Sweden still train in public parks and green areas due to the fact that clubs cannot afford substantial investment in the construction of facilities. For clubs located in big cities, this is a real problem. Such was the case of AIK Solna in Stockholm that even it is one of the most important clubs in Sweden, it just finished the construction of its training in 2000.¹⁷⁹

8.4.2 Intangible Resources

As well as top clubs in the big leagues, elite follower clubs constantly refer to their history through many decades in order to build a well-known reputation that now many clubs enjoy not only in their national leagues but also in Europe. The history and the reputation of the club together with the country's attitude form the culture of clubs, which define their personality and character.

8.4.2.1 History

Football has been played for more than a century. Therefore, it is full of memories and historical records and glorious triumphs. History is a resource that strongly defines the reputation of a club. There is a clear trend among fans to contrast the present situation of football with any of the “glorious” memories of past matches, goals, clubs, championships and so on. Therefore, history could be not only the triumphs that the club has got but also some unique aspects that characterised the club in the past, like the style performance that clubs used in earlier periods.

¹⁷⁹ Bosse Gentzel, Chairman of IFK.



Almost all the clubs that compete in European competitions are backed by a wide historical record. Most of the memories of triumphs and losses are related to the national championships, but it is likely that the most remembered ones are closely associated with European competitions.

Perhaps the most important effect of the clubs' history is its transmission from generation to generation, given that football is normally a family entertainment. What seems clear is that those top clubs that dominate the game nowadays are backed up by a strong array of historical happenings and success that give them high recognition among supporters. However, due to the variety of historical facts and the number of clubs in Europe, it is very difficult to generalize and analyse the extent to which history is a strong resource that is attracting fans nowadays. Thus, in order to evaluate this resource we use the case of Sweden as an example. In Sweden, football arrived from England and Scotland, and to a lesser degree via Denmark. Perhaps this is one of the main reasons that has connected the Swedish league with the English league (via transfers, mainly). Even though the Swedish Football Federation was founded in 1904, the stimulation of the game came mainly when Sweden was the host of the Olympic Games in Stockholm in 1912, becoming football one of the most practiced sports in this country¹⁸⁰.

Clubs are unquestionably the result of their history in terms of their values and priorities. Thus, one important characteristic of the Swedish football was that, since its origins, clubs shared an ambition to be highly skilled and successful by maintaining strict amateur principles and achieving success.¹⁸¹ Until 1967, when the rules of amateurism were abolished, the Swedish football was characterised by a game of moderate style, with exceptional cooperation and compromise between players and directors.¹⁸² Later on, when the Swedish model showed up with a combination of amateur principles and professional ones, many successes came within international level due to the fact that football received the support of social groups and the State, which made some reforms and gave assistance to clubs for a new type of organisation. Then, a

¹⁸⁰ Peterson, T., 2000.

¹⁸¹ Armstrong, G & Giulianotti, R., 1999.

¹⁸² Peterson, T., 2000



new situation took place when people involved in the management of the club were paid instead of working on a voluntary basis and players and coaches were paid according to their performance. Thus, a commercial players' market was created through contract wages, purchasing of free time for training, and a substantial increase in contract costs. Therefore, the original amateur club turned into a medium to large-sized company.¹⁸³

New demands came in to the management of the clubs, such as effectiveness and consistency through the league. Thus, new techniques came to transform the semi-amateur style that clubs were employing. As a result, foreign clubs started to look at the Swedish players and soon they were signing contracts to play abroad.¹⁸⁴

In other words, professionalism has been a prime mover in the Swedish Football Association's efforts towards better and more internationally competitive football. Besides the abolishment of the rules of amateurism and the restructuring of the clubs' organisations, which were the basic preconditions for this process, the concentration of players in only football activities, building up of integrated training programmes, improved football pitches, professional people to complement the training process like physiotherapists, doctors, masseurs, etc., gave the Swedish football a different approach towards a more professional approach.¹⁸⁵

8.4.2.2 Culture

Definitely, the development of football through the history is related to the cultural aspects of each country; thus, the culture of the society and the character that each club has formed run in parallel way. Culture includes the behaviour that the local markets have and the identification of football fans with their local clubs. Thus, not only are the internal staff including the players' attitude, but the fans reaction also forms the nature of each club. For instance, English supporters (outside of the hooliganism side) are said to be really

¹⁸³ Peterson, T., 2000

¹⁸⁴ Ibid

¹⁸⁵ Ibid



passionate about the game and the atmosphere that English stadia present each match day.

The performance style varies from country to country and, regionally, from club to club, but it is also affected by cultures issues. It is clear to see what the main performance differences are when two clubs coming from different countries face each other. For instance, clubs in the Mediterranean leagues have been characterised by giving higher importance to individual players, while those leagues in the northern countries prioritise the team as a bloc.

The characteristics that clubs have acquired for themselves reinforce the feeling of supporters by the experience of a sense of identification because clubs share the same attitudes than their fans, like courage, patience, collectivism, individualism, discipline, and so on. Thus, clubs reveal the society where they come from. For instance, the South European countries as they are more outgoing people, they play in a more opened and passionate style making it more joyful style apparently. In contrast, the North European countries are characterised by their cold performance and defensive style due to the fact that their cultures are more introvert and disciplined.

Therefore, clubs know that they should keep their performance style according to the behaviour of their domestic society, where they have the majority of their fans because of the great level of identification that exist between clubs and fans. On the contrary, if clubs play in a completely different style of their national culture, the risk is huge to loose their current fans because of the lack of identification that would be. Absolutely, the cultural aspects of the local society influence the club performance style in immense grade.

A very different question is if fitting the social and cultural aspects of the domestic environment with the performance style is a good strategy of success in today's football. An example of this is the discussion about the English football. English clubs are the richest in the world, but still their success in international competitions is scarce compared to, for instance, Italian, German and Spanish clubs. Some experts believe that English clubs still focus too much



on an archaic playing style that might limit the ability of the talent that these teams sign from other leagues. However, this is the own identity of English teams and the one that their supporters want. But, is it helpful to accompany their business success with playing success?

8.4.2.3 Reputation

One of the main resources of those club's participating in European tournaments is reputation. This strategic resource is related to many ideas and perceptions of the external members of the club. Given its importance as an element that might explain why some teams outperform rivals, we have regarded this resource as a distinct capability that may turn into a competitive advantage for those clubs that are able to exploit it properly. Therefore, we will analyse reputation issues in section 8.6.

8.4.3 Human Resources

It is reasonable to think that players are the most important human resource within a football club because they are the ones that show up every time that clubs has to perform and produce the results in the field during a match, which have an extraordinary effect in the commercial activities of any club. However, there are many other important members that contribute to the success of it. The internal staff composed by the managing directors, businessmen, coach and auxiliaries, physical trainers, medical specialists, masseurs, psychologists, and so on, are essential elements in the well development of the club.

8.4.3.1 Specialized skills and knowledge

Players and internal staff fill certain characteristics according to clubs' needs. Player's skills are easy to identify before the player has been acquired by the club, through previous performances, results obtained by the club, number of appearances, regular performance, league position of the club, and so on. It means that clubs' directors can value the players' abilities and see if a particular player fit within the club's squad before they invest in him.

As it is important to have skilful players, it is also relevant to have professional players dedicated full-time to football activities. Elite clubs fill their squads



with only professional players that are fully committed to the club; it means that players are completely concentrated on their profession. However, there still remain some elite followers in weak leagues with a small percentage of semi-professional players that have a part-time job outside the club's activities or are dedicated to completing their studies. For instance, some leagues, such as the Scandinavian ones, have a certain number of semi-professionals (between 15-20% in the Swedish top division).¹⁸⁶ It limits the role of clubs to extract the maximum level of players' capacity.

As most of the top clubs in the big leagues have the financial resources to invest in players in a short period, they bring foreign players to reinforce their squads and increase their level of competence. While in lower leagues, top clubs tend to fill their squads with national players because it is unaffordable for them to pay huge transfer fees and high salaries for foreign players. Thus, many elite followers have to do their best at the training level in order to produce talent that lets them compete in good conditions.

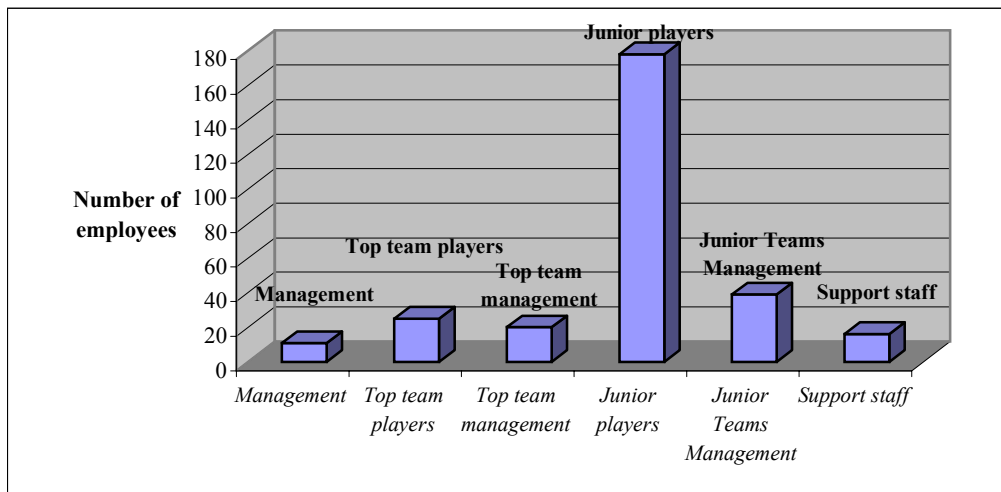
The combination of national and foreign players is not only a matter of financial resources but also the preference of the own clubs, which must be perfectly reflected on the supporters' attitudes to this issue. As a consequence of the flow of talents between countries, national teams have resulted to be affected too. In countries where the league is powerful and receives many foreign players their national teams have decreased their level of competence due to the fact that foreign players are taking places that might be occupied by national players within the league. Whereas countries with non-prestigious leagues have strengthened their national teams because their domestic players are performing abroad and get more experience and better quality of football.

Commercialism might be regarded as a factor that may explain the higher employment of foreign players. Thus, those top clubs with high commercial standards usually have more foreigners in their squads. At the same time, there is also a correlation between a club's potential and the number of employees. The following figure represents how Italian Serie A clubs are staffed.

¹⁸⁶Lars-Ake Lagrell, President of the Swedish FA.



Figure 8.1 The average staff of a Serie A club



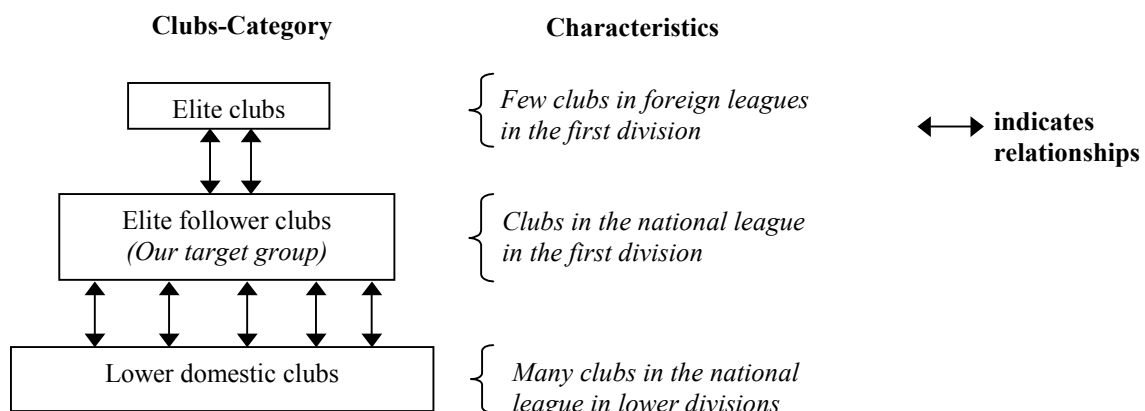
Source: Deloitte & Touche Italy (1999)

The higher importance of commercial activities in the future will surely increase the number of human resources in the clubs' management activities.

8.4.3.2 Networks with other clubs

As football industry has changed and many external forces have driven the industry to a more concentrated market, elite clubs have become net purchasers of talent players; while small clubs in lower leagues have taken the role of feeders of elite follower clubs within the same league. Therefore, the relationship between the different clubs in different division and leagues are very important in the current football industry.

Figure 8.2 Networks of clubs' relationships



Source: own



It could be said that elite followers act as intermediaries between elite clubs and lower clubs (nationals and survivors). Many clubs competing in a low division see an opportunity to sell their players to top clubs in their same country, because they know that they can get a certain compensation when the players are sold to a elite club in a foreign country. At the same time, elite clubs are aware of the fact that top clubs in non-prestigious leagues are working hard in the development of youth talents. Thus, the relationships in both directions (up and down) within divisions and leagues are fundamental to the football clubs.

However, networks of relationships are not only good at the level of transfers. Relationships with the football authorities, private companies, sponsors, other clubs, players agents, etc. could result in an important resource for football clubs, specially those taking part in European competitions. For instance, given the higher important of commercial activities, a good relationship with local or international private companies could help clubs to find some good partnerships to market merchandise or seek advertising and sponsorships deals. At the same time, some clubs, such as the Spanish ones, have taken advantage of these networks of relationships in their national environment in order to incorporate within their staff some important business people who like football and thus, can help the development of clubs in different areas with their knowledge and public relationship experiences.

8.5 Club Capabilities

Clubs' capabilities represent integrative and coordinated abilities that bring together the available resources that a club has in a certain way that make the club differentiate from the rest of clubs. When clubs use their current resources in the most effective way, they perform in a superior manner and the possibilities to obtain successful results are greater. It is a task for the clubs' directors to have the vision of how integrate their resources in a way to develop new sources of success (financial or performance).

8.5.1 Primary Activities

Regarding the clubs activities that are directly involved with the provision of the football match, we can include performance on the pitch, the presence of



fans, and marketing activities. As the latter activity is very broad and might include many parallel tasks, we would like to make emphasis in this part of the thesis in two main aspects: presence of sponsorships and TV deals, and, promotion and ticket selling.

8.5.1.1 Performance on the pitch

The style of performance of each team is essential to the good development of the match. Having an acceptable performance, even if the favourite team does not win the match, might leave a good feeling in the mind of fans. It could be said that the team played in an aggressive style that showed their efforts to win the match and, for unknown circumstances, the match turned to the rival team. However, it is important to mention that although fans always want that their teams to win every match, even they are aware of the peculiarities of football and sometimes there is not a specific reason to blame for their loss. Thus, satisfying fans could be possible through the team performance style, which should also reflect their societal spirit.

Performance on the pitch is surely affected by the talent each club fields. However, sometimes that is not enough. This is specially important for the elite followers when taking part in UEFA competitions. In general, they do not perform as well as the top clubs may do, but normally fans are satisfied because they know that their teams are putting lots of effort to perform in UEFA competitions.

8.5.1.2 Presence of fans

Without the attendance of fans in the stadiums, a football match could not be as popular as it is. The support that fans manifest during a match can change the direction of the game by putting pressure over players, coaches, referees, etc, who feel the demands of the attendance and increase the level of emotion creating a special atmosphere within the stadium. Here is where also comes out the character of each team, which might control the situation and turn over the rival or quite the opposite leaving that the rival team manipulate the match and take advantage of the situation.



Top clubs, in general, enjoy greater support than the rest of the clubs because of their history, reputation, current players, and so on. Thus, top clubs receive larger audiences when they play at home or, in fact, when they play abroad because of the international recognition that they have built. However, some weak followers are able to use their support at the stadium as a strong resource, even though they are not so massively supported as the top clubs. This is the example of Turkish or Greek teams, which use perfectly the noisy crowds at their grounds to intimidate the rivals.

8.5.1.3 Marketing

Given the fact that we have already written about the importance of commercial activities for clubs, it is evident that marketing represents an important capability to develop within a football club for future success, especially in this new era.

As the presence of fans is crucial for the good development of the match, the activity of selling tickets and promotion becomes essential to accomplish successfully the operation of a match. The major sales take place the same day that the match is going to be played. However, if the game is highly attractive, this activity takes place many days before the match occurs.

One other major marketing activity that is directly involved in the football match is the presence of sponsorships and TV transmissions to promote the club and the match that is going to occur, increasing the interest of supporters to watch it through TV or attending at the stadium.

In general elite clubs work with better means and marketing channels than follower clubs to increase their marketing activities. Thus, top clubs are able to produce more commercialised matches and, consequently, increase the revenues generated.

8.5.2 Support Activities

Regarding the support activities that a club must carry out before the match is played, we have taken into consideration three main tasks: recruitment, training programs and management.



8.5.2.1 Recruitment

The importance of recruitment programs within football clubs is vital. Many aspects are involved with this capability, such as the reputation of the club in order to attract more talented players willing to play for the club, relationships among clubs to recruit players from other clubs that might want to sell their players, the financial resources that clubs account, the character that a club has adopted according to its role in the society, and so on.

It is usual that followers recruit talented players at an early age, educate and form them for a long period of time until the clubs decide to sell them to superior teams. In addition, these clubs also employ their efficient relationships with lower clubs to recruit the most talented young players and complete their formation within follower clubs. Their activities are more based on domestic markets. However, elite clubs are likely to possess a recruitment network much more important than in the case of followers. They recruit more players at the international level, who already have experience and high quality. Nowadays, elite clubs find much of their talent abroad and pay high quantities of money for them. Thus, the recruitment activities for the football elite are more important than in the case of the followers.

8.5.2.2 Training programs

In the case of those clubs that traditionally have based their survival on home-formed players, this capability is largely complemented with recruitment. Clubs like Ajax in Holland are classical examples of clubs that work very hard with youngsters. These clubs have to take care of the process of formation of youth players through well-developed training programs. In fact, as follower clubs occupy an important role in the football industry as feeders of the football elite, they have developed excellent systems to increase their level of performance of each talent young player.

Even though follower clubs might have a potential competitive advantage in training and recruitment programs, external forces within the industry diminish the effect of these capabilities on the achievement of further levels of success. For instance, the potential threat of top clubs approaching follower clubs'



players and taking them to their squads is a fact that, in some cases might discourage the involvement of followers with training and recruitment activities. They are costly investments and the football industry should ensure mechanisms that protect these clubs that invest in the recruitment and formation of youngsters. Now, these capabilities that are potential competitive advantages for elite follower clubs might not become distinctive characteristics that allow them to be successful in the pitch and financially.

8.5.2.3 Management

Management includes the leadership of key people within the club by influencing positively the club's activities to achieve the goals and objectives previously established. Two levels of management might be differentiated.

First, we have the role of *managing directors* as the key staff leading the club. Through good planning and efficient transmission of the managing directors' vision to all internal staff, the club can obtain the stability that many clubs aim for. The objective should be to give clubs a certain level of continuity and stability in their projects. Second, it is also important the *management of the first squad* within a club, as one of the key for the success of the clubs at all levels (sportive, financial, relationships, etc.). Both should highly related to each other because, in fact, the entire stability of a club depends, not only on the results on the pitch, but the actions of the club's directors.

For instance, many clubs design a plan where collective effort is the most important aspect within the club, creating a club's spirit based in its philosophy and attitudes. By that, clubs might achieve internal stability because of the particular spirit that managers have established as well as the sharing of the same idea by all members. However, other clubs are characterised by its individual spirit, where certain players are encouraged to act in an individualistic style recognising that individual efforts are more important than the collective efforts of the club.



The club's management at both levels highlighted here should promote the stability within the team and the continuity of the financial and sportive projects as the only way to ensure long-term success. Absolutely, there is always the threat that players leave the club at any moment, producing instability within the club, but elite followers should develop the right strategies to deal with this kind of unexpected facts.

8.6 Clubs Competitive Advantage

Following the analysis of the typical resources and capabilities present in the world of football, we will dedicate this section to appraising the possibilities of attaining a competitive advantage in the case of football clubs, that is, those aspects that make them to persistently outperform rivals. Here, we will also emphasize the comparison between top clubs and those elite followers from different European leagues regarding competitive advantages. A final analysis of the sustainability of these advantages and the relative income that it is likely to generate for clubs will be done to conclude this chapter.

8.6.1 Introduction

In the previous chapters, we have established two fundamental relationships that drive the performance of clubs. First, the playing performance level of a club is largely determined by the amount of money it spends on players and, second, the revenue that a club generates in turn depends on its playing performance. The combination of these two relationships determines the potential for each club. Clubs with an above-average revenue-generating capacity will be able to afford more expensive teams and can, therefore, expect in the long run to be more successful. Similarly, clubs that are able to achieve an above-average performance from a given expenditure on players can earn more money and finance ever higher positions in a certain league. Thus, what we are interested in discovering is whether elite followers clubs are able to sustain an above-average performance, which makes them successful. If so, these clubs can be said to possess some form of competitive advantage.

Most of our interviewees have stated that only the football elite clubs may be regarded as holders of a real competitive advantage, which leads them to be continuously at the edge of the highest success. In part this is true, but for the



purpose of our study, where we have set the goal of our case clubs at the participation in the group phase of the Champions League, we should regard different degrees of competitive advantage. We must lower the main concept from “highest success” to “above-average” performance, which makes elite followers to have the potential to enter the group phase in the Champion League. Thus, considering the own nature of the concept of competitive advantage (it must be scarce and relevant), we intend to prove that the strategic group “football elite” has an authentic competitive advantage over the rest. However, if we redefine competitive advantage as those aspects that make a club able to sustain an above-average performance, it implies that within the strategic group “elite followers” the clubs must look for attain a competitive advantage over the rest of elite followers. It is a more realistic assumption.

Occasionally, a club may achieve success or enjoy an extraordinary performance, which leads to a period above-average performance, but usually such periods are not sustained in the long-run. To achieve a constantly above-average performance requires some kind of distinctive capability. This capability needs then to be effectively managed to turn it into a competitive advantage. We will analyse here five possible sources of competitive advantage in football: *domestic competition (league), strategic asset, reputation, innovation, and architecture*. We will explain them and also evaluate to which extent the two most important strategic football clubs identified in this thesis can create and sustain some of these advantages through the appropriate combination of capabilities.

8.6.2 Strategic Asset

An strategic asset may be regarded as a scarce resource or a certain group of capabilities that provide an advantage in competition and, which, once possessed by one club (or a group of clubs if we consider the strategic group analysis), cannot at the same time be enjoyed by another. In business, generally, it has become popular for managers to refer to their workforce as “their greatest asset”. When this concept is applied to the football business, some examples can be identified.



8.6.2.1 Talent as a strategic asset (players, coaches and directors)

First of all, in football a *strategic asset* might be a particularly successful player or manager who commits himself to a club regardless of offers from outside. He must stay in a club for a certain number of years because, otherwise, he would just be a short-term competitive advantage, which in fact it is not a durable advantage. Its existence can be principally explained by the recruitment and training capabilities of a particular club.

In the past, it seemed easier to find more examples of this type of advantage. With restrictions such as the nationality clause or limitations like the salary of players, some talents stayed in the same club for many years.

Now, when players and coaches offer themselves on the market and accept the highest bidder, this aspect is more difficult to obtain. This is because in order to turn such a person (player or coach) into a competitive advantage they should commit with a club for many years, perhaps their entire career, but, in fact, players often change clubs sometimes during their career. Thus, these assets would have an effect on the clubs' above-average performance only for their tenure for the clubs. Beyond their tenure, these assets are unlikely to have an effect on performance. A clear example was Johan Cruyff. For his career as a player, he led Ajax to win several times the European Cup (former Champions League). When he retired and became a coach, he was successful not only training Ajax but especially the Spanish FC Barcelona. He won the Champions league with Barcelona and the former Cup Winners' Cup with both Ajax and Barcelona. He also reached other European finals. The magic of Cruyff lay in his ability to get more from players than other managers ever could; during his stay at both teams the performance of his players and his clubs was clearly above average.

There are also examples of strategic assets within the managing directors. For instance, Mr. Santiago Bernabeu was the president of Real Madrid during the most glorious period of the club ever. For his presidency, the club won the European Cup six times. After his death, Real Madrid had to wait more than thirty years to win the Champions League again. Thus, a strategic talent might



be thought of as an exceptional talent which for one reason or another is either not considered valuable elsewhere or elects to stay put despite better offers from other clubs.¹⁸⁷

If we make such an analysis at the strategic groups levels, we can make some conclusions. Football elite is more likely to keep the tenure of strategic assets because they can afford higher remuneration packages and they can offer some better resources or capabilities that help those assets to do their best. Nowadays, most players and coaches are attracted by the top clubs and leagues. It is true that many of them start proving their value in follower clubs but, afterwards, they are offered better conditions within the football elite. For instance, Sven Goran Ericsson led IFK Göteborg to win the UEFA Cup in the 80's but then he left the club to coach in Portugal and Italy. Therefore, it is very difficult to regard those strategic assets based on talent as a potential competitive advantage of the elite followers over the football elite. Just with a long-term tenure, those assets can become an advantage, but that is very difficult to occur in today's competitive market.

The only opportunity of this type is within the football elite. For instance, Manchester United is said to keep a competitive advantage with regard to this. The club's atmosphere seems to be so splendid that most of the players stay in the club for many years. Indeed, they have to be highly compensated (high salaries), but the fact is that in other clubs the strange internal environments make some players leave the team even if they have been very successful (i.e., Ronaldo when he left Barcelona after having scored more than 40 goals and won the European Cup Winners' Cup and the Spanish Cup in 1997 because his relationship with Barcelona's managing directors were not so pleased). Instead, other clubs are able to keep their better players for their entire career.

To sum up, the potential of a strategic asset to turn into a competitive advantage is very low within the elite followers, whereas in the football elite is more possible but not easy either.

¹⁸⁷ Szymanski, S & Kuypers, T., 1999.



8.6.2.2 Location as a strategic asset

Location may be regarded as a “natural” advantage. It is something that is given (externally) and not a combination of a club’s capabilities. However, this aspect might turn into a very important aspect within the future of football.

Location, understood as the city – or the country - where the club is settled, can be a very significant advantage in terms of: total population, number of competitors in the same city, income per capita, penetration of pay TV and others. For instance, the American professional leagues are run by franchises. Owners do not hesitate to change location if a good opportunity appears somewhere, in a city with a bigger mass of supporters and where no competitor teams are established. However, European football does not work like that. Clubs are not franchises and, thus, do not move between cities and, also, the big cities have more than one club. On the other hand, the location’s density is another important factor. It is normally more difficult for a club from rural areas to attract supporters, while those in major metropolitan conurbations can attract supporters more easily.

The relationship between population and playing success has been proved and it is explained by the potential mass of supporters that generate income for clubs.¹⁸⁸ However, that relationship does not seem to have been very strong in the past to support a consistently above-average performance. For instance, Manchester United with a population within ten miles of the ground of less than a half of million inhabitants have enjoyed a considerable success while West Ham United, with over 1 million, has rarely succeeded. Nevertheless, this variable could turn into a more important factor in the future as clubs will focus more and more in commercial activities, which are likely to have more impact in high density areas.

The number of competitors in the same city may restrain the number of supporters. However, those clubs in cities or leagues (countries) with a low population but with both high income per capita and penetration of pay TV

¹⁸⁸ Szymanski, S. & Kuypers, T., 1999



(i.e., Belgium) might outperform rivals due to the potential income-generating capacity of the two variables outlined.

If we analyse the case of the Scandinavian clubs, we can see that cities are not densely populated. Stockholm in Sweden, for instance, is the most populated city in the country but the club that has obtained the most important success internationally is IFK Göteborg with little more than a half of million people, which represents the second largest city in the country. Also, in Norway and Denmark two of the most successful clubs internationally, Rosenborg and Brøndby are not in the largest cities in those countries. This proves that total population may not have been a decisive factor in the past. In the future, however, AIK Stockholm is said to have a competitive advantage compared with IFK, for instance.¹⁸⁹ This is mainly due to the notable difference in population between both cities, but also to the competition that both clubs find within their cities - there has been up to four clubs from Göteborg in the top division, which could be a very important restraint for IFK.

Table 8.1 Scandinavian cities and population

Country	Largest City	Largest City Population (in millions)	Population Density (per square km., 1997)
Denmark	Copenhagen	1.3	123
Norway	Oslo	0.7	14
Sweden	Stockholm	1.5	20

Source: http://www.un.org/Pubs/CyberSchoolBus/infonation/e_infonation.htm

As we already saw in Chapter five, Scandinavian countries have high income per capita, as well as above-average penetration of pay TV. This could turn into a competitive advantage over other weak leagues.

In other small countries, such as Belgium, the three most prestigious clubs in European competitions, Anderlecht (Brussels, pop. 1 million); Club Brugge (Bruges: pop. 120,000), Standard Liège (Liège: pop. 500,000) also show, that

¹⁸⁹ Lars-Ake Lagrell, President of the Swedish FA.



in general, high population is not a prerequisite for success, although it could be in the future.¹⁹⁰ Belgium also has high income per capita and pay TV penetration. It has some historical elite followers, such as Anderlecht, but the small size of the country leads the clubs to struggle for supporters and thus, have lower masses of fans.

8.6.3 Domestic Competition

This variable is made up of different aspects and might be considered as a very important factor to explain a peculiar competitive advantage that elite followers might have compared with the football elite clubs, when it comes to the participation in European competition. The domestic competition environment might turn into a competitive advantage if certain circumstances are combined to provide a club with a special ability to become more successful. However, this advantage is not sufficiently powerful to guarantee above-average performance with regard to the football elite. As occurs with location, this variable does not seem to be the result of any internal distinct capability of clubs. In spite of these facts, we find this variable as important to highlight.

The most important factor within the domestic competitive environment, as far as football is concerned, is the degree of competitiveness – how tough is the domestic championship? This is probably different in other businesses. In some industries, the liberalization of local market gives a competitive advantage to those companies that have traditionally competed under very competitive environments over those local competitors that have been historically protected by their domestic governments. Although, in football, the lower degree of competition in some domestic leagues might concede elite followers a peculiar competitive advantage in European competitions.¹⁹¹ The wish of winning and the tough competition within the big 5 leagues in Europe can give a small advantage to the elite followers outside these leagues which, in general, enjoy less competitive domestic tournaments. The degree of competitiveness in a domestic league can be measured by the number of matches and the level of domestic dominance for a certain period of time. Also, an important factor that

¹⁹⁰ Nicolas Cornu, Press officer of the Belgian Football Association.

¹⁹¹ Rogan Taylor, Football Research Unit, University of Liverpool.



has to do with the domestic league is the existence of winter breaks. Let us examine these three characteristics to appraise their potential to generate a competitive advantage.

8.6.3.1 Less burden of matches as a competitive advantage

The table below outlines the size of the top division across European countries.

Table 8.2 First division clubs in Europe – season 1998/99

20 Clubs	18 Clubs	16 Clubs	14 Clubs	12 Clubs	10 Clubs	Other
England	Belgium	Albania	Cyprus	Croatia	Armenia	Andorra – 13
Spain	France	Belarus	Lithuania	Denmark	Austria	Azerbaijan- 11
	Germany	Bulgaria	Macedonia	Luxemburg	Faroese	Bosnia – 6
	Greece	Czech Rep.	Norway	R. Ireland	Finland	Estonia – 8
	Hungary	Georgia	Sweden	Slovenia	Iceland	Latvia - 8
	Italy	Israel		Switzerland	Malta	
	Netherlands	Poland			Moldova	
	Portugal	Russia			N Ireland	
	Romania	San Marino			Scotland	
	Turkey	Slovakia				
	Wales	Ukraine				
	Yugoslavia					

Source: Football Research Unit, University of Liverpool

The number of clubs in the domestic leagues varies from 6 to 20, with the most common number being 18 and then 16. Taking into account that the top leagues in Europe might play 34 or 38 matches in the domestic league, over 10 in the national Cups and over 15 in the European competitions, the total number of annual games at the club level might go over 60. If we also consider that the top leagues and clubs are the ones with a higher number of players who represent the national team at international level, we can find some cases where some players of certain clubs, such as FC Barcelona or Manchester United, may have played at the end of a season over 70 matches. With such a burden of games, it is undeniable that player’s performance must experience some ups and downs along a season, which might have repercussions on their club’s performance. Thus, some small leagues like the Scandinavian ones may take advantage of a less burden of matches.



Jorge Valdano, Real Madrid's Sport General Director, sums the concern of the biggest clubs:

*“There are two important aspects that justify a club's irregularity. First of all, it has to do with some injuries of key players (strategic assets), which have an effect on the team's performance. Second, unquestionable one, it is the amount of matches. We play in the Champions League in Germany on Wednesday, come back on Thursday at 6 p.m., have time to train and we again travel to Soria (Spain) on Friday to play against Numancia, where the whole city and the whole team have been thinking about Madrid for the whole week with the obsession to defeat Real at a great football event that takes place just once a year in Soria. It is impossible that both clubs arrive with the same “approach” at the party. The proof that this is not a frivolity is to give a review to European football. Bayern München is eliminated from the German Cup by a fourth division team, AC Milan goes sixth in the Italian Serie A, Juventus no longer is in the Champions League. There are victims everywhere. The current level of the competitions may be considered as to some extent cruel. This is what does not allow clubs to maintain a regular performance”.*¹⁹²

Although this situation could influence the future, UEFA has articulated that they would like all of the main leagues in Europe to adopt a top division of 18 clubs or even fewer, in order to relieve fixture congestion and allow more equal participations in UEFA competitions. Even though this factor could have some effect in particular cases, the quality of players in the top clubs seem to be more powerful than the factor analysed. Thus, we should take it into account as a possible source of advantage under certain circumstances but it is questionable that it represents a competitive advantage.

8.6.3.2 Level of domestic dominance as a competitive advantage

The more competitive the domestic league (in terms of the number of clubs having some options for European participation) the more repercussions it may have on the club's appearances in European competitions. The logic is the same as in the previous case. When a club has to play very hard games every

¹⁹² www.elpais.es 26 November 2000



weekend in the domestic Championship just three days before it plays against the German champion in the Champions League, for instance, it could have important repercussions on the club's performance in one or another way. It is said that players risk losing concentration or getting tired when the strain required is so high for the whole season. Table 8.3 shows the number of clubs that appeared in the top division in four countries over a ten-year period.

Table 8.3 The dominance of the top clubs

	Italy	Germany	Spain	England
Period	<i>1988-96</i>	<i>1988-98</i>	<i>1988-97</i>	<i>1991-7</i>
Number of places in top division	<i>18</i>	<i>18</i>	<i>20</i>	<i>20</i>
Number of clubs appearing in top division	<i>35</i>	<i>35</i>	<i>38</i>	<i>31</i>
Number of European competition places	<i>56</i>	<i>64</i>	<i>55</i>	<i>32</i>
Number of clubs in European competition	<i>14</i>	<i>23</i>	<i>16</i>	<i>13</i>
Share of top 7 clubs (%)	<i>80</i>	<i>73</i>	<i>75</i>	<i>81</i>
Share of top 3 clubs (%)	<i>43</i>	<i>39</i>	<i>47</i>	<i>48</i>

Source: Hoehn & Szymanski (1999)

In each case, about 80% of the all European competition places have been won by the top 7 clubs. Considering that those clubs entering UEFA competitions are able to afford talent, then a top club in the five most competitive leagues is likely to play at least over 12 tough matches in the domestic championship each year. If then you also take into account the so-called derbies in each national league and the fact that the TV money allows more and more clubs to hire talent, perhaps over 2/3 of the matches in the big 5 leagues are now very attractive in terms of outcome uncertainty due to the higher level of competitiveness within the league. For instance, two leagues that have traditionally been very concentrated in terms of dominance, Spain and Italy (FC Barcelona and Madrid in Spain, and Milan, Inter and Juve in Italy dominated the leagues almost every year in the past), are now undergoing a change towards a more competitive situation. In Spain, for instance, Deportivo and Valencia seem to have enhanced their opportunities in the league, and in Italy some clubs like Lazio or Roma are new dominants in the domestic league. Therefore, more competitiveness in the big five domestic leagues can lower the clubs' performance in Europe in some cases, which can be very beneficial for



those clubs in weaker leagues which often face the football elite with high expectation and, most of the times, less tired due to the lower competitiveness in their leagues.

8.6.3.3 Winter break as a competitive advantage

As we saw in Chapter five, the qualifying rounds of the Champions League often start late in July or early in August. By that time, the big five leagues' clubs have just started the pre-season preparations, while some minor leagues such as the Nordic leagues have already started the national competitions and thus their clubs are said to be more competitive because their players are on fit. They start earlier in order to avoid the adverse weather conditions of the winter months. Thus, by November or so, some top divisions such as in Sweden finish their competitions and some others take a winter break, such as in Germany.

Starting competitions very early in the summer facilitates the consecution of the goal established for elite followers: participate in the phase group of the Champions League. In contrast, taking the winter break might damage the performance in European competitions of some clubs.

In conclusion, the three factors analysed as potential sources of competitive advantage for the followers in weak leagues appear to give some advantages over the elite clubs under certain circumstances. Perhaps, starting national championships before summer is the single factor that could be regarded as a competitive advantage. However, these aspects are not often powerful enough to continuously outperform the clubs in more competitive leagues. There are other sources of competitive advantage that let top clubs counter these light advantages.

8.6.4 Innovation

Tactically, there have been many changes in the way football has been played over the years, and each innovation has typically been associated with a particular club or manager. However, an innovation that produces success will, thanks to the process of competition, be quickly understood and imitated. Football tactics are easy to imitate and clubs can check and analyse



competitor's tactics and adapt them to their own club. In football, there is no protection of the playing innovations as it happens in other industries through copyright or patents. Also, it is common that clubs find antidotes against successful tactics. For instance, in the early 90's the "total football" concept applied by Johan Cruyff in FC Barcelona, based on very offensive tactics, gave extremely good results for half a decade but then, clubs understood the way of stopping those tactics and was easier to defeat FC Barcelona.

On the other hand, technical innovations associated to the product have not been important. As pointed out before, the technological advance has been related to the way in which football has been commercialised. Thus, in contrast to other industries where innovation is a vital source of competitive advantage, football clubs are unlikely to find this concept as a source for their own advantage.

So far we have tried to appraise if some traditional sources of competitive advantage are able to generate a sustainable competitive advantage in the case of football clubs. We have seen that none of the three variables analysed (strategic asset, domestic competition structure and innovation) are likely to represent a competitive advantage for the elite followers clubs. First, a strategic asset is unlikely to stay a elite follower due to the attractiveness of top clubs and leagues. Even for a particular top club, retaining strategic assets is more and more difficult due to the high number of competitors that bid for it. Second, we saw that just in some cases the elite followers from leagues with a more calmed competitive league might take advantage of both the amount of matches and harsh competitiveness within the big five leagues. Also, the winter breaks can benefit some elite followers from weaker leagues in the early qualifying rounds of the UEFA competitions but then, this advantage turns into a disadvantage as the break comes. Third, we have outlined that innovation is unlikely to be a competitive advantage within the whole family of football due to the own characteristics of the game where only it is necessary 22 players, a referee and some rules. From now on, we will present the two clearest sources of competitive advantage within football: *reputation and architecture*.



8.6.5 Reputation

A club's reputation is built on several successes over many years of history and a continuous presence in the industry through the national league and European competitions, which helps the own clubs increase or decrease their popularity. Sometimes, a clubs' reputation is also a consequence of some dramatic events associated to them, as in the case of Manchester United, whose first team was involved in an aircraft accident where some players and manager directors died.¹⁹³ Reputation is associated with several aspects such as how the club is liked and respected, how much the club demonstrate strong leadership and ability to increase its competence level, how the club contribute with the community, and give spectacle to fans, and so on. Definitely, clubs take long time to build reputation and the benefits for the investment made come in the long run.

The importance of reputation in football clubs allows the generating of revenues throughout the local market and, in some cases, the world by merchandising all kind of clubs' products. Hence, clubs that are aware of it and have the appropriate resources and management can better exploit these aspects of football. If we regard clubs with reputation as those with a high number of supporters, we can say that these clubs can enjoy the ability to attract significantly more revenue for a given level of performance on the field than any of its rivals.

Therefore, we will try first to evaluate what are the characteristics of those clubs with reputation and, second, we will appraise to what extent elite followers are able to attain a competitive advantage on it.

8.6.5.1 The main elements of reputation in football

Reputation can be seen as an assembly of factors that could make up together the reputation of a club. In fact, most of these factors are the own intangible resources of the clubs. These variables are as follows:

¹⁹³ Szymanski, S & Kuypers, T., 1999.



a) History

As already mentioned above, history is an important intangible resource for football clubs. Most of the high-status clubs in the football industry (Manchester United, Milan AC, FC Barcelona, etc.) are about one hundred years old or even more. Along their history, these clubs have logically experienced different periods of ups and downs but what remains in all cases is a general trend to success and also a high attractiveness throughout its life.

These clubs are also full of examples of legends and myths that have passed from generation to generation. Also, most of them have had some of the biggest football stars in the history of football. For instance, Real Madrid is always associated to the image of Alfredo Di Stefano or Manchester United will be always the identity of Sir Bobby Charlton. Trophies, historical victories and top players compound the history of these clubs, which give them a certain level of bigness.

b) Brand awareness among supporters

One of the main characteristics of clubs' reputation is the high rate of supporters who feel attracted to them. Clubs with reputation are normally between the three most important clubs in a certain country. Their legend is so well established that current league performance becomes less important in determining the level of support. This is normally reflected in the match attendance numbers and the size of the stadiums, which are usually huge.

These institutions are distinguished as being clubs that draw their support not only from their local areas but from an entire country, or even abroad. In fact, they are like brand-name products that consumers have a strong tendency to rely on in preference to their rivals because they are a way to ensure product satisfaction. High-status clubs are always committed to attractive winning football since to stop doing so would be to throw away a valuable image built up over many years.



Given that many people choose to support their local team, those who choose a non-local team are, to some extent, exceptional and are clearly making a decision based on alternative criteria such as history, image. Therefore, they usually opt for clubs of good reputation.

One of the most important components in the brand awareness of a club is the concept of “*fans loyalty*”. Clubs create loyal support when fans stick together with the club independently of the results obtained in a match or even during a season. In essence, loyalty among fans constitutes the core support that clubs might receive, which simultaneously increases and reinforces the reputation of the club. Loyalty is also related to history of the club, in which the name and image have been built, and the geography in terms of the scope that the club’s reputation might have.

d) Prestige and good image in European competitions

The prestige and image aspects of clubs were not recognised as substantial assets as a way to increase club’s profitability until the middle of 80’s when the “name and the image” of clubs become prominent commercial aspects for clubs.¹⁹⁴ Clubs with an international brand name are seen in Europe as respectable institutions. Governing authorities are aware of this fact and try to consult them in the important issues of football. It is widely believed that the current status of the UEFA competitions has been enhanced by the magnificent games played between the top clubs in Europe. In international terms, these clubs are probably the most well recognized football clubs in other continents. In that sense, they are like a brand name such as Coca-Cola or McDonalds.

c) Strong revenue generators

As a consequence of the high attraction of these clubs among the public, they are potential generators of massive sums of money from different commercial sources (TV, merchandising, advertising, etc.). This is not only because the high number of consumers, but because clubs like AC Milan or Paris Saint Germain can sell at higher prices than their rivals and continue to dominate the market. Going back to the variables that a sport company observes when

¹⁹⁴ Morrow, S, 1999.



selecting a club to sponsor (see Chapter six), high-status clubs are the most striking ones for those business companies associated to the game.

e) High number of talent players

The extraordinary capacity of these clubs to generate income is partly due to the big talents who play for the team and attract supporters. In a high-status club, most of its players often play for their national teams. Football talent does not choose these clubs just because of the high salaries paid by these clubs, which are pretty much above the average expenditure on players, but because these clubs give their players important prestige and honours. The pressure of supporters make these clubs turn into heavy spenders in the transfer market of players and coaches.

The ultimate consequence of these reputable clubs is that they will be able to sustain themselves through the lean years. With continuing high levels of support and winning teams, those clubs are the most profitable football business since sponsors, TV companies and advertisers want to associate their brands to them.

Absolutely, many clubs can consider themselves as having valuable reputation because of the great acceptance that they have in their local markets and the high level of loyalty that fans have regarding the club. However, the key is to expand this recognition outside their frontiers and receive support when clubs play abroad. One excellent example is the Champions League, when a club that is not very popular has to play outside their grounds, they do not receive much audience because of its low reputation in distant areas.

8.6.5.2 Elite followers and reputation

The own nature of the elite followers' definition in this study implies that any club from our target strategic group (elite followers) cannot be regarded as being reputable as the football elite clubs. Many of them also have a long history but perhaps is not so full of legends and success as in the case of the high-status clubs. In reality, it is often more based on domestic happenings. At the national level, however, followers are likely to enjoy important support



throughout their domestic market but when it comes to the international level, they lack of a recognised prestige and image that make them be less respected in European competitions. Due to the wide variety of elite followers it is dangerous to generalize, but in some cases it is true that some followers are also recognisable brand names in the industry.

From our own point of view, the huge difference between followers and the elite, when it comes to reputation, is the income-generating capacity and the availability of talent. What it is true about football is that the potential of a club to generate income is not only straightforward related to their own supporters (consumers), but to their capacity to generate income for their other types of customers (TV companies, sponsors, etc.). This is the difference. While some historical clubs such as the Russian Sparta Moscow or the Ukrainian Dynamo Kiev have surely more domestic supporters than, for instance, FC Barcelona or Milan, these two can make their associated sport companies earn much more money than Dynamo or Sparta can due to the fact that the overall concept of reputation in the case of Barcelona and AC Milan is much wider, specially in terms of the repercussions of their talent players on the associated companies' sales.

Therefore, elite followers are not likely to do business at the same level than the football elite due to the different degrees of reputation. However, it does not mean that they should not use reputation as a competitive tool to achieve their main strategic goal: to play the group phase of the UEFA Champions League. Within the winner strategic group, followers must try to differentiate themselves from other rivals through the development of reputation. It is clear that reputation has to be won in the long-run and must first start on the domestic market and then being transferred to the international level. Also, we would like to highlight that this variable is the key element explaining the future success of a club in the football business because it is the principal cause of income and we have already stated that income will determine a club's industry position.



8.6.6 Architecture

Architecture involves the structure of the clubs including the internal staff, the relationship among them and to external supporters like fans, sponsors and so on. Architecture might arise from a special relationship between management and workforce, perhaps because of a good understanding between managers and players, but, in either case, architecture refers to something that enables higher revenues to be generated without adding to costs.

What is significant about this variable is that ultimately none of the factors is totally convincing on its own, but that taken together they amount to a powerful source of competitive advantage, distinctly associated with a club and not emulated elsewhere. This factor could resemble the competitive advantage of the fast food company McDonald's. Everybody talks about the atmosphere of its restaurants but nobody knows exactly which it consists of.

There is a key factor in football that ensures success for a club: sustaining a winning team that can generate money and support. However, not many clubs have the financial potential for such a purpose. As explained in the previous section, prestigious clubs and perhaps a few followers are the single institutions that can afford this policy. For the majority of followers this is not realistic. Therefore, they should look for alternative sources of sustained outperformance over a long period of time. These may come from the internal and external architecture of a club.

8.6.6.1 Internal architecture

Internal architecture is regarded as a source of competitive advantage, which is derived from the network of relationships inside an organization, which not only benefits the individuals involved, but also enhances the organization itself.

It seems that a quiet internal atmosphere within a football club can contribute to increase the players' performance. Each year, leagues are full of examples of small disorders in certain clubs, normally due to an array of bad results, which are reflected on the pitch as the players get nervous or the coach is sacked. Clubs become impatient and make mistakes. When a club is able to establish a



good relationship with the players and coach, putting them at the centre of its strategy and giving and receiving total loyalty, the conditions for outperforming are better. As in any other business, football clubs need to base its success on a commitment of all its employees, from the chairman to the club's doctor. Thus, relationships within the club can contribute to enhance that commitment.

Internal architecture has to do with two important variables. First, a suitable organization structure that differentiates the business area from the sport side, and, second, the election of key human relationships to reach a total commitment with the goals of the club's strategy. It is a question of struggling with different tools, rather than spending on players and buying success in the market. The matter is to stand out far above the rivals in terms of performance relative to wage expenditure. League positions can be bought by spending more money than rivals but, in general, most elite followers cannot afford such a policy. Thus, a follower must get the commitment of their employees (especially players) to the collective effort as any other company does in other industries. In those elite clubs where there are many stars, problems are frequent due to both the egos and greed of players and the pressure of winning of managers and supporters. That generates strains and conflicts of interest. But, elite followers might base their business on an internal commitment and relationships because the pressure is not so high as in the elite clubs. Within such an atmosphere, "continuity" is also a key variable. Sport and business strategies must have long-term aims and it is not good to base a club's business on short-term decisions as happens in many powerful clubs.

These notions fulfil the prerequisites for a distinctive capability. It is something that is not very precise and cannot be written down as a formula, and it is, therefore, difficult to copy. On the other hand, it seems sufficiently clear as a concept that we can understand what it means, even if we would not know how to go about emulating it. Possession of these ideas can, therefore, become a source of competitive advantage. The difficulty lies, not in the concept but, in the implementation. It is also important to highlight that it is a distinctive capability of the clubs, not of the individuals involved. This is exactly what differentiates internal architecture from strategic assets. Just as the performance



of great players add to the reputation of a football elite club, the contribution of internal architecture may enhance the club's performance by creating a certain atmosphere that facilitate the achievement of results without no higher costs.

8.6.6.2 External architecture

A club may also generate a competitive advantage under the same pillars as the internal architecture but focusing on external relations. These can be split up into two categories: customers and a network of external relationships.

A potential for competitive advantage is to maximize the loyalty of a club's supporters. Traditionally, it has been said that supporters have not been well-cared for because clubs have taken too much advantage of their demand inelasticity. However, there are different degrees of such inelasticity. For instance, it is said that Manchester United charges ticket prices above the average but, in fact, Old Trafford is always full. Manchester's supporters are said to be not very sensible to an increase on prices. But, is it because they are irrational or just because the value obtained at Old Trafford is also above average? It is a reality that the highest ticket prices are found in UK. But when one looks at the reasons of this, the answers are easily found. In the 80's, some terrible disasters occurred at some stadiums: the 1985 Heysel (Brussels) outrage (39 supporters died as Liverpool and Juventus contested the European Cup final), the 1985 disaster at Bradford City's Valley Parade ground (56 deaths when a fire started in rubbish), and the 1989 Hillsborough's disaster (96 mainly Liverpool fans were suffocated by a combination of disastrous crowd control and inadequate safety measures at a FA Cup semi-final between Liverpool and Nottingham Forest at Sheffield Wednesday's Hillsborough stadium).¹⁹⁵ The last disaster outlined originated the famous Taylor report on the main measures that English clubs should adopt in order to avoid such tragedies again. Therefore, UK clubs invested very important sums of money in rebuilding old stadiums and update them with the subsequent result of better conditions for fans at the stadiums. Although it happened after some catastrophes, English clubs proved how successful a good relationship with

¹⁹⁵ Dempsey P. & Reilly K., 1998.



supporters can be. However, the creation of value for supporters goes far beyond the mere conditioning of stadiums.

Especially for those clubs settled in locations where there are other competitors (this happens in most of the big and medium cities), the club's purpose must be to initiate stable and loyal relationship with supporters in order to maximize the population/attendance ratio and also the football demand inelasticity. Table 8.4 shows this ratio for different leagues.

Table 8.4 Population / Attendance ratios for some European leagues

Country	Population (millions)	Average Attendance (top division match)	Ratio	Rank
Scotland	5.1	18,633	3,653	1
Denmark	5.3	4,955	935	2
Portugal	9.9	9,244	933	3
Holland	15.5	12,782	825	4
Sweden	8.9	7,217(*)	811	5
Spain	39.2	27,863	710	6
Belgium	10.2	6,558	643	7
England	49.3	30,414	617	8
Italy	57.4	28,740	501	9
Germany	81.9	32,707	399	10
Greece	10.5	4,132	394	11
France	58.4	19,060	327	12

Source: Football Research Unit, University of Liverpool; (*): Fotboll Svenska Förbundet, Annual Report 1999

The population/attendance ratio simply shows the ratio of average attendance at top division matches in relation to a country's total population. The higher the ratio, the higher the proportion of the population who attend matches in the top division. Thus, it is a crude indicator of the appeal of football in a country and how effective a league and its clubs are in converting the demographic potential into paying customers. It is very surprising to observe how the highest ratios are in the weaker leagues, which indicates that elite followers have a good basis and incentive to work on the building of external architecture with supporters that could maximize the clubs' revenues.



On the other hand, a competitive advantage is also possible through an external network of relationships. This aspect can be seen through an example: The Norwegian Rosenborg has participated for the last six years in the Champions League and, according to Lennart Johansson, its success is a consequence of the special agreement that the club has with other small clubs in the surrounding towns. Rosenborg *“works in a consolidate marketing and now other smaller clubs in the area are happy to sell the players to Rosenborg, because they know that if they don’t stay in the first team Rosenborg gives them back for nothing. And the clubs within the network are happy working in this way; they are pleased to see how “their” players help Rosenborg to win”*.

This type of network of relationships is not only possible within the same league. Special agreements between competitors are viable. For instance, Manchester United and IFK have established relations. Also, special relationships with players’ agents, governing bodies and so on are possible sources of competitive advantage.

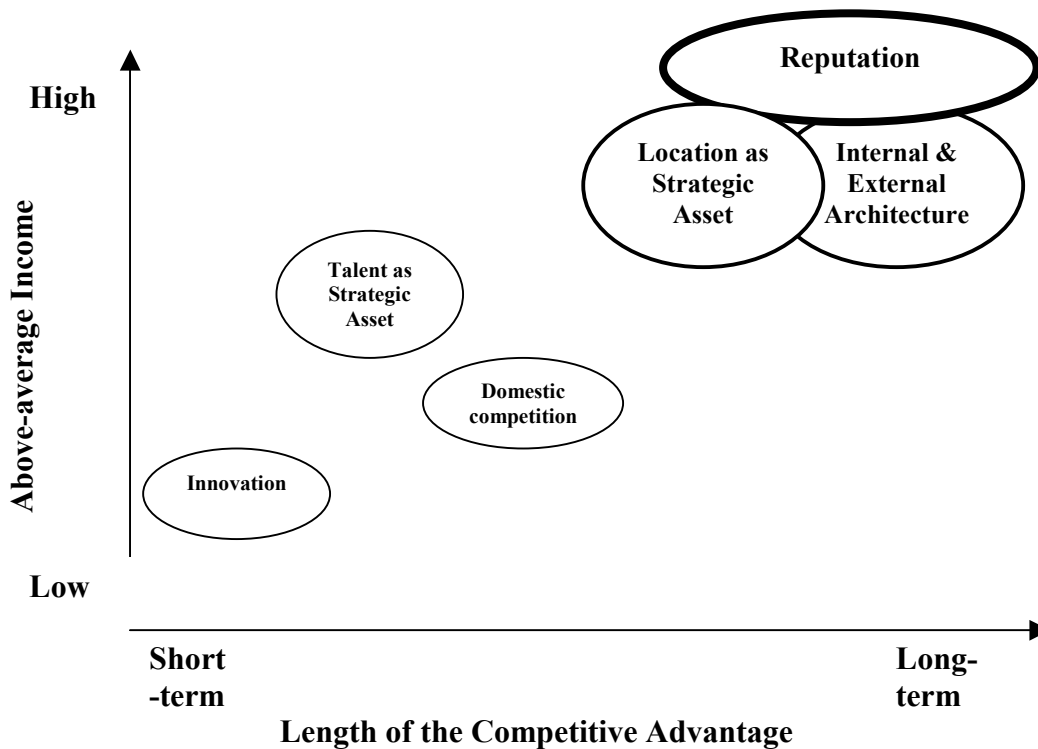
The nature of external architecture seems to give more possibilities to football elite of attaining a competitive advantage due to their higher numbers of supporters and the potential to construct other external networks with the different participants in the industry. However, the population/attendance ratios demonstrate that elite followers can also take advantage of this factor.

8.6.7 Sustainability and Relative Income

The value obtained for a club from its resources and capabilities depends not just upon its ability to establish any of the competitive advantage analysed above, but also on how that advantage can be sustained and how much revenues can be attained. Figure 8.3 depicts these two variables.



Figure 8.3 Sustainability vs. income potential of football competitive advantages



Source: Own

The figure above represents the potential of each type of competitive advantage within the industry of football. The edge width of the ovals determines the importance of each of the advantages. Thus, clubs have different alternatives to combine their potential advantages according to their needs.

First, those clubs that intend to buy success, that is, achieving higher position through the short-term investment of important sums of money, are likely to hire talent (potential strategic assets), which could give the club above-average revenues. However, the nature of that talent as a strategic asset prevents this type of clubs to sustain it for a long time. Also, they could obtain very short-term advantages by the tactics' innovation.

On the other hand, those clubs that focus on the long-term will tend to build the two more powerful advantages in football: reputation and architecture. Unfortunately, there is a third “advantage” that cannot be built internally but, it is given by the own micro-environment of the club. This third variable is location.



Since the nature of competitive advantage implies long-term outperformance over rivals, the strategy for any club must be to work on those activities that can give it a long-term competitive advantage over the most direct rivals: Reputation and Architecture. We still believe that the most powerful competitive advantage (reputation) is purely owned by the football elite. However, different degrees of reputation can be found within the followers.



KEY SUCCESS FACTORS AND INTERNAL CONCLUSIONS







9 KEY SUCCESS FACTORS AND INTERNAL CONCLUSIONS

The purpose of this chapter is to present those factors within the football industry that determine a club's ability to survive and prosper within the strategic market analysed in this thesis that is, the UEFA Champions League. At the same time we will answer Research Question 2 by presenting the conclusions of our analysis of the micro-environment of the elite followers.

9.1 Football Key Success Factors

In this section we want to go a step beyond the analysis of competitive advantage and look explicitly at the prerequisites for success within the football industry, which is the same as to say the Champions League. As mentioned in Chapter two, *key success factors* have to do with the potential for competitive advantage within an industry. Therefore, we aim at answering two important questions within football. First, we want to know what football supporters want from their clubs and second, how clubs must survive competition.

9.1.1 What Do Customers Want?

As seen in Chapter six, it might be said that football clubs have now two types of customers. The traditional supporter (though they are being substituted by a more modern football fan) and the sport companies (those economic institutions that use football for commercial interests). Many wonder if the new football is tailored to supporters or just to the interest of commercial groups. In fact, it seems the future of football will be inspired by the TV and commercial interests. Although that is a controversial subject to discuss, we will not focus on it. In fact, we want to appraise the true wishes of both supporters and commercial companies (TV, sponsors, advertisers, etc.).

Football is not only a pay entertainment activity where individuals attend with friends, families or alone in order to enjoy the spectacle presented. Football goes beyond the traditional appeal of amusement. In fact, football is both a passion and a wish of winning. It is usually said in the industry that those who do not have a favourite team to support cannot be regarded as real football



supporters. The high loyalty expressed by the majority of football fans is just a mere consequence of their identification with a certain club. Many reasons can explain that profound identification, but the most important is that fans want their team to win. That is the essence of the competition: winning over rivals. By doing that, clubs will ensure great support from fans and also prominent commercial contracts.

Therefore, football clubs have a first goal - perhaps the most important one – which satisfies their two types of customers: success on the field.

9.1.2 How Does a Club Survive Competition?

Sport competitions, not just football, are driven by an unquestionable force: the victory over rivals. However, this maxim requires certain clarifications. First, not all clubs have the same tools to compete, and, second, clubs have to recognize their position in the industry and struggle for enhancing it.

There are some different dimensions of competition, which are the factors that determine a club's position in the industry structure: training of players, commercial activities, mass of supporters, reputation, the different competitions in which clubs are involved, etc. All of them determine together the clubs' ability to compete and succeed in the football industry. In each of these dimensions, clubs must struggle fiercely with other rivals in order to maximize the overall results. In the last years, it seems that it is especially important these dimensions that help clubs to maximize the income from commercial activities.

9.1.3 Three Measures of Success

Coming back again to the two fundamental relationships presented in this study:

- ✓ For each team, increased wage expenditure leads to better performance on the pitch.
- ✓ For each team, improved performance on the pitch leads to increased revenues, and also taking into account the customers' wish of winning and the way of surviving competition by maximizing each of the dimensions presented, we can conclude that a club's success in European competitions depends on



three facets: *success on the field, drawing power, and the attractiveness of the league where the club competes.*

9.1.3.1 Success on the field

Perhaps the success of a certain club on the pitch is the starting point for success. Success can be expressed in win percentage and also can be measured in different ways:

a) For clubs like the elite followers, which participate in the European competitions, UEFA produces rankings reflecting the clubs that have qualified for its European competitions – the UEFA ranking coefficient. This will give an indication of the playing strength of clubs.

b) Quality of players and youth development.

Although they are two subjective measures, they are also important in order to appraise the technical quality of players.

As we have already mentioned, followers' success on the pitch has to be appraised according to the qualification to the group phase in the Champions League. It first requires them to win the domestic championship or, in some cases, to be the runner-up. Second, it requires presenting a competitive squad made up of talent players (perhaps the presence of a strategic player (asset) that might help the club get this goal) and a good internal architecture. Third, it is also important to regard the special characteristics of the domestic competition when it comes to the success on European competitions (burden of matches, winter break or level of competitiveness within the domestic league).

9.1.3.2 Drawing power

Drawing power has to do with the potential of a club to attract customers (fans and sport companies), which depends on a number of dimensions: the club's location, reputation (with all its elements: history, brand awareness, revenue-generating capacity, prestige, etc.), external architecture, any strategic asset in the club's management, etc.



Thus, a strong drawing power ensures support and can give clubs higher revenues than their rivals given the same league position. Therefore, drawing power finally can be measured by the financial performance of a club. As long as a club can generate revenues, it will be able to attract better players, more supporters and richer sponsors and investors. It is evident that, as wage levels continue to rise and as facilities improvement demands increase, clubs need to generate significant amounts of new revenues to balance their books. In order to do that, drawing power is the key factor. Table 9.1 shows a financial comparison of the average clubs in the top divisions of selected leagues across Europe.

Table 9.1. Financial comparison: the average top division club in leagues across Europe

Country	Turnover	Wages	Operating profit/(loss)	Net transfers (spending) / received	Net profit / (loss)	No. of clubs	Population (millions)
England	28.5	14.8	5.0	(3.9)	1.0	20	49.2
Italy	23.6	15.1	(1.4)	0.6	(1.4)	18	57.4
Germany	19.2	8.3	N/A	(0.3)	1.5	18	81.9
Spain	17.1	7.8	0.7	(2.3)	0.6	20	39.3
France	11.3	8	(1.0)	0.7	(0.3)	18	58.3
Scotland	9.4	5.4	(0.2)	(0.5)	(0.8)	10	5.1
Denmark	1.8	1.0	(0.1)	0.2	0.1	12	5.3
Greece	1.7	0.8	0.1	(0.6)	(0.6)	18	10.5
Austria	1.4	1.9	0	0.25	(0.45)	10	8.1

Source: Football Research Unit, University of Liverpool

It is important to notice that drawing power has much more to do with the clubs' ability to generate income, rather than profit or losses. Although we think that the future developments in the industry will lead clubs to float in the Stock Exchange and, thus, investors will care about profit, we firmly believe the clubs' competitive potential will be appraised in terms of their turnover. Nevertheless, as UEFA will also control clubs accounts through the licensing procedure (see Chapter five), clubs will have to balance their books anyway.



Followers will have to become more and more commercial entities that generate income and, thus, satisfy the requirements of the sport side in terms of players, facilities, training, etc. Maximizing the clubs reputation is the only way to ensure the main goal proposed in this thesis.

9.1.3.3 Attractiveness of the league

Like any other industry, football is underwritten by its customer base. The health of football in Europe will depend upon levels of support and how well the league's product is meeting the needs of supporters. Since the *UEFA Champions League* is the most prestigious league in Europe, it is very important for a club to participate in it in order to satisfy its supporters.

An important factor for the attractiveness of the UEFA Champions League may be how the balanced competition is. More balance, measured by the success of the teams participating in the league, may enhance overall demand for matches (either in the form of attendance at games or in terms of broadcasting). At the same time, the structure of the UEFA Champions League must be one that does guarantee a sufficient number of places for elite followers. Otherwise, it would turn into something that resembles the Super League, only for the football elite. Bearing in mind these two features, the Champions League should maximize the following aspects:

- ✓ Match day attendances.
- ✓ Diversity of the fan profile, which means to embrace different types of clubs.
- ✓ TV and broadcast audiences
- ✓ The image of the game. Is the game regarded as credible, transparent and honest, or does it need to be seen as pure sportive activity?
- ✓ Future market potential. For instance, the Champions league must look at the Eastern countries such as Russia and Ukraine with huge populations that offer good opportunities to expand the competition.



On the other hand, a certain follower club must consider that its *domestic league's attractiveness* is also a key success factor for the UEFA Champions League for two main reasons. First of all, the more competitive is a domestic league the more revenues the league will produce for its local clubs. Thus, new talent is likely to come to the league, which may enhance the playing performance in European competitions. That would let the league's clubs to obtain a higher UEFA ranking coefficient. Second, with a growing coefficient, the opportunities for the national league to have two or three clubs in the Champions League would be higher. Thus, clubs are also interested in enhancing their domestic league's attractiveness because it will have a repercussion on their possibilities to enter the group phase in the Champions League.

A league becomes attractive for its clubs when it is able to generate higher revenues. To achieve such a purpose almost everything is valid. For instance, the Swedish FA stopped its taxation of clubs in the 80's to let all domestic clubs retain all the revenue arising from their own activities while covering their own costs.¹⁹⁶

9.2 Conclusions to the Internal Analysis. Research Question 2

To conclude this part of the thesis, we intend to answer our second research question ***“How is the internal micro-environment of a non-elite football club influencing its particular way of competing in the European football industry?”***

The previous analysis of the industry key success factors, as well as those aspects analysed in Chapter eight with regard to the micro-environment analysis of follower clubs, give us a clear picture of how the internal environment of a club can influence its possibilities to change its role in the industry.

¹⁹⁶ Lars-Ake Lagrell, President of the Swedish FA.



Generally speaking, elite follower clubs may have enough resources to succeed in their domestic market but when it comes to international competitions, such as the Champions League, their possibilities are not so high. The reasons are twofold: first, they are generally allocated with lower key resources (financial, history) and they also lack some vital capabilities (reputation); second, they are more vulnerable to the influence of external forces within the industry that obstruct the accomplishment of a real competitive advantage (for instance in the development of powerful squads due to their impossibility to retain strategic assets); and third, they possess certain distinct capabilities (winter breaks, less burden of matches) that are not powerful enough to outperform over rivals in the long-run. These three facts make elite followers have only some competitive advantages in short periods of time, which do not allow them to grow in both financially and sportive terms. However, follower clubs may work in the development of an internal architecture that could provide certain results in the long run. Therefore, follower clubs' competitive advantages could be considered as weak and easy to imitate for other clubs that already hold higher positions.

One of the most distinct capabilities with the potential to become a competitive advantage for follower clubs is their training systems, which they have, in many cases, developed over decades. However, as the industry features do not benefit them very much, this particular competitive activity does not become a real competitive advantage that might be exploited to obtain greater benefits. Right now, the investment in the formation of players is not guaranteed because since the Bosman ruling clubs might lose a talent without receiving any compensation (just in the cases when the contract has expired). Furthermore, the fact that now there are no nationality clauses or any other restriction on the movement of EU players, the likelihood of losing talent is higher for these followers than it was one decade ago.

Taking into consideration the key factors that the football industry demands to succeed, we can mention that, in general, follower clubs do not comply with the requirements needed. Thus, for follower clubs, the possibilities of obtaining great benefits are less, which also forces the clubs' director to redesign their



objectives and goals to a more modest but realistic purposes, managing all their resources and efforts to these directions. This is the main reason why we have included in our main problem, the objective of “just” participating in the UCL’s group phase.

Nevertheless, the role of this group of clubs is extremely important and, without them, the football industry would not be as attractive and interesting as it is. Even though the industry might be more attractive for consumers if the conditions were more favourable for this wide group of competitors, follower clubs have a special and well-defined place within the industry because of their particular characteristics and important functions to the entire industry. Some of the most important functions that elite follower clubs have are to:

- Provide the industry with talented players. We should keep in mind that these clubs are likely to be the main feeders of the football elite with regard to professional players. However, the question is: is it moral to limit the potential of these clubs in the industry by allowing the elite’s financial muscle to “steal” followers’ talent? To respond this question one has to bear in mind the particularity of sport and also the economics of football.
- Contribute to their national societies through encouraging the formation of strong relationships between the local community and the fans base. Cultural values are also powerful in football since certain values are deeply-rooted in football fans. The question is: Should the EU let competition law be applied in football eroding such social and cultural values or it should try to accept the specificity of sport and football protecting these aspects with the admission of some protecting rules?
- As these clubs are dedicated mostly to formation of skilful and talent players, they contribute in a certain way to increase the competence level of the European football by supply high quality players. The question is: would not a more favourable situation for the elite followers benefit the formation of even more talent to the benefit of fans?



- Increase the number of in their local markets. The question is: would higher opportunities for the elite followers to succeed within the industry bring more supporters in those markets characterised by weak leagues and clubs?
- Promote the cross border identification among fans due to the fact that clubs receive better support from overseas fans if they possess with foreign players within their squads, it means that if a Swedish player is performing into an English club, this club might receive great support from a foreign country like Sweden.

To conclude, elite clubs obviously may have clear advantages over follower clubs, which is part of the natural competitive regimen, where every strategic group of clubs has a different level of advantages. However, it seems that a static competitive situation where the 25-30 football elite clubs dominate the game forever is not the best state of affairs to maximize the profits within the industry, especially given the peculiar characteristics of football as a sport. The ideal competitive structure would be one that favours not only the own competition among clubs within the same strategic group but that help some elite followers to challenge the position of top clubs. However, that requires a change of the rules that govern the industry, but the current position of the EU authorities does not seem to support this idea. With this approach is how we can see elite follower clubs participating in the Champions League and occasionally run over elite clubs.

Saying that, the last part of our thesis (chapter 10) can only focus on the strategies that may help followers deal with competition within their own strategic group. To aspire to continuously outperform the football elite might not be realistic. However, we also dedicate part of our analysis to evaluate the convenience of a certain framework in the industry that gives more opportunities to elite followers. This framework would depend on the role and support of football and political authorities to the follower clubs, given the peculiarities of football.





THE FUTURE SUCCESS OF ELITE FOLLOWERS







10 THE FUTURE SUCCESS OF ELITE FOLLOWERS

This chapter intends to answer our main problem:

“Considering the higher commercialisation and Europeanisation of football, how can a football club outside the elite face successfully the UEFA Champions League, while coping with the new structure of the industry that will stem from current changes?”

After having implemented the two first steps of our thesis model (industry and micro-environment analysis), our final task is to help the elite followers’ manager directors bring the vision of both the industry and their own clubs into reality. We believe that the future of the elite followers clubs, and perhaps of the own football industry, depends upon a framework made up of four dimensions. First, a very important one is the own followers’ business strategy in terms of their long-term mission and action programs. Second, it is also critical to appraise the footballing competitive situation for the qualification to the UCL’s group phase. Third, the governing authorities have to establish a competitive situation that converts the industry into something other than a mere paradise for the football elite. Fourth, the reflections at the political level must recognize the specific nature of sport. Only with the right combination of these aspects can the industry dynamics provide the appropriate context for the “success” of the elite followers in European competitions.

10.1 Introduction

If we compare the football industry with the situation of any nation/state, we can understand the logic that should move the football dynamics. The nature of the sport activities, such as football, bring those clubs that attract more supporters to the supremacy of the industry in the same way that the wealthier regions of a country are allocated with both more powerful resources and economic activity. It is something that could be regarded as natural. The dynamics of the free markets make the differences between clubs bigger and bigger, as mercantilism let some regions grow much more quickly than others.



However, nations have a mechanism to correct the growing differences among regions, which is the own public state intervention in the economy. Therefore, we firmly believe that the football authorities must be awarded with sufficient independence and power to preserve the football structures in Europe and, thus, allow the game to comply with the social, cultural, educational and other missions that sport is believed to undertake. This surely requires the recognition of UEFA as the watchdog of European football.

That is only the basis that must sustain both the business and the sport activities in football. However, nobody must forget the football reality. The situation has turned into a commercial context where each club has to find its right position according to the natural selection in terms of its attractiveness to supporters. From that position, clubs should attempt to survive and prosper by themselves, doing their best with regard to those commercial activities. The own industry dynamics may lead elite followers to prosper (perhaps become a top club), survive within their strategic group or decline to lower layers within the pyramid of football. The idea is to let clubs compete according to their position in the industry and at the same time avoid that the financial power becomes something crucial.

Even though business commercial activities will generally define the future competitive situation in Europe, football is still a sport and, thus, both professional sportive performance and luck might sometimes render success. In addition, some recent examples of clubs that have succeeded on the pitch without the support of a huge base of fans prove that a good sportive management can doubtlessly give good results. The matter for the elite followers might be in taking advantage of a sporadic playing success to revamp the financial side of the club in order to make that success last longer.

Therefore, the success of elite followers in the Champions League, as the most relevant market within the European football industry, depends on four dimensions: the followers' business strategy, their footballing management, the governing authorities' freedom to control the industry and the political recognition of football as a specific activity.



10.2 A Business Strategy to Elite Followers

So far, we have described and analysed the current football situation. But the real challenge for followers is the future. We now want to provide them with a vision of the right way to succeed in terms of business within an extremely competitive industry as football. Therefore, the group of business and commercial proposals for our target groups below should be the key issues to acquire the required financial muscle to help them field squads sufficiently powerful to attain a place in the UCL's group phase. All of them will contribute to the increase of the clubs' drawing power.

10.2.1 The Mission

A mission sets out why an organisation exists and what it should be achieving. To realise a stated reason for its existence a club needs to set itself major goals, effectively setting itself medium to long term objectives. In this area, many clubs are lacking focus and direction. One can only conclude that many elite followers clubs have a rather short view of gaining on-pitch success in order to achieve qualification for European competition. Furthermore, the setting of targets along a path to the club's eventual final goal to ascertain progress, should focus employee minds and offer a clear direction for all stakeholders. In this respect, the main target of the elite followers in Europe should be the one held on our main problem's question: *The participation in the group phase of the UEFA Champions League.*

10.2.2 Business Management vs. Sportive Management

The growing importance of the commercial activities around the sportive side of football clubs implies a higher complexity in the clubs' management because the traditional directors now have to implement some business activities that generate a substantial part of the total clubs' income and to which they were not accustomed before.¹⁹⁷ Thus, each elite follower must wonder if its management model is suitable to the current industry situation. The business and the sport management in a today's football club follow different patterns and require separate professional profiles. Therefore, it is needed more professional

¹⁹⁷ Robert Elstone & Jake Wilson, Deloitte & Touche Senior Sports Business Consultants.



management and search for new revenue streams such as renting out stadiums for events, merchandising and internet rights.

In this sense, the organizational structures of each particular follower may be different depending on the size of their commercial activities. This is not only due to the own nature of the commercial activities but because the UEFA licensing procedure will force the clubs to become more professional entities that guarantee the future viability of the whole family of football.

In general, commercial activities should represent an important volume within the followers because they are supposed to compete in UEFA competitions, which requires a higher commitment to commercialism. Thus, it is feasible to think of creating a separate business unit, exclusively dedicated to the management of these “new” commercial operations. This unit should pursue the maximization of club’s revenues, subject to the limitations derived from the own club’s image. For instance, Swedish clubs are openly committed to the educational activities of youngsters, which might restrain their commercial potential. Also, FC Barcelona’s members have publicly stated that they do not want the club to float on the stock exchange. These examples are specific restraints on commercial capacity, but they are values and idiosyncrasies clubs must respect.

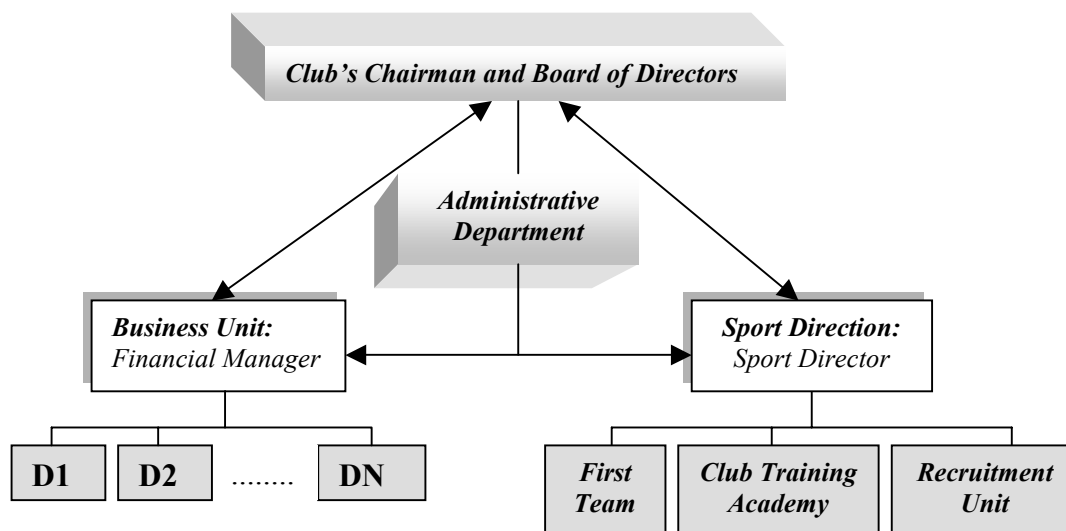
Despite a higher business-orientation within the elite followers category, the last goals of the clubs must be sportive ones, with the new business unit’s activities generating income to improve the competitive position in terms of playing success, as well as the overall value provided to their fans and loyal supporters. We have defined the main characteristics of both areas within a club.

10.2.2.1 Organizational structure

The administration and organisation of a elite follower competing in the UCL should be adapted, both quantitatively and qualitatively, to modern-day circumstances. The figure below represent our view of the future organizational structure of a club that competes in European competitions.



Figure 10.1 Optimal organizational Structure of elite followers



Source: Own

The **Business Unit** should be made up of one or several departments with a full-time financial manager that coordinates them and informs the Board of directors. The *activities* to develop within this unit are various and will increase in the future.¹⁹⁸ Some examples of the possible departments are as follows:

- Merchandising
- Sponsorship and Advertising
- Adaptation and maintenance of the club's sporting infrastructures (stadium, training ground, etc.)
- Stadia management (restaurants, cafeterias, conference rooms, media rooms, etc.)
- Management of audiovisual rights (TV, internet, radio, etc.)
- Supporter management (loyalty programs, social clubs, etc.)
- Community relationships and projects involving the local authorities (youth programs, promotion of scholar activities, etc.).

However, some of the above activities (merchandising production, shop's franchising, etc.) would rather be outsourced to specialised private companies in order to guarantee higher success at lower costs.

¹⁹⁸ www.uefa.com, Licensing procedure prerequisites.



The *objectives of the business unit* should be: improvement of the economic and financial capacity of the clubs, increase of their transparency and credibility, giving the necessary significance to creditors, and improvement of the club's image-related elements.¹⁹⁹ It is also important to work on the enhancement of the consumer awareness in terms of the club's brand name.

One of the possibilities of the business unit is to be legally established as an independent legal entity to the club, even though the generation of revenues goes to the own club. This type of structures already exist such as in the case of AIK Solna (Sweden) or Galatasaray (Turkey).²⁰⁰ An alternative situation would be the flotation of the clubs on the stock exchange. Therefore, the legal establishment of the business unit offers several possibilities. As pointed out before, the degree of development of this type of units will depend upon the necessities of each elite follower. Thus, it is necessary to appraise the club's resources to evaluate whether the club may undertake the commercial activities internally or by contrary it should exploit through external companies.

On the other hand, followers should update their sportive structures. A very well differentiated ***Sport Direction*** should be created in order to embrace the three main sport areas: the first team, the training programs and the recruitment department. A higher number of clubs in Europe are employing a sport director to manage the Sport Direction and who is also responsible for informing the Board of Directors. For instance, Real Madrid has recently created this function within the club and has given this area to Jorge Valdano, a former club player and coach with also business education. Valdano's new functions have to do with all the responsibilities related to the sportive area of the club, while Real Madrid's business unit is an independent department.

Special attention should be paid at the *clubs' training programs*. In order to comply with the UEFA licensing procedure, clubs should further promote the training and care of young players by having only qualified and trained coaches and the necessary medical personnel at the disposal of all their youth teams.

¹⁹⁹ www.uefa.com, Licensing procedure.

²⁰⁰ Lars-Ake Lagrell, President of the Swedish FA.



Those elite followers with enough resources should create own training football academies as it already happens in England, for instance. These academies would improve the training quality, while also taking the youngsters' school education and further education into account. To do this, clubs should set up their own comprehensive youth sectors with qualified coaches and teachers.²⁰¹ This does not necessarily mean that the own elite followers have to create their own education system or something like that. They could, however, increase their responsibilities with regard to the school education of their youngsters.

The main *objectives* of a club's training programmes should be:

- Followers should try to attain a competitive advantage in their training capabilities as a priority.
- Promotion of the development of grassroots
- Comply with the social role of youth education and the commitment with the community where the club is settled.
- Provide talent to the first team
- Make profitable the investments in youth schemes. Due to the high costs of training and maintenance of youth teams, clubs should cover part of those costs with the sale of some of their talent to the football elite, or even other followers, in order to benefit from the expected good compensations of the new transfer system. Elite followers have to accept their industry role as suppliers of talent for the football elite. However, the managing directors should find a balance between the talent for sale and the one retained in order to make profitable the training function but still be competitive at the European level.²⁰²

It is also important to emphasize the role of training as a vital element in the creation of a relevant internal architecture for clubs (see Chapter eight). The coaching education is important, because in the end what matters is the ability to identify talent and nurture it within the team. A youth policy, which fails to identify the most talented youngsters or fails to integrate them into the team is

²⁰¹ <http://www.uefa.com>, UEFA licensing procedure

²⁰² Bosse Gentzel, IFK Göteborg's Chairman.



no better, and in the long run no cheaper than a strategy which depends on buying recognized players.

The other area within Sport Direction is *player recruitment*, both at the domestic and international level. The competition at the highest European level requires more than educating and forming a club's own talent. It is necessary to recruit non-home-players, combining this task with the sale of part of your own talent. This aspect will depend upon the characteristics of each club in terms of their commitment with the social values that it represents or its own financial resources. For instance, the Basque Athletic of Bilbao (Spain) is a elite follower club that runs a multi-billion-peseta budget. The club has enough potential as a pure commercial company, and, thus, it would be able to sign some talents. However, its role as shelter for traditional Basque values by invigorating the nationalistic and cultural identity of the Basque Country and its opposition to the Spanish state makes it hold to a squad totally formed by Basque players. For this club, the recruitment and training activity is exclusively based on Basque players.²⁰³

Here it is also important to highlight the role of foreign players. Foreign talent is not just able to reinforce the competitiveness of the club's squad but also could have a relevant repercussion on the commercial activities of the club. When a club signs a new foreign player, supporter expectations increase considerably. Good foreign talent is also an advantage for the club's youngsters who can learn from it and thus improve their individual skills as players.

Finally, we would like to stress the function of the **Board of Directors** as the clubs' main body in the decision taking process. This board should monitor the running of the two areas described and analysed above, and it should be characterised by *long-term visions* (i.e., commitment with a determined policy to enhance the club's reputation), *continuity* (delegating trust on the Sport and Business areas), *respect for the social values of the club* (i.e., taking into consideration the principles and ideas of the community and members of the

²⁰³ This is an own example drawn from the ideas of Hamil, S; Michie, J. & Oughton C., 1999.



club), *professionalism, leadership and enhancement of the clubs architecture* (internal and external relationships).

Club architecture, as shown in Chapter eight, is a basic element that could help the elite followers to build up a competitive advantage. The club's directors have to realize that special relationships with the players and sportive staff should be one of the key issues with regard to success on the pitch. Therefore, they should develop some kind of programs to struggle for higher loyalty of the club's talent. It is evident that footballers attempt to improve their personal situation due to their short professional careers, and the club's interests are a second priority for them. They look for prestige and better salaries, which are many times in the football elite. However, footballers also want security and, therefore, if a club is able to offer good contracts that commit the player with the club as well as guarantee him a good internal atmosphere in the club, clubs would be able to retain them for longer periods. Also, under the prospects of a new transfer system, with the reduction of the transfer fees for players over 23, if a club wants to retain the top players, or at least some of them, they will have to offer some remuneration packages that, even though they are new in football, already work in other businesses (stock shares, loyalty bonuses, etc.).

However, one of the most important resolutions that a elite follower's Board of Directors should adopt when managing the club is the wages/turnover ratio that they are able to afford. This is a magical number to look at. As we have seen above, the smaller a club the higher this ratio is expected to be when competing at the top level. It is very risky to anticipate a figure (i.e., 50%, 60%, or higher) for the whole group of followers. However, it seems it should be over 50% in order to increase the possibilities to enter the group's phase of the UCL. Whatever this figure is for each club, followers should be committed to it in order to avoid possible financial unbalances. Clubs tend to drive their business with short-term decisions, which result in a very varying ratio, depending upon their existing necessity. Nevertheless, we encourage a higher commitment with a previously established ration in order to give the club a certain financial stability. Some aspects need to be considered when establishing that ratio:



- The UEFA licensing procedure, which will force those clubs that participate in its competitions to present a balance in their financial accounts.
- The own financial structure of the followers (investors, creditors, stock exchange flotation, commercial activities, etc.).
- The ratio situation in the domestic league as well as in those leagues that are direct competitors in the qualifying rounds of the UCL, according to the four group classification of section 6.5.3.1.3.

A final important aspect that the managing directors have to decide is the *club's profitability*. Does it matter if a football club is profitable? This may seem like an odd question. In the normal business world, what other industry sees on a regular basis almost two thirds of its participants make losses and still stay in business? We think that profitability is still important. It is the key indicator of a club's ability to invest, just like any other business, on new players, youth development, stadia, and other infrastructure. To survive in the long term, clubs need to avoid significant losses. Losses caused by chasing success are fine in the short term, if the gamble succeeds and if the rewards of elevated status are used to repair the club's financial position. This may sound weird but we think is the only way to ensure success.

10.2.3 The Commercial Way to the Future

Up to the mid-80s, clubs had two sources of revenue - gate receipts and selling players. In 1999, Manchester United's gate receipts accounted for only 38% of turnover. The business of Manchester United FC - the brand 'MUFC' - is now a global commodity earning well over £20 m per annum from merchandising, £17 m from sponsorship and £7 m from conferences and catering (yes, £7 million from match day catering, events, conferences, weddings, etc.!).²⁰⁴ This is the most commercialised example in football today. The instance of MUFC is the window through which many clubs have to look when planning for the future and the involvement on commercial activities. Therefore, in this section we aim at presenting three basic initiatives that elite followers should develop

²⁰⁴ www.footballfinance.co.uk



to be able to ensure the achievement of the main goal outlined in this thesis, the participation in the group phase of the UEFA Champions League.

10.2.3.1 How to create a club's brand name?

The brand name is one of the most important elements of the club's reputation (see Chapter eight). However, it is a long-term mission that requires both a very clear strategy and a certain period of time to let such an strategy to consolidate in the market.²⁰⁵ Those elite followers with a higher tradition in European competitions are best positioned to transmit the brand image. Nevertheless, a longer existence in the European football is neither necessary nor sufficient to guarantee the brand image. In that sense, each club must design the suitable brand that it wishes to transmit whether its fans and employees or the external environment. The main steps to create the brand image are:

- a) *Identification of the target public.* It is evident that the strategy's scope must focus on the local market's supporters. It would not be realistic to invest resources outside the domestic market. The football elite is probably the single strategic group in the industry with resources to develop its reputation strategy beyond the national boundaries. A good playing performance in European competitions will work as the main business plan outside the domestic market.
- b) *The image must be unique.* The brand name has to be perfectly differentiated from that of the rest of elite followers in the domestic league.
- c) *It must have a long-term perspective.* It must not be modified according to the movements of other rivals. However, logos and other visual elements might be changed with the aim of updating their images, but maintaining the main message of the brand name.
- d) *It must reflect the future vision of both the football industry and the own club.*

The club's brand image must be the most value asset to generate higher income through the sale of products to the supporters through the club's logo, as it happens in the case of Manchester United. However, it should also concede a

²⁰⁵ LNFP Spain, 2000



club with a higher value in the market, reducing the dependency of playing performance on the total income capacity of the elite followers.

It is also important to appraise the risks associated to the brand name since supporters will match the quality of the club's products to both the brand image and the quality of the distribution channels utilised.

10.2.3.2 Enhancement of the fans loyalty

It is widely accepted that those clubs with bigger fan bases have more chances to better perform on and off field. Although fan bases underpin performance, they do not guarantee it. However, to be successful, a club needs a loyal and voluminous fan base. To achieve that, elite followers should work with any loyalty program, which has to do with the creation of long-term relationships with the fans. Furthermore, they should have an array of links with supporters, which maintain a stability on the income-generating capacity. Consumer markets have already proof that it is more profitable to enhance consumer loyalty than to attract new ones.²⁰⁶

The level of supporters' loyalty is also one of the aspects that contribute to the creation of a brand image in football. This level can be appraised by the supply of services, activities and complementary infrastructures that at the same time allow clubs to exploit to the full their investments in infrastructures and sport staff.

Fans' loyalty requires communication and information. The less the communication, the less the degree of loyalty. If fans are not sufficiently informed they will be more vulnerable to the messages of other club's or other leisure activities. Therefore, the loyalty of fans are subject to the following formula:

$$\mathbf{Infrastructures + Services + Extra-football activities + Communication = FANS' LOYALTY}$$

²⁰⁶ Gordon, I., 1998



The main points of the loyalty program should be traced according to the wishes and habits of the fans, their culture and their motivation to belong to the club. It could also be segmented in groups of homogeneous supporters (young, students, sport practitioners, families, etc.). Thus, the followers should design a package of products and services adapted to each group. At the same time they should evaluate the profitability of each group and invest in function of each group's profitability.²⁰⁷

Follower clubs should pay special attention to school children since it is a good way to attract them for the future and also attract their parents. Moreover, another important segment is the organized clubs of supporters, who are normally the most loyal fans.

10.2.3.3 The development of media

The increasing value of football broadcasting rights (TV, internet, radio, video footage, etc.) represents an uncertainty in the future of football clubs. The question is to look for the best way to maximize these aspects both in an individual and a collective manner.²⁰⁸

From a commercial perspective, clubs must now focus on two primary revenue performance measures: the size of their customer base and the average revenue they receive from each customer. So far, there has been little direct interaction between club and supporter. However, the arrival of more interactive media provides the opportunity for clubs to approach the supporters in a direct and right-away manner. Also, clubs with high resources might reach directly their customers, reducing the importance of a broadcasting intermediary. Whichever option a club chooses, there is a clear fact: managing the new media channels is difficult and costly.

Developments in media technologies, changes to the way rights are managed, the internationalisation of clubs support, and the complexities of producing content for multiple media, present clubs with both considerable opportunities

²⁰⁷ Gordon, I., 1998.

²⁰⁸ Sportel 2000, Sportbusiness Limited.



and an unparalleled managerial challenge. Large clubs have looked to partnerships with media companies to help them address these issues. To elite followers, it will be important to outsource many aspects of media production. Clubs must understand that their media strategy is one of the largest single components of their entire commercial strategy. Clubs have to understand that they are becoming media companies.

10.2.4 Individual Commercial Activities

Throughout this section, we will present the different commercial tools that a club may have in order to maximize their income, while fulfilling with some of the formulas to enter the UEFA Champions League. Generally speaking, a club can improve its finances through:

- a) *Increased revenues*: maximising the attendance potential, maximising add-on spend levels from spectators, extending sponsorship through inventive opportunities, diversifying into areas outside the core industry of football.

- b) *Reduced costs*: sharing facilities and the associated running costs, entering into partnerships in order to increase capital funding and draw on expanded commercial, legal, administrative, or other expertise, selling-off otherwise marketing the potential to develop for commercial purpose, land around the immediate environs of the stadium.

10.2.4.1 TV rights

As already outlined, the attractiveness of a domestic league, measured in terms of its competitive balance, may contribute to increase the number of places of such a league in the UEFA Champions League. This is because the more attractive the league, the more the TV rights are valued. Thus, individual clubs will be able to afford more talent and enhance their playing performance. Appendix twenty-three shows the different distribution mechanisms of the TV income in the main European leagues. The ways that the most important leagues in Europe distribute the money are diverse.



It is difficult to find a particular distribution system that helps the league itself to increase its attractiveness, but it seems that some of the mechanisms presented in Appendix twenty-three are more suitable than others. We completely disapprove the distribution in Spain and Italy because it is unequal and benefits the top clubs. For instance, the Italian league is the most unevenly distributed in Europe as the difference between the club with higher TV income and the one with the lowest rate is between 8/1 and 9/1.²⁰⁹

A mechanism that resembles the German, English or Greek is fairer because it guarantees a fixed rate to all clubs and the rest is distributed according to the playing performance, while allowing the top clubs to be higher rewarded. In some leagues, such as the Swedish top division, the situation is optimal. Swedish football has just signed a new contract of 500 million SEK (£35.5 m) over five years. 70% of this amount is equally distributed among the clubs in the top division, and 30% goes to the second division, the Swedish FA and women's football. For Swedish followers clubs like IFK Göteborg, the annual TV income revenues will be over SEK 4 million (£0.3 m), which is a fixed amount and does not depend upon TV appearances or playing performance. This equal distribution is the real way to guarantee the competitive balance in a league.²¹⁰

However, as we already mentioned, there are other factors different than the attractiveness of the league which also influence the value of the TV rights: total population, income per capita, pay TV penetration, quality of players, competition among TV companies, etc. For this reason, some leagues, such as the Swedish one, are far behind those shown in Appendix twenty-three. However, it does not mean that the elite followers have to go for individual TV deals because such a system would lead small leagues to a lower TV income maximization due to the decrease of both the financial power and the playing potential of the “nationals”.

²⁰⁹ LNFP Spain, 2000

²¹⁰ Lars-Ake Lagrell, President of the Swedish FA.



Therefore, the development and growth of pay TV will thus be the main force pushing TV rights up in the different leagues. At the same time, it will produce some differences among clubs and leagues. For instance, the value of the Swedish league's rights are likely to be worth much more than those in Czech Republic as the development of TV infrastructure is much higher in Sweden (see Appendix twenty-one and table 6.6).

Thus, the past experience in some leagues with the sale of TV rights implies that the elite followers clubs should favour the next conditions in the TV rights' selling:

- a) Establishment of a mechanism of *collective selling* within their domestic leagues in order maximize their incomes year by year. The best way to increase the total TV income is working together in the enhancement of competitive balance.
- b) Establishment of a previous agreement about the right formula of distribution among the clubs, before the negotiations with TV companies, where there should be a distribution based on a fixed amount and a variable amount depending on playing performance and commercial results (appearances on TV and results of the PPV service)
- c) Establishment of a previous objective to negotiate and a design of the negotiation strategy with the TV operators.

TV negotiations are the optimal venue to generate income, which all football leagues should manage well. This offers a golden opportunity to put things on an even equilibrium at the club level. From TV money, we dearly hope to see investment in youth development, stadia and facilities, skilled business managers, the marketing and commercial infrastructure and brand development that can secure revenues for many years to come. At the same time, we worry that in many cases it will quickly slip through the clubs' fingers to the players and their agents and to overseas clubs in transfer fees. Look at the history books.



10.2.4.1.1 Scandinavian broadcasting

As late as 1988, there was only state-owned, non-commercial TV available in Scandinavia. In fact, in 1987 it was illegal in Denmark to have a satellite dish. Things have changed since then. A large assortment of channels now offer Scandinavian viewers more options than they could have dreamt possible in the not too distant past. In commercial broadcasting, Scandinavia has gone from zero to full-throttle in just over a decade.²¹¹ During this same period, football federations and clubs have transitioned themselves into professional administrations, which have made them to look for ways of taking advantage of the broadcasting developments for the benefit of football clubs. The problem is that there is not enough competition in pay TV for putting up the TV rights.²¹²

10.2.4.2 Internet

In terms of sport in general, there is much argument as to whether Internet broadcasters could become a major challenger for broadcasting rights. If it does happen, the higher competitive situation between broadcasters may enhance the gains of football clubs. Internet can become an important source of income to those clubs with large domestic and international fan bases in the near future. However, whether football supporters assuming picture quality assurance will actually sit in front of a computer screen remains to be seen. A sort of “highlights broadcast” on the Internet could be a viable option. Some examples can be found in the web pages of some clubs (i.e. Juventus).

According to Datamonitor, 33% of the total European population will have access to the Internet in 2003 (about 43 million of households). In 1998, the Internet market of the European households represented €2,155 m. (£1,316 m). The annual Internet growth rate is about 67.4% in Europe. The possibilities that Internet provides to football are much more than a mere distribution channel (press, TV, radio, etc.). The main characteristics of Internet to a football club are:²¹³

²¹¹ Sportel 2000, Sportbusiness Limited

²¹² Bosse Gentzel, IFK Göteborg's Chairman.

²¹³ LNFP Spain 2000



a) *Interactivity*, which allows a elite follower to exchange information in real time with its supporters (ticket information, results, classifications,...)

b) *Proximity*, which let a club's supporters to communicate with the club wherever they are. This fact widens the potential market of clubs.

c) *Globality*. Internet is a global network, which has no barriers. It is very easy to get access to the service and in many cases, some companies provide it free of charge. Perhaps the availability of club's web sites in English might be beneficial in order to satisfy international fan bases.

On the other hand, the creation of a club's web page is not very costly. Given the wide range of services that a club can provide, the investment in a web site is quickly turned into profits. However, it seems that football clubs have not yet maximized the potential of Internet and see it as a mere service to provide stats and interviews with players and coaches. Leagues and clubs should welcome the possibility of broadcasting football matches on the Internet because it is a new way to increase the revenues.

The most important objectives of a football club with regard to the Internet are:

- *Live broadcasting (video, audio and match tracker).*
- *Value-added services to fans:* club's information, players biographies and photos, online ticketing, online chats, newsletters, videos, pictures, subscription to the club's magazine, official supporters club, games, search services, etc.
- *Electronic mail*, which should substitute the ordinary communications club-fan by ordinary letters. This may also make feasible to create e-magazines and avoid the substantial costs of distribution.
- *E-commerce (merchandising).*
- *Sponsorship, advertising and publicity.*
- *New business opportunities in collaboration with other companies:* creation of a club's travel agency (now common in Spain), insurance and



financial services, etc.

- *Betting and Gambling*
- *Collaborations between clubs*, which could be possible to exploit the cooperative ticket selling for a certain match.

The final goals of the Internet for a football elite should be:

- Enhancement of the club's image and reputation
- Fan loyalty
- Revaluation of a club to the previous flotation on the Stock Exchange.
- Enhancement of the merchandising activities

On the web, supporters can be converted into true customers. Clubs like Manchester United are using their club TV channels and websites to convert supporters into customers. Clubs that can afford to invest in rich content for audiences around the world will see a considerable commercial return.

10.2.4.2.1 Scandinavian and the Internet

Scandinavia is one of the worldwide regions with a high rate of Internet users. For instance, almost 70% of adults now have access to the Internet and Sweden has developed the top international IT industry known as "Silicon Valhalla".²¹⁴ This gives good prospects for Scandinavian clubs when approaching the supporters. In fact, taking a look at the web pages of some of the Scandinavian elite followers one realize that their quality is much better and gives more service to the supporters than those of some clubs in the Spanish League, for instance. However, in order to reach the international fans, service in English should be available.

10.2.4.3 Radio rights

In the same way that TV rights have been widely commercialised since the early 90's radio broadcasting rights offer the same possibility. However, here there are two trends. The first one could be represented by UK football, where

²¹⁴ Sportel 2000, Sportbusiness Limited



live match commentary rights are sold in exclusivity to a Radio broadcaster. In contrast, we have the Spanish case, where newspapers and radio broadcasters may cover football events live without paying any kind of fee.

Since football broadcasting on the radio is able to reach an important number of listeners throughout Europe, the sums of money that football programs may generate are substantial. Thus, the clubs should obtain a share of the total income that radios are able to generate with publicity.²¹⁵ Knowing that, elite followers should develop the same group of strategies and patterns with regard to the collective selling than those presented to the case of TV rights.

10.2.4.4 Stadia management

Many clubs in the big five leagues are planning or have already started to exploit their facilities based on leisure activities outside of football and match day (i.e., conferences, conventions, museums, etc.).²¹⁶ However, whether this practise may spread over Europe has yet to be seen. Some aspects with regard to stadia management are as follows:

a) Ownership issues

Around Europe, some of the football stadia are owned by local authorities (municipalities) and some are the club's own assets. Almost all Italian football stadia are owned by local authorities. In France most grounds are also municipally-owned, likewise in Germany (although some clubs such as Borussia Dortmund have part ownership). In Spain the situation is mixed, with over half of clubs owning their own grounds. In England, virtually all grounds are owned by the clubs themselves.²¹⁷

The municipality's tenure might discourage commercially-minded stadium development. In some cases, the lease is established for a short period of years, which normally prevents clubs from investing in the stadium. On the other hand, the local authorities find it hard to justify investment in grounds for the

²¹⁵ <http://www.sportbusiness.com>, 2000 11 29

²¹⁶ Stadia Business: Sport Business magazine. October 2000

²¹⁷ Ibid



commercial benefit of private companies like football clubs. In the future, however, it is likely that, despite the municipal ownership of the stadia, the revenue upside may, in some cases, be so significant that many clubs may well pay for the improvements themselves. Therefore, it is necessary to prepare the stadia facilities to encourage the fans to attend at higher rates.

b) Stadia Size and ticket pricing

The clubs should try to fit the stadia capacity to the spectator size. Apart from the loss of intimacy created by those larger stadia, which have running tracks (with the fans consequently some way from the pitch), it is actually an impediment to the quality of the product (the view). Therefore, clubs might not be able to create an advantage by using the fans presence at the stadiums as a distinct capability (see Chapter eight). Additionally, intimate crowds can appear fiercer to the away side, and can actually effect team results.

On the other hand, overly sized stadia lead to a loss in gate revenues. Many clubs' ticketing strategy becomes driven not by maximizing yield, but by the need to make the ground look fuller, leading to a discounting policy which impedes revenue maximization. Ticket pricing at football matches is, generally speaking, price inelastic, but clubs cannot take full advantage of this inelasticity. A possible strategy could be the encouragement of ticket price "stretching". That is, to make the cheapest tickets cheaper and the most expensive tickets more expensive.

c) Non match-day

Non match-day revenues are an area where a large opportunity exists. We could say that England is the only country that has understood the potential of this revenues stream. The non match-day revenue opportunities, can be divided into two categories. Firstly there are the straight revenue opportunities such as conferencing and banqueting. Whilst these will obviously be dependent on local market conditions and the quality and type of facilities, good examples



exist, such as Leicester City in England who, in 1998/99, generated 11% of total revenues (around \$4 million) from conferencing and banqueting alone.²¹⁸

The second, and more ephemeral, opportunity is the long-term one of clubs establishing a home for themselves. A stable focal point, the cathedral where the fans go to worship, a permanent home which forms part of the power of the clubs' brand and will, in the long-run, ultimately generate more money for the club. These revenues can come in different ways. The Barcelona museum is the third most visited in Spain, receiving over 1.1 million visitors in 1999, with the visit ending, naturally, in the club shop. In Old Trafford, Manchester United's "Theatre of Dreams", a visit to the club's historical museum does not only include a stop in one of the shops but the visitor has the opportunity to take a tour inside the team's changing rooms.

d) Other revenue streams

- Mobile units (stalls and vendors) of catering – food and beverage outlets - and merchandise (souvenirs) on the land immediately adjacent to the ground.
- Restaurants
- Space rental
- Perimeter boards
- VIP seat holders and boxes (suites) with access to better facilities

10.2.4.5 Merchandising

In this area there exists considerable scope for improvement, as proved by the example of Manchester United. Although merchandising revenue is increasing, clubs are operating at low profit rates. However, merchandising expertise and database sophistication will enable clubs increase their revenues. The average club in Europe earns less than 20% of its total turnover from merchandising. However, clubs like Manchester United or Bayer München (close to 50%) lead the way for other clubs.²¹⁹

²¹⁸ Stadia Business: Sport Business Magazine. October 2000.

²¹⁹ Football Research Unit, University of Liverpool



In reality, everything that is marketable may be sold with the club's brand name. However, the commercialisation plan and distribution of clubs' products must be designed and supervised by the club with the objective of guaranteeing that the brand value is not undervalued. The club may produce, commercialise and distribute the products or let other companies to do it. In the case of elite followers, the second alternative seems to be more appropriate since the amount of financial resources needed for own production and distribution implies that only the top clubs (Manchester, Real Madrid, etc.) may do it.

10.2.4.6 Sponsorship and advertising

This is a factor closely related to TV exposure. Since football is widely available on TV, football clubs are regarded by many private companies as the target of their sponsorship investments. Sponsorship in clubs is supported by sport companies (i.e., sportswear) and other type of institutions and entities, which look for both the diffusion and publicity of their brands and the establishment of some kind of relationships with potential customers through their contribution to football. The different types of sponsorship in football make it difficult to predict the potentiality of this revenue stream. However, elite followers should be creative when it comes to design their sponsorship programs in order to maximize the possibilities of this income.

As in the case of merchandising, any imaginative idea may be good for the exploitation of this commercial tool, from the sponsorship of press conferences to the advertising at any corner of the stadium.

10.2.5 Other Future Challenges for the Elite Followers

Apart from the wide range of commercial activities that a elite follower can implement to improve its income potential and, thus, enhance its playing success, elite followers might look at a couple of interesting things. First, the interesting opportunity of the **Stock Exchange** as a new way of financing and, second, the potential agreements of **collaboration and alliances** (perhaps mergers) with local clubs, preferably "nationals" and "survivors".



10.2.5.1 Stock market

The Stock Exchange is a relatively new way of operating for follower clubs, but a wave of football clubs' flotation is expected in the up-coming future. The main motive is the larger estimated influxes of capital, as well as a way to look for alternative funding, giving the financial restrictions that the UEFA licenses are able to imply for clubs. As clubs enter the stock market, the tendency may be the increase of rivalry due to the fact that some clubs will manage to contract top players with the funds of the new investors. However, this is an option that is more feasible for the top clubs, while elite followers are going to find it harder to come across with large investors. The main reasons why stock flotation is good for clubs are presented below:

- a) *Prestige and brand name*: the stock market may generate publicity that increase the prestige and the brand name of a club.
- b) *Liquidity*: the clubs shares are easily turned into cash according to the daily market value.
- c) *Finance*: Clubs will have more possibilities to fund different projects, which obviously certifies the club's future.
- d) *Real value*: the market price incorporates the future value of a club because the shares' price incorporates the future expectations of clubs' results.
- e) *Possibility to remunerate the employees*: this fact is especially important for the further loyalty of players with remunerations based on clubs' shares. With the advent of more freedom for players, a higher commitment of them with the club through such a remuneration may let a club to retain some of its key employees.
- f) *Accessibility to bigger sponsors*: Since the stock exchange means accessibility to the entire business community, clubs could have an opportunity to get funds from other companies.

However, the decision of club flotation is not easy. They should consider very seriously the supporter's preference with regard to this issue. Success in the stock market is only possible if clubs are able to attract more supporters and



keep them. Then, if the managing directors drive the club to the stock market without a large approval from the fans, who could see that as a loss of their traditional control as club's members, the operation might eventually fail. This is because fans might leave the game instead of buying the club's products, attending at the stadium or purchasing the club's matches on pay TV.

Although we are aware that stock flotation is a step ahead of the traditional version of the game, the current commercial circumstances under which football moves almost force follower clubs to admit private investors within the board of directors. This is just a pace to avoid stagnation and defend their position within their strategic group. As already mentioned, we do not think the commercialisation of football can damage the industry by a loss of customers. On the contrary, it could help to provide higher value to them. The matter is to know how many elite followers can successfully be floated. We believe that only a few of them are supposed to obtain substantial income from the selling of shares. The business attractiveness of buying followers' shares is lower than in the case of football elite.

From the point of view of the elite follower clubs, the present situation of the club is extremely important for the possible reaction of fans and private companies to the stock flotation. Starting from the fans, if the club is in a declining situation then supporters might react in a positive way through the purchase of shares to help the club. This kind of shareholder is more support/sport-orientated than business-orientated because they decide to buy club's shares hoping that the club becomes powerful and gets better results in the performance context, without expecting financial returns on the investment made. On the other hand, it might happen that even if the club is in a great position and decides to go into the stock exchange, supporters might respond in not a really good way because they may think that the club has enough income and does not need the collaboration of supporters.²²⁰

²²⁰ Bosse Gentzel, Chairman of IFK.



However, private companies are other group of investors for football clubs. In fact, their attitude to market flotation may be completely the opposite. If the sportive situation is not very good, private companies might think that the profitability of these clubs is not possible, giving the high competitiveness from the elite followers, and, thus, they are unlikely to buy shares. However, if a certain follower seems to have firm competitive structures, business groups could give their support in a market flotation because they might expect good returns.

We firmly believe that the upcoming changes that the industry is likely to experience, mainly supported by the UEFA licences and a higher number of clubs in the stock market, will make football clubs a profitable option for investment. Thus, private companies may only enter the football business provided that football clubs are run as real undertakings, pursuing profits as one of the main goals.²²¹ These kinds of investors have more financial potential and can contribute in a greater way to the progress of the club. In this case, the better the financial position of the club, the more opportunities to attract private shareholders. It means that if the club does not enjoy healthy finances, private companies are not attracted to invest in the club and will not buy club's shares.

10.2.5.2 Collaborations & agreements

The new transfer system that, at the time of writing, was being appraised by the EC is likely to heighten the freedom of players over 23 and decrease the transfer system function as an income tool for clubs. As we proved, it will not trigger special financial crisis at the aggregate football level, but it could damage the viability of those clubs that based their income capacity on the transfer system. It is undeniable that many of the more affected clubs by the new transfer system would probably be at the category of elite followers or lower. Thus, one of the ways of overcoming the future difficulties derived from this is to reach collaborative agreements between clubs to ensure a supply of players to one side and the survival to the other. Thus, the followers should

²²¹ Szymaski, S & Kuypers, T., 1999.



look at “nationals” and “survivors”, which are potential incubator clubs for the football industry, in order to:

- First, ensure an on-going provision of footballers to their first teams.
- Second, share the costs of the training programmes with other clubs.
- Third, help to the survival of the lower layers in football (specially the survivors) and contribute to maintain the important role that these modest clubs play in the formation of youth.

Therefore, we believe that elite followers should study any opportunity of collaboration with other clubs in order to exploit the training programs fundamentally. However, effective collaborations and agreements for the combined exploitation of some commercial activities are also possible. The best opportunities for, say, potential commercial joint ventures are in the media management of clubs.

10.2.5.2.1 Football mergers

Some experts have defended the idea of *mergers*, not just as a way of fighting against the new transfer system but, as the real approach to tackle the impact that the gap widening is having on nationals and survivors. However, we do not think that sportive mergers work in football. In the same way, Robert Elstone from Deloitte & Touche Sport Business stated: *“In the 90s, football clubs have become widely referred to as brands, but people change brands, they do not change football clubs. A football club is much more than a brand. Football is about passion, emotion and deep-rooted family commitment; it's about identity, pride and a tribalistic sense of belonging. These are the qualities that attract SKY television, Carling, Nike and the rest. These are what make football valuable. A merger will only work if it can retain - indeed enhance - these qualities (qualities which on the face of it are unique to a particular club)”*.

Furthermore, merging two businesses does not necessarily create a vibrant and successful new one. Success is largely a function of management's ability to take advantage of economies of scale, new markets and new ideas and



operating practices. The benefits of a football club merger may well include the ability to take advantage of cost savings, new management practices or the additional leverage a merged club would have in developing new facilities. However, any gain from those aspects has to be balance with the real force for merger, that is, the fusion of two fan bases. Since mergers seem just apparently likely between clubs from the same city, whose fans bases are often “enemies”, the question is how two distinct types of fans will react to the merger? The most likely answer would be: fans support just one club, they do not change brands. However, even though fans are driven by deep-rooted forces, they are also driven by success and it could happen that in this rare world of football some mergers could function well.



10.3 Success on the Field: The Direct Way to the UCL's Group Phase

Since this thesis has to do with business, we cannot evaluate the different sport strategies (tactics, type of players, etc.) that the coaches and footballing staff in the elite followers might deploy in order to maximize the squad potential on the pitch. However, nobody can ignore that, even though the commercial activities are strongly related to the success on the pitch, sometimes that relationship is not straightforward and whether talent squads fail or modest teams outperform superior rivals. This is, therefore, an aspect that businessmen cannot control directly but, in turn, they can provide the appropriate resources and capabilities to facilitate the success of the clubs' squads.

Apart from the analysis developed in 10.2.2.1 about Sport Direction as an independent area within the new organizational structures of elite followers, its responsibilities, main tasks and priorities, we would like to stress on the following sportive aspects as determinants of the success of elite followers within the Champions League:

- Since elite followers are likely to enter the qualifying rounds of the UCL, they should initiate the season in advance (lately June or early July) in order to gain an advantage over the top clubs, which normally start in August, in case they were tied together in the UCL's draw. Some leagues as the Scandinavian ones have a good position to this respect.

- They should try to contract some foreigners in order to increase the squad quality and the appeal among fans. However, as mentioned above, clubs have to balance the preference of supporters with regard to this issue (i.e., in Sweden the social awareness of football as a educator mechanism restrains this aspect).

- They should imitate the game improvements that normally come up in the top leagues. These aspects have to do with tactics, initiatives among supporters to increase the pressure on the rivals when playing at home, etc.



- They should develop a network of relationships with clubs all over Europe in order to develop some initiatives and collaborations among clubs such as loan of players, programs of coach exchanges for a period of time, friendly matches, etc.

10.4 UEFA: The Elite Followers' Closest Friend

It was mentioned in Chapter four that football competitions require that competitors can participate on a 'level playing field' in order to maximize football competitions in terms of attractiveness to supporters. Such a condition has traditionally been met through stringent application of sporting competition rules (promotion and relegation, individual classification, minimum qualifying criteria, etc.). Yet, growing commercialisation in football has made it necessary to take account of financial considerations. In major competitions, such as the UCL, participating clubs will also have to meet certain economic conditions. With this situation we have already argued that the financial muscle will widen the gap between the elite and the rest (see Chapter seven), and that elite followers' distinct capabilities might be insufficient to compete at the same level that the high-status clubs. Therefore, the role of the football authorities, headed by UEFA, should be to ensure that the rules are fair/moral and the same for every competitor in the same competition.

Therefore, we firmly believe that a big part of the future success in the European competitions of those clubs outside the elite relies on the application of some pure sportive rules, which must contribute to enhance the competitive balance of the UCL, the outcome uncertainty and the respect of the specificity of sport. To that purpose, UEFA is the unique entity that can ensure such measures. However, the legitimacy of UEFA has been argued several times. Thus, our first issue must be to appraise the role of UEFA and its own legitimacy as the governing body in European football in contrast to the particular interests of private leagues.

Afterwards, we will analyse how UEFA might deal with the following issues: *Transfer system, Champions League as a solidarity mechanism, UEFA licences, the American sport measures and the Super League*. All these aspects



should be treated by UEFA in a way that plays a role as a means of bridging the gap created by the financial muscle of the football elite.

10.4.1 Why UEFA Must Organize Football in Europe?

UEFA has been the target of much criticism from the press and private interests. They have accused it of being a cartel, which exploits a dominant position within European football. In fact, sports leagues, including UEFA, resemble cartels because they facilitate “agreements among competitors that can restrict output, increase price, or otherwise exclude competition”.²²² However, because of the nature of competitive football, a league differs from most other industries because of the nature of the ‘product’ itself: member organizations must cooperate before there can be a product. Furthermore, no league member has independent economic power or productive capacity outside its membership in the league

An alternative to conceptualising the UEFA as a cartel, through which independent clubs maximize their profits by restraining individual economic behaviour, is to view UEFA as a single entity, rather than an association of independent entities. Under Article 85 of the Treaty of Rome, only agreements or concerted practices between two or more undertakings, which restrict trade are prohibited.²²³ Unilateral action is not subject to Article 85. It follows that where there is no agreement between economically independent entities, relations within an economic unit cannot be regarded as concerted practice between undertakings, which restricts competition within the meaning of Article 85(1) of the Treaty.²²⁴

Even if the single entity theory, as applied to UEFA, is rejected and the restrictive policies are categorized as agreements between undertakings or decisions by an association of undertakings, they are possibly justifiable as a consumer welfare enhancing policy. In fact, this is what all UEFA measures intend to, that is, the increase of competitive balance in order to ensure the outcome uncertainty, which may maximize a league capacity to attract supporters.

²²² Gary R. Roberts, 1984.

²²³ H. Thomas Hefti, 1994.

²²⁴ Case T-102/92, Viho Europe BV v. European Commission, 1995 E.C.R. 17, 34-35 (Ct. First Instance 1995)





Thus, we believe that UEFA is not just the moral entity to possess the right footballing structure in Europe but also it could be supported by the law. Therefore, once we have clarified the UEFA legitimacy as regulator of European football, we will see what UEFA can do with that power.

10.4.2 UEFA & International Transfer System

As we analysed in Chapter five, the EU has forced a change in the football transfer system in order to enhance the players' freedom. Although free movement of workers is a unquestionable right, the case of football poses some controversial issues. Let us see what they are.

Restrictions on player movement are essentially restrictions on inputs or supplies for the production of football.²²⁵ Competition law typically prohibits restraints on inputs because they decrease allocative efficiency. However, decreases in allocative efficiency can be offset by gains in productive efficiency.²²⁶ And, in fact, competition law seeks to balance allocative and productive efficiencies. The football transfer system increases productive efficiency because of two reasons:

- It enables football to compete more effectively with other sources of entertainment.
- It sets rules that make the product more attractive to consumers, such as the allocation of league revenues and player talent to avoid unbalanced and uninteresting games, enhancing consumer welfare.

Thus, it is justifiable the cooperation between clubs in order to bring a more equal distribution of the key resource, playing talent, than would be obtained by unregulated market forces. Furthermore, since the inputs in this case are wage earners, the restrictions on player mobility have the additional effect of depressing player wages below what they would be if the players were free to play for the highest bidder. Relative to the players, the league has monopsony power, which is *“the power of a buyer of a good or service over the seller, meaning in this case the power of the league-employer over the player-*

²²⁵ Case 415/93, (1995) *Union Royale Belge des Sociétés de Football Ass'n ASBL v. Bosman*.

²²⁶ “Productive efficiency” is achieved when a product is as good and as attractive to consumers as it can be



employee”.²²⁷ Low player wages are not, however, the type of injury competition laws are designed to prevent. Rather, the goal of competition law is to maximize consumer welfare so that consumers’ wishes are better satisfied by balancing allocative and productive efficiencies.

If one were to view the clubs purely as competing businesses in an industry, it would be efficient to have no restraints on competition and, therefore, no restraints on inputs/players. The bigger, wealthier clubs would be able to buy the best players and drive the smaller clubs out of the market. The game, however, also depends on some measure of productive efficiency. Such productive efficiency, which means more teams and less market concentration, generally lessens allocative efficiency. The clubs in a professional league thus do not have the aim of excluding their competitors from the market. Rather, they depend on the continued viability of their competitors. Here lies a significant difference from the competitive relationship between undertakings in other markets.

Therefore, it seems that the transfer system might be justifiable as an element to increase competitive balance and thus provide fairer opportunities to non-elite clubs. However, the former system has proved to be inefficient to achieve such goals, as the top players were not prevented from playing for the football elite. Now the task is doubled: 1) convince the EU to lessen the transfer rules as less as possible, given the potential productive efficiency of the system 2) modify the new one in a way that guarantee outcome uncertainty by allocating inputs/players in a manner that balances the competition. If those objectives are achieved, elite followers would see heightened their possibilities to success. One of the possibilities to create such a situation would be a salary cap. The draft system in American sports would be inappropriate under the European football structure.

10.4.3 Champions League As a Solidarity Mechanism

Another way to increase the competitive balance of the UCL might be to enhance the role of the solidarity mechanism (revenue sharing) of the

²²⁷ Gary R. Roberts, 1984



competition. Thus, UEFA should commit itself to find the most effective ways first to exploit the current commercial sources of income (TV rights and sponsorship) and, second, to provide a more equal distribution of the total Champions League's income among clubs participating directly or indirectly. As it was analysed in other chapters, the current income distribution, which leaves European football less than 20% of the generated income, creates a situation where the participants (at least half of them are top clubs) can earn the sufficient money to outperform rivals in the next season and thus, repeat in the competition and eat again the entire cake.

However, under the current pressure from the G-14 – which is the main reason explaining the so lucrative commercial contracts signed by UEFA - and the fragile support of EU authorities UEFA has been unable to refrain the particular interest of the football elite of encouraging individual income maximization rather than league income maximization. If UEFA were openly backed by the EC it could have total freedom to organize European football and encourage further enhancements of the solidarity mechanisms.

The reform of the transfer system seems that might bring new alternatives of income redistribution, always using the UCL's central marketing, to encourage the training activities of clubs. However, if those steps are not coupled with transfer system restrictions to impede the football elite ensure the best players. The final result is a system that exclusively encourages the formation of players for later disposal in the big five leagues. We do not say it is a negative measure, but it does not contribute to generating competitive balance.

10.4.3.1 UCL vs. pay TV

In order to find some new sources of income and increase the total amount distributed among clubs, UEFA might appraise the possibility of opening its existing internal policy about free/pay broadcasting. Many combinations and formulas may be used with regards to the use of pay TV and PPV services in order to widen the pay TV coverage of the UCL. However, any decision to this respect should be carefully considered because the final effect might be the opposite, that is a less income collection. This is because football has been a free entertainment



on TV until the late 90's and supporters are not yet used to paying, therefore if they notice that they have to pay every time they want to view their favourite team there might be a negative reaction, consisting in abandoning the game.

In favour of a higher use of PPV in the Champions League is the American experience, where the fans, instead of going away from stadiums and TV screens, have increased the TV market shares, sponsorship deals and so on.²²⁸ It is true that the American situation is certainly different due to the different marketing strategies and competition structures of both the American and European models, but we believe that there might be some scope to improve in Europe. While American team sports are more marketed and also practise output restrictions (just one game per week), in Europe commercial structures at the clubs' levels have to improve and it could also be interesting to establish a competitive system with less burden of matches but maintaining the multi-competitions model. Thus, we believe that a gradual PPV penetration in the UCL would not imply a dramatic loss of supporters and even though that happens, the gains would surpass such a small fan deficit. Moreover, if the income is well-used by increasing the competitive balance of the competition (giving more talent and resources to the elite followers), those supporters that went away might return.

10.4.3.2 UCL and strategic groups' dynamism

The situation that we encourage is not just the maximization of the UCL's income potential to "steal" from the elite to redistribute among the followers. Neither of them is the objective. Naturally, the football elite is supported by a bigger base of supporters and may deserve higher rates of income from the competition, but it should not be too much. At the same time, we would not favour a redistribution mechanism that exclusively assists the elite followers. We support a system that enhances the competitive dynamism, that is, frequents ups and downs of clubs between the strategic groups defined in this thesis and depicted in figure 4.2. That would be a proof of a correct functioning of the redistribution mechanisms.

²²⁸ LNFP Spain, 2000



10.4.3.3 Potential restructure of the UCL

- We neither support UEFA helping the elite followers in a direct manner, that is, ensuring a couple of places for the Scandinavian countries within the UCL's group phase (as proposed by the Swedish FA), or some more places for a theoretical Atlantic League, etc. We believe that the UCL should be the most balanced competition in Europe and, at the same time, UEFA should encourage more equal opportunities to all its members through income redistribution so that they can perform in a more evenly way.

- Some football authorities (i.e., Lars-Acke Lagrell, president of the Swedish FA) are in favour of the creation of *regional leagues*, where the best clubs (winners and runners-up of the domestic leagues) participate in a short-term competition for some places in the UCL. The winners and runners-up of such regional leagues would ensure a place in the Champions League. Thus, clubs could bypass the undesired previous qualification rounds. This proposal is absolutely not valid at all due to some problems: how should the regional leagues conform? which countries should be grouped in each league? Shall all clubs, even in the big 5 countries, struggle for a place in the UCL's group phase through these regional groups? Is there space in the football calendar to include these short-term leagues? What would the prizes in the short leagues? All these questions do not seem to offer good solutions to the already existing problems.

- Since we propose a higher percentage of the total income from the UCL for the weaker leagues, improvements that would require to decrease the percentage to the football elite. The question is how much the football elite would be willing to give up? This put us on track of the Super League, as the alterative of the biggest clubs to avoid the UEFA redistribution policies (see 10.4.6).

The final result of a solidarity mechanism is the competitive enhancement of the domestic leagues, which is always important as an essential part of the overall maximization of the UCL. As we have seen, there are many challenges around the use of the UCL's central marketing as a tool to redistribute money in European football. As we will see in the case of the Super League, the



scenarios turn even more complicated as we get deeper into the economics of football.



10.4.4 UEFA Licensing Procedure

Another aspect to take into account, which might also act as a force limiting the overspending of the biggest clubs on players and therefore giving indirect opportunities to those elite followers that take care of the financial accounts, is the UEFA licensing system. However, the experts interviewed have all posed clear doubts on the application of such measures and, thus, on their success to restrain the crazy management policies of some clubs. The reasons are not only a matter of applicability itself (control and supervision) but leaving some clubs like Real Madrid out of the UCL because of financial unbalance. The plan, which also needs financial backing for those weak leagues that do not have sufficient resources to fulfil all the UEFA requirements, seems to be a suitable way of applying rigor on the clubs management and thus is welcomed. However, if UEFA lacks the support required to implement the program, its credibility would be reduced.

Therefore, this program might be helpful for the interests of the elite followers, even though it could imply other array of reactions that compensate the possible restraints on financial spending (i.e., the stock exchange flotation, see section 5.4.2.3.3). However, as in the above cases, UEFA would need the EU support to gain credibility.

10.4.5 The American System

One of the points remarked on section 10.4.2 is that the allocation of inputs in the football industry to increase competitive balance might be justified. Thus, the American model of sports presents some methods that contribute to that goal (see section 5.5). We intend to judge the suitability of similar measures in the European model.

Fair allocation of talent (players) can be achieved through direct measures, such as the ‘college draft’ system in the American sports (where access to new professional talent is closely controlled, with a bias in favour of less successful sides). We have already mentioned that it is unviable simply because the European football competitions don not use the model of input supply established in the USA. Each club educates its talent both for the first team or



to others, thus no club will be willing to train youngster to afterwards be allocated to other competitors. Also, the EU would be able to bring that initiative down because a rookie draft may restrain the movement of players much more than today's transfer system. We believe that more favourable restrictions are possible to allocate talent in Europe. One of these might be an indirect measure, such as the control on the wages payable to players – American salary caps - so that greater economic strength does not lead to a more attractive monetary offer to potential players. Salary caps could be consistent with EU laws on the freedom of movement of labour, as well as the articles on competition, as long as the system were perceived to provide a clear benefit to the players. A natural corollary would be an European Player's Union that might negotiate on salary issues and other relevant issues such as health and safety.²²⁹ The immediate reaction of this method is that if top clubs have a limit on spending, they only could contract a fewer number of talents, and the rest being allocated to weaker clubs by the supply/demand theory.

On the other hand, UEFA could require UCL's club (or even within the domestic leagues) to *share income* (so that the successful clubs subsidize the less successful) such as through gate receipts, or higher equal distribution of the TV income. However, as pointed out by Hoehn & Szymanski (1999), the welfare implications of a strong revenue-sharing rule might decrease the total well-being of the league as a whole since that measure might discourage top clubs' individual actions to maximize their income-generating capacity due to the fact that they may see this initiative as "*working hard for the benefits of competitors*". The appropriate measure of welfare is the sum of club profits and consumer surplus, just like in any other industry. However, measuring both profits and consumer surplus is difficult. Intuition say that, given that most of fans support the football elite and they move because a wish of winning, a more balanced competition that reduce the usual victories of the top clubs might decrease the direct support of the football elite's fans in terms of les merchandising, PPV income, advertising, and so forth. Thus, even though the number of supporters of the elite followers would surely increase, it might not be enough to compensate the loss of supporters from the big clubs. Again, it is

²²⁹ Hoehn, T. & Szymanski, S., 1999



a matter of balance on how much UEFA should make the top clubs to share with the followers and also what type of income they should share (gate receipts, TV income, merchandising, etc.).

10.4.6 Independent Leagues: Super League

Another aspect of football that could also be affected by EU Competition Law is the formation of an additional European football league (a private one). There are not likely to be any substantial barriers to the formation of a second league. The threat of some of the top clubs to form a Super League demonstrates that the provisions proposed above to increase the uncertainty of the outcome (which indirectly favour the followers) can conflict with the economic self-interest of the larger clubs. The setting up of a European League is, however, not without its problems. One of these is its relationship with UEFA. Without the support of UEFA, top players in the European Super-league would risk not being able to play for their national team in the World Cup or European Championship. The leading clubs also risk expulsion from UEFA if they form a breakaway league without UEFA's approval. Another problem concerns the relationship between the European Super-league and the national leagues of the participants. Do the European elite clubs no longer contest their national leagues? Another problem arises where cities possess two leading clubs and the traditional rivalry between them is of crucial importance, especially for supporters.

Perhaps the most relevant problems are those that have to do with the dismantling of the traditional football structures (see section 6.4 and Chapter seven). Perhaps a system made up of different governing bodies is not the right one to maximise the industry welfare as defined above. Therefore, UEFA would need certain support from the EC in the form of a political recognition of its role as the single watchdog of European football. However, we have found some opinions that state that moving from the current European system to a more American structure, like the Super League, should be beneficial for clubs. Their reasoning is based on the proposals pointed out by Hoehn and Szymanski (1999):

- The big clubs will be able to focus on the competition that generates the greatest proportion of their income.



- Smaller clubs in the domestic leagues would lose by no longer competing against Superleague teams that may bring with them large groups of supporters, but this loss is likely to be offset by the improvement in competitive balance in the domestic competition as well as the remaining UEFA tournaments.
- Consumers would also gain because there would be a greater supply of well-balanced contests at both sides, the Super League and the UEFA domestic and international competitions.
- However, this would surely depend on the relationship between the Superleague and the domestic leagues.

Again, UEFA would need clear recognition of its position within football to put some doubts such as the Super League out of the football discussions.

10.5 Football As An Specific Activity Within Community Law

Through this section we intend to argue why we think that football is an specific activity, totally different from those economic activities subject to EU law. Thus, we intend to encourage the recognition of this fact by the EU authorities and members' governments in order to guarantee some possibilities of success for the target group of clubs in this thesis. Otherwise, the European football frame would rather resemble a paradise just for those elite clubs with high financial potential, totally lacking competitive balance.

10.5.1 Introduction

As already mentioned before, one of the hot issues for the future of football is the possible EU recognition of sport as a specific activity. Those problems outlined in section 10.4 could be clarified under such a support from EU authorities and, thus, elite followers could benefit from a more balanced situation in football.

Where football has become an economic activity, it is increasingly coming within the concern of EU law. As outlined in this thesis, that is true of collective selling of the television rights for European competitions, the legal provisions governing international transfers of football players, and establishing a minimum level of protection for minors in training at European clubs. However, the EU institutions also recognise that football (and sport in



general) is not only an economic activity and now regard it as a special case. One of the priorities of the EC is to maintain and enhance the social function of sport in Europe, whilst respecting the independence of sports bodies.²³⁰

In fact, the specific nature of football (and sports in general) is its multifaceted character, which allows it to fulfil five different functions simultaneously:

- *An educational function*: active participation in sport is an excellent way of ensuring balanced personal development for all age groups;
- *A public health function*: physical activity offers an opportunity to improve people's health and can help to maintain good quality of life;
- *A social function*: sport is a suitable tool for promoting a more inclusive society and for combating intolerance, racism, violence, alcohol and drug abuse; sport can also assist in the integration of people excluded from the labour market;
- *A cultural function*: sport gives people an additional opportunity to put down roots, to get to know an area better, to integrate better and to protect the environment to a greater degree;
- *A recreational function*: sporting activity is an important leisure occupation and provides personal and collective entertainment.

There have been protests to the EU for taking some action to protect the integrity of football and sport. Based on the arguments presented, the football restrictions are arguably worthy of an exemption from the competition laws. Even if the Commission were to grant UEFA an exemption from competition law under 85(3), such a grant would be fruitless because Article 48 presents an challenging obstacle. It contains only a very narrow public policy exception. Alternatives to exemption under Article 48 include a new preamble to the Treaty of Rome, a clause inserted into the text, or an addition to Article 128 exempting culture from the normal EU rules:²³¹ “*The Community shall ... respect the national and regional diversity of member states and ... shall take cultural aspects into account in its action under other provisions of this Treaty.*”

²³⁰ <http://www.europa.eu.int/comm/sport>

²³¹ Severin, C., 1996



Both of these options would be considered amendments to the Treaty. The Treaty provides the possibility for an intergovernmental conference (IGC) to plan revisions, which must be approved unanimously by the member states. There have been different requests for an amendment protecting the cultural aspects of sport. These requests have been made by national and international football officials from the summer of 2000 on. The public authorities need to focus their action on encouraging negotiated solutions to the problems presented above and maintaining the social function of football federations, along with the necessary solidarity between the top and the base of the football pyramid. Therefore, we believe that the EC should recognise the specific nature of football (and sport in general) particularly with regard to:

- Adopting rules of a strictly sporting nature and intended to guarantee competitive ethics and ensure fair competition between the different clubs; some of these rules could in some cases have an economic dimension;
- Encouraging the training of youngsters and ensuring that they receive appropriate training and adequate health protection;
- Fostering the creation of solidarity funds in football, in order to allow the balance in competitions through the redistribution of profits generated.
- Football federations must acknowledge the new political, social and economic context in which they are called upon to pursue their activities. Indeed, taking this context properly on board can enable them to derive advantage from the economic boom in football. The preservation of federation unity and the maintenance of the traditional values of sport must not prevent the introduction of a new culture of management giving greater involvement and responsibility to the different sectors which coexist within a football federation.

The media and sponsors have penetrated into top-level football. They acknowledge that some clubs now operate in much the same way as entertainment businesses. As such, they consider that the rules of ordinary law must apply to such clubs when it comes to the economic dimension (as opposed to specifically sporting rules). However, ordinary law should apply to football



where a particular football activity is in effect an ordinary economic activity. There is no justification for any specific treatment under national or Community law when it comes to economic and financial regulations for football organisations. On the other hand, strictly sporting rules deserve special treatment as these are a matter for football itself. There is no economic aim, so they should not be subject to, competition law.

10.5.1.1 A formal process to the recognition of the specific nature of sport
In 1996, The Treaty of Amsterdam included a Declaration on Sport that recognised the social role of sport. Then, the Vienna European Council in December 1998 invited the Commission to submit a report to the Helsinki European Council in December 1999 with a view to safeguarding current sports structures and maintaining the social function of sport within the Community framework. Finally, the European Council Summit in Feira (Portugal) in June 2000 admitted that *“many voices have urged the EU to acknowledge the identity and autonomy of sports institutions and called for a provision to be inserted within the EU’s Treaty to equate sporting activities with culture”*.²³²

The Helsinki report on sport is simply one stage in the process and not an end in itself. The EC and the ECJ have shown some acceptance of the facts outlined above about the uniqueness of sport. However, it is now time to define this uniqueness in more precise terms in order to provide football with legal certainty and ensure that the future plans for the maintenance of its traditional structures are not threatened by the G-14 or private commercial groups. Much more emphasis must be put on what constitutes the uniqueness of sport (its social and educational role, etc.) and on the consequences of this uniqueness (acknowledging the autonomy of sport for all rules of a non-economic nature: the rules of the game, protection of young people, provisions to guarantee fair competition, to ensure solidarity or to promote sport among the population).

As of this writing, no action has been taken, although it remains to be seen what conclusions are made in the upcoming European Council in Nice (France) in December 2000. The most updated information previous to the end of this

²³² www.europa.eu.int



thesis is that the 15 EU leaders will adopt a declaration accepting the "social, educational and cultural functions inherent in sport and making it special".²³³ However, the declaration will fall well short of the special exemption from EU law being demanded by FIFA/UEFA in its wrangle with the European Commission over soccer transfers. This declaration is a political document, which shows the EU's increasing interest in sport, and it could be the first step towards a protocol in the next review of the EU Treaties. "What it certainly isn't is a document granting an exemption for sport. Sports such as football will not be exempted from applying EU law".²³⁴ Thus, the document only stresses the autonomy of sporting federations to organise their respective sports in whatever way they choose, so long as they obey EU and national law. Other challenging issues pointed out above seem to have been refused at least so far. The future can give us the last word.

10.6 The Thesis' Theoretical Proposition

In Chapter one (section 1.7) we set up that one of the main challenges of this study would be the test of the following theoretical proposition: ***“Elite followers’ success in the UEFA Champions League does not (only) depend on the creation of a competitive advantage. It essentially relies upon the consideration of football as an exceptional industry by restraining competition with some redistributive practices as it happens in American sports”.***

Along the different chapters of the thesis we have tried to write down strong evidence of the particular situation of the European football, as well as the repercussions on the particular group of clubs analysed, the elite followers. Summing up our conclusions, we could advance that:

- First, the internationalisation trend within the industry has Europeanised the goals of many of the participants in the industry (players, clubs, sponsorships, TV, etc.).

²³³ www.sportbusiness.com, 2000 12 05

²³⁴ European Commission spokesman Christophe Forax at <http://www.sportbusiness.com>



- Second, three important driving forces will surely change the football situation (the new transfer system, higher commercialisation of football and the UEFA licences procedure). Each one will affect clubs and leagues in a different way.



- Third, the financial muscle has become has the main determinant of the success in the industry. Thus, the commercial challenges as well as private interests and a higher concern for individual maximization represent some threats and uncertainties to the traditional football structure.

- Fourth, the result has been a more defined hierarchy within the industry; that is, the competitive gap between the elite and the rest has been augmented considerably. At the same time, the peculiarities of the industry and the own internal micro-environment of the elite followers make very difficult that these clubs may attain in the short-run the appropriate distinct capabilities to bridge that gap. Thus, although a well-defined business strategy is necessary to ensure the survival (prosperity?) of these clubs within their own strategic group, it could be certainly insufficient to achieve the initial goal proposed for them: participation in the UCL's group phase.
- Therefore, the particularity of sport itself and the morality to enhance the social, cultural, educational, and other externalities throughout Europe drive us to think that a protection of small interests are justified under the articles of the EU Treaties.

- Finally, this protection must be achieved by the acknowledgment of UEFA as the single entity with the sufficient autonomy to organize and supervise the competition, which must ensure the objectives proposed in the previous point. Thus, a political recognition of the particular nature of football (and sport) seems to be the first priority to provide the elite followers with the appropriate ground to enhance its possibilities of success in the football industry.

10.6.1 Further Reflections on our Theoretical Proposition

Several plausible competition law arguments, as well as the issue of competitive balance, justify the continued existence of football restrictions and, perhaps, a creation of a new one. The problem for that seems to be EU law. As applied, EU Competition Law seeks to balance not only allocative and productive efficiency, but also to achieve the broader objectives of the Treaty: *“EC Competition policy . . . is primarily integration policy aimed at bringing about a maximum of economic interpenetration However, not even the*



*Common Market constitutes an end in itself . . . Competition policy therefore must also be seen as an instrument for achieving . . . close relations between the [member] states.*²³⁵

Whereas, under U.S. antitrust law, the goal is protection of competition rather than competitors, while “one of the purposes of the EEC competition rules consists in preserving the competitive potency of individual undertakings”.²³⁶ In terms of Article 48, the Advocate General Lenz in the Bosman ruling noted that because football is of such importance emotionally and economically on a local, regional, and national level, that “it would thus be possible . . . to regard even the maintenance of a viable professional league as a reason in the general interest which might justify restrictions such as the freedom of movement”.²³⁷ It is, therefore, important to encourage solidarity from the top of the footballing pyramid all the way down to the base in order to avoid a situation in which the promotion of football in some countries could depend exclusively on public funding.

10.6.1.1 Restrictions: football solidarity

The Commission has acknowledged the role solidarity plays in football. There has to be horizontal solidarity amongst participants in the same category (i.e., the UCL), in order to produce an interesting competition. There is also a need for vertical solidarity, from the top down, in competitions. This solidarity has to be preserved if we are to prevent gaps between the participants. These imbalances prompt in a win-at-all-costs approach (see Szymanski & Kuypers 1999), which may involve doping, with little regard for the quality of the game or for bringing through young people.²³⁸ Clubs need short-term results, as they know that beyond the purely sporting considerations, being classified in the UCL’s group phase has considerable financial implications. Therefore, perhaps the football federations should consider setting up more solidarity funds. These funds can be constituted in different ways. The Commission will ensure that

²³⁵ EEC TREATY art. 2.

²³⁶ Helmuth R.B. Schröter, 1987 (citing Case 32/65, Italy v. Council and Commission, 1966 E.C.R. 389, 405 (1966)).

²³⁷ Case 415/93, Union Royale Belge des Sociétés de Football Ass’n ASBL v. Bosman, 1995

²³⁸ www.europa.eu.int



these ways be the least restrictive possible for the public and for the other sectors of activity.



The absence of solidarity mechanisms and competition law restrictions could potentially harm local and regional economies and also contribute to the loss of national and regional identity. The fallacy of treating football as a purely economic activity is partly based on the notion that players are mere factors of production.²³⁹ On the contrary, football players are human beings who have nationalities and cultures. The failure of Article 48 to recognize this notion is a fundamental weakness. To regard human beings as factors of production may appear brutal. Supporters of the EU deny the argument that Article 48 treats humans as mere factors of production by arguing that the article provides workers with a means to improve their social conditions.

What may be significant after the current changes in the industry (especially the transfer system and the higher commercialisation of football) is the extent to which a super club in Italy, for example, can contribute to the financial collapse of a club in Sweden unless solidarity actions are upheld. It is the potential cross-border effect, which may be intensified. Maintaining a competitive balance between clubs is crucial because the “industry” ceases to function efficiently with a limited number of competitors. Not only are fewer teams bad for the football industry, but it is also bad for local and regional economies, because teams have become major factors in many local economies.

²³⁹ Sport-Hearing on Bosman Judgment Confirms Differing Opinions Within EP, AGENCE EUROPE, Mar. 22, 1996



EVALUATIONS AND FUTURE RESEARCH







11 EVALUATION AND FUTURE RESEARCH

The last chapter in our thesis presents our practical and theoretical findings. First, we aim at presenting an overview of the main trends and forces described in our analysis of the football industry, the specific market and the internal micro-environment of our target clubs in this study. We also summarize our conclusions with regard to the success of the elite follower clubs, based on the critical areas found in our case study (mainly, future business strategies, future role of UEFA and the issue of sport specificity). Afterwards, we will make an evaluation and conclusions of the theoretical models used during the thesis. Finally, we intend to discuss some suggestions for further improvements.

11.1 Overview of the Football Industry Analysis

In table 11.1, we summarize the main findings and conclusions from our industry analysis, which has pushed us to elaborate the set of business recommendations for our target clubs.

The industry analysis represented the key part of this thesis as we tried to keep loyal to the commitment with IFK Göteborg. We basically analysed the trends and forces that are shaping the football structure. Our mission was to prove, with strong evidence, the football gap situation nowadays. Starting from the evidence of the higher Europeanisation of football clubs, we first dedicated most of our strength on the analysis of the two most important variables that have influenced football in the last decade: the modification of the transfer system and the impact of TV rights on the new income structure of football clubs. However, we also wanted to study the future consequences of the UEFA licensing procedure on clubs.

Our second task in the industry analysis was to examine the characteristics and implications of the most prestigious competition in Europe on football clubs, with a special emphasis on our target group of clubs. Also the threat of a private league led us to analyse the Super League to have more precision at the



time of depicting two scenarios to clarify the uncertainties that cover the industry nowadays. A review of the main actors of the industry finished this industry overview. Thus, the main findings and conclusions are found below.



Table 11.1 Main conclusions and findings from the football industry analysis

ISSUES SUBJECT TO ANALYSIS	FINDINGS	FUNDAMENTAL CONCLUSIONS
INDUSTRY ANALYSIS		
<p>Football Internationalisation (Europeanisation)</p>	<ul style="list-style-type: none"> ▪ International market for players ▪ Higher importance of UEFA competitions ▪ Intern. Corporate ownership ▪ Intern. Viewers (fans) 	<ul style="list-style-type: none"> ▪ Expansion of markets ▪ Intern. Networks of contacts ▪ Formation of intern. Collaborations (G-14, Atlantic League, ...)
<p>International Transfer System (ITS)</p>	<ul style="list-style-type: none"> ▪ Restraints to the free movement of players (but justifiable?) ▪ EU competition law is applicable to football economic activities (i.e. transfers) ▪ EC admits the social and cultural role of football ▪ Explosion of transfer fees for the last 2 decades ▪ The former ITS does not redistribute income properly (either nationally or internationally) ▪ Elite followers the most net receivers in the ITS ▪ The ITS neither balance competitions nor promote higher investment in youth training 	<ul style="list-style-type: none"> ▪ Advent of a new transfer system with higher freedom and compensations for training ▪ A need for more equal allocation of players ▪ Uncertainty on how to fix youngsters' compensations ▪ A wave of alliances among clubs to mitigate the loss of transfers of players over 23 ▪ Higher increase of players' salaries ▪ The new system will not create clubs' financial crisis
<p>Higher Commercialisation through TV rights</p>	<ul style="list-style-type: none"> ▪ TV rights as the motor of the wealthiest period of football ▪ Supremacy of the big 5 leagues ▪ Different degrees of TV transmission in national leagues ▪ PPV as the future model of broadcasting ▪ Future higher competition among broadcasters ▪ Clubs as individual income maximisers rather than the league. ▪ Higher investments of Media groups in clubs ▪ EU involvement in collective selling and competition among TV companies 	<ul style="list-style-type: none"> ▪ TV broadcasting enhances sponsorship contracts ▪ No evidence that TV broadcasting reduces stadium attendances. ▪ Good future for higher income from broadcasting rights (internet, radio, TV, etc.) ▪ Bad distribution of the TV income in many leagues ▪ The TV rights' value in each domestic league relies on: pay TV penetration, total number of subscribers to the PPV system, total size of the population, income per capita, competition among TV companies and attractiveness of the league



<p>UEFA Licensing Procedure</p>	<ul style="list-style-type: none"> ▪ Crazy Management damages competitive balance. ▪ Licences will improve clubs' financial accounts, organizations, infrastructure, professionalism, and better training conditions ▪ Two different competition models: crazy management vs. profit-orientation ▪ Playing performance does not give profit. 	<ul style="list-style-type: none"> ▪ Potential enhancement of competitive balance ▪ But, it will push ahead market flotation and individual profitability ▪ The possibility of buying success breaks the "Virtuous Cycle's Theory" ▪ Two important relationships: high wages ensure higher league positions, and high playing performance enhances income. ▪ Licences will stop crazy management ▪ Licences as salary caps ▪ Licences might support the prisoner dilemma: competitive unbalance ▪ Licences vs. squads size
<p>SPECIFIC MARKET</p>		
<p>UEFA Champions League (UCL)</p>	<ul style="list-style-type: none"> ▪ The most prestigious and lucrative market in European football ▪ High demand from supporters and private companies ▪ The competition is viewed in the 5 continents (224 countries) ▪ High costs (players' salaries and facilities conditioning) to participate ▪ Competition structure (qualifying rounds) as an entry barrier for elite followers ▪ Central marketing 	<ul style="list-style-type: none"> ▪ Uneven horizontal solidarity and need for higher vertical solidarity ▪ Potential shakeout in 2002-03 (Super League) ▪ Good prospects of income growth ▪ Is PPV good in the UCL? ▪ PPV as a first mover advantage for clubs to succeed in the UCL
<p>European Super League (SL)</p>	<ul style="list-style-type: none"> ▪ Applications of American sport models ▪ Breakaway from domestic leagues ▪ Hermetic league ▪ G-14 vs. UEFA ▪ Media groups as promoters of the SL ▪ Competition Law implications (dominant position?, Validity of UEFA retaliations?, 	<ul style="list-style-type: none"> ▪ Difficult to implement, even though SL provides good prizes ▪ Potential Retaliations from UEFA ▪ Damage for UEFA members ▪ Threat for European structures ▪ In the long run, fans might get bored. ▪ Loss of traditional derbies ▪ Potential creation of regional leagues?



MAIN ACTORS		
Supporters	<ul style="list-style-type: none"> ▪ Football as the first sport in Europe (records in TV market shares) ▪ High loyalty to clubs ▪ Football roots are intrinsic to customers ▪ High concentration of supporters on just a small group of clubs ▪ Dominance of the 5 leagues in total number of supporters ▪ High demand inelasticity ▪ Customers have been traditionally exploited 	<ul style="list-style-type: none"> ▪ Fans are loyal but move for a wish to win ▪ A new European customer ▪ Football grows up best in market economies ▪ New type of wealthy customer ▪ Customers have now to pay for watching football ▪ Need to increase the value to supporters ▪ Customers prefer top matches
Players	<ul style="list-style-type: none"> ▪ High salaries (especially at the top) ▪ But footballers are not the top-earners in worldwide sport ▪ Tough competition for the top players ▪ Prospects for higher freedom to players 	<ul style="list-style-type: none"> ▪ Growing ratio wages/turnover ▪ Agents as a football “cancer” ▪ Players as the real winners of TV income ▪ Squad instability due to higher freedom ▪ Possible appearance of new relations employer-employee in football
Competition	<ul style="list-style-type: none"> ▪ Four groups of competitors <ol style="list-style-type: none"> 1) The big 5 leagues 2) Netherlands, Belgium, Portugal, Turkey, Scotland, Russia and Greece 3) Norway, Demark, Sweden, Poland, Ukraine, Austria, Czech Republic, and Switzerland 4) The rest (weak leagues) 	<ul style="list-style-type: none"> ▪ The bigger the domestic market the bigger the commercial potential and thus, the likelihood of increasing your playing performance in the UCL ▪ Important future differences between leagues unless UEFA promotes solidarity
INDUSTRY CONCLUSIONS	<ul style="list-style-type: none"> ▪ Two possible scenarios depending on sport specificity: 1) UEFA controls football; 2) Appearance of the Super League ▪ The Natural Gap has become much bigger due to the importance of the financial muscle. ▪ Financial Muscle as the most important factor to succeed in football ▪ New transfers system: more freedom to players and higher youth compensations ▪ A need for competitive balance 	

Source: own



As outlined on the bottom of the table, our main conclusion is that the natural gap that the football history created has been amplified considerably, due to two important reasons:

- The financial muscle has become the most important factor explaining success.
- The updating of the transfer system has let the football elite hire the top players, specially with the support of the previous factor (the financial resources)

The result has been that the wealthiest period in the football history has also created a situation characterised by a competitive unbalance. Football authorities have tried to mitigate the greed of individual interests by some solidarity mechanisms, such as the revenue-sharing in the Champions League or the TV income redistribution in domestic leagues, but such measures have proved insufficient to avoid the supremacy of just a group of clubs. To some extent, the financial dominance of the football elite is understandable since they are supported by a higher number of supporters. However, the fact that these clubs are using their financial resources to eliminate any chance of success on the pitch for the rest of football clubs in European competitions is at least criticisable. The supremacy of only a small group of winners is not the best solution for the industry in terms of revenues maximization and the particularities of sport.

The situation of the transfer system also deserves some comments. The transfer system has resulted in a mechanism that, instead of redistributing the input in the industry, has facilitated the inefficient allocation of it, concentrating the top players in the high-status clubs. Football has now reached an uncertain situation where the freedom of players as economic factors seems to be a priority for political regulators, rather than the stability within the industry. We believe that the issue of competitive balance is not possible through only solidarity mechanisms, but some restrictions through the transfer system would allow more clubs to have talents and be more successful in the industry.



11.2 Overview of the Internal Micro-Environment

As in the case of the industry analysis we have put all our main research results of the internal micro-environment of football clubs into a table.



Table 11.2 Main findings of the internal micro-environment analysis.

ISSUES SUBJECT TO ANALYSIS	FUNDAMENTAL FINDINGS
INTERNAL MICRO-ENVIRONMENT	
Resources	<ul style="list-style-type: none"> ▪ Higher sources of income for today's clubs ▪ Physical facilities (training grounds, stadium, etc.) are an important asset for football clubs ▪ Clubs are just the result of their history, since it is transferred from generation to generation ▪ Culture determines the idiosyncrasy of a club in many aspects of the organization ▪ The commitment of a club with its local community is basic to establish a good base of supporters ▪ Clubs' name are an extraordinary asset that depends on the club's history ▪ Fans loyalty ▪ Specialized human skills (specially in players and managers) ▪ Networks with other clubs
Capabilities	<ul style="list-style-type: none"> ▪ Three primary capabilities: performance on the pitch, presence of fans and marketing activities ▪ Three support capabilities: Recruitment, training programs and Club's management
Competitive advantage	<ul style="list-style-type: none"> ▪ Strategic assets (talent, location) ▪ Domestic competition (burden of matches in the domestic league, level of dominance in the domestic league, and winter breaks) ▪ Innovation ▪ Reputation ▪ Internal and external architecture
Key Success Factors	<ul style="list-style-type: none"> ▪ Fans want to win ▪ Different ways to survive to competition (training programs, fans loyalty and base, commercial activities, etc.) ▪ Three measures of success: <ol style="list-style-type: none"> 1) Success on the field 2) Drawing power 3) Attractiveness of the league
INTERNAL CONCLUSIONS	<ul style="list-style-type: none"> ▪ Elite followers' competitive advantages are considered as weak and easy to imitate. ▪ Lack of the level of reputation possessed by the elite ▪ They might base their efforts in developing an internal architecture that provides them more internal stability that in the case of the elite ▪ More vulnerable to the external environment ▪ Still they may have important goals to achieve, even though are more modest than those of the football elite

Source: own



Using the traditional “resourced-base” theory, we attempted, in our analysis, to look at a football club as a gathering of a set of resources and capabilities, which represents its potentiality to create any competitive advantage that contributes to the long-term outperformance over rivals.

Given that innovation of the final product is subject to evident restrictions, we discovered that the main competitive advantage possessed by the football elite is reputation. This is a complex concept that is made up with different attributes such as history, prestige of the players, image of club in Europe, brand awareness or the size of the fans base. Reputation for clubs is synonymous with of a potential capacity to exploit it as a commercial element.

In the case of our target group of clubs, we believe that their competitive advantages are weak compared to those of the football elite. Given that the industry structure has not prevented the concentration of the best assets on the top clubs, the elite followers have a difficult situation to retain those players and managers that could help their squads to outperform rivals. However, some of the followers could better exploit their particular circumstances with regard to location (no local competitors, big population, high income per capita, etc.). The task would be to increase the fans loyalty.

With regard to reputation, the definition of the elite followers impedes them to enjoy a highly reputable brand name. However, it does not mean that this type of clubs do not have to work with the clear objective of increasing their reputation in Europe in order to enhance their financial muscle.

The internal architecture of a football club, as defined in Chapter nine, could be considered the most accessible competitive advantage for the general group of followers. This has to do with the fact that smaller clubs have better conditions to plan long-term objectives and provide more continuity to the sportive and business plans. On the contrary, the football elite moves through decisions based on the short-term since they have almost the obligation of winning each match and, thus, the pressure is much higher.



We also want to mention the three aspects that define a club's success: success on the field, drawing power and attractiveness of the league where a particular club is participating. Only the second one is directly related to the management of the elite followers. Success on the field and league attractiveness are also a responsibility of the football authorities so as they establish the appropriate rules to define a competitive framework more favourable for the interest of the followers. The two factors analysed in the industry overview (transfer system and commercialisation) have important implications in those two key success factors. As long as the transfer system favours the deep pockets of the elite and the commercialisation factor makes individual clubs look for their own interest rather than that of the whole league, success will be practically dependent on the financial muscle, which is completely the opposite of the old sport spirit.

11.3 Summary of Recommendations for Elite Follower Clubs

Based on our belief that financial power is a vital concept within the football industry, we developed a business strategy in Chapter ten bearing in mind that elite followers might only be able to struggle for succeeding within their own strategic group "elite followers". It could be unrealistic to establish higher goals. That business plan included some business and commercial initiatives that any elite follower should implement in the most immediate present. The success of such initiatives is not only dependent on the own abilities of clubs to market themselves but on the domestic market characteristics (total population, pay TV penetration, income per capita, location, etc.). Therefore, with the maximization of such a plan, elite followers will be able to their own position within the industry. That position might be even in a lower layer of the football pyramid.

Therefore, the results obtained from both the industry and the internal analysis made it feasible to construct some recommendations, which were explained and discussed in the previous chapter. Here we would like to present a summary of the conclusions of each analysis, which helped us to identify the current critical areas of the follower clubs that need to be improved in order to ensure good prospects in the new football industry and, consequently, participate in the main football market/competition (the UEFA Champions League). Table 11.3 depicts these aspects.



Table 11.3 Commercial Business Plan for a elite follower club in the football industry

Fundamental conclusions	Critical areas to improve	Recommended solutions
<p>✓ The traditional measure for appraise success was the number of attendance in stadiums. Now more commercialise measures have take importance and influence in considerable degree the level of success of any club.</p> <p>✓ The main forces of the industry have resulted in a well-defined hierarchy of clubs, where just a wealthy group of reputable clubs dominate the business and sport situations</p> <p>✓ Two important relationships: 1) a more investment made more success in the field. 2) a more success in the field more revenues obtained.</p> <p>✓ The industry uncertainties that risk the supremacy of the traditional sportive structures seem to favour the increase of the gap instead of bridging it</p> <p>✓ Elite follower clubs tend to create competitive advantage but fail in sustain such advantage due to external factors of the industry.</p> <p>✓ There is a need for models that increase competitive balance in order to maximize the industry potential to generate revenues instead of individual maximization</p>	<p>Management level <i>(Lack of business vision to manage the club in the new football environment)</i></p>	<p><i>*Creation of Business Units:</i></p> <ul style="list-style-type: none"> ▪ Objective: improvement of the financial capacity of clubs. ▪ Several departments ▪ Independent legal entities. <p><i>*Creation of Sport Units:</i></p> <ul style="list-style-type: none"> ▪ Recruitment department in international and domestic level. ▪ Training programs
	<p>Commercial level <i>(Inefficient structures for commercial orientation that reinforces the club's playing performance)</i></p>	<p><i>* Creation of a club's brand name</i></p> <p><i>* Enhancement of fans loyalty</i></p> <p><i>* Development of media channels</i></p>
	<p>Individual commercial activities for clubs <i>(Lack of a business plan to explore and operate new sources of income)</i></p>	<p><i>*TV rights:</i></p> <ul style="list-style-type: none"> ▪ Evaluate and find the most fair distribution system of the TV rights income that maximize the attractiveness of the domestic league <p><i>*Internet:</i></p> <ul style="list-style-type: none"> ▪ Increase real-time communications with fans, reach more fans abroad and reinforce the group of fans that the club already has. <p><i>*Radio rights:</i></p> <ul style="list-style-type: none"> ▪ Exploit it when the social attitudes is favourable. ▪ Same strategy that for TV rights. <p><i>*Stadium management:</i></p> <ul style="list-style-type: none"> ▪ Exploit club's facilities and adapt them to size of the fans base. <p><i>*Merchandising:</i></p> <ul style="list-style-type: none"> ▪ Commercialise and distribute club's products through external companies <p><i>*Sponsorship and advertising:</i></p> <ul style="list-style-type: none"> ▪ Design creative programs <p><i>*Stock market:</i></p> <ul style="list-style-type: none"> ▪ Enter and explore this new market for football clubs.

Source: own



11.4 Further Reflections on the Success of Elite Followers

As we presented in Chapter ten, we have identified two aspects that indirectly contribute to the success of our target group. These have to do with both the football governing authorities represented by UEFA and, most importantly, the support that the European political power gives to UEFA as the single governing body of European football.

We tried to argue why football, as any other sport, deserves special treatment from the Competition Law in Europe. Furthermore, the nature of sport, which enhances the social, cultural, recreational, health and educational functions within the society, apparently requires the protection of football by enhancing the solidarity mechanisms available in other sports (i.e. American sports). While some of the characteristics of the American model are evidently not suitable for the European football (franchises, rookie draft), it has, however, proved to be very successful implementing some measures that have enhanced the competitive balance of American sport competitions. Thus, we believe that some of its measures or an adaptation to the European circumstances could be perfectly developed in European football (revenues sharing, salary caps). Some of them would be justifiable under EU legislation if the own European institution concedes sport the right to be treated as the cultural sector.

Several aspects were regarded as requirements to make feasible the higher competitive opportunities for the followers in European competitions. We enumerate them again:

- Legitimacy of UEFA as the single governing body.
- A new transfer system that not only increases the protection of youngsters with compensations, but also ensure a more ethical and moral allocation of the industry inputs under the proposition to increase productive efficiency to compensate the loss of allocative efficiency.
- Increase of the relevance of the UCL as a mechanism to redistribute money towards the three lower layers of the football pyramid. Higher expansion (more



matches) and the introduction of PPV services in this competition are possible sources of higher income but also represent controversial issues, given the competitive structure of Europe (several competitions at the same time) and the unusual practice of supporters to pay for viewing the games.

- The UEFA licensing procedure also needs the support of the entire industry as a modern practise that may contribute to remove “sound management” and also bring some kind of business rigor to the industry.

- As already mentioned, some parts of the American sport model could be explored for further application in Europe.

- Finally, the European Super League is the first enemy of the elite followers. Even though it is regarded as a good way to maximize competitive balance for the big fan base of the clubs in the G-14, its negative repercussions on the development of outsiders make us think that this is not the right project for the whole football family.

11.5 Evaluation of the Theoretical Model

From the beginning of the elaboration of this thesis, and given the initial purpose of this research project, the idea was to utilise a model that could help a football club to understand the dynamics of the industry. Given that football could be regarded as a currently changing business, a tool that lets the individual undertakings understand the key points of the industry progress and evolution might be a priceless resource for managers, since could help them deal with the different uncertainties that changing environments produce. Thus, the most challenging part in our thesis was the design of a model that could appraise efficiently and effectively the potential of an industry to generate and assimilate changes. The relevance of our industry model could be in the fact that it does not follow completely the dogmas of any of the traditional thinkers of industry analysis (i.e., Michael Porter).

On the other hand, we also needed to attain an internal view of football clubs. Here, we opted for a more secure and traditional model, represented by



“resourced-based” theory. We made such a choice due to the lack of studies and business models exclusively dedicated to the analysis of football clubs. Therefore, we decided to approach this part of the thesis with widely extended theories. Also, the connection of both models (industry and internal micro-environment) was assumed to need a traditional view based on the concepts of business strategy and key success factors. Thus, we integrated both models with a third essential aspect “key success factors” that together helped us to determinate the suitable strategy for our target group of clubs.

The result of our contribution to the football business is a collection of several concepts and ideas from different authors, including also our own thoughts and perceptions of the industry that we hope could help the new managers of the elite followers to better comprehend the situation of the industry and the individual clubs. The main intention with all these models integrated into our research model is to bring a holistic approach for our elite follower clubs in order to recognise the upcoming situation in the industry and establish an effective strategy to face up successfully the changes. Now we will evaluate each of the models used in the different part of the thesis.

11.5.1 Evaluation of the Industry Model

As indicated in Chapter one (purposes), one of our goals, according to our commitment with IFK Göteborg, was to highlight the study of the football industry. Given the static character of many traditional models, we emphasized the concept of industry dynamics, which seems to be a more updated notion to appraise the industry movement and development. Nevertheless, we also applied some traditional concepts used in industry analyses and included them in our model.

The purpose of the model was to act as a useful tool for those clubs that, as in the case of elite followers, highly depend on the industry dynamics and they have little power to contribute to that dynamics. Given the special nature of the defined follower clubs, whose bargaining power in the industry is rather limited, we assumed that the industry has a strong influence on this type of clubs.



Thus, we considered the industry as an aggregate of four dimensions: fundamental industry structure, industry development, specific market, and relevant actors. Also, we assumed that industries are made up of two main levels: structure of the industry and the market. In our model, not all dimensions have been given the same importance. The most important one was the *industry development* represented by those trends and driving forces (also a benchmarking approach) that mostly conduct the industry dynamics.

The *industry structure* provides the manager with a perfect view of the industry situation in a given moment. One of the characteristics of football is that it seems to have been asleep for decades; thereby its fundamental structures have been unchanged. Also that structure is deeply founded on well-established pillars (the own economics of football: competitive balance, outcome uncertainty, etc.).

In a world of technical innovation, all industries reach a point where they exploit. The case of football is special as its current evolution and dynamics is not explained by product innovation, but by the technological improvements of associated industries (TV, sportswear, advertising techniques, etc.). Thus, there are some forces that threaten the industry structure and this is borne in the concept of industry development.

The development of an industry has had greater importance in our model since its elements can change its structure substantially, even in industry like football, whose structure is unique because of the way of how clubs compete in the industry. For a company operating in an industry that is hardly shaken by the changes, it is very important to have awareness of the forces that drive such changes since they could help it to predict the final state of the industry. Thus, companies can take advantage of new trends or take preventive actions against future threats. Those quickly-changing industries where the participants need to outdate continuously their knowledge about the trends and forces might adopt this model and adapt it to their own industry's characteristics.



In order to understand which direction a firm has to develop in terms of competition, and assuming a realistic approach, we considered that a specific market analysis is needed to assess how they can achieve their goal or, in other words, if they have opportunities to enter in this market. Given the overview that an appropriate industry analysis provides to the decision makers, it is then easier to determine the characteristics of the specific market that could be suitable and profitable for a company. The reason is that, markets are a part of the more general industry; that is, they are not separate. The model is completed by the analysis of the main actors of the industry but at the market level. Competitors, suppliers and consumers are the foundations of profitability of any industry, thus the understanding of their functions and behaviours are a good advantage for the success in the specific market.

The model aims to provide the right ground to predict future industry situations, as well as to deal with the current uncertainties driven out from the industry dynamics. Therefore, we included and scenario analysis to approach properly some future circumstances.

11.5.2 Evaluation of the Internal Micro-Environment Analysis

We have conducted our internal analysis for clubs based on Grant and Porter ideas regarding the analysis of resources and internal capabilities. Our initial intention was to generalize in the definition of the main internal characteristics of a specific type of football clubs and for that reason we adopted the strategic group analysis.

When establishing a particular strategy to compete in an industry, companies have to evaluate, not only the external aspects that might affect their business but, most important, they have to appraise their internal environment. By doing this, companies will be able to see where their main weaknesses and strengths are in terms of possessing a competitive advantage that let them outperform the rivals under the industry circumstances.



The first step of an internal analysis requires to find out which are the major *values* that sustain the own company. Every private entity is the result of certain principles (social, cultural, political, etc.) that have to be taken into account when running the company. In the case of an organization, such as a football club, these aspects have much importance since its success is highly related to the local values where the club is located.

The next step is to establish a set of general *objectives and goals* that the company must attempt to obtain by deploying in an appropriate way all the different resources that it may have. The combination of such resources have to be implemented in a certain manner that maximizes the results, given the initial resources. In order to do that, it is essential to have certain distinct capabilities.

Given a certain level of resources, those companies that possess some distinct capabilities to outperform rivals continuously are said to have a competitive advantage over them. In that case, if the company already has a competitive advantage, the idea is to reinforce it and improve it in order to prevent the competitors to imitate such a competitive advantage. But, if the company in question does not have the right competitive advantage to let it succeed in the industry, the strategy must be to obtain it. Therefore, companies can gain or reinforce a competitive advantage according to their internal structure (values, objectives, resources and capabilities). Grant (1988) suggests that competitive advantages are the results of a well perform combination of capabilities.

Once a company knows its main strengths and weaknesses, and also know the opportunities and threats from the industry analysis, it has to turn the initial general objectives in more concrete measures. That is, the establishment of a *business strategy*, which has to be based on the company's competitive advantages.

Given this logic, we have to clarify a specific aspect with regard to our model. Grant's approach to the establishment of a company's strategy is based on the idea of basing a strategy on a certain competitive advantage that the company already holds. Since most of our target clubs do not possess a real competitive



advantage, we took a different approach to Grant's. Elite followers, the target strategic group in our case, have to establish their strategy in order to gain a competitive advantage and not only as a result of it. The following arrows explain the dual approach.

Grant perspective: Capabilities → Competitive advantage → Strategy

Our perspective: Capabilities → Strategy → Competitive advantage

To complete an internal analysis, one should kept in mind those key factors that the industry's characteristics set up as prerequisites to succeed within it. This is because the potential of a competitive advantage is directly related to these essential factors.

The final result should be the establishment of a concrete strategy based on the initial goals, which are also a result of the distinct capabilities that a certain company may posses. The direction of such a strategy is marked by the key success factors that define the profitability of the industry.

11.5.3 Generalisation

Since all our models (industry, microenvironment and key success factors) can be applicable to any dynamic industry, we believe the research model that we used is suitable for any company/club that cannot influence the development of the industry. Even though follower clubs carry out important roles, they are not powerful enough to provoke a change in the industry. In fact, the model could be applied to any other sport industry, which present similar characteristics to those in football (such as basketball, handball, etc).

As we wanted to have a complete picture of the current football business, the analysis for the industry was conducted without any perspective from the follower clubs. We believe the findings obtained from this analysis can be useful for further research no matter if the subsequent analysis differs from our unit of analysis (follower clubs). Owing to the great amount of literature and well-distributed information regarding the English football, we collected



relevant data from the English league, which was used as a basis for our study. Nevertheless, we also gathered information from other representative leagues that helped us to obtain the results presented.

Regarding our internal analysis, as we intended to present a common pattern for all the elite follower clubs, we did not focus on the club that promoted this study, IFK Göteborg. However, a more precise analysis of a certain follower might have given more accurate results for this specific club about how to face the new business of football. We do not regret our initial decision of avoiding such a particular perspective, since it has helped us to get a more general knowledge of the situation of elite followers in the football industry.

In general, we can say that our final findings and the recommended strategies can be helpful for all the elite follower clubs that first want to recognise the possible consequences that the football dynamics may bring them and, second, to be able to react properly to such a dynamics based on their own internal strengths. Certainly, each particular case would require a redefinition of some aspects of our recommendations, given the importance of the local market in the competitive football industry.

Our findings can be useful for the European football authorities because we firmly believe that the success not only of the follower clubs but, most importantly the success of the entire industry may rely upon the definition of a competitive framework that maximizes the revenues opportunities of the whole industry and not only the individual interests of the football elite. Fortunately, football still has a sportive side, which has to be protected. The other side, the pure business one, is free to operate in an open market but its influence on the sportive side has to be limited. Otherwise the Manchesters, Milans and others will dominate the game forever and, given the peculiarities of football with regard to cultural, social, educational and recreational aspects, which is not very good. It is not a question of giving the same opportunities to all clubs but limiting the effect of the financial muscle on the pitch.



11.6 Future Research Areas

The following may represent some topics for further improvements or future research:

- Given the higher interest that the regional leagues are having among the football participants, it might be helpful for the industry to develop research about the possible effects that the Atlantic League or the Central-European League may have on the participants clubs and their domestic leagues.

- A interesting topic is also the analysis of the market flotation of a football club. Since the value of a company depends on future returns, it is possible that the nature of the football competition poses certain difficulties to the appraisal of such a market value, given a situation where the competitive balance reaches a maximum.

- Also, we believe that might be interesting to improve and further develop the model presented in Chapter six about the potentiality of the different European leagues to generate revenues for their clubs. That could help to define an accurate competitive framework for the possibilities of success within European competitions among the different leagues.

- Perhaps an ambitious project would be to compare the ability of the European football industry to generate revenues under a situation of pure maximization of individual interests (no sharing-revenue, no distribution mechanisms, no compensations in transfers, etc.) with a situation that gives priority to competitive balance as the main objective. The result of such a study might help clarify many aspects of the current football industry.



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- <http://www.coi.gov.uk/coi/depts/GMM/GMM.html>
- <http://www.datamonitor.com>
- <http://www.elpais.es/deportes>
- <http://www.elmundodeportivo.es>
- http://europa.eu.int/comm/sport/key_files/circ/a_circ_en.html
- <http://www.expansiondirecto.es>
- <http://www.fifa.com>
- <http://www.footballfinance.co.uk>
- <http://www.ft.com/sport>
- <http://www.futvol.com>
- <http://www.nflfans.net/library/history/>
- <http://www.sportbusiness.com>
- <http://www.telegraph.co.uk>
- <http://www.uefa.com>
- <http://www.un.org>
- <http://user.tninet.se>
- <http://www.worldbank.org/data>
- <http://www.xe.net/cgi-bin/ucc/convert>



Personal Interviews

- Bosse Gentzel, Chairman of IFK Göteborg club, Gothenburg, Sweden. August 23rd 2000, September 19th 2000 and November 20th 2000. Approx. 60 min each one.
- Jan-Olle Folkesson. Director of IFK Göteborg club; Gothenburg, Sweden. August 23rd 2000. Aprox. 60 min.
- Lars-Ake Lagrell, President of the Swedish FA. Stockholm, Sweden. November 13th 2000. Approx. 45 min
- Lennart Johansson, President of UEFA. Gothenburg, Sweden. October 7th, 2000. Approx. 45 min.
- Maurice Watkins, Solicitor for Manchester United Football Club. Manchester, England. October 10th, 2000. Approx. 20 min.
- Robert Elstone & Jake Wilson, Senior Sports Business Consultants of Deloitte & Touche. Manchester, England. October 11th, 2000. Approx. 60 min.
- Rogan Taylor, Director of Liverpool Football Research Unit. Manchester, England. October 9th, 2000. Approx. 45 min.

Email Interviews:

- Jerker Swanstein, Secretary of Helsingborg IF club, 24 November 2000
- Nicolas Cornu, Press officer of the Belgian Football Association 24 November 2000
- Thomas Stenberg, Vice president of Helsingborg IF club, 23 November 2000

Exhibitions and Conferences

- Soccerex 2000: Football Business Convention, Manchester (England), October 9-10, 2000.



APPENDICES







APPENDICES

APPENDIX 1: Why Football is a Business?

The following information shows why football is a business:

- According to FIFA estimates, the world of football annually generates income of €235.000 m (£140.6 m).
- The Spanish football clubs that participate in the First Division generated total income in 1998/1999 of 108,000 m pesetas (£375 m),²⁴⁰ while the 92 English professional football clubs generated turnover of £951 m (with predictions over £1 m in the present season).²⁴¹ A estimate in 1999 stated that the total turnover of the top two Italian professional leagues was at least ITL 8.000 billion (£2,480 m)²⁴², as much as the thirteenth largest industrial Group in the country.
- Many clubs are quoted on the stock market all over Europe. In 1998, Lazio became the first football club to be quoted in the Milan Stock Exchange, being added to the 21 clubs in England.²⁴³ The English football companies have the longest tradition of flotation, but clubs like Sporting of Lisbon and Porto in Portugal, Borussia Dortmund in Germany, and other clubs of the Scottish and Dutch leagues, are also examples.

Market capitalization of some English clubs

Club	Market Capitalisation (£M)
Manchester United	547.500
Newcastle	79.900
Tottenham Hotspur	59.000
Nottingham Forest	7.280

Source: <http://www.ft.com/sport> (October 27, 2000)

²⁴⁰ www.cincodias.es, 2000 10 26

²⁴¹ Deloitte & Touche Sport, Manchester (August 2000)

²⁴² Deloitte & Touche Italy (1999).

²⁴³ Deloitte & Touche Spain (October 2000).



- The three major domestic TV packages of the UK Premier League were sold in June 2000 for £1.645 billion over three years. BSkyB bid £1.11 billion for the right to show 66 live games per season while Premium TV / NTL bid £328 million for up to 40 pay per view games. ITV Sport will pay £183 million for highlights packages.²⁴⁴
- Many leading media and branded goods companies such as BSkyB, Sony or Canal Plus are shareholders of some of the most important football clubs in Europe.

However, the world of football has also become the world of speculation, with millions of pounds coming into the industry each year, but with few clubs making profits. Then, why are the prospects of the football industry so high? Two main reasons explain the actual interest of investors in football:

- The potential income from broadcasting (pay-per-view – PPV -) and other sponsorship deals, which have dramatically increased the income available to all clubs.
- Traditionally football clubs have been poorly marketed, making limited attempts to sell extra services at games and little effort to enhance sponsorship. One can realize that European football clubs are capable of more, taking a look at how American franchises create a playing environment and how they maximize commercial activities from that.

²⁴⁴ www.sportbusiness.com, 2000 06 15



APPENDIX 2: Main Topics Covered in the Interviews.

Areas of discussion for the industry analysis.

The international transfer system of players

- Strengths and drawbacks of the current transfer system
- Forces driving the modification of the transfer system
- Prediction of the new transfers system and its consequences on clubs
- Attitude of the clubs to the change
- EU and football
- Players and their salaries
- Compensations for youth training
- Specificity of sport
- Young players
- Middlemen
- The Bosman Ruling

The commercialisation of football through TV

- Role of Television Companies
- Central Marketing for the UEFA Champions League
- Media Groups in football
- Redistribution of income
- Competitive balance
- Income-generating capacity
- The Gap between the football elite and the rest

UEFA licensing procedure

- Objectives
- Consequences
- Possibilities of success

The creation of private leagues

- The G-14 and the football elite
- Super League
- Consequences of a hermetic Super League on the small clubs
- UEFA retaliations



- Is it the Super League illegal?
- Dominant position
- Atlantic League
- The future role of UEFA
- The supporters' opinions about the Super League
- The Americanisation of European football: American Sports

The future of the European football business

- Co-operation among clubs
- Small clubs
- Competitive Balance
- Business orientation or sport orientation
- Football and other businesses
- Future sources of income

Areas of discussion for the micro-internal analysis.

The social role of football within weak leagues

- Football as a mechanism for the education of youth
- Society and Football

Resources and capabilities

- Training Facilities
- Financial power of followers

Commercialisation of football among elite followers

- Football: sport or business?
- Professional structures?
- National TV deals
- Main income sources: sponsors, advertising, lotteries, etc.
- Costs
- Elite Followers and the Stock Exchange
- Business groups within the management of clubs
- Redistribution of income within domestic leagues



Transfer system

- Followers as net sellers or buyers in the international transfer system
- The changes in the transfer system
- Use of the transfer revenues
- Foreign players

Champions league

- Ways to increase the possibilities of the elite followers
- Restructure of the Champions League

Competitive advantage

- Competitive advantage of the followers
- How create a competitive advantage in football
- Future key success factors
- Main determinants of income

Future

- Ways to react to the new football industry: Stock Exchange, entrance of business groups in the direction of clubs, etc.
- Solutions to protect elite followers from the powerful top clubs
- Future of elite followers in Europe
- Followers as suppliers of players or real competitors to the top clubs?
- Future sources of income for elite followers



APPENDIX 3: Sources and Distribution of Income in European Football

Receivers (£m)	National Teams Competitions	European Club Competitions	National Leagues	National Cup competitions	Total	%
UEFA	10	115.8	-	-	125.8	1.3
Professional Leagues	122.1	64.3	70.7	340.7	597.8	6.3
Clubs	-	650	6,428.5	1,350	8,428.5	89.4
Others	128.6	144	-	-	272.6	3.0
Total	260.7	974.1	6,499.2	1,690.7	9,424.7	100
%	2.7	10.3	69.0	18.0	9,424.7	100

Source: LNF (2000) "Un Gol al futuro" Madrid: LNF

APPENDIX 4: Transfer Fees inflation and retail price inflation in England

	Fee inflation	Retail price inflation	Inflation gap
1905-13	6,86%	1,23%	5,63%
1913-22	12,73%	6,99%	5,74%
1922-38	6,65%	-0,93%	7,58%
1938-50	7,67%	5,20%	2,47%
1950-60	5,02%	4,05%	0,97%
1960-70	13,68%	4,06%	9,61%
1970-78	10,36%	13,20%	-2,84%
1978-88	17,46%	6,04%	11,42%
1988-97	20,50%	4,24%	16,26%

Source: Szymanski, S. & Kuypers, T. 1999.



APPENDIX 5: Net transfer fees from the Premier League to the football league: the “balance of payments”.

£m	1998/99	1997/98	1996/97	1995/96	1994/95	1993/94	1992/93
Premier League	(27,5)	(1,5)	(14,5)	(25,2)	(9,5)	(13,0)	(6,0)
Division 1	25,3	(0,6)	3,1	18,3	8,8	6,0	2,0
Division 2	(0,7)	(1,8)	9,3	4,0	(0,3)	5,9	3,2
Division 3	2,9	3,9	2,1	2,9	1,0	1,1	0,8
Football League Total	27,5	1,5	14,5	25,2	9,5	13,0	6,0

Source: Deloitte & Touche Sport (August 2000) and Morrow, S. 1999.

APPENDIX 6: Overall transfer fees between English clubs by division for 1998/99.

£m					Total Received							
	Premier L.	Div 1	Div 2	Div 3	98/99	97/98	Change	96/97	Change	95/96	Change	
Fees paid to:												
Premier League	97,4	9,2	2,0	0,1	108,7	93,8	15,9%	80,3	(1,0%)	69,0	1%	
Division 1	35,4	10,4	3,1	0,7	49,6	45,9	8,1%	39,9	24,7%	54,7	1%	
Division 2	1,8	3,2	5,8	0,7	11,5	14,9	(22,8%)	16,4	110%	10,2	14%	
Division 3	1,6	1,5	1,3	0,5	4,9	5,4	(9,3%)	4,1	170%	5,7	(28,0%)	
Total Paid	136,2	24,3	12,2	2,0	174,7	160,0	9,2%	140,7	13,7%	139,6	1%	
1997/98 – fees paid by division												
	95,3	46,5	16,7	1,5	160,0							
1996/97 – fees paid by division												
	94,8	36,8	7,1	2,0	140,7			139,6				
1995/96 – fees paid by division												
	94,2	36,4	6,2	2,8	139,6			139,6				
% Change	42,9%	(47,7%)	(26,9%)	33,3%	9,2%	13,7%		1%				

Source: Deloitte & Touche Sport (1998, 1999, 2000) and Morrow, S. 1999.



APPENDIX 7: Net transfer trading between small and middle-big clubs for the period 1995-99.

£m	1998/99				1997/98				1996/97			
	Premier L.	Div 1	Div 2	Div 3	Premier L.	Div 1	Div 2	Div 3	Premier L.	Div 1	Div 2	Div 3
Net Payments by:												
Premier League	-				-				-			
Division 1	26,2	-			2,2	-			7,0	-		
Division 2	(0,2)	0,1	-	(0,6)	(1,0)	(0,4)	-	(0,3)	6,3	3,3	-	(0,3)
Division 3	1,5	0,8	0,6	-	0,4	3,2	0,3	-	1,2	0,6	0,3	-
Small clubs (Div 1 + Div 2)	1,3	0,9	0,6	(0,6)	(0,6)	2,8	0,3	(0,3)	7,5	3,9	0,3	(0,3)

£m	1995/96			
	Premier L.	Div 1	Div 2	Div 3
Net Payments by:				
Premier League	-			
Division 1	23,0	-		
Division 2	0,9	3,8	-	(0,7)
Division 3	1,3	0,9	0,7	-
Small clubs (Div 1 + Div 2)	2,2	4,7	0,7	(0,7)

Source: Own from Deloitte & Touche Sport (1998, 99, 2000) and Morrow, S. 1999



APPENDIX 8: Gross transfer expenditure by league in UK

£ million	1998/99				1997/98		1996/97		1995/96		1994/95	
	Premier L.	Football League	Total paid	%	Total paid	%	Total paid	%	Total paid	%	Total paid	%
Total player expenditure as per cash flows	268,8	48,1	316,9	100%	241,1	100%	218	100%	227,9	100%	141	100%
Total paid to English clubs	136,2	38,5	174,7	55%	140,7	70%	134,6	58%	160,0	64%	109,9	78%
Total paid to overseas clubs	132,6	9,6	142,2	45%	100,4	30%	78,4	42%	69,9	36%	31,1	22%

Source: Deloitte & Touche Sport (August 2000)



**APPENDIX 9: Transfer fees between UK clubs and overseas clubs
(balance of payments from Aug 97 to Nov 2000)**

£m	English clubs A	English clubs B	English clubs C	Total paid to overseas clubs	Net Balance
Overseas clubs A	[48.8/37.5] ; 11.3	[20.2/13.9] ; 6.3	[25.6/31.3] ; (5.7)	94.6	11.9
Overseas clubs B	[34.8/4.5] ; 30.3	[15.4/20.7] ; (5.3)	[39.3/7.9] ; 31.4	89.5	56.4
Overseas clubs C	[18.3/2.2] ; 16.1	[10.7/5.5] ; 5.2	[34.3/4.5] ; 29.8	63.3	51.1
Overseas clubs D	[11.5/-] ; 11.5	[4.6/0.6] ; 4	[15.7/0.7] ; 15	31.8	30.5
Total received by English clubs	44.2	40.7	44.4	[129.3/279.2]	149.9
Total paid by English clubs	113.4	50.9	114.9		

Source: Own from <http://www.telegraph.co.uk>

Clubs A: clubs that belong to our first category (football elite). Clubs B: clubs that belong to our second category (elite followers). Clubs C: clubs that belong to our third and fourth categories (the nationals and survivors). Clubs D: clubs from outside the UEFA framework (Asia, Latin America, Australia and so forth). [X/Y] ; W: English clubs from a certain category have paid X to overseas clubs from a certain category. Also, overseas clubs from the same category have paid Y to English clubs from the same category. The net transfer balance between the clubs represented in each cell is W.

The transfers from which, we have elaborated this table have been collected from <http://www.telegraph.co.uk>. It is important to say that the process to sort the different clubs into the categories that we are using in this thesis (elite, followers, nationals, and survivors) has been subjective, according to our knowledge about European football.



APPENDIX 10: The History of TV Rights.

Due to the historical records and importance of the English football in Europe we would basically cite the example of England to represent the evolution of TV broadcasting within the football industry. Many other European countries have followed a similar pattern in order to expand the TV broadcastings and consequently the development of the European football.

Originally most of the European football clubs were allowed to arrange their own negotiations to broadcast their matches, but with the time TV companies were taking more importance for football clubs, which saw the possibilities to negotiate in a collective way in order to obtain a better deal for everyone. Thus, in 1960s and 1970s the British Broadcasting Corporation (BBC) and the Independent Television (ITV) agreed to share the coverage of matching highlights.²⁴⁵

There were few developments throughout these two decades with the exception of a small increase in competition for broadcasters.²⁴⁶ During the late 1970s and 1980s, several technological advances showed up, which together brought a revolution in the coverage of sports on television. These advances included colour TV, video and editing facilities, slow motion and instant replay techniques, lightweight cameras and satellite link technology, which improved in a great scale the quality of football transmissions through TV. A football match could be watched from different angles, analysing multiple times and replayed almost instantaneously different moments of the game, making more attractive the game for TV viewers.²⁴⁷

In the 1980s, live broadcasting emerged within the European Leagues. Up to then, television coverage had basically been limited to only highlights. In England, the year 1983 was a key period when the Football League finally gave up to the pressure not only from the broadcast companies but also from football clubs, which were having problems, mainly in wages bills and transfer fees.

²⁴⁵ Football Research Unit (1999) "The challenges facing national professional football leagues in Europe".

²⁴⁶ Football Research Unit (1999) "The investigation into the impact of the present and future relationship between football and TV".

²⁴⁷ Football Research Unit (1999) "The challenges facing national professional football leagues in Europe".



Finally, the football league agreed to live transmissions and consequently the two broadcaster companies, BBC and ITV, made an offer for the rights of live league matches from the top division in England with a total value of the contract of £5,2 m, which was divided among the 92 clubs participating in the league (see Appendix eleven).

Public national television covered the broadcasting of the game until the end of the 1980's. However, from the early 1990's, private TV companies have played an important role in the development of the football broadcasting. Pay TV used football to obtain subscribers and were the real motive for the increasing inflation of broadcasting rights. For instance, it was in 1992 when the company British Sky Broadcasting (BSkyB), came into the UK market and offered a major escalation in the TV revenues for top English football with a contract of £191.5 m for a five-year contract. In 1997, BSkyB successfully renegotiated its deal with the Premier league, and this time was for £670 m for a period of four years.²⁴⁸ The cost of the rights increased dramatically (300%) because of the fierce competition among TV broadcast companies.²⁴⁹ In Italy, the turning point came with the arrival on the scene of European TV (pay TV channel) in 1993/94. In Spain and France, the French group Canal Plus also bid very hard for the domestic league broadcasting during the 90's. In Germany, the TV income has increased by 540 % (absolute terms) in the 90's from DM 50 to 320 million.²⁵⁰

However, it was in the second half of the 1990's, when the pay-per-view (PPV) companies, digital platforms, started playing their cards in the industry. The possibilities that cable and satellite TV offered were huge due to the high number of channels that made possible to show the whole package of live matches at each match day. Nevertheless, there is still some uncertainty around PPV. Its take-up in Italy was disappointed during its first season (1997-98).²⁵¹ Also in Spain, the pay-per-view introduction at the end of the 1996/97 season was upheld by a small number of subscribers. In the English Premier League,

²⁴⁸ Garland, J. & others, 2000

²⁴⁹ Szymanski, S. & Kuypers, T. 1999

²⁵⁰ Schaffrath, M. 1999.

²⁵¹ Szymanski S. & Kuypers, T. 1999.



PPV has been included in the last TV deal that will start in 2001/02. The three English TV packages (live, PPV and highlights) were sold for £1,645 billion over three years.²⁵² However, it is undeniable that PPV will rocket the clubs' income for the forthcoming years. Moreover, looking at the indirect effects from TV, clubs will increase their revenues from sponsorships, merchandising, and so on. Therefore, the golden era of football seems to have just started in the 90's.

APPENDIX 11: The cost of the rights to live league matches in the UK top division.

Start date of the contract	1983	1985	1986	1988	1992	1997	2001
Length of contract (years)	2	0.5	2	4	5	4	-
Broadcaster	BBC/ITV	BBC	BBC/ITV	ITV	BSkyB	BSkyB	-
Rights fee (£m)	5.2	1.3	6.2	44	191.5	670	-
Annual rights fee (£m)*	2.6	2.6	3.1	11	38.3	167.5	-
Number of live matches per season	10	6	14	18	60	60	-
Fees per live match (£m)	0.26	0.43	0.22	0.61	0.64	2.79	-

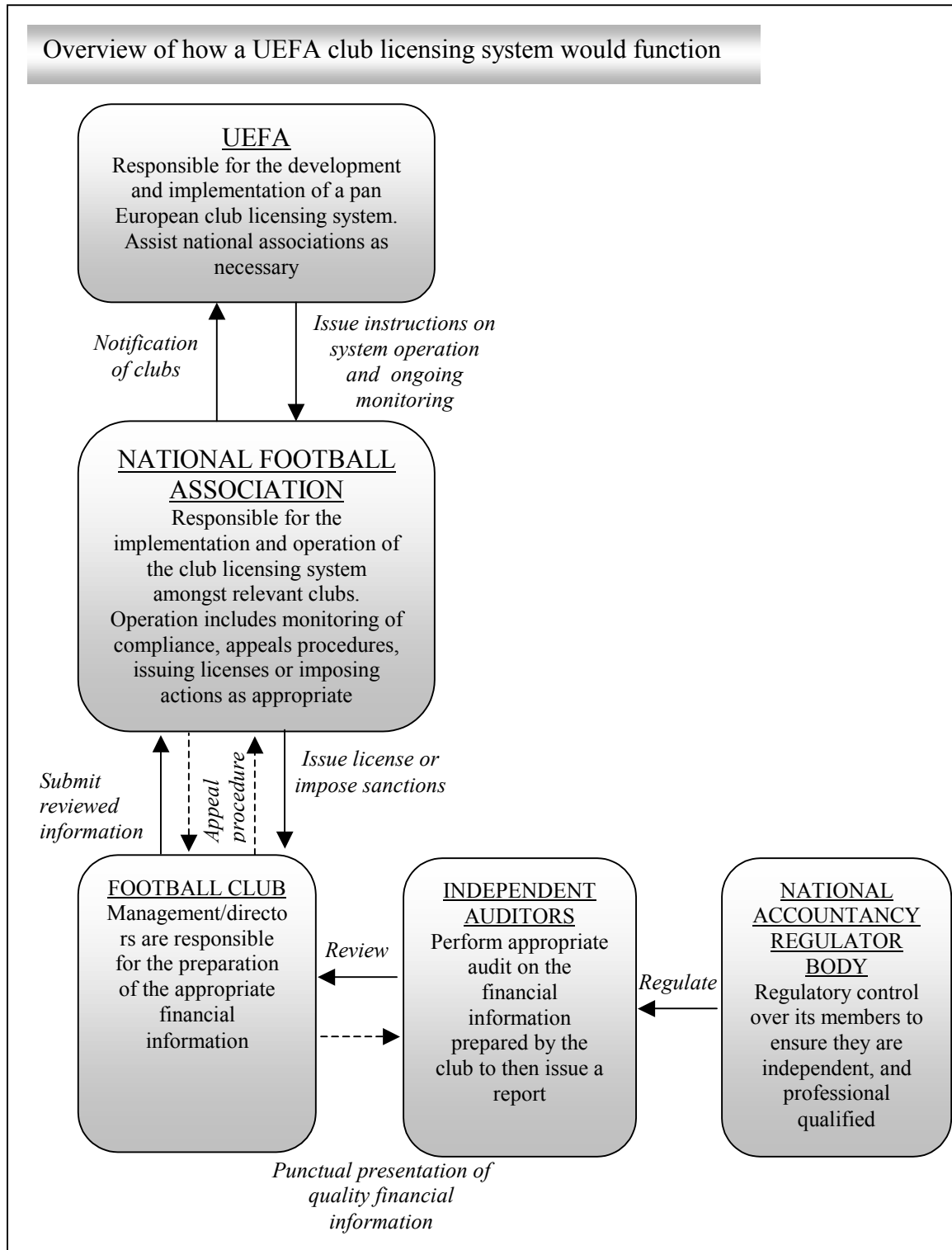
**Based on the rights fee divided by the number of years in the contract. There have been variations in annual rights fees.*

Source: Monopolies and mergers commission (MMC) 1999
 (<http://www.coi.gov.uk/coi/depts/GMM/GMM.html>)

²⁵² <http://www.sportbusiness.com>, 2000 06 14.



APPENDIX 12: Overview of how a UEFA club licensing system would function.



Source: www.uefa.com



APPENDIX 13: National Football League (NFL)

First of all, the American professional football league is based on the college leagues which have an extraordinary public interest as shown by the sponsorship deals that major corporations negotiate for the “bowl games” (final tournaments) each season. The NFL championship encompasses 32 teams divided into two conferences each one having three divisions, playing during the late summer until January. The regular season has sixteen games for each team competing within its own division and against selected sides from other divisions. The teams chosen to play outside their division are based on their performance level in previous seasons,²⁵³ which ensures that top teams face each other more frequently and at the same time offer opportunities to weaker teams to climb in the competition. Afterwards, champions and runners teams are considered qualified to play for the playoff games. Teams play one game each week in order to have time to recover, practice, and prepare for the next game, but also each team receives one week without a game known as a bye, during the season.²⁵⁴

The final phase of this competition is when the Super Bowl is celebrated. The winner of the Super Bowl is the annual champion of the NFL. Actually, the Super Bowl is the most important sporting event for broadcast companies reaching hundreds of millions of viewers every year.

Structure of competition

The competitive structure of the NFL is a closed league, where there is not any promotion or relegation. Thus, every year all teams can participate in the tournament, but only the most talented will reach the final stage of the competition. With this structure, the competition allows not only the preservation of typical games between top and weak teams, which are also of general interest and valuable for fans; but also the frequent matches between top clubs, which are attractive for everyone within the football business. This structure is also closed in a sense that team members do not compete in any other competitions or might release players for the national team. Teams and

²⁵³ Szymanski, S. & Kuypers T., 1999

²⁵⁴ <http://www.nflfans.net/library/history>



players only perform within the NFL structure, which allows the full concentration of players and consequently teams within the competition.²⁵⁵

The draft

The NFL has adopted the draft rule, which is a system that assigned graduating college players to various professional teams in such a way that a fair distribution of talent is assured. In addition college players can also participate in such a draft even if they have not finished their studies, becoming professional players at an early age. The mechanism of the NFL's draft is elaborated with the aim to ensure competitive balance in which clubs that finished the previous season in the bottom places have the first option to acquire the best and most talent players from the feeder leagues.²⁵⁶ Less talented teams can hire the most skilful players in order to improve their performance and bridge the gap between top teams and weaker ones.

Free agency- salary cap

The NFL competition runs under a free agency system, which is accompanied by a salary cap. The free agency emerged when players began to demand the free movement of players among teams. The NFL's management council did not accept at all this measure and imposed the salary cap, which limits teams to a maximum annual player payroll.²⁵⁷

The NFL's free agency-salary cap system presents an attractive method for less talented teams because it limits the other teams' owners to spend extremely high amounts of money on players, which, in turn, might create imbalance within the competition. On the other hand, players and coaches do not see any advantage from this measure, because as teams are near the salary cap, they do not have better option and are forced to cut expensive veteran players even if these players are still useful for the team.

The free movement of players can be granted once the player has finished his contract and, thus, can move to any other team. This aspect also represents a

²⁵⁵ Hoehn, T & Szymanski, S. 1999

²⁵⁶ Garland, J. & others. 2000

²⁵⁷ www.nflfans.net/library/history/



possible threat for teams that have been running with only few key players and when they suddenly decide to play for another team at the end of the contract, the home team cannot retain them. Therefore, long contracts are common and players also ensure their performance during the league.²⁵⁸

Sharing revenues

In order to maintain a competitive balance, the NFL league emphasizes the income redistribution among its team members. The principal source of revenues for teams comes from the sale of TV rights. The NFL league operates under a collective procedure to sell the TV rights of the tournament and encourage the competitive balance among its team members. For that reason, the Sport Broadcasting Act of 1962 exempted collective selling of national broadcasting rights by the members of the league from antitrust scrutiny.²⁵⁹ In general, the income generated from the sale of TV rights is distributed among NFL's teams equally.

Another source of income is the gate receipts, which are also shared between the home and visiting teams. From the total revenues generated from the ticket selling 40% goes to the visiting team. The merchandising revenues represent other important financial entrance for a team; these revenues are often shared equally among teams.²⁶⁰

Franchising

As the NFL's structure limits the entrance of new participants, it has enabled the creation of franchises for teams. A closed league structure also benefits the owners of these franchises because they can trade them as something exclusive and lucrative with so many large cities and just few teams. The NFL franchises generate huge revenues for host cities, which often compete for teams and offer attractive deals to get the team, for instance economic incentives, excellent stadiums and facilities that can allocate larger audiences, and so on²⁶¹. Therefore, it is clear that the motive of teams' owners is the maximization of

²⁵⁸ Hoehn, T. and Szymanski, S. 1999

²⁵⁹ Ibid

²⁶⁰ Downward, P. 2000

²⁶¹ Garland, J. & others. 2000



revenues through the exploitation of the franchise, which have been traded for large amounts of money during the last decades moving teams from one city to another.

APPENDIX 14: Differences in structure of US and European sports leagues

	US SPORTS (NFL)	FOOTBALL IN EUROPE
League system	<i>Closed, no promotion or relegation. Teams compete in single league competition.</i>	<i>Open, annual promotion and relegation. Teams may compete simultaneously in many competitions.</i>
League functions	<i>Collective sale of TV rights. Centralized marketing.</i>	<i>Collective sale of TV rights.</i>
Competition between clubs	<i>Significant potential for substitution</i>	<i>Limited substitution by consumers</i>
Competition between leagues	<i>Numerous cases of entry by rival leagues</i>	<i>All leagues contained within the established hierarchy</i>
Player market	<i>Rookie draft, salary caps and collective bargaining</i>	<i>Active transfer market</i>
Revenue sharing	<i>Equal division of national broadcasting income. Gate sharing (40%)</i>	<i>Sharing of TV income. Little or no sharing of league gate revenues.</i>
Competition policy	<i>Sports Broadcasting Act exempts national TV deals from antitrust</i>	<i>Centralized sale of TV rights under attack. Transfer system under modification.</i>

Source: Hoehn, T. and Szymanski S. "The Americanisation of European football". *Economic Policy*. Issue 14 (1999), pp 203-240.



APPENDIX 15: Champions League's Market Size

If we take the TV coverage of the Champions League as the measure of the size of the market, we should regard the following figures 1999/2000:²⁶²

- The UCL's TV coverage was over 8,000 hours. For instance, the delayed highlights programmes in the Group Stage 1 of the competition were viewed by over 400 million fans in the top 6 European markets.

- The strength of the UCL competition and the diversity of players who now play in Europe drew interest from football fans worldwide. The competition is now viewed in the 5 continents: 53 countries in America, 49 countries in Europe, 55 countries in Africa, 31 in Asia, 13 in the Middle East, and 21 in Oceania.

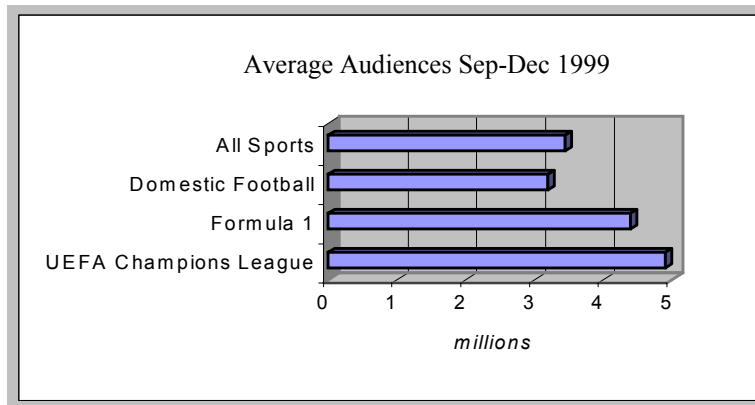
- The strength of the competition in the UK was underlined as 13 of the 17 live broadcasts on ITV (the UK TV company that shows the competition) gained higher audiences than the FA Cup Final, the most significant event in the UK domestic football calendar. The final match produced the next audiences: 67% of market share in Spain (13.7 million), 43% in France (9.4 million), 43% in The Netherlands and 33% in UK. In Austria, all matches featuring SK Sturm Graz (the Austrian representative) received market shares in excess of 30%. In Greece, Olympiakos Piraeus FC regularly drew market shares of 40%. In Ukraine, the highlights broadcasts regularly drew market shares of over 50%. AIK Solna's first appearance in the competition generated a market share of 40.5% in Sweden.

- The figure below shows that football accounted for 48% of the coverage dedicated to Sports between Sept and Dec 99, across the 6 major European markets. Most of that was due to the revamped UCL.

²⁶² UEFA Champions League, Season Review 1999/2000



Sports audience comparisons in top markets

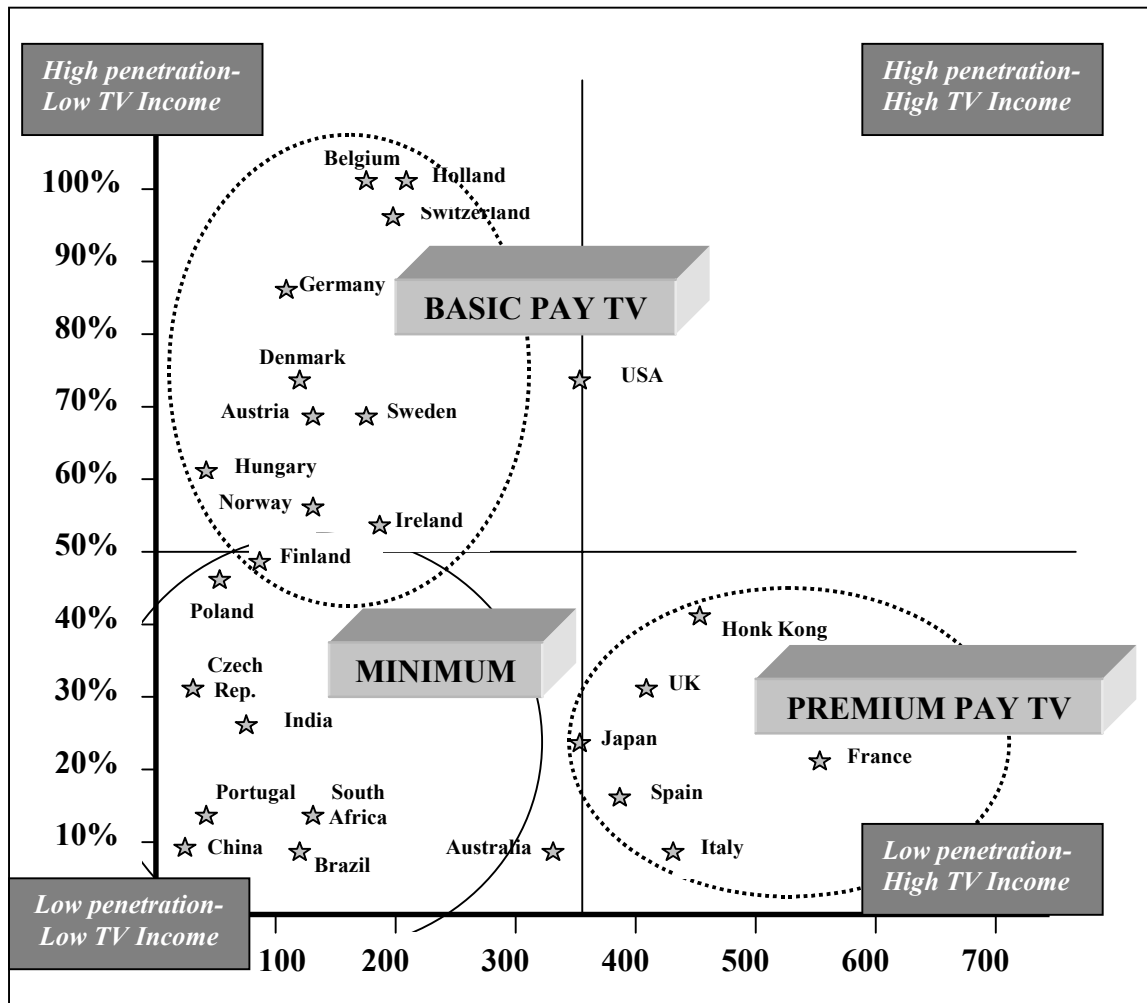


Source: UEFA Champions League, Season Review 1999/2000

Thus, the Champions league may be regarded as a vast market with a tremendous potential for growing in the following years. This prospect is basically focused on the development of pay TV in Europe.



APPENDIX 16: Income and penetration of pay TV in 1998



Source: LNFP Spain, 2000. TV income is measured by the annual income (in euros) per subscription, per household with pay TV.



APPENDIX 17: UEFA Association Ranking for 2000/01

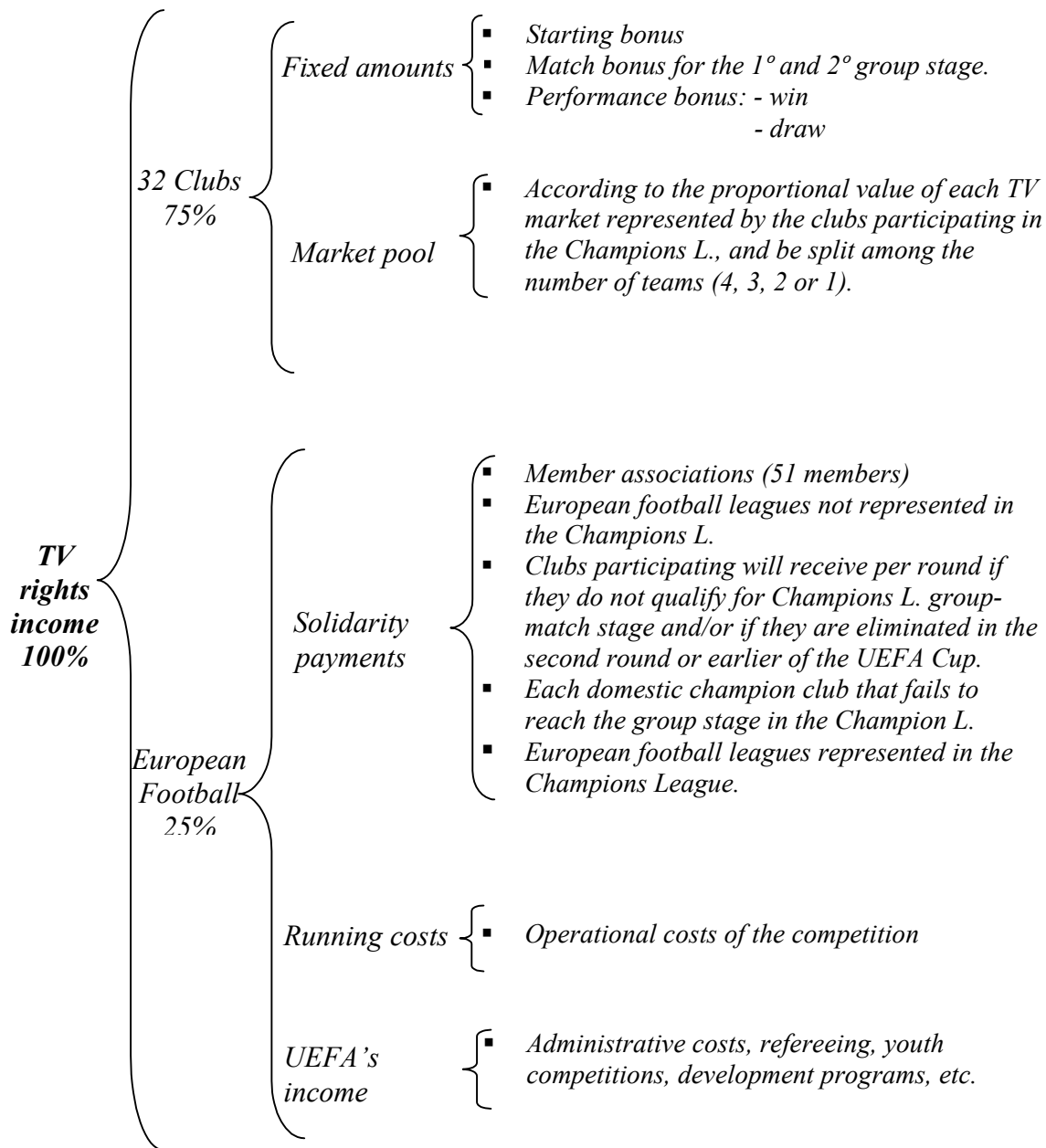
Access List for the 2000/01 UEFA Club Competitions																
UEFA Champions League										UEFA Cup						
Group	Q 3				Q 2	Q 1	Rank.	Association	First Round				Qual. Round			
TH			N3	N4					UIC	UIC	UIC		FP	FP	FP	
CH	RU						1	Italy	CW			N5	N6			
CH	RU		N3				2	Spain	CW		N4		N6			
CH	RU		N3	N4			3	Germany	CW			N5	N6			
CH	RU		N3				4	France	CW		N4	N5				
CH	RU		N3				5	Netherlands	CW		N4	N5				
CH	RU		N3				6	England	CW		N4	N5				
CH		RU					7	Russia	CW	N3	N4	N5				
CH		RU					8	Greece	CW	N3	N4	N5				
CH		RU					9	Portugal	CW							N3
	CH				RU		10	Czech Republic	CW							N3
	CH				RU		11	Austria	CW							N3
	CH				RU		12	Denmark	CW							N3
	CH				RU		13	Croatia	CW							N3
	CH				RU		14	Turkey	CW							N3
	CH				RU		15	Ukraine	CW							N3
	CH						16	Switzerland	CW						RU	N3
					CH		17	Norway	CW						RU	N3
					CH		18	Belgium	CW						RU	N3
					CH		19	Sweden						CW	RU	N3
					CH		20	Poland						CW	RU	N3
					CH		21	Scotland						CW	RU	N3
					CH		22	Romania						CW	RU	
					CH		23	Hungary						CW	RU	
					CH		24	Slovakia						CW	RU	
					CH		25	Cyprus						CW	RU	
					CH		26	Georgia						CW	RU	
					CH		27	Israel						CW	RU	
					CH		28	Slovenia						CW	RU	
					CH		29	Belarus						CW	RU	
					CH		30	Finland						CW	RU	
					CH		31	Yugoslavia						CW	RU	
					CH		32	Bulgaria						CW	RU	
					CH		33	Latvia						CW	RU	
					CH		34	Iceland						CW	RU	
					CH		35	FYR Macedonia						CW	RU	
					CH		36	Lithuania						CW	RU	
					CH		37	Moldova						CW	RU	
					CH		38	Estonia						CW	RU	
					CH		39	Armenia						CW	RU	
					CH		40	Northern Ireland						CW	RU	
					CH		41	Republic of Ireland						CW	RU	
					CH		42	Wales						CW	RU	
					CH		43	Malta						CW	RU	
					CH		44	Faroe Islands						CW	RU	
					CH		45	Albania						CW	RU	
					CH		46	Luxembourg						CW	RU	
							47	Liechtenstein						CW		
					CH		48	Azerbaijan						CW	RU	
					CH		49	Bosnia-Herzegovina						CW	RU	
							50	Andorra						CH		
							51	San Marino						CH		

TH = title-holder / tenant du titre / Titelhalter
 CH = domestic champion club / champion national / Landesmeister
 RU = domestic league runner-up / vice-champion national / Vizelandesmeister
 N3 = domestic league 3rd-placed club / 3e du championnat national / 3. der nationalen Meisterschaft
 N4 = domestic league 4th-placed club / 4e du championnat national / 4. der nationalen Meisterschaft
 N5 = domestic league 5th-placed club / 5e du championnat national / 5. der nationalen Meisterschaft
 N6 = domestic league 6th-placed club / 6e du championnat national / 6. der nationalen Meisterschaft
 CW = domestic cup-winner / vainqueur de coupe national / nationaler Pokalsieger
 UIC = club qualified via UEFA Intertoto Cup / qualifié via UEFA Intertoto Cup / Vereine aus UEFA Intertoto Cup
 FP = club qualified via Fair Play rankings / qualifié via classement du fair-play / Vereine aus Fairplay-Wertung
 Q = qualifying rounds / tours de qualification / Qualifikationsrunden

Source: www.uefa.com



APPENDIX 18: Champions League income and distribution of revenues



Source: www.uefa.com



APPENDIX 19: Summary of turnover, wages and salaries costs (UK divisions)

£' 000	Turnover					Total wages & salaries costs				
	98/99	97/98	% Change	96/97	% Change	98/99	97/98	% Change	96/97	% Change
Premier League	669.632	581.760	15%	463.966	25%	390.892	304.540	28%	218.097	40%
Div. 1	161.291	186.453	(3%)	131.305	42%	128.228	139.728	(8%)	87.396	60%
Div. 2	86.452	68.963	25%	60.444	14%	68.787	55.181	25%	43.778	26%
Div. 3	33.285	28.811	16%	25.810	11%	31.605	27.010	17%	23.874	13%
Football League	281.028	284.227	(1%)	217.559	30%	228.620	221.919	3%	155.048	43%
Total	950.660	865.987	10%	681.525	27%	619.512	526.459	18%	373.145	41%

£'000	Total wages & salaries as a % of turnover				
	98/99	97/98	96/97	95/96	94/95
Premier League	58%	52%	47%	47%	45%
Div. 1	80%	75%	67%	71%	71%
Div. 2	80%	80%	72%	75%	65%
Div. 3	95%	94%	92%	75%	56%
Football League	81%	80%	71%		
Total	65%	61%	55%	56%	52%

Source: Deloitte & Touche Sport (August 2000)



APPENDIX 20: Wages and salary costs (related to turnover) in the UK Premier L.

£' 000	1996/97		1995/96		1994/95		1993/94
Premier League							
Total wages and salaries	218.228		172.683		144.505		116.685
% Change		26,3%		19,5%		23,8%	
Turnover	463.949		346.224		322.858		241.479
% increase		34,0%		7,2%		33,7%	

Source: Own from Morrow, S. 1999; and Deloitte & Touche Sport (1998, 99, 00)



APPENDIX 21: Major data of the principal UEFA's associations

Country	Total Popul. (1)	Popul Growth Rate (1)	Places in Champ. League	Private consumption/capita. (2)	TV receivers (1)	Penetration of TV (3)	Pay TV income/household (3)	Pay TV income/household (3)	Daily Newspaper Circulation (1)
	('000, 1999)	(% per annum, 1995-2000)	2000/01	(PPP US\$, 1998)	(per 1,000 inhabit., 1990-99)	1998	(1998, in euros)	(1998, in US\$)	(per 1,000 people, 1990-99)
Austria	8,177	0.5	2	13,886	525	70%	150	126	2,961
Belgium	10,152	0.1	1	15,591	466	95%	200	168	161
Croatia	4,477	-0.1	2	4,925	272	na.	na.	na.	115
Czech R.	10,263	-0.2	2	7,592	531	28%	20	16.8	254
Denmark	5,283	0.3	2	16,385	594	70%	130	109.2	311
Estonia	1,412	-1.2	1	5,191	418	na.	na.	na.	174
Finland	5,165	0.3	1	12,958	622	46%	80	67.2	455
France	58,886	0.4	3	14,115	595	20%	540	453.6	2,181
Germany	82,177	0.1	4	15,577	567	85%	120	100.8	311
Greece	10,626	0.3	2	8,873	240	na.	na.	na.	1,531
Hungary	10,075	-0.4	1	6,591	435	60%	40	33.6	186
Italy	57,343	0	4	13,415	528	8%	430	361.2	104
Netherla.	15,735	0.4	3	14,105	519	95%	215	180.6	306
Norway	4,442	0.5	1	13,833	462	55%	140	117.6	590
Poland	38,741	0.1	1	5,532	337	45%	45	37.8	113
Portugal	9,873	0	2	10,361	336	15%	45	37.8	75
Romania	22,402	-0.4	1	4,472	233	na.	na.	na.	298
Russia	147,195	-0.2	2	4,099	410	na.	na.	na.	105
Slovenia	1,989	-0.1	1	8,910	356	na.	na.	na.	199
Spain	39,633	0	4	9,718	409	23.3%*	395	331.8	99
Sweden	8,892	0.3	1	13,275	519	65%	185	155.4	445
Turkey	65,546	1.7	2	4,465	330	na.	na.	na.	110
Ukraine	50,658	-0.4	2	2,384	353	na.	na.	na.	54
UK	49,200	0.2	3	14,804	521	30%	400	336	331

Source: (1) http://www.un.org/Pubs/CyberSchoolBus/infonation/e_infonation.htm

(2) http://www.worldbank.org/data/wdi2000/pdfs/tab4_11.pdf (3) LNFP Spain 2000. (*) forecast for the end of 2000. US\$ = 0,84 euros



APPENDIX 22: Europe's richest top 20 football clubs

Top Twenty (1999)		
Position	Club	Turnover (£m)
1	<i>Manchester United</i>	110.9
2	<i>Bayern Munich</i>	83.5
3	<i>Real Madrid</i>	76.1
4	<i>Chelsea</i>	59.1
5	<i>Juventus</i>	58.5
6	<i>Barcelona</i>	55.7
7	<i>Milan</i>	54.1
8	<i>Lazio</i>	50
9	<i>Internazionale</i>	49.1
10	<i>Arsenal</i>	48.6
11	<i>Liverpool</i>	45.3
12	<i>Newcastle United</i>	44.7
13	<i>Parma</i>	44.4
14	<i>Borussia Dortmund</i>	43.9
15	<i>Tottenham Hotspur</i>	42.6
16	<i>AS Roma</i>	39.4
17	<i>Leeds United</i>	37
18	<i>Rangers</i>	36.5
19	<i>Aston Villa</i>	34.9
20	<i>Celtic</i>	33.8
Bubbling Under		
21	<i>Valencia</i>	33.7
22	<i>Olympique Marseille</i>	33.5
23	<i>Kaiserslautern</i>	31.4
24	<i>Atletico Madrid</i>	30.7
25	<i>Paris St Germain</i>	30.6

Source: Deloitte & Touche Sport (2000), <http://www.footballfinance.co.uk/News/>



APPENDIX 23: Comparative table of the TV rights in European leagues

Country	Type of rights	Rights Value (£'000) 1997-98	Distribution
Belgium	Free TV Pay TV	6,232	<ul style="list-style-type: none"> ▪ 2/3 to the top division clubs ▪ 1/3 second division clubs ▪ Equal distribution.
France	Free TV Pay TV/PPV TV Highlights	228,293	<ul style="list-style-type: none"> ▪ 2/3 to the top division clubs ▪ 1/3 second division clubs ▪ Prizes to the top 10 clubs in the top division.
Germany	Free TV Pay TV/PPV Internat. Rights (*) TV Highlights Internet Highlights	232,859	<ul style="list-style-type: none"> ▪ 70% to the top division and 30% to the second division ▪ 50% equal distribution ▪ 50% on performance for the last 3 years
Greece	Free TV Pay TV International Rights (*)	9,988	<ul style="list-style-type: none"> ▪ 50% equal distribution ▪ 50% on performance, TV appearances and commercial activities.
England	Free TV Pay TV International Rights (*)	219,600 (The new contract is about 585,000)	<ul style="list-style-type: none"> ▪ 48% equal distribution ▪ 26% on TV appearances ▪ 26% on performance ▪ International rights are equally distributed ▪ 2-years subvention to relegated clubs
Italy	Free TV Pay TV/PPV TV Highlights International Rights (*)	254,980	<ul style="list-style-type: none"> ▪ Individual sale of pay TV rights ▪ Equal distribution of League highlights, free TV and Cup highlights
Netherlands	Free TV Pay TV	13,400	N/A
Spain	Free TV Pay TV/PPV TV Highlights International Rights (*)	146,400	<ul style="list-style-type: none"> ▪ Individual sale of rights

Source: LNFP Spain (2000); (*): domestic rights sold to other countries.