Available online at www.sciencedirect.com
ScienceDirect
Procedia Economics and Finance 23 (2015) 1245 – 1252
Procedia Economics and Finance
www.elsevier.com/locate/procedia

2nd GLOBAL CONFERENCE on BUSINESS, ECONOMICS, MANAGEMENT and TOURISM, 30-31 October 2014, Prague, Czech Republic

The Business Model of European Football Club Competitions

Teodor Dima[a*]

[a]*Bucharest University of Economic Studies, Department of International Business and Economics 6 Piata Romana, Bucharest 010374, Romania*

Abstract

This paper presents the business model of the most important football competitions in Europe at club level (Champions League and Europa League). In this academic endeavor we have addressed current themes and concerns that are less discussed in systematic scientific researches, such as: income and expenses sources per each competition, their dynamics, the distribution of funds to the participating clubs, their role in the economy of the most powerful teams and of the most important championships in Europe. The importance and role of the competitions considered herein are measured on the basis of sports considerations as well as on their financial indicators, as part of UEFA's budget, the highest forum that governs the entire European football phenomena from an administrative, financial and control perspective. Of course, football is not just a sport anymore. It has held for several years an important place in the current overall mechanisms of socio-economic life. As such, this entire framework dominated by economics is not complete without the current legislative, political, social or cultural conditions (globalization, audiences, sponsors, supporters, social media). Although in some cases it is difficult to make a proper inventory, such elements make up the profile of the true world phenomena. In this context, this paper analyses the implications of the introduction by UEFA of a new licensing and regulation framework "Financial Fair Play" and the benefits and disadvantages of this program for all parties involved in the football business at European level.

Selection and/ peer-review under responsibility of Academic World Research and Education Center
Keywords: business model, economic cycle, football club competitions, globalization, financial fair play

1. Introduction

European Football has significantly changed especially over the last 20 years, following an intense process of trading and marketing, a process that has brought important sums of money.

* Teodor Dima. Tel.:+4-345-4345-434.
E-mail address: teodor.dima@gmail.com

Selection and/ peer-review under responsibility of Academic World Research and Education Center
doi:10.1016/S2212-5671(15)00562-6

The article cumulates two perspectives that establish the business model of Football Club Competitions, one that particularly develops an economic approach, and the other one that presents the current tendencies of this field.

For this academic pursuit, I have used documentation as a proper method of research in this field following the usual steps of a scientific research:

- Review of the official documents of UEFA – financial reports, organizational papers, marketing analysis.
- Review of the documents filed by the Deloitte Company: Football Money League for 2004-2014, Annual Review of Football Finance for 2011-2014.
- Critical review of scientific materials, books, articles and researching articles that approach the topic of football club in Europe and the current interests in the field.
- Comparative analysis of European Club Competitions: UEFA Champions League and UEFA Europa League.

2. The Economy of European Football Competitions

According to the Annual Review of Football Finance (2014) conducted by Deloitte, the total value of European Football market is €19.9 billion. Internal football is by far the most important section of this industry. Almost half of the whole sum (€9.8 billion) represents the cumulated income of just five of the most powerful internal competitors (England, Germany, Spain, Italy, France), named by the experts in this field the “big five”.

The economic pattern of sport, and in particular of European Football, is quite a recent topic of academic debate. Andreff and Staudohar (2000) are the first who propose a pattern in order to feature the financial structure of contemporary professional sports - “MCMMG (Medias – Corporations – Merchandising – Markets – Global)”.

Bourg and Gouguet (2012) constitute the “SATI model (Sponsors – Actionnaires – Television – International)” as an adjustment to the financial reality of sport after 1995, starting from football model. Bastien (2013) summarizes and varies both of the previous versions through the SATEMMI model (Spectateurs – Actionnaires – Television – Entreprise – Marches – Merchandising - International)”.

Synthesizing the specialized literature, I consider that the current business model of European Football Industry is based on three important income - generating factors:

1. Media rights – the value paid by media companies in order to broadcast the sport events;
2. Commercial income – cumulates sponsorships (mainly from placing the brands on t-shirts, around the stadium, media broadcasting) and other business income (marketing activities, conferences services, catering, etc.);
3. Matchday revenue –money from ticket sales (including season tickets subscriptions) and supporters’ expenses inside the stadium (promotional items, services).

In some financial reports, the sponsorships income and other business income are quantified separately. Taking into consideration the current realities of this industry, where the money obtained from broadcasting has the greatest share, mostly playing a major role, I believe that the above model – MCM (Media – Commercial - Matchday) represents the most appropriate approach to European football business.

A major point in increasing the European Football market was to restore the system of government of European Club Competitions, moving to a format that includes more teams, in order to increase the interest of supporters as well as of sponsors and media partnership. UEFA Champions League (UCL), the main inter-clubs competition moved to a new format at the beginning of 1992 being upgraded in more stages: 1994 (16 teams), 1998 (24 teams), 2000 (32 teams) and it has been adjusted several times mainly on the basis of sports criteria. The centralization of media and commercial rights by UEFA, led to significant increases in revenue, reaching by 2014 almost 10 times the value of income in 1994, incomes resulting only from this competition. And this successful format was quickly adopted and applied, using the same coordinates, by the second European inter-clubs competition, UEFA Europa League (UEL), starting in 2009.

All this changes were developed and managed by UEFA (Union Of European Football Associations) the upper forum on administrative and checking level of European Football. UEFA represents the national football associations of Europe, organizes pan-European competitions at club and national-team level, supervising the financial procedures, regulations and media rights for these competitions.

Table 1. The evolution of the Total UEFA Revenue, UCL Revenue and the share (%) of the UCL Revenue in Total Revenue in the period 2003/04 – 2014/15 (2013/14 – 2014/15 based on estimates)€m

	Club Competitions and Other Revenue	EURO	Total UEFA Revenue	UEFA Champions League (UCL) Revenue	UCL Revenue/ Total Revenue (%)
2003/04	620.2	855.2	1475.4	568.8	
2004/05	656.1		656.1	593	
2005/06	647.7		647.7	606.3	
2006/07	895.5		895.5	818.5	
Total 2003/04 – 2006/07	2819.5	855.2	3674.7	2586.6	70.38
2007/08	886.1	1350.9	2237	820.1	
2008/09	900.4		900.4	819.1	
2009/10	1309.8		1309.8	1108.5	
2010/11	1384.1		1384.1	1153.2	
Total 2007/08 – 2010/11	4480.4	1350.9	5831.3	3900.9	66.90
2011/12	1404.8	1390.9	2795.7	1165.4	
2012/13	1697.2	1.7	1698.9	1424.1	
2013/14* (est.)	1726		1726	1445.2	
2014/15* (est.)	2017.7		2017.7	1471	
Total 2011/12 – 2014/15* (est.)	6845.7	1392.6	8238.3	5505.7	66.83

Data source: UEFA Financial Report 2004-2014, UEFA CEO Report

UEFA budget follows the financial coordinates of sports structures presented above, the three vectors (Media – Commercial – Matchday) represent over 95% of the annual cashing (according to an analysis of the last 20 years on income categories). A part of this income, money from TV broadcasting rights has represented 75% for more than ten years. Due to the fact that the European Football Championship (EURO) takes place every four years, the organization budget suffers major transformations in those years which include this competition comparing with those years which do not include it. For the relevance of this analysis, I do consider that the most appropriate approach is a cyclic one for periods of four years.

In table 1 I included the last ten years data and the forecasts for the next two years. This way, in the economic cycle 2007/08 – 2010/11 were collected € 5.831 billion (an increase of 58.7% comparing to the previous cycle), and for the next period 2011/12 – 2014/15 incomes of € 8.238 billion are estimated (an increase of another 41.2%). A large part of the budget is based on the sums coming from UCL, the trend being of a slight decrease: from 70.38% (2003/04 – 2006/07), to 66.9% (2007/08 – 2010/11). This decrease in the specific income value resulting from UCL is determined by the movement to a new format of the second European Competition as importance (UEL). It is estimated that UEL value in the total budget will increase from 9.3% (2007/08 – 2010/11) to 11.6% in the next four years.

From the entire cash collected by the two European inter – club competitions (UCL and UEL), about 75% of the sum goes to the participant clubs, and the rest of 25% is operated by UEFA in order to cover the event expenses, internal allocations, as well as for the development of European Football, at all levels, and to promote solidarity. A comparative analysis of two competitions is represented in table 2. This is a comparison on the type of income sources, as well as on expense sources, for the last season for which there is financial information (2012/13).

Distributing money to the participant teams in both competitions has been based on similar criteria since 2009/10. Distributions have grown at an average rate of 12% every year over the last decade. Therefore, clubs cash in three types of income: fixed sums for participation, performance bonuses (for each point or match won) and market pool.

The fixed sum for participation in UCL is 6.61 bigger than for UEL (€8.6 million compared with €1.3 million). Total club share for UCL is 6.21 bigger than for UEL (table 2). Consequently the huge interest of clubs to qualify for number one competition of Europe is understandable. And this report, for UCL is the same for the other types of income. The derived sum from the market pool is calculated on the basis of an algorithm that takes into account the agreement negotiated by television for each native team, the performance of each team (the stage when it has been eliminated), but also the national record (the place obtained at the national ranking from the previous year).

The importance of collected income by clubs for participation in European competition varies depending on size. For an accurate financial representation, two aspects should be followed: the direct impact (cash collected from UEFA, tickets to European football matches) and indirect (extra money from commercial activities, marketing, transfers, etc.), the last one is more difficult to be quantified. Therefore, for the clubs with an income that exceeds 100 million euros, as well as for the “big five” teams, the direct impact is quite low (between 10 and 25% of budget), and the indirect one is bigger, the teams of this level having commercial devices of laboring fruit for sports results. For clubs with an income under 100 million euros, the direct collecting from European competitions has a greater share (40 – 60% of budget), being decisive for certain clubs to develop the current activities.

Table 2. Project Management - UEFA Champions League vs UEFA Europa League (2012/13)€m

	UCL	%	UEL	%	UCL / UEL
Broadcasting rights	1097.2	77.04%	217.9	90.04%	5.03
Commercial rights	291.4	20.46%	17.1	7.06%	17.04
Other revenue (incl. tickets and hospitality)	35.5	2.49%	7.0	2.9%	5.07
Total revenue	1424.1	100%	242	100%	5.88
Distribution: group stage and play-offs	-317.2		-62.4		
Distribution: performance bonus	-219.8		-63.1		
Distribution: market pool	-434.6		-100.8		
Distribution: other	-2.8				
Total distribution to clubs	-974.4		-226.3		
Contributions to UEL clubs	-50				
Contributions from UCL clubs			50		
Solidarity financed by clubs	-71.7		0		
Club share	-1096.1	76.97%	-176.3	72.85%	6.21
Event costs	-142.1		-42.3		
Referees and match officers (incl. overheads)	-11.9		-12.7		
Internal allocation: website	-4.4		-3.8		
Internal allocation: UEFA Super Cup	-6.0		0		
Solidarity financed by UEFA	-33.9		-24.3		
Contribution to/from European football	-129.7		17.4		
UEFA share	-328	23.03%	-65.7	27.15%	4.99

Data source: UEFA Financial Report 2014

But UCL is an attractive competition for clubs, not just a financial one. The sport and social benefits are also significant. A successful season of UCL brings a lot of benefits: the clubs' increasing popularity, high interest of fans (generating extra income from commercial and matchday activities), increasing market value of the players, increasing value for stock market societies. On the contrary, non-participation in European competitions or elimination in the early stages generates discontent for all parties involved (shareholders, supporters, players) and important financial losses. Moreover, for top clubs a good itinerary in Champions League has become a matter of heraldry, respect for the fans.

3. Current challenges and tendencies of European Football Industry

Sport - and football in particularly - is in the first line of the globalizing process. Ducrey, Ferreira, Huerta and Marston (2003) consider sport "the most universal aspect of popular culture. It crosses languages and countries to captivate spectators and participants, as both professional business and pastime." Therefore, all actors of this industry should consider the globalization opportunities of this game when they build strategies and development plans.

For Boniface (2000) "the sun never sets on the Empire of Football. Football's influence has kept growing throughout the world to reach a level that could well be the ultimate level of globalization".

And European football club is a business with more and more attractive numbers for investors, shareholders or partners throughout the planet. The best example of globalization is that the shareholding of the most powerful clubs has crossed the borders of "the old" continent, four teams from the first ten (ranking based on reported income of clubs in 2013) having the majority of shareholders outside Europe: two from The United States of America and two from the Middle East (table 3).

Table 3. Major European clubs by owner nationality

Position	Club	Owner nationality
1	Real Madrid	Europe
2	FC Barcelona	Europe
3	Bayern Munich	Europe
4	Manchester United	USA
5	Paris Saint-Germain	Middle East
6	Manchester City	Middle East
7	Chelsea	Europe
8	Arsenal	USA
9	Juventus Torino	Europe
10	AC Milan	Europe

Source: Deloitte Football Money League 2014

Yet football is not just a business, it is a real social phenomenon. The great interest in this one is proven by the more intense competition to obtain rights for broadcasting, and also by more impressive audience numbers. Thus, UCL 2013 finals had over 360 million televiewers, and about 13.4 million viewers watched from the stadium the club competitions matches in season 2012/13.

Usually, the participating clubs in European competitions also have most viewers. So, over 25 clubs from 10 different countries have an average of 35,000 viewers for matches played at home. Most loyal supporters are in Germany, Great Britain and Spain, where the average league attendance exceeds 40,000.

A current social tendency is the fans' subscriptions to clubs accounts on social networks, in order to be kept in touch with all updates. FC Barcelona is leading this segment with over 77.3 million Facebook likes and over 11 million Twitter followers, and the growth rate is over 50% annually.

One of the current issues that many clubs are facing is that they have repeatedly reported significant deficits that led to a record level of debt in the last years. Many clubs have registered losses, some of them have experienced lack of cash, being unable to pay the debts to the clubs or even to their own players on time, others have entered insolvency, have followed procedures of legal re-organization or have gone bankrupt.

The reverse situation could also be observed, where private investors and other capital market participants extended their influence at professional football club level. Some clubs have been taken over by owners with great financial power, owners who spent huge sums of money in order to create a powerful team. Chelsea is the best example and the most recent cases have been Manchester City and Paris Saint-Germain. These massive capital investments have determined other teams to spend much over the established budgets in order to attract the best players on the market.

Both tendencies threaten the financial stability and disrupt the competitive balance not only among the clubs, but also among the European Football Championships. For this reason, in order to assure the financial stability of European Clubs on a long term and to re-balance the competitions, UEFA has introduced the new regulations of financial fair-play.

Thus, in 2009 the Executive Board of the Union of European Football Associations (UEFA) approved by majority of votes the concept of “Financial Fair Play”, followed in 2010 by the approval of the licensing and regulating system of financial fair-play that became effective by means of the monitoring activity starting with season 2011-2012. Checking on the new rules produces the first effects in season 2013/14, when all clubs have to submit the approved standard in order to participate in European competitions. Thus, for the first time there are unitary rules for all football clubs at European level. The programme provides a legislation that prevents clubs from entering a “vortex” of debts, ensuring at the same time a competition based exclusively on self-generating resources.

The main financial rule promoted by the new regulations concerns the fact that a club has to spend money only if they gain money (the “break even” rule) with a few exceptions. More precisely, the relevant expenses (salary costs, employers costs, fees, administrative costs, other operation costs, amortization of the procedures from transfers of players, payment costs) should not exceed the relevant incomes (incomes from selling tickets, broadcasting rights, sponsorship and publicity, trading activities and other operation incomes, profits from the transfer of players, financial incomes, additional incomes from fixed assets). A maximum of 5 million euros is allowed on a monitored period (or 45 million euros in case a capital infusion is applied).

Considering the scientific literature published on FFP topic, by the official documents, by the experts' perspectives on the field, as well as the various approaches evidenced by international mass media, I have synthesized in table 4 the advantages and disadvantages of this measure, adding to the previously mentioned points of view the author's interpretation and opinions.

Table 4. Advantages and disadvantages of introducing Financial Fair Play

Advantages	Disadvantages
Uniformity of economic rules for all European clubs	The difficulties of supervision in obeying The Regulation
Increasing infrastructure investments and other sustainable goals	High costs for monitoring and controlling, in relation to the potential benefits
Club expenses exclusively within the limit of income	Favoring the powerful clubs by custom
Increasing discipline and rationality in clubs finances	Eliminating the acceleration of performance by massive capital infusion
Increasing transparency and reliability of clubs	Limiting great transactions on transfer market
Limiting the re-organizing positions, insolvency or even bankruptcy of clubs	Inequity in applying rules for teams from different championships, because of some certain stipulations derived from national legislation
Increasing the protection degree of creditors	The dual character of compatibility for imposed restrictions in relation to economic rules of the European Union
Limiting the inflating effect as a result of reduced wage pressure and transfer sums.	Encouraging clubs to use some financial and accounting stratagems in order to avoid penalties
Faster reimbursement of clubs debts (to players, legal authorities, other clubs)	Prejudicing the sport's performance by applying inappropriate sanctions
Restoration of a competitive balance, both on clubs levels and championships.	Risk of covering financial deficiencies by supporters
Promoting an ethical behavior, based on mutual respect	
Encouraging a responsible management of financial resources.	
Long term increasing of investments for children and junior branches.	

Source: uefa.com, international media, author's opinion and interpretation

The conclusion of this analysis reveals the positive aspects, considering especially the foundation at European level of a standard for all professional football clubs, regardless of the country in which they activate. Nevertheless, the expected effect depends decisively on the accuracy and consistency of the implementation, by the power of adjusting to a field with a powerful global impact.

4. Conclusions

Mid90's was the moment when the European Football started to become a great business. Moving to a new format Champion League, achieving a proper environment for the huge potential of this market, the growing interest from media companies, increasing football investments from all over the world, all these have transformed a niche industry into a global business.

The European competitions numbers look increasingly better, having a constant growth rate that few industries can be proud of. To all of these, an impressive social, cultural and mass media impact is added. The good management of the two inter-clubs competitions can bring important sums of money to the budget of participant clubs and, especially, to the best ones. The relations developed in this research, the comparative analysis, the synthesis of the current tendencies of this dynamic field can be the starting points for later academic approaches in the sport management field.

The current research presents the Financial Fair Play characteristics, considered the most important transformation at football managing level, the most popular sport of the planet. Presenting the FFP benefits and advantages, even though schematically, has the advantage of obviousness, being at the same time a comparative reference for the researches that summarize the results of implemented measures decided by UEFA.

Acknowledgements

This work was co-financed from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

References

Andreff W., Staudohar P. D. (2000), The evolving European model of professional sports finance, *Journal of Sports Economics*, volume 1, n° 3, p. 257-276.
Bastien, J. (2013), L'influence des crises économiques et financières sur le football européen, Laboratoire d'Economie, Université de Reims.
Boniface, P.(2000), La terre est ronde comme un ballon, Géopolitique du football, Edition Seuil, Paris.
Bourg J.-F., Gouguet J.-J. (2012), Économie du sport, Paris.
Deloitte (ed. 2004 - 2014), Football Money League, Manchester.
Deloitte (ed. 2011 - 2014), Annual Review of Football Finance, Manchester.
Ducrey,P., C. Ferreira, G. Huerta, K. Marston (2003), UEFA and Football Governance: A New Model, Centre International d'Etude du Sport.
Saas, M. (2012), Long-term Competitive Balance under UEFA Financial Fair Play Regulations, Universitat Magdeburg.
Szymanski, S. (2010), Football Economics and Policy, Palgrave Macmillan.
UEFA (2010), Financial Fair Play, http://www.uefa.com/uefa/footballfirst/protectingthegame/financialfairplay/
UEFA (ed. 2004-2014), UEFA Financial Report
Vopel, H. (2011), Do we really need financial fair play in European club football? An economic analysis, CESifo DICE Report.