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MODELS OF FINANCING FOOTBALL CLUBS IN THE BIGGEST EUROPEAN LEAGUES

Scientific work

Abstract

Football world is always related to numbers. Bigger numbers contribute to the bigger financial solvency and attract players, players attract fans to the stadiums, and sponsors. There is a bad trend in football business world where costs are bigger than the revenue. The countries in which clubs are successful for years are the exceptions. (Germany, Portugal, Austria, England). Models of business in Germany, with popular “50+1” model of management structure in clubs contributed to the development of the sport, football and stabilization of Bundesliga and better public relations with transparent activities. The rule “50+1” is a term which is used as regulation in German football league. Clause, the rule, which states that majority of voting structure in clubs, must keep the club and members of the club, respectively. This enables members of the club to have the majority and to protect the club from the outside investors. English football is based on the opposite model. English model of management structures is set so that majority of the clubs is in private ownership, and, therefore dependable on money of an individual, TV rights, and great loans with favourable interest rates. Other leagues (Portugal) base their revenue mainly on transfers of young players. French league, with the exception of PSG and Monaco, also base their revenue on transfers of young players and sponsorships. Italian league is not an attractive market for investors, for a long time now, which creates problems for financing the clubs, which spend up to 75% of their incomes on salaries of the employees and the players. German model “50+1” lead to the development of football in Germany, better relations with the local companies related to sport, and keeping the club in hands of the fans and members of the club, respectively. Synergy of the local community, fans and the big companies creates money.

KEY WORDS: Model 50+1, private sector, TV rights, financial

INTRODUCTION

Football world is always related to numbers. Rich clubs with their incomes are more attractive to the players and sponsors as well. These clubs attract bigger number of fans [1]. During the last century, football evolved from humble sport- which was played only for fun – to the industry that makes money [12]. Each club that participates in national leagues needs to fulfill criteria for receiving the license. Criteria are set by UEFA’s Club Regulations for licensing and regulation of financial fair play [13]. Regulations state that: football club, in order to get a license, needs to fulfill 5 specific categories: sport criteria (development of a player, medical care, registration of a player, seminar attendances, racial equality), infrastructural criteria (stadium, and training centers), personal and administrative criteria (human resources), legal criteria (contracts, legal structures and management

models) financial criteria (annual and quarterly financial reports, status of payment, and future investment) [14]

Sports economy is growing field in applied economy [15]. Football is, without a doubt, sport with the biggest media presence [16]. Football clubs across Europe are implementing investment strategies to maximize the performance and the profit in both sport and financial area. Football, as a game remains superior, while football market takes significant part in financial investments [17]. Economic significance of football is in bigger capital, bigger financial solvency, and fast income through the sports betting [18]. Great number of football clubs put their stocks on the market. So the question is: Does the value of shares depend on team performances or not? Football is the most important sport which influences investors, which is explained by Biheviam's financial theory, which states that performances of teams can have an important impact on optimism or pessimism on individual investors. [19]. Due to the importance of football industry, football clubs are made into brands. As long there is a connection between budgets of the clubs and team performances, financial position is extremely important. There are three sources of revenues of the football clubs: incomes derived at the day of the game (including tickets and corporative sales); TV rights (including distribution of participants in local leagues, cups and European clubs and competitions) and commercial sources of income (sponsorships, marketing and sales, and other commercial activities)

Since the sources of the income are limited, football industry is fighting for bigger incomes, and the competition between clubs for big sponsorships and shares on TV rights is also present [20].

This leads to negative trend in business enterprises of football clubs in many countries, which spend more than they can earn, and debts are rising. The exceptions are the clubs from Germany, Portugal, England and MLS (USA and Canada). While countries like Italy and France are struggling with financial deficiency and outdated infrastructure or Spain which deals with competition between two centers of power Madrid (Real Madrid and Atletico Madrid) and Barcelona, these countries manage to be competitive and to have the latest infrastructure due to their models of financing [3]. This paper will fully analyze financial models and “numbers” in football business. Regardless of great amount of money that is present in football, over 50% of the clubs today, have negative business enterprises or barley positive [2].

DISCUSSION

2.1.Differences between models of financing

Liam Smith, a respective sport reporter and author of several papers, in his papers explains management structure in German football. German football and management structure of the clubs, respectively, is based on „50+1“model, and it is considered to be the most successful one. The rule of 50+1 is a term used for regulation in German football league. Clause, the rule, which states that majority of voting structure in clubs, must keep the club, and members of the club, respectively. This ensures members of the club to have the majority in voting structures and to protect the club from the outside investors. The rule is set in 1998. with the definition that „ the main club must own at least 50% plus one share (1% of the votes) ensuring the majority in the voting structure“[4]. This model is correlated to the stabile business enterprises and safe solvency of the clubs (reference)

By 1998. clubs were ownerships of football fans, without possibility of investments and they were considered to be non-profitable. Since the model is applied, there is a growth and development in

German football [5]. English football is based on the opposite model. English model of management structures is that majority of the clubs is in the private ownership, and, therefore dependable on money of an individual, TV rights, and great loans with favourable interest rates. Still, there are clubs that are based on German model where the owners of the clubs are the fans with smaller participation of private money (AFC Wimbledon, Portsmouth, Exeter, Wrexham) (reference).

Soccereconomics announced the revenues of top five European football leagues (Bundesleague, Primera, French First league, Premier league and Italian Series A) in season 2012/2013. have increased for 5% and reached to 9.8 billion euro which enabled the growth of total income of European football in 2% and reached 19.9 billion euro (Deloitte's „Annual review of finances in football“) [8].

„Season 2012/13. is another season in a row in which each of top five leagues achieved record revenues and enabled quadruple growth of the total revenues since the season 1996/1997. New contracts of the rights of the broadcasting in two biggest leagues will contribute that the revenues of the season 2013/2014. exceed 11 billion euro. „These numbers mask profile of the revenues in those leagues which is more polarized than ever „, stated Den Jones, a partner in Sector for analysis of sport business operations in Deloitte [8]. When it comes to revenues, Premier league is the world leader in relation to others; in season 2012/2013 revenues were increased for 165 million pounds (7%) and reached over 2, 5 billion pounds (2,5 billion euro). More than 60% of that increase came from two Manchester clubs and Liverpool. During devaluation of British pound, the difference between Premier league and Bundesliga was reduced in 928 million euro.

In 2013. Jones stated in his article: „, The biggest growth of revenues in Premier league, in season 2012/2013. comes from commercial sources. According to total incomes, Premier league is behind Bundesliga for 55million euros, which a quarter of difference since three years ago. For the first time, we expect, in the following edition, that the top league of England becomes the first in Europe in all three categories of revenues. According to projections, the revenues in Premier league in season 21032014. will reach 4 billion euros, which is more than projected revenues in Primera and Series A together”.

2.2. Bundesliga against other models

Bundesleague had another year of impressive growth, and it positioned itself on the second place of the list of European leagues with the highest revenues, and for the first time crossed the limit of 2 billion euro. Total incomes, in season 2012/2013., were increased for 146 million euro (8%) and reached 2.018 billion. 80% of that increase came from the success of Bayern from Munich and Borussia from Dortmund.

The difference between Bundesliga and Spanish Premier League grew on 159 million euros although total revenues of Primeri in season 2012/2013. reached 1.859 billion euros. Despite the trend of the previous years, growth of 77 million euros didn't come from Real Madrid or Barcelona, which contributed to the growth of incomes of 6 million euros which is considered modest. More clubs with new and improved contracts of right of broadcasting and better results of Spanish clubs in Championship league [8].

Due to its comeback to the Championship league, Juventus is responsible for more than three quarters of the revenues in Series A in season 2012/2013. which was 97 million euros (6%) while the total

income was 1.682 billion euros. Italian clubs still rely on the revenues from broadcasting rights, which present 59% of the total incomes of the league, which is the highest percentage of all big leagues. French First league had the fastest growth of the incomes. 14% (161 million euros) and the total incomes reached 1,297 billion euros for which Pari Sen Zermen is responsible. While its incomes grew for 178 million euros other 19 clubs of the First league suffered from reduction of incomes for 17 million euros in total [8].

Clubs of top five leagues, in season 2012/2013., showed perseverance on the revenues so the growth of the revenues absorbed only 25% of the growth of the incomes. In four of five leagues, in season 2012/2013. (in relation to season 2011/2012) the revenue/cost ratio was unchanged or better (Series A 71% (74%); Primera 56% (59%); Bundesliga 51% (51%); French First league 66% (74%). The exception is Premier league in which costs and the revenues grew in 8% and reached 1.783 billion pounds (2.1 billion euros). As a result the revenue/cost ratio reached to incredible 71% [8].

In season 2012/2013. only Bundesliga and Premier league gained, a profit. Bundesliga set a new record for all football leagues- business revenue was increased for 74 million euros (39%) in addition to 264 million euros in total . Business revenue of clubs of Premier league decreased, in local currency for 2 million pounds in addition to 82 million pounds (96 million euros). French and Italian league had significant business losses: in the First league, business losses are reduced for 64 million euros (on 3 million euros) so it almost reached the state of rent, while in Series A, after seven seasons of bad results, had reduction of losses for 107 million euros (n 53 million euros).

Respected magazine Economist researched two opposite models (Germany and England) which are often confronted at the matches of European Championship league and European league [9]. The example of this is the finale Bayern- Chelsea. Chelsea is one of the luxuriant consumers in the English Premier league. Since Abu Dhabi United Group took over Manchester City in 2008. fiscal power of the club enabled winning the home title. However, wastefulness has affected others. Portsmouth fell out from the league after bankruptcy in 2010. It's difficult for this to happen in German football league, Bundesliga, where strict controls of expenses prevent clubs to spend excessively [9].

Why Bundesliga progresses in relation to other European leagues? Emmanuel Hembert AT Kearney, coauthor of paper from 2010. examined the power of Bundesliga. New contracts with broadcasters encouraged the clubs to invest more. Revenues from commercial sponsorships have healthy grounds. German clubs develop academies for young players, and they are mandatory to have at least 5 young players at the age of 23 in their roster. While Sky broadcaster (in England) has almost all rights for broadcasting league, there is great competition in Germany among ZDF; Eurosport and BN sports. The exclusive right on the first broadcast of each round currently has Eurosport. German authorities have invested 1.4. billion euros for expansion of stadium for the World Championship in 2006. Bundesliga clubs were able to increase their revenues. In England, big clubs don't have help in public sector. Decentralization of German economy also helped the clubs around the country to form commercial partnerships. With the lack of strong business actions outside Paris, Madrid and Barcelona, most clubs in France and Spain have limited local sponsorships.

Leagues in Germany and France demand the monitoring of the financial accounts in order to prevent unnecessary expenses. The authorities can ban transfer activities or remove the teams from the league as punishment for breaking the rules. Mr. Hembert states that system in both leagues is stricter than financial fair-play rules of the game and suggests that FIFA restrains the expenses of the clubs that compete in European competitions. Instead of spending money on the market of transfers, German

clubs now invest almost 100 million € a year on academies(on strength and improvement of national team). Opposite of that; Spanish clubs that are not under financial control keep borrowing money, in spite of successful youth programs from their own system.

Bundesleague, as an organization promised their fans that they will keep the business model for many years in the future. Executive director Christian Seifert confirmed that „ the responsibility of the club is to ensure the fans affordable tickets, satisfactory experience at the game and high standards of security“.

Ivan Prektratić, in his article, stated several facts that point to all advantages of the system of Bundesliga. The First German league is European football league with the biggest rating in broadcasting. The average of 42.6000 visitors per game and the total number of incredible 13 million people in total on Bundeleague stadiums which sets the bar high. An impressive data is that the matches of the second league (Bundesliga 2) were visited by 5.5 million people and 17.850 spectators per game, respectively [7]. In the last 7 years the revenue has increased for over a billion euros.

Table 1. The revenues of Bundesliga in seasons

<i>Year</i>	Revenue (billion euros)	Index
<i>2006-2007</i>	1,46	100
<i>2007-2008</i>	1,57	111
<i>2008-2009</i>	1,72	126
<i>2009-2010</i>	1,77	131
<i>2010-2011</i>	1,94	148
<i>2011-2012</i>	2,08	162
<i>2012-2013</i>	2,17	171
<i>2013-2014</i>	2,45	199

It is interesting to look at the analysis of the revenues through the types of revenues. It is visible that there is a balance between basic revenues of football clubs (matches, sponsors, TV rights) and that there is no dependence (risk) on one type of the profit. It is noted that revenues of the transfers are only 7% of total incomes.

Table 2. source of income Bundesliga

<i>Source of income</i>	Amount (billion euro)	% total income
<i>Tv rights</i>	716,8	29,30
<i>Marketing</i>	640,4	26,18
<i>Matches</i>	482,5	19,72
<i>Souvenirs sales</i>	186,9	7,64
<i>Transfers</i>	171	7
<i>Other</i>	248,6	10,16
<i>Total</i>	2 446,2	100

This policy lead to the situation that Bundesliga, from year to year, is the most visited. In season 2013/2014. when 42 125 viewers watched the games which was significantly more than it is the case in Premier league (England) (36 657) and La League (Spain) (27 053), and the number is still growing. And this is only one match of the local championship that is broadcasted at certain time on

television in Germany (not counting pay per view- option) [5]. The price of the ticket of Bundesliga at the main tribune is 23€ and the season ticket for Bayern Munich is 135€ [5]. Seifert explains that the clubs are willing to sacrifice their revenue from tickets if it means that it will combine „ finances, game and the society” [6].

Comparison of model displayed in table 3.

Table 3. Comparison of models of financing in Germany and England

	Germany	England
<i>Insolvency</i>	non-existing	2-4 clubs a year
<i>Financial doping (owner)</i>	non-existing	Every transfer period
<i>Ticket price</i>	↓	↑↑
<i>Number of fans</i>	↑↑	↓
<i>Wage/revenue ratio</i>	up to 40%	>55%
<i>Wage costs</i>	↓	↑
<i>Number of home fans</i>	↑↑	↓
<i>Number of international star footballers</i>	↓	↑↑
<i>National team</i>	↑↑	-
<i>TV rights</i>	↓	↑↑

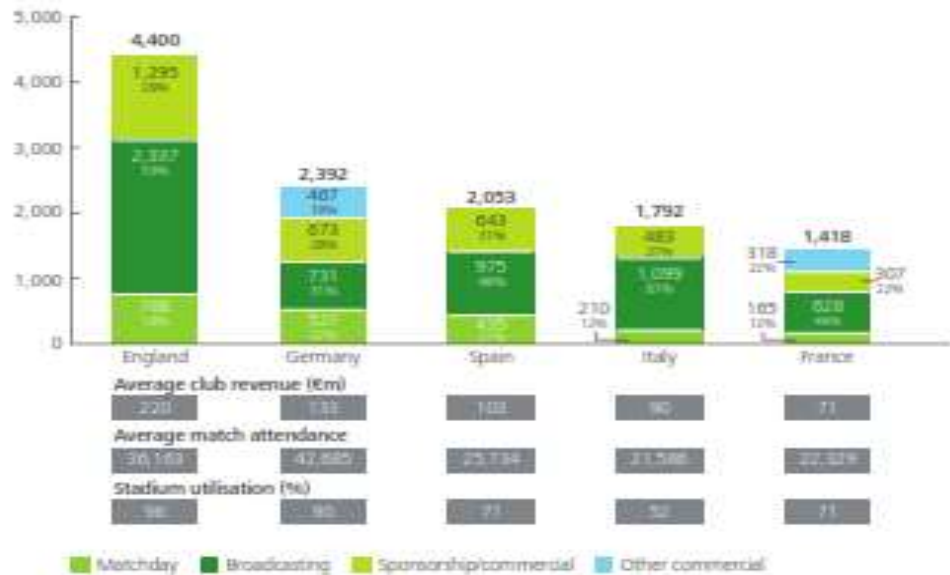
↓ - low, ↓↓ - significantly lower, ↑ - više, ↑↑ - significantly high.

Model of a small country (in a financial sense) , Portugal, is worth mentioning. Portugal has three big clubs: Benfica, Porto and Sporting Lisbon. President of Portuguese professional football league Manuel Figueiredo said that Portugal was the only state of European Union that had positive netto balance by selling players in period of 2001-2005 [11].

Costs were 500 million and the revenue was 1.3 billion euros. „The secret was in great professionalism, in academies and natural talent“. Earned FC Poro, alone earned over 400 million euros. [11].

2.3. Profit through European league

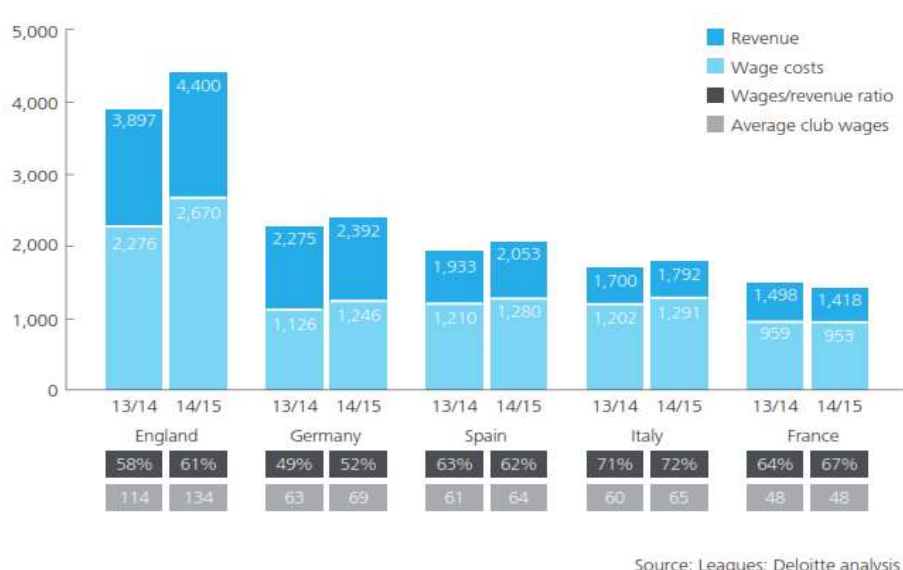
The last report of the most respectable house of football finances in the world Deloitte, in 2016 showed changes in financial movement. Total revenue of „top five“ leagues of Europe , were 54% (12 billion) of total European football market, which mostly came from new sponsorship contracts in Spain. The only league which doesn't do business well is the French league 1. UEFA, alone had the increase of the incomes by 21% due to TV rights for European qualifications. The average revenue in the last season in the biggest European leagues is displayed in graph 1 (taken from Dolette).



Graph 1. The average revenue of the clubs of the biggest European

(Source: Deloitte UK annual review of football finance 2016)

In England clubs had revenue of 1.925 billion due to sponsorship contracts, 2.34 billion euros on TV rights and 768 million on ticket sales and other contents during the game. They are unbeatable in that way. But unlike England, where there are big numbers involved, Germany manages to get 467 million euros every year from their memberships cards. 731 million euros comes from TV rights, significantly less than in England, and 521 million comes from the tickets and sales at stadiums. In Spain, where total revenue is 2.053 billion euros, 975 million comes from TV rights, 435 millions from tickets and other contents sold at stadiums, and 643 million comes from sponsors. Italy, which has great wage costs, had the revenue in Seria A of 1.792 billion, of which 1.1 billion was from TV rights, and only 210 millions from ticket sales and 438 from sponsorship contracts. The lowest revenue had France with 1.148 billions, 628 millions came from TV rights and 318 from fan membership cards.



Graph 2. Wage/revenue ratio

(source : Deloitte UK annual review of football finance 2016)

Wage/revenue ratio shows that the biggest revenue is present in England, where incomes in season 2014/2015. were 4.4 billion pounds of which 2.67 billion pounds was spent on wages of the players. The lowest cost was in France, but so are the revenues of 1.418 billion euros, of which 953 million are spent on wages. Italy spends over 65% of their revenue to cover wages.

İrge Şener tested hypothesis that the football industry is heterogeneous and that the strategies of rising money are different in every country.

Results are displayed in table 4.

Table 4. Descriptive financial analysis

List of Countries of Football Clubs	n	%	Brand Value (million\$)*	Total Revenue (million\$)**			
				Commercial		Matchday	Broadcast
				Sponsorship	Manufacturer		
United Kingdom (UK)	15	30	3.790	273	211	889	2.280
Germany	8	16	2.077	142	76	433	511
Spain	5	10	1.692	95	109	493	814
Italy	6	12	926	67	82	192	919
France	5	10	665	52	29	194	462
Turkey	3	6	298	22	24	121	163
Brazil	4	8	249	81	15	148	564
Netherlands	2	4	208	20	11	75	15
Scotland	1	2	84	2	5	15	41
Portugal	1	2	83	5	4	5	18

Values are shown by absolute values

(Şener, İ. et al. Rules of the Game: Strategy in Football Industry.2015)

CONCLUSION

From everything mentioned above, we can conclude that German football grows every year and it is based on healthy grounds. Results of quality work and business enterprise are the stabile clubs, great number of viewers and healthy competition. Representation became the world champion, clubs are successful in Europe, the number of young players is rising, the ratings (live and TV broadcasting) u grow, and sponsors are generous. Synergy of local community, fans and great companies creates money. Each system has its shortcomings and its qualities but the system implemented in Germany has the best effects so far.

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